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Transport, Local Government and the Regions

THE BUS INDUSTRY

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TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS COMMITTEE

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Footnotes
In the footnotes of this Report, references to oral evidence are indicated by ‘Q’ followed by the question number. References to written evidence are indicated by the memorandum, eg BUS 01.
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SEVENTEENTH REPORT

The Transport, Local Government and the Regions has agreed to the following Report:

THE BUS INDUSTRY

I. INTRODUCTION

1. The bus is the most widely used form of public transport. During 1999/2000 4.3 billion bus journeys were made in Great Britain, double the number of journeys made on national rail services and London Underground combined. A bus can carry up to 80 people, takes up little more road space than two cars, and emits less pollution per passenger mile. Increasing bus use during peak periods is therefore an essential part of the Government’s strategy to reduce congestion and pollution.

2. Buses are an essential transport service for households without access to a car and those left at home when their car is being used elsewhere. Lower income groups rely on the bus more than the better off; the lowest 20 per cent of earners use buses more than twice as much as the highest 20 per cent. Buses are also used more heavily by the young and the old and by a higher proportion of women than men. For many people, buses provide a vital, and sometimes the only, link between home and work, healthcare, education and leisure activities.

3. Bus use has been in long-term decline. In 1950 16.4 billion passenger journeys were made by bus in Britain. By 2001, this had fallen to 4.3 billion. The principal reasons for the decline in bus use are rising incomes and increased car ownership. The greater freedom provided by the car has contributed to increased suburbanisation and more complex journey patterns which cannot always be served efficiently by buses. A household with access to one or more cars makes just 3 per cent of its journeys by bus: this compares to 20 per cent of journeys for households without a car.¹

4. The Government wishes to increase bus use over the next decade. In March 1999, the Department of Environment, Transport and the Regions published a bus policy document From Workhorse to Thoroughbred: A better role for bus travel² setting out a number of new policy initiatives to:
   • ensure that local authorities and bus companies work together to achieve improved bus services;
   • make services more co-ordinated;
   • provide up-to-date information and make joint ticketing widely available;
   • improve rural services; and
   • make minimum concessionary fare standards available across England.
   In July 2000, it set a target for increasing bus use by 10 per cent by 2010.³

5. Two key Government initiatives for improving bus services are ‘quality partnerships’ and ‘quality contracts’. Quality partnerships involve the local authority improving the bus infrastructure (providing new bus stops, introducing bus-only lanes and giving buses priority at traffic lights) whilst the bus company improves the quality of the buses, staff training and information. Bus companies still compete between each other on the road. Quality contracts are where a local authority lets contracts for all services in its area (either on a route by route or larger area basis) and operators bid to run the routes. Quality partnerships and contracts were formalised through the Transport Act 2000.

6. New bus lanes, improved bus shelters and new low-floor buses have been introduced on a number of major routes in cities. Some impressive local increases in bus use have been achieved. However, progress across cities and between large cities, towns and more rural areas has been patchy. Whilst in some areas, particularly London, there have been increases in bus use, in others it continues to decline. It is three years since the then Department of Environment Transport and the Regions (now the Department for Transport) published its new bus policies. The Committee decided to investigate: the progress made since the policies were launched, what lessons have been learnt from recent Government initiatives and how the strategy can be improved. In particular, our inquiry examined:

(i) subsidies in the bus industry;
(ii) the result of bus challenge initiatives in rural and urban communities;
(iii) the relative merits of bus quality partnerships and bus quality contracts;
(iv) regulation of the bus industry including the application of the Competition Act; and
(v) the contribution of bus services to reducing social exclusion.

This report concentrates on local bus services and school transport provision in England. Long-distance coach travel, excursion and private hire operations are outside the scope of the inquiry.

7. Our inquiry was carried out in May 2002. The Transport Sub-Committee received more than 50 memoranda and took evidence from 17 organisations and the Minister for Transport. We are grateful to all those who assisted us in the inquiry and particularly to our specialist advisor, Professor Peter White from the Transport Studies Group at the University of Westminster and to Cheshire County Council’s Transport Co-ordination Unit.
II. TRENDS IN THE BUS INDUSTRY

8. This Chapter reviews trends in the bus industry, particularly since de-regulation in 1986. It sets the context for the discussions of problems and solutions that follow in Chapters III and IV. In particular, the reasons for the historic decline in bus use and the implications for future bus use are examined. The financial relationship between the Government and the bus industry is described and competition between bus companies discussed.

Decline in bus use

9. The number of journeys made by local bus has been declining since the 1950s. The number of journeys has fallen from a peak of 16,445 million for the whole of Britain in 1950, to 5,641 million in 1985/86 (the last year before deregulation and abolition of the metropolitan counties), and 4,301 million in 2000/01. Since 1985/86, bus trips in England have fallen by 22 per cent (from 4,807 million to 3,761 million), compared with a 35 per cent fall in Scotland and a 31 per cent fall in Wales. Within England, marked variations in the 22 per cent decline are found. Bus use fell by 44 per cent in the six metropolitan areas covered by passenger transport executives and by 22 per cent in the 'shire counties' (i.e. the rest of England excluding the metropolitan areas and London). In London (the area corresponding to Greater London, now covered by Transport for London) there was an increase of 18 per cent. Within the last reported year, total bus use in Britain rose by 28 million trips to 4,309 million, a rise of 0.7 per cent. This was largely attributable to an increase of 52 million trips (4.0 per cent) in London, masking an overall net decline in bus use of 24 million trips outside London. Figure 1 shows the trends for bus journeys in England, split by London, metropolitan areas and shire counties.

4 Data derived from table 2 in DTLR Transport Statistics Bulletin SB(01)20 A Bulletin of Public Transport Statistics
6 Data derived from table 10, Ibid.
7 Data derived from table 16, Ibid.
9 There was also an increase of bus use in Scotland of 0.5 per cent.
Figure 1: Bus Journeys in England 1989/90 to 1999/2000
Source: Transport Statistics Great Britain 2001, DTLR.

Car ownership and bus use

10. The growth in car ownership is the main cause of declining bus use. Car travel tends to replace bus travel, not only by the car driver, but also those within the same households who are carried as passengers. Between 1998 and 2000, households without access to a car made 151 trips per year by bus (20 per cent of all their trips), compared to 33 trips by those in households with access to one or more cars (3 per cent of all of their trips). At present, 28 per cent of households do not have cars although there is considerable regional variation (from 20 per cent in the East of England to 36 per cent in the North East). Car ownership is higher in rural areas and lowest in large urban centres and is also highest in higher income groups. Since 1985/86, the number of bus trips per person in the non-car-owning households has remained stable, but has fallen in those with cars; hence the bus industry has become relatively more dependent on the ever-diminishing number of non-car-owning households. The impact of a continued rise in car ownership is to produce an underlying decline in bus use, which will be greater where car ownership is rising faster from a low base (such as North East England) than where it has stabilised (such as London).

Public funding of the bus industry

11. In aggregate, about 30 per cent of operator income outside London comes from the public purse. Bus operators receive public funding for operating bus services in three main ways which are described in more detail below:

(i) Bus Service Operators Grant;
(ii) concessionary fares compensation; and
(iii) payments for tendered services.

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9 Focus on Personal Travel 2001 Edition. The biggest fall in bus use occurs when a household gains access to its first car.
10 Ibid.
Bus Service Operators Grant

12. Bus operators, running a local bus service,\(^\text{11}\) receive an 80 per cent rebate in fuel duty (known as the Bus Service Operators Grant).\(^\text{12}\) This rebate reduces the cost of running every bus kilometre by about 12 per cent.\(^\text{13}\) It helps to make services commercially viable that would otherwise require direct support. The Confederation of Passenger Transport believes that the Government should reintroduce the 100 per cent rebate which existed before 1994.\(^\text{14}\)

Concessory fares

13. Bus operators receive compensation for bus passengers travelling with concessionary fares. The refunds are based on the principle that operators should be no worse off as a result of concessionary fares set by local authorities or passenger transport executives than would be the case if all passengers travelled at the normal fare levels.\(^\text{15}\) In 2000/01, the total revenue from passengers was £2,889 million, including £468m of compensation for concessionary fares (16.2 per cent of the revenue).\(^\text{16}\) In England, the Transport Act 2000 sets a common standard for a minimum 50% reduction in costs for travel by pensioners. More generous schemes for pensioners exist in various parts of England, notably free off-peak travel in London, West Midlands and Merseyside, as well as throughout Northern Ireland, Scotland and Wales. Authorities also have discretion to provide concessions for other groups, for example school-age children, but there is no common national policy.

Tendered services

14. Where bus companies decide that commercial services are not viable, such services may be secured with local authority support (known as ‘tendered’ or ‘non-commercial’ services). Supported services are typically low density routes in rural areas and extra services in early mornings, evenings and on Sundays on routes that are otherwise commercial. Since deregulation, this type of service has comprised about 16 per cent of all local bus kilometres run outside London.\(^\text{17}\) Where only small sums of money are involved - up to £12,000 per annum per service contract, and £70,000 per operator per annum from any one authority - the ‘de minimis’ principle applies, under which local authorities make agreements direct with one operator. However, the great majority of tendered services involve larger sums, for which a system of competitive tendering applies. £312 million was spent on supporting additional services in 2000/01.\(^\text{18}\) The local authority specifies the service required, and operators make bids accordingly. Recent rises in tender costs and a lack of competition for some contracts are discussed in Chapter III.

\(^{11}\) A local bus service is defined as a service which carries at least some of its passengers a distance of less than 15 miles.
\(^{12}\) Bus Service Operators Grant was until recently known as Fuel Duty Rebate (FDR).
\(^{13}\) From Bulletin SB(01)20 it may be shown that local bus-kilometres run in 2000/01 were 2,642 million (table 6), and FDR paid was £362m (table 19), i.e. 13.7 pence per bus km run. Average total operating cost per bus-km after FDR is netted out was 99 pence (table 30), i.e. without FDR the average cost would have been about 113 pence, which was cut by about 12% as a result.
\(^{14}\) BUS10.
\(^{15}\) An adjustment is therefore made to take account of the extra trips that are encouraged as a result of the lower fares, i.e. operators are refunded the difference between the total revenue they would have obtained at their own commercial fare levels, and that received from those travelling on the concessionary facility.
\(^{16}\) Bulletin SB(01)20, table 19.
\(^{17}\) From Bulletin SB(01)20, table 8.
\(^{18}\) The figure of £312 million includes some spending which did not pass to the bus service operators as such (e.g. that by local authorities on service information, tendering administration, etc.).
Public funding support in London

15. In London, almost all services are run as tendered services. In 2000/01 total bus revenue in London was £674m, of which £118m (18 per cent) was concessionary compensation. Only £10 million of additional support (1.5 per cent of revenue) was provided. However, this situation was probably not sustainable, and wage levels have been increased to recruit sufficient staff. Further increases in expenditure have occurred as a result of increased service levels and bus fare initiatives. Transport for London expects to provide very big increases public support to £314 million in 2002/03, £453 million in 2003/04 and £512 million in 2004/05.

Efficiency and Profitability

16. Following deregulation and privatisation of the local bus industry a number of changes were made to increase the profitability of the industry. Operating costs per bus kilometre fell by 46 per cent in real terms between 1985/86 and 2000/01. Staff costs are the largest single element in bus operating costs and reductions in the number of staff required to run services had a substantial effect in reducing costs. Total staff numbers fell from 174,000 at March 1986 to 148,000 at March 1993. The numbers of drivers and conductors changed little until 1997/98 since when numbers have risen slightly. Staff reductions have largely been in maintenance and ‘other’ categories. The fall in staff costs enabled more bus kilometres to be run by the companies. In Great Britain, bus kilometres rose by 27 per cent between 1985/86 and 2000/01 with the greatest rise being in London (37 per cent) and the lowest in the metropolitan areas (15 per cent). Vehicle-kilometres run per member of staff therefore rose from 19,100 to 26,100 (an increase of 37 per cent).

17. There has been a substantial drop in wage levels in the industry relative to other occupations. At April 2000 prices, earnings per week for bus and coach drivers fell from £323.41 in April 1986 to £288.88 in April 2000 (a 10.6 per cent fall), while hours per week changed little, from 48.5 to 47.3. However, the deterioration was much worse relative to all occupations, in which earnings per week rose to reach £410.62 in 2000 (a rise of £88.95, or 27.7% on April 1986), and hours worked fell from 40.4 to 39.7. In addition, bus industry staff have also experienced a worsening of conditions in terms of pension provision, welfare facilities and holiday pay. Until recently, it was possible to recruit sufficient staff despite the worsening of wages and conditions. However, as unemployment has fallen, staff turnover rates have risen and operators have experienced problems in maintaining services. Increases in wages and improved conditions have now become necessary, especially in cities such as London. Rising operating costs will make it more difficult for marginal commercial services to survive and will require greater support to maintain existing local authority supported services.

18. Current profit levels have enabled bus companies to improve the rate at which they introduce new buses into the fleet. In 2000/01, operators’ income was around £3,100 million compared with approximate total operating costs of £2600 million. This gives an average operating margin of about 16 per cent. The larger operating groups generally report operating margins of about 12 per cent in the most recent year although in the case of Travel West Midlands (a subsidiary of the National Express Group) it reached about 25 per cent. These margins would imply a high rate of return on capital (dependent upon its

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19 BUS 13.
20 BUS 2.
21 Staff numbers from Bulletin SB(01)20, table 27. Statistics refer to bus and coach industry as a whole.
22 Data derived from Bulletin SB(01)20, table 29.
23 Q373 and Q383-386.
24 Q69.
25 BUS 43.
evaluation). However, it should be borne in mind that costs include only historical depreciation. If operators are to maintain regular fleet renewal through their own investment, the profit margin must provide not only for a return on existing capital, but the difference between historical and replacement costs.

Fares

19. Bus fares have increased significantly in real terms since the 1980s. Fares have risen at above inflation levels since deregulation in 1986. Bus fare rises are compared to rail fares and motoring costs in Figure 2.

![Figure 2: Cost of bus, rail and motoring between 1981 and 2001. Source: Passenger Transport and Price: 1981 to 2001, Social Trends 32. Office for National Statistics](image)

A typical public transport journey in the United Kingdom costs 15 per cent more than in Germany, 60 per cent more than in France and three times as much as in the Netherlands. In London, the Mayor has recently frozen fares at £1 per journey in central London and 70 pence for a journey in the rest of Greater London. Transport for London estimate that it will cost £15 million to maintain the fares freeze in 2002 to 2003. Elsewhere in the country, the Department relies on competition between bus companies to keep fare levels down.

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27 BUS 2.
28 HC(2001-02) 558-II, Q50.
Competition

20. Two different forms of competition exist in the bus industry. Deregulated commercial services compete with other companies running on the same route by offering lower fares or a more frequent or higher quality service (known as ‘on-the-road’ competition). Bus companies also compete through a tendering process to win the right to run specific services on a given route for all services in London, and outside London for both non-commercial services and special services such as some Park and Ride services and school transport.

On-the-road competition

21. The rapid reduction in unit operating costs after deregulation may well have been influenced by competition, as operators responded to threatened competition from lower cost, more efficient operators. However, the extent of on-the-road competition is mixed, largely dependent on the historical context of bus services in the area at the time of deregulation. Oxford, for example, has competition between operators on a number of routes, whilst in Bristol and Bradford almost all services are run by one operator.

22. The benefits of on-the-road competition are dependent on the extent to which services are co-ordinated. A typical bus user value may be assumed to value their time at £4 per hour (7 pence per minute). If two companies compete along a route, it is clear that services that run at regularly spaced intervals will reduce the overall waiting time for passengers compared to buses that run in bunches at unevenly spaced intervals. Even waiting 5 minutes more for a bus has an equivalent cost to the passenger of 35 pence; a significant cost compared to the price of a typical journey. Coordination is therefore essential to benefit the user. The differences between fares offered by different operators for a typical urban bus journey of, say, 80 pence is unlikely to be sufficiently large for a passenger at a bus stop to decide to wait for the next bus to come along even if it is going to be a few pence cheaper. Whilst much of the fare rises have been as a result of declining subsidies, there is little evidence of price reductions through competition.

Competition for tendered services

23. Competition for tendered services is variable. The average number of bids received for tendered local authority services was 2.9 last year, the same as the previous year. This number was higher for school bus contracts at 4.1 bids per contract, down from 4.3 bids in the previous year. However, 25 per cent of local bus service tenders received only one bid and 3.1 per cent received no bids. For school bus tenders, 9 per cent received one bid and 0.6 per cent no bids. Local education authorities have a legal obligation to provide free transport for pupils living more than a certain distance from school. Due to the statutory obligations placed on local education authorities, bus services must be secured at whatever price, and services maintained if an existing operator withdraws. A lack of competition for some tendered services can lead to very substantial increases in tender prices. This is a particularly concern for school bus services that must be provided irrespective of cost.

29 BUS 42.
30 BUS 14 and Q189.
32 2 miles or more for those aged under 8; 3 miles for 8 or above.
33 Q316.
III. THE PROBLEMS

24. The bus must be a quick, clean, affordable, modern and co-ordinated service if it is to attract car drivers during the peak periods and help bring an end to the growing congestion problems. In addition, the bus must provide a service to a range of people without access to a car for a whole host of journeys essential to providing a decent quality of life and tackling social exclusion. However, it is clear that, despite the introduction of the Government’s bus policies, a number of problems exist which mean that this vision is not being achieved.

25. Across England there is enormous variation in all of the main factors that affect bus use such as traffic congestion, investment in bus priority, age of bus fleets, frequency and breadth of service, competition, fares and concessionary allowances. This makes understanding the problems faced by local authorities and bus companies in providing a good quality service difficult. The Minister for Transport told the Sub-Committee "We may not agree on solutions but at the moment there is not even agreement on the problems." This Chapter reviews the major problems identified through our evidence and sets out our recommendations to resolve these issues.

Competition

"Competition and choice between operators are the key forces working for passengers".35

Office of Fair Trading

"The key forces working for passengers are well co-ordinated services that offer attractive fares and frequencies to the public".36

Association of Transport Co-ordinating Officers

26. The application of the Competition Act 1998 to on-the-road bus competition has created significant barriers to good quality, integrated, public transport services. This section describes the key provisions of the Competition Act, the problems encountered in applying the Act to the bus industry and possible solutions. The section refers specifically to the role of the Competition Act in managing on-the-road competition rather than competition through tenders. Competition for tendered services is essential to keep costs down, although it has led to a worsening of conditions for staff, particularly in London.38

Provisions of the Competition Act

27. The Competition Act came into force on 1 March 2000.39 The Act prohibits:

- anti-competitive agreements between operators preventing, restricting or distorting competition. This includes agreeing common fares, service timings and frequencies and the areas over which they will run,
- abuse of a dominant market provision. This prohibits activities such as setting fares at an unreasonably low level that removes existing competitors or prevents market entry.

In addition, the Transport Act 2000 provides for the Office of Fair Trading to "apply a competition test where local authorities make quality partnership schemes, ticketing

34 Q407.
35 BUS 42.
36 Q318.
38 Q380.
39 BUS 42.
schemes or award tenders for subsidised services”.\textsuperscript{40} If any of these schemes are likely to have a significant effect on competition the Office of Fair Trading has to assess whether:
- the restriction on competition is justified because it secures improvements in the quality of vehicles, improves local transport services substantially for users or reduces traffic congestion, noise or pollution.
- the effect on competition is ‘proportionate’ to the benefits achieved.\textsuperscript{41}

The Minister for Transport told us that the competition regulations and their interpretation by the Office of Fair Trading may be causing difficulties to local authorities and bus operators in achieving benefits for passengers. However, he concluded “At the moment I am unclear, from what the operators, the local authorities and the Office of Fair Trading are saying to me, where the balance of the argument lies and where the balance of fact lies in this”.\textsuperscript{42}

The degree of on-the-road competition

28. The degree of competition between operators varies significantly between different parts of the country.\textsuperscript{43} In the first few years after deregulation extensive on-the-road competition took place in many areas, but this has now greatly diminished. In a few cases, competition on a number of main corridors in the same area continues (for example, in Oxford and parts of Manchester), but more often such competition takes place mainly at boundary areas where two operators’ territories meet, as in Newcastle.\textsuperscript{44} Other areas such as the West Midlands, Bradford, Calderdale and Bristol have little significant competition to the dominant operator.\textsuperscript{45} Mr Hodgkins, Passenger Transport Manager at Buckinghamshire County Council, told us that there is “very little evidence of ongoing on-the-road competition”,\textsuperscript{46} a view mirrored by many other organisations.\textsuperscript{47} The Office of Fair Trading believes that even where no competition exists, the threat of competition ensures that the dominant operator performs efficiently.\textsuperscript{48}

The effects of on-the-road competition

29. Mr Vickers, Director General of the Office of Fair Trading told us that competition always generates benefits stating “I think the principle is a general one, that where competition is effective that is good for consumer choice in terms of price, in terms of quality and so on. That principle applies in the bus industry as it does in other industries”.\textsuperscript{49} He was unable to provide specific evidence of the benefits of competition in the bus industry\textsuperscript{50} although he told us:

“There is up and down my road bus competition on that road. I am sure I and my family use the bus more because of that.”\textsuperscript{51}

The County Transport Co-ordinator at Cheshire offered a different, more representative and starkly contrasting view:

\textsuperscript{40} Ibid.
\textsuperscript{41} Ibid.
\textsuperscript{42} Q425.
\textsuperscript{43} Q230.
\textsuperscript{44} Q550.
\textsuperscript{45} BUS 14 and BUS 43.
\textsuperscript{46} Q313.
\textsuperscript{47} For example, BUS 42, BUS 14 and BUS 20.
\textsuperscript{48} Q230.
\textsuperscript{49} Q222.
\textsuperscript{50} Q241.
\textsuperscript{51} Q243.
“In my experience as a transport co-ordinator in a shire area, I find on-the-road competition, where it has broken out (and it has broken out sporadically) has been singularly unhelpful. It promotes enormous instability in the operation, which is the last thing the passenger wants. It has the effect of operators concentrating their efforts and resources into the competitive area so that they are inclined to deregister from other, less successful commercial operations. That puts more cost onto the local authority. For example, again in Cheshire, that sort of competition caused an operator to pull out and divert his new buses off the quality partnership route altogether. He reduced the frequency on the quality partnership route so that he could compete with a competitor elsewhere in his area.\footnote{52}

**Timetables**

30. Timetables are changed frequently and are not co-ordinated between different companies, creating unnecessary uncertainty for travellers. Different operators are free to change their timetables, subject to providing 56 days notice, at any time during the year. The Social Exclusion Unit found that in 2001 in Merseyside, 396 changes were made to bus routes. It believes that “the number of changes to the bus network in recent years has reduced people’s trust and familiarity with bus services”.\footnote{53} Oxford has some of the best bus services in the United Kingdom. However, Oxfordshire County Council no longer prepares a timetable of bus services for all operators as it is “out of date before we have printed it”.\footnote{54} The bus operators believe that many of the changes are small and have little impact on services.\footnote{55} The flip-side of this argument is that, if the changes are small, then the timing of the changes is not critical. A voluntary scheme in South Yorkshire where operators only change their timetables at fixed points in the year is working well.\footnote{56} The idea of voluntary local agreements for between 6 and 10 dates a year at which timetable changes are made was supported by First, Arriva and Stagecoach.\footnote{57} Bus companies must commit to a fixed schedule of locally agreed timetable changes to enable the provision of co-ordinated and up-to-date information. To ensure that a stable network of bus services is provided, there should be no need to change the timetable more than six times a year.

**Co-ordination of services**

31. Bus operators are not allowed to agree on the timing and frequency of services on a route. The bus operators claim that they would like to run buses at evenly spaced timings but are prevented from doing so by the application of the Competition Act. Mr Clayton, Managing Director of Arriva UK Bus, said “If there are two buses an hour running to a hospital, I would far rather one went on the hour and the other at half past the hour, because that would seem to me to be a more sensible approach for people, rather than have the two go together. So that is an issue where the competition law gets in our way because it is market sharing”.\footnote{58}

32. The Office of Fair Trading believe that allowing operators to agree “headways” (the time between bus service arrivals) may also enable them to reduce capacity, leading ultimately to a poorer service for bus passengers. Mr Vickers elaborated, saying “I think in the generality of circumstances an agreement between operators --- if, for example, you and I were to agree that you go on the hour and I go on the half hour, among other things that would entail an agreement that we would each supply one bus per hour and I think that

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\footnote{52}{Q317.}
\footnote{53}{BUS 52.}
\footnote{54}{Q215.}
\footnote{55}{BUS 10A.}
\footnote{56}{BUS 14.}
\footnote{57}{BUS 10A.}
\footnote{58}{Q83.}
is highly likely to infringe the law. Instead, the Office of Fair Trading believes that a well co-ordinated service should develop through sensible business planning by the bus companies. It stated that "operators may have concluded that scheduling a bus two minutes in front of a competitor's is likely to be self-defeating as the other operator may well react by changing his schedule so that his bus arrives first." The Office of Fair Trading pointed out that individual exceptions to the general rule were possible. Mr Lockheed acknowledged that First had not put any proposals forward for examination. The Office of Fair Trading confirmed that there are no barriers to two different operators co-ordinating services on inter-connecting routes, provided the two routes are not in competition with each other.

33. The current application of the Competition Act means that services cannot be sensibly co-ordinated. The only method by which local authorities and passenger transport executives can specify service frequencies and timings of services is through tendered services and bus quality contracts. Oxfordshire County Council, despite being held up as an example of good practice by operators, the Office of Fair Trading and the Department, is frustrated that it cannot specify service levels and told us "it is also important that we have the power to even out headways", a view shared by Coventry City Council. The Leeds guided busway has achieved significant growth in passenger use along its route. However, the scheme could have achieved more by having co-ordinated fares and frequencies. The National Federation of Bus Users believes that the Office of Fair Trading's "strangulation of voluntary operator co-operation inhibits co-ordinated bus service provision and is not in the public interest.

Integrated Ticketing and Fares

34. It is considered anti-competitive for two competing operators to agree to charge the same fares on competing commercial routes. However, the Office of Fair Trading believes that common fare structures are likely to occur through commercial pressures. Multi-operator Travelcards will only work, however, if the operators can agree the price at which they are sold. Since 1 March 2001, Travelcards have been subject to a block exemption from the Competition Act. Revenue from Travelcards is distributed according to the best estimate of passenger miles travelled on each operator's services.

35. The uptake of the block exemption has been slow and some existing Travelcard schemes have even been withdrawn because of concern about the Competition Act. Mr Hodgkins told the Committee that the guidance on the block exemption was a "very complex set of guidelines which, without doubt, is causing a great deal of confusion to the players within the passenger transport industry and, to a significant degree, I suspect within local authorities". Arriva Bus UK told us that although progress was being made over the guidance, it still needed more work. Its attitude to the application of the Competition Act

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59 BUS 42.
60 Ibid.
61 Q227.
62 Q85.
63 BUS 42.
64 See Chapter IV.
65 BUS 46.
66 BUS 43.
67 Q198.
68 BUS 8.
69 BUS 42.
70 Q246.
71 BUS 42.
72 Q547.
73 Q319.
was "if in doubt, we will do nowt". Travelcards, pre-paid tickets and electronic Smartcards can all help to reduce bus boarding times and speed up journeys. Progress in this area is essential to improving the experience of travelling by bus.

36. The Office of Fair Trading believe that operators’ fears of falling foul of the Competition Act are unjustified. Mr James, from the Office of Fair Trading, told us of a case in Hertfordshire where an operator had withdrawn from a joint ticketing scheme having been advised that the Competition Act would prevent the agreement continuing. He told us "They had not spoken to us or asked our views. We had not seen the agreement but we were open and said, 'Is this true? Would you like to come and talk to us?' They said, 'No, thank you very much, we would rather not'". The Minister urged bus companies to approach the Office of Fair Trading and discuss issues before taking decisions about integrated ticketing.

**Competition Conclusions**

37. The Office of Fair Trading is applying the Competition Act to the bus industry with little practical evidence of its impacts on current and potential public transport users. Many local authorities want to play some role in co-ordinating service frequencies and spacings and are frustrated by their inability to do so. The bus is the main public transport alternative to the car. If local authorities and passenger transport executives are to introduce bus lanes, which are unpopular with some car users, and other forms of car restraint they must have the confidence that they know exactly what the quality of the alternative will be.

38. The Office of Fair Trading’s position of investigating and approving any form of co-ordination of bus routes is a case of theory running riot over common sense. It is disproportionate for the Office to have to make a ruling on whether the number 12 and 13 buses can agree to run every 10 minutes, yet be able to ignore mergers between companies that are under £70 million in value. This creates an incomprehensible situation where it is easier for two companies to merge and run as a single provider on a route than it is to agree to run co-ordinated bus services. The picture is also mixed across the country. In some areas there is one dominant operator where almost all services are co-ordinated by this operator. In such circumstances, the Office of Fair Trading is happy that the ‘threat of competition’ keeps the operators efficient. Elsewhere, where there is competition between operators, no co-operation is allowed and timetables, service frequencies and fares remain unco-ordinated.

39. The concerns that the Office of Fair Trading has about a loss of consumer benefit that co-ordinated timetables, fares and frequencies will bring are largely unfounded. If local authorities (rather than bus companies) wish to oversee the co-ordination of the services of two competing operators it will be to benefit bus travellers in their area. We cannot see the value of having every such decision across the country investigated and approved by the Office of Fair Trading, nor is it sufficiently staffed or expert to do so. We believe that it is unlikely that the bus companies would seek to take advantage of such a situation by reducing service levels and increasing fares because local authorities have the powers, under the Transport Act 2000, to run all services as tendered operations through the use of

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74 Q89.
75 In this case, only two operators were taking part in the existing multi-operator ticket. One of the companies, Sovereign, took legal advice that three or more operators were required for such an agreement to be legal. Q547.
76 Q253.
77 Q406.
78 BUS 42. For a merger to qualify for investigation by the Competition Commission, it must either create or enhance a market share of at least 25 per cent of goods in the United Kingdom, or a substantial part thereof, or the gross value of the assets acquired must exceed £70 million.
79 Q277-Q279.
80 Q265-Q267.
bus quality contracts were this to occur. The Office of Fair Trading must allow services to be co-ordinated. If the application of the Competition Act to the current de-regulated regime does not permit this then it is clearly at odds with the Government’s aim of providing a truly integrated transport system.

40. We find it unacceptable that the Competition Act is being applied without sound evidence, based on observation and research from the bus industry and bus users. There are significant negative side effects of on-the-road competition, including unco-ordinated services, instability of the network and restrictions on ticket use. Local authorities should be able to make common sense agreements with bus companies about services in their area without fear of investigation by the Office of Fair Trading. Co-operation and co-ordination are not synonymous with collusion. The application of the Competition Act, or the Act itself, must be adjusted to this sensible outcome. If it is not, many local authorities will request quality contract powers as the only means of ensuring a co-ordinated network of bus services.

41. The block exemption of Travelcard ticketing schemes from the Competition Act is welcome. Some of the difficulties over interpretation of the exemption have been overcome by actions of the Office of Fair Trading although work is still on-going. Bus companies must push ahead with the introduction of multi-operator Travelcard schemes. They should not use the Competition Act as an excuse for failing to progress such schemes. New schemes should adopt Smartcard technology wherever possible, to reduce boarding times.

**Bus Priority and Reliability**

*Bus priority*

42. All parties agreed that punctuality and reliability are essential to providing a good quality bus service. The National Federation of Bus Users note that “a third of all the complaints we receive concern buses which are late or do not turn up at all”. Arriva told the Sub-Committee that “every piece of research that we do identifies that punctuality and reliability are the key measures that encourage bus use”. First found that reliability was twice as important to passengers as service frequency and more than twice as important as the quality of the bus that arrived. Oxford recognised the need to make bus use more attractive a number of years ago, partly due to the constraints to car traffic of its historic city centre road layout. Mr Newson of Oxfordshire County Council told us:

> “I think Oxford City is a good example of what has been done. There has been significant restraint on the private car, both through the pricing mechanism of car parking charges and the restriction on the amount of parking in the Centre, complimented by facilities like Park and Ride. The interesting thing is it is not just to encourage motorists to use Park and Ride; we have seen a big increase in people using the bus from much further out to come into Oxford.”

43. Bus priority is essential to combat the effects of rising congestion. Transport for London has introduced 150 kilometres of bus lane combined with traffic signal priority and other measures to speed up bus routes. The Mayor has recently set up new Operational Command Units at a cost of £25 million per year. The Units will patrol bus lanes and other

81 See the Chapter IV discussion on bus quality contracts.
82 BUS 8A.
83 Q30.
84 BUS 10A
85 Q163.
aspects of highway policing such as box junctions to smooth bus flow and improve safety and security for passengers at bus stops. In spite of this impressive programme of measures the Director of Surface Transport at Transport for London told us:

"I should not sound too optimistic about bus priorities and enforcement because we are still fighting to produce a level of priority enforcement which will reduce journey times and improve reliability. The best we have achieved so far on some of the major corridors is to keep the running time the same in the face of worsening congestion".

**Barriers to progress**

44. Progress with implementing bus priority has been slow. For example, local authorities in the West Midlands already accept that the target for improving bus speeds in their area by 2006 will not be met. Centro believe that the less contentious bus priority schemes have now been put in place. The backlash from the motorists and businesses with frontages directly affected by bus lanes make some schemes politically difficult. Transport for London agreed and pointed to other issues that hampered progress in putting in bus lanes even when the political will is there:

"There is a shortage of trained highway engineers to design the schemes. Even within London, with a desire by the Mayor to properly fund them, there are still the normal public consultation issues, because when you propose to put the measure in you find a number of frontages and other interested parties who are not altogether happy with that, even if we are able to prove, as we are, that having a bus priority outside your small shop does not necessarily damage your business. Facts are no barrier to sentiment when it comes to some of those arguments."

The Association of Transport Co-ordinating Officers pointed out a long-list of technical, procedural and political issues that need to be resolved when introducing all of the infrastructure associated with a modern, high quality bus route. As lessons are learnt through experience in introducing these schemes, it should be possible to reduce the time required to introduce them. The Institute of Logistics and Transport was concerned that the implementation of priority schemes was too piecemeal stating that “bus priority lanes and other measures are often insufficiently lengthy or too infrequent to make a real difference”.

**Enforcement**

45. Bus lanes must be enforced if they are to be effective. Vehicles parked in bus lanes and those that drive along them reduce the benefit of the lanes not only to the bus users but also to other car drivers, as buses have to pull out of the lanes. Transport for London believes enforcement to be as important as the priorities themselves. Centro believe that bus priority enforcement is “never going to be sufficiently high up the priorities of the normal police force to police that, and, therefore, we think that the best way of doing this in our area seems to be evolving into decriminalisation". The Institute of Logistics and Transport contrasted the enforcement of bus lanes in England with that in Dublin where they are well respected by motorists and enforced by the Irish police.

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86 BUS2.
87 Q349.
88 BUS5.
89 Q167, Q345.
90 Q345.
91 BUS 31A
92 BUS 38.
93 Q345.
94 Q168.
95 BUS 38.
us that where the police have taken enforcement seriously, they have found that the drivers who violate bus lanes are often wanted for other offences. **Bus lanes must be enforced to be effective. The police have a responsibility to police bus lanes and must do so. The Government has promised to decriminalise enforcement of bus lanes fully by the end of the year. We welcome this initiative as it will allow a combination of static cameras, on-bus cameras and mobile patrols to catch offenders.**

**Reliability**

46. A reliable bus service is essential to maintaining confidence in using the bus to get around. The Traffic Commissioners have the power to investigate bus service reliability and fine operators for poor performance. Under the Transport Act 2000 operators could be made to repay up to 20 per cent of the Bus Service Operators Grant they receive. Several operators have been fined as a consequence of poor performance under the Act’s provision.**97** Recently, the Traffic Commissioners have adopted an explicit national standard that 95 per cent of all services should run no more than 1 minute before, or 5 minutes after, the scheduled time. The bus operators generally supported a reliability target but believed that the target is overly stringent compared to those set for the railways.**98** They questioned whether a national target was appropriate given the large regional variations in traffic congestion.**99** The National Federation of Bus Users believes that the reliability targets were of limited value while buses continue to be caught in congestion. It believed more must be done to increase bus priority if reliability is to be achieved.**100** **The Traffic Commissioners should continue to take local traffic conditions into account when assessing the reliability of bus services.**

**Summary**

47. Bus priority measures must be implemented to ensure that buses are an attractive alternative to the private car. To be successful they should also be supported by other measures such as city centre traffic restraint and Park and Ride facilities. Enforcement of bus lanes is critical to their success. The main problems faced by local authorities are local opposition and the time taken to design and implement schemes. **The Department should issue guidance on how to reduce the time taken to design and implement bus priority schemes. It should assess what regulatory burdens can be removed. The responsibility for implementation lies with local authorities. These schemes must be implemented if the speed and reliability of bus journeys are to be improved. The Department should link future local capital funding settlements to progress made in this area.**

**Service Withdrawals**

48. Bus companies are withdrawing a small, but significant, number of marginal commercial services. This may involve reductions in the level of evening or weekend service or the withdrawal of a whole route. Local authorities may supplement evening and weekend services through agreements with the incumbent operator as discussed in Chapter II.**101** If the whole, or substantial part of a route is withdrawn, the local authority may decide to pay for that service to be run, for which it must hold a tendering competition. Local authorities have a limited revenue support budget for bus services and when new

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96 Q472.
97 BUS 10A.
98 BUS 3, BUS 5, BUS 19, BUS 40, BUS 48.
99 Q76.
100 BUS 08A.
101 Subject to the *de minimis* limit.
routes are withdrawn other supported services have to be cut to keep within budget. Routes are often combined by local authorities to keep costs down while maintaining a reasonable standard of service.

49. Many commercial bus services are not profitable throughout the whole day. Bus companies sometimes choose to subsidise less profitable parts of the day from more profitable periods and less profitable routes from more profitable routes (cross-subsidy). Mr Cochrane, chief executive of Stagecoach Group, told the Sub-Committee that “within that core commercial network, there will be elements that we will cross-subsidise because it is in our interests to provide a complete network of services”. The level of cross-subsidy provided by some operators was questioned. Mr Donald, chairman of Centro, believed that in a competitive market, with low entry costs for new operators, if there was a large amount of cross-subsidy, new operators would be able to undercut existing operators by running only on the most profitable routes: this rarely happens.

50. Arriva, Stagecoach and First were unable to provide the Sub-Committee with a breakdown of the number of commercial services withdrawn. However, Arriva and First noted that the total mileage run was 3.2 and 2 per cent lower respectively than in 1999, whilst Stagecoach ran 2.4 per cent less commercial miles than in 1999. These figures include the net effect of service reductions and increases in commercial mileage on other routes. As car ownership grows and land-use patterns change, demand for bus services can fall. Mr Lockhead, chief executive of First, told us that when passenger numbers on a route are low, “there comes a point, when, if there are just not enough people using it, then the option is that we would withdraw”. The Minister told us “We are all aware of services that have been withdrawn from commercial and subsidised routes, but pinpointing why this has happened and just how much of a problem it is, is more difficult. For example, bus operators point to a number of new registrations which they say offset withdrawals”.

51. The withdrawal of commercial services has a significant impact on local authority and passenger transport executive revenue funds. Lincolnshire, Northamptonshire and Buckinghamshire faced increases of £100,000, £150,000 and £123,000 respectively to replace commercial services that had been withdrawn. Withdrawals are particularly prominent in smaller sized towns, shire and rural areas. Mr Chorlton, deputy chief executive of Devon County Council told us:

“Of the 320 registered bus services in Devon, only 125 of those are commercial. In the last year, 12 of those have been withdrawn, and 24 have had reductions in the service, either reducing at weekends or evenings. That is the sort of rate which seems to be accelerating.”

Withdrawals have also occurred in cities, including from bus quality partnership routes. The Association of Transport Co-ordinating Officers (ATCO) estimates that 4 million commercial bus journeys were withdrawn last year. “Of these, almost 1.5 million commercial bus journeys will not run next year because they have been deregistered and cannot be subsidised and a further 0.5 million supported journeys will be withdrawn due
to lack of funds for support.\textsuperscript{114} 39 per cent of local authorities surveyed by ATCO believed the rate of commercial deregistrations was greater last year than in 1999/2000.\textsuperscript{115}

52. It is inevitable that, where bus use continues to decline, increasing numbers of routes will no longer be commercially viable. A commercial organisation or local authority must revise schedules to get the best possible value for the money being invested and some routes will therefore be revised. In some cases, bus service revisions may create new links, but also leave other links unserved. Service withdrawals represent only a small, but significant, percentage of total bus journeys. However, they have a disproportionate effect on the ability of people dependent on public transport in these areas to access key facilities. It is essential that alternatives are offered to people in such circumstances. Bus service withdrawals in one area are not ‘offset’ by improvements elsewhere. Improvements to other services do nothing for those left without a service or with a reduced service that provides inadequate timings and connections. The trend of increasing service withdrawals is worrying, as it can leave those most dependent on public transport without a service.

### Increasing Tender Costs

53. The cost to local authorities and passenger transport executives of providing supported bus services is rising well above the rate of inflation. The Association of Transport Co-ordinating Officers found that, on average, tender costs for supported bus services were rising at a rate of 7 per cent per year.\textsuperscript{116} The principal reasons behind the rises were increases in fuel and insurance costs, and rising staff costs due to driver shortages.\textsuperscript{117} The Transport and General Workers Union pointed out that bus workers salaries are 13 per cent below average male earnings and that above-inflation wage increases are likely to continue for at least five years.\textsuperscript{118} Cost increases also impact on the commercial viability of some services and may be contributing to the increase in service withdrawals.

54. A lack of competition for tendered services contributes significantly to the higher costs of these services. 25 per cent of local bus and 9 per cent of school bus service tenders receive only one bid.\textsuperscript{119} Mr Preston, chairman of the Passenger Transport Executive Group, told us “In West Yorkshire, we put out something like £16 million worth of tendered services each year and the average number of bids per tender is 1.04”.\textsuperscript{120} Mr Goddard, county transport co-ordinator for Cheshire County Council, gave one example of significantly greater rises in tender costs:

“We had a school contract for two buses which was costing £20,000 a year handed in because the operator no longer wished to operate it. We put it out to tender. We had one bid of £55,000 to replace it. That operator, two days before he was due to operate, declined the contract. We then rang round a number of other local operators and one agreed that he would do it for £100,000. I then had my staffing every operator almost within 50 miles and eventually we got somebody to do it for £75,000. That was three years ago.”\textsuperscript{121}

\textsuperscript{114} BUS 31.
\textsuperscript{116} BUS31. The ATCO survey of 72 local authorities found that contracts were typically costing 21 per cent more than the contracts they replace. Contracts are usually let for three year periods.
\textsuperscript{117} Q348.
\textsuperscript{118} Q370.
\textsuperscript{119} BUS 31.
\textsuperscript{120} Q198.
\textsuperscript{121} Q316.
55. It may be more cost-effective for local authorities to purchase buses and run some services themselves in a few instances. Basingstoke and Deane Council believe that purchasing buses, which were then let to an operator to run, would be the most cost-effective way of procuring the service they required. However, the Department was reluctant to consider providing the council with the necessary Section 71 agreement to allow this to happen.\(^{122}\) Devon County Council believe that purchasing buses using the local transport plan settlements would help support bus services that are on the margins of commercial viability. It requested greater guidance from the Department on this.\(^{123}\) The Minister told the Sub-Committee "One of the difficulties is that there are very few authorities now who have the in-house competence required to run the service, and therefore the cost of setting that up might well be considerable".\(^{124}\) It is not being suggested that large-scale local authority owned bus companies be developed. However, there appears to be a case for local authorities to purchase and lease vehicles where this is more cost-effective than contracting for the whole service. The issue of local authority run services is considered further in Chapter IV.

56. The rise in tender costs for existing supported services and the increase in the number of services requiring support is placing severe pressure on local authority revenue budgets. The Minister told us that "the revenue support settlement this year took account of higher tender costs".\(^{125}\) Mr Robertson, chairman of ATCO, disagreed saying he had seen no evidence of this: "The danger is we are revenue poor. We have problems in terms of revenue in sustaining the services on those networks".\(^{126}\)

57. Where commercial bus services are withdrawn, replacement public transport services must be provided. Other, more cost effective, forms of public transport than a traditional bus service may be more appropriate.\(^{127}\) These services are discussed further in the section on Challenge Fund initiatives. However, such services will require an on-going commitment to revenue support for running costs and significant resource for their design and monitoring. The Department must provide more revenue support to ensure that increasing service withdrawals and rising tender costs do not leave areas with inadequate public transport provision. More cost-effective public transport solutions should be sought to improve non-commercial services. It may prove more cost-effective for local authorities to run some non-commercial services. The Department should support the purchase of buses with local transport plan funds where local authorities demonstrate the value in doing so.

Social Exclusion

Problems

58. In Spring 2001, the Prime Minister requested the Social Exclusion Unit to investigate the links between transport and social exclusion.\(^{128}\) An interim report was published by the Unit on 20 May 2002.\(^{129}\) The Unit’s study focussed largely on buses as they are the main means of public transport for people from low income groups who make nine out of ten public transport journeys by bus.\(^{130}\) The report highlighted the problems people faced in accessing health, education, employment and leisure opportunities. For example:

\(^{122}\) BUS 51.
\(^{123}\) BUS 47.
\(^{124}\) Q448.
\(^{125}\) Q402.
\(^{126}\) Q324.
\(^{127}\) Q349.
\(^{128}\) Q497.
\(^{130}\) Q501.
2 out of 5 jobseekers say lack of transport is a barrier to getting a job.
6 per cent of 16 to 24 year olds turn down training or further education because of problems with transport.
7 per cent of people without access to a car say that they have missed, turned down or chosen not to seek medical help over the last 12 months because of transport problems.\textsuperscript{131}

\textit{Financial Support}

59. Spending on support for bus services (fuel duty rebate, concessionary fares and subsidising unprofitable services) has fallen by a third since 1985 (despite recent increases), while spending on subsidising unprofitable routes has fallen by two-thirds.\textsuperscript{132} Nearly half of 16 to 18 year old students find their transport costs hard to meet. The Social Exclusion Unit highlighted other problems such as the cost of changing buses, which requires an extra fare to be paid, and the cost of taxis that are often used where poor public transport exists. Despite the high cost of taxi fares, people in the lowest income group make a third more taxi trips than any other income group.\textsuperscript{133} The Unit believes that money is required to assess transport needs, to support greater concessionary travel and to provide a wider variety of transport services to connect people to work, leisure and healthcare activities.\textsuperscript{134} A study into transport and social inclusion in South Yorkshire also concluded that “many of the issues could only be addressed through increased revenue funding, for instance to support conventional public transport services, community transport and less conventional initiatives”\textsuperscript{135}

\textit{Equity in the use of public spending}

60. The Social Exclusion Unit agreed with this Committee’s conclusion in our report into the 10 Year Plan for Transport\textsuperscript{136} that the current Plan was regressive in benefiting people in proportion to the distance that they travel.\textsuperscript{137} More must be done to help those with low levels of access to key facilities. The balance of spending could be redressed somewhat with greater expenditure on buses, which benefits lower income groups more.\textsuperscript{138} It also identified the rising costs of public transport compared with the recent and forecast future falls in the costs of motoring as a further barrier to access for the poorest.\textsuperscript{139} The Government must face up to the need for greater revenue support for local public transport. This will benefit both low and high income groups.

\textit{Current Solutions}

61. There are many different solutions to reducing social exclusion resulting from poor transport provision. The Social Exclusion Unit identified the following key factors to be addressed:
- network coverage,
- frequency,
- reliability and
cost.

\textsuperscript{131} \textit{ibid.}
\textsuperscript{132} BUS 52.
\textsuperscript{133} \textit{Making the Connections: Transport and Social Exclusion}.
\textsuperscript{134} BUS 52.
\textsuperscript{135} \textit{Transport and social inclusion}, South Yorkshire PTE, Sheffield City Council and Barnsley, Rotherham and Doncaster Metropolitan Borough Councils.
\textsuperscript{137} \textit{ibid.}
\textsuperscript{138} BUS 52.
\textsuperscript{139} \textit{ibid.}
Over 80 per cent of bus kilometres run are commercial services.\textsuperscript{140} Therefore, with the exception of improvements to reliability through bus priority and local authorities' influence on concessory fares, the main factors are the responsibility of the operators. The core network that bus operators provide is an important part of the solution to social exclusion. However, they are profit making companies and will only provide some of the marginal services required to meet wider needs.\textsuperscript{141} The sections above on service withdrawals and rising tender costs show that local authorities do not have sufficient revenue to maintain current network service levels. The Social Exclusion Unit identified a number of ways in which supported bus services and other forms of public transport could be used more cost-effectively to provide a transport service:

- Demand responsive transport services in Lincolnshire (where bus use rose by 112 per cent) led to unmet travel need falling by 14 per cent. Similar, but more advanced, schemes were also found to work well in Sweden.
- The Wheels to Work scheme in Shropshire where people are given reduced price moped hire, free push-bike hire and subsidised driving lessons.
- Car Share Clubs in Switzerland.
- A taxi voucher scheme in Tandridge for people with no access to public transport.\textsuperscript{142}

62. A key problem is the lack of expertise in local authorities in identifying transport needs and the provision of sufficient revenue resources for the people and surveys to undertake such work. The Social Exclusion Unit told us “It is not anyone’s job to do a needs analysis to understand where are the places people need to get to, where are the job vacancies, where are the unemployed, how far do the routes actually meet up to need”\textsuperscript{143}

**Barriers**

63. The Social Exclusion Unit note that whilst deregulation of the bus industry had some benefits, “it ended the ability of local authorities to set bus fares, thereby preventing them from rising faster than motoring costs. Privatisation also created a less stable bus network subject to many small route changes and inhibited integrated ticketing policies”.\textsuperscript{144} This, it believes has reduced people’s trust and familiarity with bus services and their travel horizons. The inability of local authorities to co-ordinate services and influence fare levels were also highlighted as problems.\textsuperscript{145}

64. The Social Exclusion Unit criticised the fragmentation of funding for bus-based public transport services. The Department for Transport spends £1 billion on bus revenue support. A further £900 million is spent on school, patient and social services transport by a variety of different departments. Cheshire County Council already organise health, social work and ordinary bus services from a co-ordinated centre.\textsuperscript{146} Such an integrated approach, the Unit believed, was the best way forward. Greater integration between school, social care and health care transport was also recently recommended by the Audit Commission.\textsuperscript{147}

\textsuperscript{140} From Workhorse to Thoroughbred: A better role for bus travel.
\textsuperscript{141} Q5.
\textsuperscript{142} Making the Connections: Transport and Social Exclusion, Chapter 3.
\textsuperscript{143} Q534.
\textsuperscript{144} Making the Connections: Transport and Social Exclusion, Summary.
\textsuperscript{145} Q513.
\textsuperscript{146} Annex to report.
\textsuperscript{147} Going Places: Taking people to and from education, social services and healthcare, Audit Commission, November 2001.
Summary

65. The Social Exclusion Unit will identify a number of key issues that the Department must act on following its final report later this year. However, we believe that a number of issues are clear now and require action. **The failure to provide adequate public transport has significant hidden costs to the public purse. In particular, we believe the Department should:**

- support the integration of health, social care, school and subsidised transport services through more co-ordinated centres such as that in Cheshire. Greater revenue support will be needed to establish these centres. However, the savings are likely to far outweigh these costs and provide a much better service, achieving better value for money.
- Commission research into what the costs of failing to provide adequate public transport are to other Government Departments and the economy.
- Ensure that local transport plans include social exclusion targets such as reducing the number of people whose transport needs are not met and determine whether wider minimum concessionary fares standards can reduce social exclusion.

Targets

66. The 10 Year Plan for Transport contains a number of targets for the bus industry. These have recently been supplemented by further performance targets issued by the Department. The targets are:

- Increase bus patronage in England by 10 per cent by 2010.
- Achieve a one-third increase in the proportion of households in rural areas within 10 minutes walk of an hourly or better bus service by 2010.
- No more than 0.5 per cent of bus services to be cancelled for reasons within the operators’ control.
- Achieve and maintain an average fleet age of 8 years for local bus services.
- Ensure that 50 per cent of all buses are fully accessible by 2010.
- Achieve a year-on-year improvement in information at bus stops, based on national passenger satisfaction ratings.

Target for Growth

67. The number of bus passenger journeys grew by 1 per cent in the year to March 2001. The headline figure hides significant regional variation. Bus use in London grew by 4 per cent over the same period and London accounts for 36 per cent of bus journeys in England. Overall, there was no growth in Metropolitan areas and a 2 per cent decline in shire counties. There has been a more significant drop in bus use in the North of England than elsewhere although bus use in the North is still high compared to other parts of the country. Some encouragement can be taken from the figures as this is the first year since deregulation in 1986 when there has not been a decline in bus use in Metropolitan areas. However, shire counties registered the biggest drop in bus use since 1991/92.

68. The Mayor of London has set a target of achieving a 40 per cent rise in bus use by 2010. If this is achieved, the 10 Year Plan Target for bus use growth could still be met despite a 4 per cent decline in bus use outside London. The Minister told the Sub-Committee “I have to say that looking at the bus operators outside London they are not just saying they can tread water and London will make up the increase and hit the government’s
targets; I think they are being more ambitious than that". Mr Lockheed agreed noting that "if complementary policies on car restraint are enacted, we are confident we can exceed those targets".

69. In our previous report 10 Year Plan for Transport, we recommended the introduction of separate targets for bus growth in London and outside London. It is essential that bus use does not merely stabilise outside London but grows, particularly if the bus is to play a meaningful role in reducing traffic congestion and acting as a quality alternative to the car for some journeys. **New targets for bus growth outside London are required. These targets should take into account regional variations in conditions. The targets must be challenging and should be set to achieve a minimum of 10 per cent growth in bus use outside London.**

**Other Targets**

70. The Government’s target for increasing the number of rural residents within easy walk of an hourly bus service is based on the desire to increase public transport provision to people who would otherwise be isolated. However, witnesses told the Committee that traditional bus services are not necessarily cost-effective in rural areas and that a scheduled, hourly bus service may not be the best solution. Alternative forms of rural public transport provision are discussed further in the later section on the Department’s challenge fund initiatives.

71. The remaining targets are all linked to providing a quality bus service that will support the growth in public transport use. All of these targets, if met, would represent a welcome improvement on the current state of the industry:

- In the first half of 2001, in England, 1.4 per cent of bus mileage was lost for reasons within the operator’s control (staff, mechanical and traffic related). London performed significantly worse than the rest of England.
- The average age of the bus fleet was 8.4 years in mid 2001, just under the age of the fleet in 1990. The target contained in the 10 Year Plan was 8 years by June 2001 and has not quite been met. However, 8.4 years represents a significant improvement over the situation in the mid 1990s where the average age had risen to nearly 10 years.
- Since 2000, any new bus has had to be low-floor accessible.

Whilst these targets represent progress, they are only what should be achieved by a ‘customer focussed’ industry that wishes to provide a quality bus service. For example, it should be in the bus industry’s interest to reduce the amount of scheduled mileage it fails to run. Stagecoach told us that the average working life of a bus is 14 years. This implies that the average age of the fleet could fall as low as 7 years, once existing old stock is replaced. In addition, over 50 per cent of the fleet will be replaced through a standard fleet renewal process over the next 10 years. As all new buses must now be fully accessible, 50 per cent of all buses will be low floor by 2010 simply through the natural replacement cycle of old buses. The Commission for Integrated Transport also believes

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151 Q435.
152 Q433.
153 Q155, Q112, Q556.
155 9 million bus kilometres were not run that would have been if the 0.5 per cent target was met.
157 Ibid.
158 Under Part V of the Disability Discrimination Act 1995, all new buses for local service placed in service since the end of 2000 have had to provide wheelchair access. In practice, this means that low-floor designs have been adopted. By the start of 2016 all single-deckers will have to meet this requirement, and likewise all double-deckers by the start of 2017. In any particular area, the rate of introduction thus depends on the rate of fleet renewal.
159 Q37.
that there is a danger in concentrating solely on the provision of new buses as a means of improving access for the 8.5 million disabled people in Great Britain.\textsuperscript{160} The bus is only one part of the whole journey and may not therefore remove all of the barriers to travel. \textbf{The Department has set targets for improving bus services, particularly reliability, which are welcome. However, the targets relating to the age and accessibility of the bus fleet are not ambitious and should be revised. The Department must also ensure that all aspects of the bus journey including information, pavement quality and easy access bus shelters are improved to make travel easier, not just the bus.}

\textbf{Safety and Security}

72. Actual and perceived safety and security problems can be a significant barrier to people using public transport. Women and older people feel most vulnerable, particularly at night.\textsuperscript{161} The Department believes that safety concerns are deterring around 10 per cent of potential public transport use mainly at off-peak times: this is equal to the growth target set in the 10 Year Plan.\textsuperscript{162} It has recently issued guidance to operators on how to improve security on buses.\textsuperscript{163}

73. The Transport and General Workers Union was concerned about the increasing use of weapons in assaults against bus drivers. It believed that the main problem was not the legislation but the ability to catch assailants.\textsuperscript{164} Vandalism and attacks also represent a significant cost to bus companies. Stagecoach estimates that vandalism costs it £400,000 per year in Manchester alone.\textsuperscript{165} In Manchester and London, Stagecoach have developed joint partnerships with police forces to catch vandals and passengers exhibiting violent conduct. In Manchester, in conjunction with Arriva, a large number of CCTV cameras have been installed on the worst affected routes. Police ride on these routes and so far have made 30 arrests.\textsuperscript{166} The Police must give greater priority to reducing anti-social behaviour on and around public transport. Attacks on public transport users and staff are as serious as any other form of anti-social behaviour. Bus companies must use the Department’s guidance on improving security in partnership with local authorities and police authorities.

\textbf{Around London}

74. The region just outside London has suffered from significant service withdrawals and great instability of services for a variety of reasons. It is characterised by low urban population densities, high car ownership, high labour costs and difficulties in obtaining sites for operating depots.\textsuperscript{167} Commercial services thus tend to be infrequent, and charge high fares. Within London, a different regulatory and financial system applies (as described in Chapter II) and hence an exceptionally marked difference exists between fares and service levels within London, and in the immediately adjoining areas, especially where the Greater London boundary passes through continuously built-up areas (as around Epsom in Surrey, or Waltham Cross in Hertfordshire). Surrey County Council told us that last year, 2630 commercial journeys per day were withdrawn. Due to revenue funding shortages it was unable to replace 465 of these.\textsuperscript{168}

\begin{flushleft}
\textsuperscript{160} CITT’s Initial Assessment Report on the 10 Year Transport Plan, Commission for Integrated Transport, May 2002.
\textsuperscript{161} Ibid.
\textsuperscript{162} Ibid.
\textsuperscript{163} Get on board: an agenda for improving personal security in bus travel, DTLR, 22 April 2002.
\textsuperscript{164} Q392.
\textsuperscript{165} Q18.
\textsuperscript{166} Ibid.
\textsuperscript{167} BUS 6, BUS 9 and BUS 16.
\textsuperscript{168} BUS 16.
\end{flushleft}
75. Transport for London has a statutory duty to provide services running within, and to and from Greater London.\textsuperscript{169} It has recently improved cross-boundary services, offering benefits to passengers in terms of lower fares and higher frequencies. However, this has the effect of making remaining commercially-registered services in the fringe area no longer viable, in addition to the general problems facing commercial bus services in the region.\textsuperscript{170} All of these issues have contributed to a number of operators in Surrey recently going into receivership:

- 19 March 2001 - Tillingbourne Buses (60+ vehicles)
- 22 March 2001 - Surrey Buses (10 vehicles)
- 27 February 2002 - White Rose Buses (20 vehicles).\textsuperscript{171}

76. There are now no commercially run services inside the M25 in Surrey. Of the 36 routes that operate between Surrey and London, 19 are fully supported by Surrey, 11 by London Buses, and the remainder receive joint funding.\textsuperscript{172} The disparity of service quality between services to London and services around the County and the instability of the remaining commercial network has caused a loss of confidence in the bus network in Surrey.\textsuperscript{173} Transport for London are consulting on improvements to their cross-boundary services and how it can co-operate further with the local authorities concerned. However, the problem lies largely with the surrounding authorities. Surrey County Council told us that it would consider applying for a quality contract to enable all of the services in its area to be tendered.\textsuperscript{174} This would enable all of the bus services to operate on a consistent footing with services to London but it does not have sufficient revenue support from the Government to make this possible.\textsuperscript{175} Bus services in the areas surrounding London are a poor relation to those services running into and around the capital. This disparity is difficult for the travelling public to understand. Local authorities surrounding London should develop bus strategies to address these problems including, where appropriate, the use of bus quality contracts. The Department should provide greater revenue support for these new strategies to ensure that a stable network of integrated services is maintained.

\textsuperscript{169} Q343.
\textsuperscript{170} Q344.
\textsuperscript{171} Ibid.
\textsuperscript{172} Ibid.
\textsuperscript{173} Q344 and BUS 16.
\textsuperscript{174} See Chapter IV for discussion on bus quality contracts.
\textsuperscript{175} BUS 16.
IV. THE SOLUTIONS

77. In March 1999, the Department proposed a number of initiatives for improving bus services set out in From Workhorse to Thoroughbred: A better role for bus travel. In particular, the Department proposed measures to build on successful 'quality partnership' initiatives. Such partnerships involve bus operators providing new buses and improved marketing whilst local authorities improve the infrastructure along the route. The Transport Act 2000 provided statutory powers to enable these partnerships to be formalised. The Act also enabled local authorities to run all of the bus services within their area as tendered services through 'bus quality contracts'. In the course of our inquiry there was considerable disagreement over whether quality partnerships or contracts offered the best way forward. We describe the two approaches in more detail and present our conclusions on the merits of the approaches below. In addition, this section reviews a number of new challenge fund initiatives established by the Department in rural and urban areas to improve public transport.

Bus Quality Partnerships

Improving services

78. Bus quality partnerships are a joint initiative between local authorities and bus operators to improve bus services on a route or in an area. Typically, local authorities invest in traffic management schemes which give buses priority on the road, new bus shelters, improved interchange facilities and other facilities for passengers including information. Bus operators invest in higher quality services, including new vehicles and staff training. There are currently quality partnerships in around 130 areas in England. Many quality partnerships have achieved significant increases in bus passenger journeys. For example, in Cambridge a 20 per cent increase in bus use was achieved on 5 routes in six months, in Leeds a 70 per cent increase was achieved on a dedicated guided busway and 48 per cent increases were found across a number of routes in Nottingham. Oxford has achieved significant growth in bus use by working in partnership with the local operators without developing formal partnership agreements. However, the growth in Oxford is also due to the simultaneous application of other measures to favour bus use such as Park and Ride and higher city centre parking charges.

79. The Transport Act 2000 introduced legislation to put quality partnerships on a statutory level. The Department believes that statutory partnerships provide greater confidence to invest as both parties are under statutory requirements to achieve their commitments. "Failure by the bus company to meet the agreed standards would be treated as a breach of his bus registration and would attract penalties from the Traffic Commissioners. There is a clear duty on the authority to provide the specialised facilities while the scheme remains in operation; failure to do so would be actionable in court."
In England, bus service frequencies and timings cannot be agreed through quality partnerships. In Scotland, minimum service frequencies may be defined.\textsuperscript{186}

80. No local authorities have yet applied for approval for a statutory quality partnership. The Department believes that the reasons for this are twofold:
   (i) Those authorities with successful voluntary agreements see no advantage in formalising agreements which work.
   (ii) The inability to specify frequencies and timings may be a deterrent to statutory bus quality partnerships being brought forward.\textsuperscript{187}

The Institute of Logistics and Transport described the procedures for approving statutory quality partnerships as “tortuous”.\textsuperscript{188} Mr Preston, highlighted the benefits and limitations of quality partnerships in summarising the success of the Leeds guided busway:

“That was a scheme where the operators, First Group and Arriva, together with the PTE and Leeds City Council, paid for the infrastructure something like £20 million, with operators actually contributing to the infrastructure costs of the guideway as well as investing in new vehicles. It was a very good partnership, well branded, but the problem that we had because of the Office of Fair Trading was that we could not together specify either frequency or fares.”

\textit{Application of quality partnerships}

81. The bus operators are adamant that quality partnerships are the best way to improve bus services. Mr Lockhead told us that First believes “every route we have should be part of a partnership. Every part of the network should be part of a partnership. The partnership gives us free movement of our buses on the very limited road space of some of the communities we serve have”.\textsuperscript{189} Mr Cochrane of Stagecoach said that quality partnerships were applicable to cities and small and medium sized towns such as Oxford and Cambridge.\textsuperscript{190} We were concerned about the potential for expansion of bus quality partnerships as it is not possible for all areas to receive new buses.\textsuperscript{191} Mr Clayton of Arriva told us:

“There is a dilemma in that you have vehicles that are due to last 14 years and their average age at the moment is 8. If you have assets that still have life left in them they have to be used, and so I think the issue is about ensuring that the new vehicles are placed in areas where they represent the best value, both to us and to the customer.”\textsuperscript{192}

The strategy of a rational commercial operator is therefore to concentrate the newest buses on the routes with highest passenger numbers, where the investment can be paid back faster. In turn, this will allow the whole fleet to be replaced slightly faster.

82. Bus quality partnerships are only suitable for a limited number of routes. The Public Transport Consortium, representing local authorities outside Metropolitan areas, believes that only 10 to 20 per cent of routes in their areas are suitable for quality partnerships. On the remaining routes it believes that there is not enough potential for revenue growth to pay for new buses,\textsuperscript{193} echoing the opinion of Arriva. Mr Goddard told us that in Cheshire over 60 per cent of the buses are over 6 years old and that in the future, quality partnerships in

\textsuperscript{186} Ibid.
\textsuperscript{187} BUS 1A.
\textsuperscript{188} Q568.
\textsuperscript{189} Q35.
\textsuperscript{190} Ibid.
\textsuperscript{191} The industry has agreed to work towards an average fleet age of 8 years.
\textsuperscript{192} Q37.
\textsuperscript{193} BUS 45.
Cheshire will only receive buses that are three to four years old rather than new buses. Mr Robertson told us that in Hampshire there are “about 64 per cent of those services carrying about 50 per cent of our passengers, for which the quality partnership approach is not going to work”. The Association of Transport Co-ordinating Officers expect that bus quality partnerships will have adverse impacts elsewhere on the network:

“Away from the star performers, there is a second division of services where any investment by the local authority is in danger of being matched by little more than vehicle investment, most of which was probably already due, there being no corresponding improvement in service levels, fares or marketing”.

83. Existing quality partnerships may already be concentrating resources on a few routes to the detriment of others. Surrey County Council told us that “There is evidence that where Quality Bus Partnerships have been signed, commercial services in adjoining areas have been reduced to meet the operators’ new commitment to provide better services on partnership routes”. Quality partnerships also do not guarantee an operator’s commitment to frequencies or long-term service provision in an area. Operators have withdrawn from routes that had been developed as quality partnerships in both Stoke and Eastleigh.

84. Rural areas and small to medium sized towns will have very few quality partnerships. Northamptonshire County Council point to the difficulties experienced by towns with populations between 25,000 and 100,000. In Corby, five out of seven services were recently withdrawn from commercial operation. Oxfordshire County Council said that they had “no direct experience of the quality partnership in a rural area at all”, despite the successful collaborations with operators in and around Oxford city centre.

85. The Passenger Transport Executive Group believes that in the Metropolitan areas, quality partnerships have been a success. It noted that “in almost every case it was the Passenger Transport Executive that initiated these partnerships” and that while joint working can continue to improve the quality end of the bus market “we do not believe that bus operators are capable of delivering social inclusion objectives”. However, the Passenger Transport Executives’ greatest concern is over the lack of control that they have over the quality of services provided. Mr Donald told us “We spend almost £200 million per year in the Passenger Transport Executive areas funding concessionary travel. It does seem very strange to us, given the other Public/Private Partnerships we are involved in that the public sector is not even able to specify the quality of service that the passengers, for whom it is paying, actually get in various ways. They cannot specify that at all.”

Summary

86. Bus quality partnerships, where local authorities and bus companies have worked together to achieve improvements to both infrastructure and bus quality, are essential to make the bus an attractive alternative to the car. However, not every route has the potential to achieve the levels of growth being seen through partnerships at the moment. The evidence shows clearly that the current approach will create a two-tier level of bus service.
Main routes in cities and major towns and some inter-urban routes will achieve growth in bus use, whilst the rest of the network becomes increasingly marginalised, receiving older buses and less marketing attention. In addition, bus quality partnerships do not allow agreements on service frequencies, timetables and fares, falling some way short of meeting all of the requirements of an integrated system. **Bus quality partnerships have shown the benefits of bus companies and local authorities working together. However, bus quality partnerships will only improve services in some parts of major towns and cities, effectively creating a two-tier bus service.** Whilst this will help to reduce congestion in major cities, it will offer little to improve services in smaller towns and across rural areas and there is a danger of these services deteriorating still further. The Department must ensure that operators have obligations to improve services outside quality partnership routes. Bus quality partnerships should be strengthened by allowing local authorities to agree minimum service frequencies and fares with operators using the route. Where road space is handed over to buses, the local authority must have some guarantee of the quality and level of service provision.

**Bus quality contracts**

87. The Government proposed bus quality contracts to be used where quality partnerships were not offering sufficient improvements. Under a quality contract, local authorities are given powers to grant exclusive rights to operators to run defined bus routes or routes within an area. The Department believes the advantages of quality contracts to be “stability of the network and services, local authority control over fares and the ability of the local authority to specify the quality and quantity of services, and the connections with other buses - or other modes. There is also an argument that passengers would benefit if operators used revenues on the busier routes to subsidise the less busy ones”\(^\text{204}\). Potential problems include less incentive to innovate, the potential for competition to be based on cutting conditions for workers and smaller operators being driven out of the market.\(^\text{205}\) Any local authority wishing to pursue a quality contract scheme must obtain the approval of the Secretary of State and demonstrate why quality contracts are the best solution. The Department has set a 21 month period after the scheme is established before the contracts come into force. This contrasts to a 6 month period in Scotland.\(^\text{206}\) No applications have yet been made for a quality contract.

**Bus company opposition**

88. All of the bus companies are opposed to the introduction of quality contracts. They believe that such contracts will stifle competition, lead to oversupply of services in some areas for local political reasons and that contracts do not provide any incentive for local authorities to invest in bus priority.\(^\text{207}\) National Express Group said “Quality contracts would be detrimental to the growth of bus travel and should not be introduced on urban bus travel”.\(^\text{208}\) First believe that “Quality contracts do nothing to drive change as they deal solely with the economic regulation of the industry”\(^\text{209}\). In addition, the major bus companies also believe that quality contracts will create significant extra costs to set up and manage the contracts. The First bus company estimate these costs could be as high as £70 million and that it would also cost “billions of pounds more to run the same level of services as today”.\(^\text{210}\) However, the local authorities strongly rejected the bus companies

\(^{204}\) *From Workhorse to Thoroughbred: A better role for bus travel*, p27.

\(^{205}\) Ibid, p28.

\(^{206}\) BUS 1.

\(^{207}\) BUS 3, BUS 5, BUS 40, BUS 48.

\(^{208}\) BUS 5.

\(^{209}\) BUS 3.

\(^{210}\) BUS 3.
claims that quality contracts will cost more to run than the current system. Mr Donald told us “we have a myriad of contracts in passenger transport executive areas with bus companies of various sorts, and we would wrap all of that up into one contract for the area”.

Support for quality contracts

89. The local authorities and passenger transport executives disagree with the bus operators over the merits of bus quality contracts. Bus quality contracts may be pursued for a variety of reasons:

- To increase the accountability of public support funding for the bus industry.
- To manage a network of mainly subsidised services in a more cost effective way.
- To provide a step-change in the frequency and quality of service that is not commercially viable.
- To allow service frequencies, timetables and fares to be coordinated.

This section examines the suitability of each of quality contracts to achieve these different objectives.

Increased accountability

90. The Passenger Transport Executive Group is critical of the lack of influence it has over the level and quality of services in its areas. Mr Donald told us that around 40 per cent of the funding of bus companies in the passenger transport executive areas is from public funding. He said that there was no way of assessing whether this was good value for money or not. This contradicts the general principle of ensuring best value from all public investment at a local level: “the present means of subsidising services is not transparent and is not related to performance, quality of service or meeting public sector objectives.” The Passenger Transport Executive Group is examining whether quality contracts will offer a more economic, efficient and effective way of improving bus services. Mr Donald told us that the bus companies object to quality contracts is profit driven:

“To be quite frank, if we were running the levels of profit that we just talked about, and getting in a marketplace that does not seem to have real competition going on, near monopoly positions in most of the passenger transport executive areas, then any suggestion that quality contracts come along which have the prospect of introducing competition into that marketplace is obviously something that financially, and I think rightly, from a commercial point of view, they would resist.”

91. The bus companies argue that public support for bus services is transparent. Local authorities purchase extra services through an open tendering process, bus operators receive fuel rebate for every kilometre run, which is audited, and concessionary fare contributions are based on a refund dependent on the number of concessionary journeys made. The Commission for Integrated Transport is currently undertaking a review to determine how subsidy provision could be improved. We expect it to provide recommendations on how the current system could be changed. However, if public support for bus services is
increased to perhaps 50 per cent of bus company income in some areas, greater control over
the obligations of the bus companies will be required.

Networks of largely non-commercial routes

92. Small towns such as Corby, Wellingborough and High Wycombe have very few
remaining commercial services. In such areas, where quality partnerships will not be
undertaken, quality contracts appear to offer an attractive way of meeting the local
authority’s bus strategy. Northamptonshire propose the following scheme:

“A quality contract would be a contract for the provision for the whole network of
internal passenger services within a defined area, excluding commercial inter-urban
routes but possibly including some non-commercial rural services into the town. It
would be specified to a minimum standard with the operator/partner being given every
encouragement to beat the standard to increase service usage. In Northamptonshire,
the operator would take the revenue risk, apart from new services to areas of new
development, and therefore, have the incentive to grow the market by increasing
ridership.”

This seems a sensible approach to bus service provision. In some areas, the majority of
services are currently run by piecemeal support contracts. It does not represent good value
to the taxpayer for local authorities to pay for all but the most profitable of services in an
area and still be unable to co-ordinate services, timetables and fares. The Social Exclusion
Unit also believes that the quality contract approach should be tested.

Increased public transport provision

93. A MORI poll, conducted on behalf of the Commission for Integrated Transport
showed that in England, 80 per cent of people agreed that much more investment was
needed in public transport before measures to reduce car usage should be introduced.
In London, where the first major urban congestion charging scheme is being implemented,
the bus is being used as the main alternative for car drivers; 200 new buses are providing
an extra 10,000 seats to cope with the mode shift. Mr Hendy, Director of Surface
Transport at Transport for London told us:

"There are some particular circumstances, notably the congestion charging scheme,
where the mayor is being exhorted to improve public transport provision before there
is any further transfer of people from cars. In those circumstances, it is not only much
easier; it is almost inevitably the case that the public sector would have to procure
extra services in advance of some of the extra people using them. That is not a feature
which is ever likely to occur in an environment of deregulation." He added “Why
would you run a service in anticipation of people travelling on it?”

Bus company costs are highly dependent on the levels of bus provision for peak periods.
Increasing bus patronage at peak hours may not be profitable for bus companies. The
Transport Act 2000 has provided the opportunity for local authorities to purchase additional
services which are in the interests of the public and of those providing bus services in the

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222 BUS 39.
223 Q503.
224 The CJT Report 2001: Public Attitudes to Transport in England, A Survey Carried out by MORI for the Commission
225 Q355.
226 Q342.
227 Q356.
228 Joint Position Statement on Buses, Association of Transport Co-ordinating Officers, Confederation of Passenger
This should remove the concerns previously expressed over the provision of extra services inhibiting competition between those seeking to provide services commercially. It might therefore be possible to provide extra services within a de-regulated system. However, the overall service provision would still not be co-ordinated, different fare structures would exist and the service pattern would remain subject to changes by the bus companies. If the local authority is to be responsible for tendering extra services on commercial routes, it may be as efficient for it to tender the whole route through a quality contract.

94. Coventry City Council proposes the introduction of bus quality contracts to improve public transport in the city. It told us “There is no realistic alternative to the bus for the vast majority of people. Heavy rail plays a very small part. There is no realistic chance of us getting a metro system in the foreseeable future, so public transport in Coventry rests on buses, and, to a very small extent, on taxis”. Coventry proposes to achieve a big improvement in bus use by improving the infrastructure with a large number of high quality bus corridors with bus priority and improved waiting facilities. On top of this, it believes that quality contracts will: improve competition between operators to run routes, increase service stability, allow an influence on fares, facilitate integrated ticketing, permit greater integration with other public transport services and give it the ability to specify new services. Centro, who are supporting Coventry City Council’s bid told us “we are not talking about route by route franchising, as in London, we would be talking about broad specification, what we want to see that network providing in various ways, and then allow bus companies to compete and plan a network in bidding for that”.

95. Transport for London provide significant levels of revenue support for services. It is anticipated that in 2004/05 revenue support of £512 million will be given compared to a total cost of operations of £1,230 million. Transport for London cautioned against seeing quality contracts as a panacea to problems in the bus industry without providing increased revenue support stating:

“A contractual regime put in place at a time of above-inflation pay and conditions, and requiring new accessible vehicles and high levels of service for social inclusion, yet lacking the revenue support to pay for these items will not succeed. If therefore, a contract regime were to be instituted outside London, it will fail unless there is sufficient long-term revenue support to pay for the quality and volume of services desired from its introduction.”

Co-ordination of services

96. Under quality contracts, local authorities can specify the quality and quantity of services and have control over timetabling, integration with other services and fare levels. Competition occurs between operators at the bidding stage. The franchises are let to the winning operator for a maximum of five years. As discussed in the previous section on the Competition Act, it is currently extremely difficult for local authorities and bus companies to agree service frequencies, timings or fares in a deregulated environment, including through bus quality partnerships. Some local authorities may therefore see
quality contracts as the only mechanism to achieve the common-sense co-ordination required for bus services in their area.

97. Oxfordshire was highlighted by both parties as a successful demonstration of the benefits of partnership between local authorities and bus companies. In Oxfordshire, 94 per cent of the network is commercially operated and could therefore potentially benefit from bus quality partnerships. However, Oxfordshire County Council do not feel that the powers afforded them under bus quality partnerships are sufficient. It intends to introduce a number of high quality, high frequency bus corridors, each with two or more operators running the route but is unable to specify minimum service levels or gaps between buses. Oxfordshire conclude “If the Quality Partnership powers cannot be strengthened to secure effective control of frequencies and headways, it may well be that authorities like ourselves will feel compelled to proceed down the Quality Contract route, if it is seen as the only appropriate way to protect our investment”.

In the discussion of the Competition Act in Chapter II, we proposed a number of measures be taken that will allow local authorities such as Oxfordshire to enable them to pursue quality partnerships with greater local authority influence and co-operation between operators. However, if the concerns over the application of the Competition Act cannot be resolved, it is inevitable that some local authorities will feel compelled to use quality contracts.

Barriers

98. The Government has stipulated that after a quality contract is approved, it cannot be introduced for a further 21 months: this period is only six months in Scotland. The Association of Transport Co-ordinating Officers, the Institute of Logistics and Transport and the Social Exclusion Unit all believe that the 21 month period will be damaging to existing services in the area as operators that have not been awarded contracts will lose interest in the area, creating instability. Mr Carr from the Institute of Logistics and Transport told us “The impression to the casual reader of the initial Bill anyway was that the Government did not seriously intend these things to be used but that seems to have changed a little bit over time”. ATCO also raised concern that in some areas, a local authority could be faced with a single bid, at inflated prices, and thus incur significant costs in procuring its bus services through quality contracts. However, it was also suggested that quality contracts may break up some of the historic monopolies that currently exist in some cities. The Public Transport Consortium were uncertain as to whether bus companies would need to be compensated for assets, such as bus garages that they did not need, if they lost the right to operate in a city and over how inter-urban routes would be integrated with contracted urban routes.

London

99. The London bus network is one of the largest in the world. Every weekday, over 6000 buses run on 700 routes, carrying 4.5 million passenger trips. Bus services in London are operated as tendered services, similar to bus quality contracts, with the fares

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239 Q163, Q562, Q35
240 Q189.
241 BUS 46.
242 Ibid.
243 BUS 31, BUS 38, BUS 52.
244 Q568.
245 BUS 31.
246 Q180.
247 BUS 45.
248 BUS 2.
policy for all services set by Transport for London. Bus use has grown significantly in the recent past, with a 6 per cent growth in 2001/02. The bus companies believe that there is no link between the tendering system in operation in London and the rise in bus use. They argue that reliability and punctuality are the key factors in encouraging bus use. Indeed, there are a number of wider factors such as population growth, high congestion on the roads and an already crowded Underground that contribute significantly to growth. Mr Hendy, Director of Surface Transport at Transport for London, provided his view of the reasons for growth in bus use in London:

“It relates to a number of factors. There is no one factor. All of the market research suggests that frequency and reliability are the principal determinants of passenger growth on buses. To that, I would add frequency of network coverage because the London bus network has been growing in its coverage, particularly its night coverage and Sundays, for a number of years. A consistent fares policy, which is simple and integrated, has an effect. Competent, decent information, both before travel and real time, helps.”

100. Transport for London does not believe that the improvements that they have put in place would be achievable in a deregulated market. The bus network will receive subsidies of £314 million, £453 million and £512 million over each of the next three years. Mr Hendy told us “If you sought to deliver that in the deregulated market, nearly the whole network would need to be procured publicly in any case.” He also believed that closely monitored contracts were the only way to ensure sufficient accountability for the significant amounts of public money being invested. London has achieved an impressive growth in bus use. The wide variety of factors that contribute to this growth mean it is not possible to attribute this growth to the use of a tendered system of bus procurement. However, there are a number of separate and strong arguments in favour of an approach similar to London being used in other large cities. London has achieved an expansion of services and a level of integration of information, ticketing and fares not seen elsewhere in England. The experience in London shows that if large amounts of public subsidy are used to improve bus services, quick and significant improvements can be made. If such investment is to be made elsewhere, tendering may offer the best way of ensuring accountability for public funds.

The Department

101. The Department has said that it will only approve a quality contract approach if it is the “only practicable way” of implementing the local bus strategy. The Minister told us “My own view is that partnership is and should be the way forward but, where problems cannot be resolved through partnership, quality contracts provide an option.”

Summary

102. There are a number of different circumstances in which quality contracts offer an attractive alternative to de-regulated bus services, even with effective bus quality partnerships operating in some areas. It is unlikely that all local authorities will wish to, nor have the skills to, pursue a quality contract approach. Indeed, in some areas, a quality

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249 BUS 2.
250 Q52.
251 Q338.
252 Ibid.
253 Set against total cost of operations of £990 million, £1160 million and £1230 million.
254 Q340.
255 Q342.
256 BUS 1.
257 Q406.
contract approach may not be the best option. Significant public transport improvements are required before car restraint measures become acceptable to the travelling public which, for most areas, means improving the bus. The Department must recognise that quality contracts offer a guarantee to local authorities and the travelling public of a level of bus service that will help overcome concerns about the introduction of such measures. It is unlikely that this will occur with de-regulated operations: operating extra services solely in the peak period can reduce bus company profitability. The Department should encourage those local authorities that have a strong case for introducing quality contracts to do so. It must remove the barriers to introducing quality contracts, such as the 21 month waiting period for which there appears little justification. The Department must also be prepared to find additional revenue support for areas seeking to boost bus use, particularly to pump-prime new services. It must ensure however, that those authorities given extra resources achieve best value in improving their bus networks and that the money is not siphoned off to other areas. The Department should monitor the first few quality contract schemes closely to ensure that the costs and benefits of quality contract schemes are properly understood in a variety of different geographic areas.

103. The bus companies approach to quality contracts is negative, unhelpful and misguided. Local authorities recognise and are acting, albeit slowly, to improve priority for buses and will continue to do so through their local transport plan bids whether or not they pursue a quality contract approach. Quality contracts are not simply a tool for economic regulation. Contracts offer the advantage of improving the synergy between commercially viable and non-commercial services. In smaller towns and some rural areas, the commercial network is now so depleted that there can be little doubt that a new approach to service provision is required. Quality contracts do not have to stifle innovation; they could consist of minimum service provision requirements with opportunities for operators to offer new and extra services, as with rail franchising. We note that the main bus operators continue to compete for work in the tendered market in London and for specific tendered routes such as Park and Ride services in many towns. There is no evidence that bus quality contracts will cost more to provide the same service. Indeed, it may be that greater cross-subsidy between services will reduce some costs, as will a co-ordinated approach to tendering. Whether organisational costs rise or fall, there will be greater transparency of cross-subsidy under a quality contract regime. The bus industry should take a more positive approach to bus quality contracts. Instead of down playing contracts as heavy handed regulation, the industry should engage in developing forms of contract that allow for innovation and flexibility for bus companies whilst at the same time allowing local authorities to have influence over minimum service requirements and most importantly, co-ordination of services between operators and modes. Some of these desirable outcomes do not appear possible under de-regulated operation with the current application of the Competition Act. We believe that the bus companies preferred solution of quality partnerships works, but only for some areas and in a limited way.

Quality networks

104. The Association of Transport Co-ordinating Officers and the Institute of Logistics and Transport both suggested a half-way house arrangement between quality partnerships and quality contracts. The underlying principle behind such an approach is that the public sector and the private sector are both putting in resources to cross-subsidise and improve the bus network to varying degrees but the linkages between the commercial network and
subsidised services are weak. More could be achieved if greater co-operation between bus companies and passenger transport executives or local authorities could be fostered.\footnote{Q540, Q333.}

105. The Association of Transport Co-ordinating Officers suggested that a clean sheet review of the operation and funding of transport services within the quality network area should be undertaken including local bus services, school transport and social services journeys. Bus operators would include their marginal commercial services in the analysis but quality partnership routes would be exempt, on the presumption that this would represent the best way forward for such a route. The object of the review would be to identify a minimum service requirement for each corridor and consider the potential for setting a new fares policy. Economies of scale produced by better co-ordination might lead to a better service for the same amount of money.\footnote{BUS 31.}

106. The Institute of Logistics and Transport proposed a ‘Network Development Conference’ where “in each authority, a ‘conference’ of the authority and all the operators within its area would jointly determine the overall requirement for bus services, following which operators would each assess the level of support necessary, including concessionary travel, to maintain the parts of the overall network provided by them. Negotiation between the authority and the operators would finalise service and support levels”.\footnote{BUS 38.}

107. The Minister supported the idea of local authorities being given responsibility for brokering agreements between bus operators to achieve their bus strategy objectives.\footnote{Q417.} The Office of Fair Trading provided its initial thoughts on the idea of quality networks and network development conferences, although it noted that the proposals are very high level and not yet completely clear. It had concerns about the proposal of the Association of Transport Co-ordinating Officers’ idea for common fares. It was also concerned that such proposals should not be concentrated solely on existing operators in the area and that the deals might constitute market sharing agreements.\footnote{BUS 42A.} Similar concerns applied to the idea of agreements brought about through the ‘Network Development Conference’.\footnote{Ibid.} The Office of Fair Trading believes that “even if the local authority orchestrated an anti-competitive agreement between operators, it could nevertheless still be subject to the Chapter I prohibition of the Competition Act”.\footnote{Ibid.} However, it noted that such agreements might be exempt if they act in the best interests of passengers rather than bus companies.\footnote{Ibid.} It is difficult to imagine a local authority promoting a scheme that was in the interests of bus companies and not passengers.

108. The idea of a halfway house between quality partnerships and quality contracts has some merits. We strongly support greater integration between local bus services, school and social services travel and the need to ensure greater synergy between commercial and non-commercial services. However, the concept is currently only loosely defined. It is unclear how, and how much, bus operators might be prepared to commit, or how the agreements reached would be transparent and fit within the Competition Act. The discussions surrounding a compromise agreement point to a general dissatisfaction with quality partnerships as a solution to all parts of local authorities’ bus strategies and a reluctance from operators to engage in quality contracts. \textbf{The Department should investigate whether the quality network proposal can be developed further. In particular, the Department should examine how agreements can be negotiated within the current Competition Act and how this might need to be altered. It must also}

\footnote{258 Q540, Q333.} \footnote{259 BUS 31.} \footnote{260 BUS 38.} \footnote{261 Q417.} \footnote{262 BUS 42A.} \footnote{263 Ibid.} \footnote{264 Ibid.} \footnote{265 Ibid.}
examine what contractual obligation to the agreements might be required. Local authorities and bus companies should work together to bring forward collaborative proposals showing the extra benefits to the passenger of this new approach.

New Funding Initiatives

109. The Department has introduced two new ‘challenge fund’ initiatives to provide support for new public transport services. The Rural Bus Challenge was introduced in 1998 with the aim of stimulating the provision and promotion of rural public transport, improving quality and choice across the country. The Urban Bus Challenge was introduced in 2001 to improve public transport for deprived urban areas. The Department also introduced the Rural Bus Subsidy Grant to provide greater support for rural bus services. This section concentrates on rural funding initiatives as it is too early to judge the success of the Urban Bus Challenge.

Rural bus initiatives

110. The Department has introduced two major initiatives to boost public transport provision in rural areas. The Rural Bus Subsidy Grant was introduced in 1998 and funding is committed to 2003/04. Money is awarded to local authorities based on the size of their rural population and is currently worth £32.5 million a year, set to increase to £48.5 million in 2003/04. Up to 20 per cent of the money can be spent on saving existing rural buses from closure. The grant was initially only to be used on services that operate wholly or partially outside settlements of 10,000 people or more. This has subsequently been increased to 25,000.

111. The Government has also committed £129 million to the Rural Bus Challenge initiative. Competitions for the Rural Bus Challenge are held annually. Four such competitions have been held to date, resulting in 213 awards totalling £69 million. The remaining £60 million has been allocated to this scheme for the period to April 2004. Bids may be for capital funds, revenue support or both but may not be used to support conventional bus services. The purpose of the grant is to encourage the development of innovative public transport services, particularly for areas with little or no public transport provision. A conventional bus service is unlikely to be a cost-effective solution.

Impacts

112. The two initiatives have been widely welcomed. Mr Chorlton told us “The Rural Bus Subsidy Grant and Rural Bus Challenge have been a major positive issue in terms of progressing rural buses, probably the biggest for 50 years in terms of actually making a difference. In my own case in Devon, that has resulted in nearly 900,000 extra passengers”. Lincolnshire County Council have established a project called InterConnect. The project concentrates on supporting the commercial inter-urban network operating in the county. Twelve new feeder services from remote rural areas were introduced with Rural Bus Subsidy Grant to connect to the main route. The frequency of the main route was enhanced from six per day to an hourly service. In March 2001, the fixed route feeder services were replaced with more cost-effective demand-responsive services which can be pre-booked. The project received £771,500 funding from the Rural

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266 BUS 1.
267 Ibid.
268 Ibid.
270 Ibid.
271 Ibid.
273 Q111.
Bus Challenge\textsuperscript{273} enabling the services to be supported and new infrastructure, such as bus stops, to be installed. The system is managed through a call centre that allows the main bus to be held at a bus stop to ensure that the connecting services arrive.\textsuperscript{274} Bus use in Lincolnshire has increased from 15.1 million journeys per year in 1995/96 to 17.8 million in 2001.\textsuperscript{275}

\textbf{Funding}

113. The short-term nature of the new funds for rural bus initiatives has created a number of problems. Buckinghamshire County Council noted that 50 per cent of their funding for public transport is now in the form of time-limited grants.\textsuperscript{276} A number of witnesses told us that very few of the schemes would be commercially viable at the end of this period and would therefore need continued support.\textsuperscript{277} All of the local authorities are currently facing significant rises in tender costs for their existing supported services and they will not have the funds to continue to support extra services as the challenge funding expires.\textsuperscript{278} Lincolnshire believe that the growth that they have achieved is in jeopardy because of growing costs.\textsuperscript{279} Mr Carr, Director of Projects at West Yorkshire Passenger Transport Executive told us “The village in which I live, even within industrialised West Yorkshire, has a very successful rural challenge service. Almost certainly that service will now meet the criteria of my passenger transport authority to justify a subsidy to it. If, as is quite likely, we have got a fixed or perhaps even a declining subsidy budget that means that either we have to say, ‘Sorry, you have passed the test but you cannot carry on’ or we have to say there are other services which have got to be squeezed in order to make the money available”.\textsuperscript{280}

\textbf{Short-term funding and bid costs}

114. Many local authorities, whilst welcoming the opportunity to get funding for innovative new services, believe that the bidding process is too time consuming, often with little chance of success.\textsuperscript{281} Mr Newson told the Sub-Committee that Oxfordshire are “not supporters of the Challenge Bid system, whether for bus grants or other things because they do tie up an awful lot of local authority precious resource, which often proves to be abortive.”\textsuperscript{282} Devon, Oxfordshire and Northamptonshire all supported a move to incorporate bids for innovative new services as part of the annual progress reports on their Local Transport Plans.\textsuperscript{283} This would seem sensible, as bids for new public transport schemes are part of an authority’s overall transport strategy. However, Local Transport Plans are for capital funding only, whilst the Rural Bus Challenge is capital and revenue funding, although this problem is not insurmountable. The Minister told the Committee “I always have a concern about time spent in putting together bids — not just here but elsewhere — and am certainly prepared to look at that aspect of it.”\textsuperscript{284}

\begin{itemize}
\item \textsuperscript{273} BUS 1.
\item \textsuperscript{274} BUS 15.
\item \textsuperscript{275} \textit{Ibid}.
\item \textsuperscript{276} Q330.
\item \textsuperscript{277} Q134, BUS 38 and Q325.
\item \textsuperscript{278} BUS 15, Q112.
\item \textsuperscript{279} \textsuperscript{279} BUS 15.
\item \textsuperscript{280} Q556.
\item \textsuperscript{281} BUS 15, BUS 39.
\item \textsuperscript{282} Q199.
\item \textsuperscript{283} Q134, Q199 and Q135.
\item \textsuperscript{284} Q460.
\end{itemize}
Summary

115. The Government has put in place funding that has led to significant improvements in rural public transport provision for many areas. It must learn from the successes and failures of the many innovative schemes it has supported. It is clear that the Department must continue to provide extra funding for rural services to recognise the challenges of rising tender costs and to enable the most successful and cost-effective services to continue to operate once the challenge funding comes to an end. Few schemes will be commercially viable. The Department should publish urgently the results of its study into the effectiveness of the various schemes to enable all rural areas to benefit from the best practice it identifies. The Department should also reduce the bureaucracy surrounding Challenge Fund bids. We recommend that future bids be made as part of Local Transport Plan strategy progress reports.

Flexible Public Transport Services

116. The traditional bus service is not a cost-effective public transport solution for many areas, particularly rural areas, where demand for public transport is low. Public transport today includes taxis, shared-taxis, demand-responsive buses operating on flexible routes, car share clubs and community transport minibuses amongst others as well as the conventional bus, tram and rail systems. Many innovative examples of ways of tackling public transport shortages have already been developed in the UK and elsewhere in Europe, including the examples presented in the earlier section on Social Exclusion.

117. The rules and regulations under which the various forms of public transport are governed are varied and extremely complicated. In addition, the funding mechanisms for different types of buses are different. In particular, the Sub-Committee was told:

- Taxi operators and private service vehicle operators can both apply to run taxi-bus type vehicles with less than 9 seats. However, the mechanisms for doing so are different dependent on the licence held. Few operators have therefore been sufficiently encouraged to take up this option.\(^{285}\)
- Demand-responsive services are constrained under the Transport Act 1985 because they do not operate to a fixed timetable. The 1985 Act did not anticipate the need for flexibly routed services.\(^{286}\)
- There is a lack of volunteer drivers for community transport.\(^{287}\) However, the rules under which drivers of community transport schemes can be paid are complex and this is restricting the expansion of schemes.\(^{288}\)
- The fuel tax rebate which is given to bus services is not currently available for demand-responsive services driven by paid drivers. Lincolnshire County Council estimate that this adds an extra £1 to the cost of every passenger carried.\(^{289}\) The Department told us that they recognise this issue and will shortly consult on removing this restriction.\(^{290}\)

The Social Exclusion Unit also identified many of these issues in its Interim report.\(^{291}\) We expect that it will expand on the nature of these problems in more detail in its Final Report later this year. The Local Government Association has also suggested relaxation of a number of elements of primary and secondary legislation to provide greater flexibility,

\(^{285}\) BUS 39.
\(^{286}\) Q113, Q141.
\(^{287}\) Q150.
\(^{288}\) Q332.
\(^{289}\) BUS 15.
\(^{290}\) Q476.
\(^{291}\) Making the Connections: Transport and Social Exclusion.
perhaps in a trial area.\textsuperscript{292} It is currently too difficult for local authorities to put in place all of the innovative public transport improvements that they desire. A maze of regulations exist, dating from a time when many of these new schemes were not in place and they require simplification. Local authorities should not have to find ways around existing legislation to enable them to introduce new schemes that will benefit the public. We recommend that the Department undertake a full review of the regulations and legislation surrounding flexible transport services to remove these barriers.

V. CONCLUSIONS

118. The long-term decline in bus use appears to have been halted. The Department has put in place a range of policies and initiatives that could begin to reverse this decline, for which it must be congratulated. Whilst the current policies make us cautiously optimistic that the Government's target for a 10 per cent growth in bus journeys can be met by 2010, a more ambitious programme of improvements can and must be pursued if the bus is to play a full role in reducing congestion and tackling social exclusion. The 10 per cent increase in bus use may be achieved by growth in bus use in London alone, concealing stagnating or falling bus use in the rest of the country.

119. Improvements in bus services are essential to reduce congestion in our cities. Buses must be given the road space they require to offer quick and attractive journey times to the centre of our major cities. Reliability and punctuality are essential to providing a service that the public can trust. The alternative is a worse bus service, more cars on the road and even greater congestion. This is in no one's interest. Where bus companies and passenger transport executives and local authorities have worked together significant increases in bus use have been achieved. More bus priority and further improvements to the bus fleet such as modern ticketing systems are required. However, many of the "quick win" improvements to bus routes have already been made. The Department must ensure that local authorities push forward with ambitious plans to speed up bus journeys and that it continues to make it easier and faster for them to do so.

120. If handing over more road space to buses and introducing other car restraint measures, such as congestion charging, is to be acceptable to motorists, very significant improvements must be made to bus services. The Department has to ensure that the bus network achieves its goal of being an integrated, coordinated, attractive and easy to use alternative to the car for some journeys. The rules under which bus companies and local authorities are currently working means that common sense co-ordination cannot occur.

121. The over-zealous application of the Competition Act by the Office of Fair Trading is making it impossible to achieve co-ordinated services with evenly spaced frequencies and easy to understand fares. It is wrong that local authorities and bus companies should fear cooperation when this is essential to achieving an integrated public transport network. The application of the Act must be reviewed by the Department and the Office of Fair Trading to ensure that service frequencies, spacings, fares and connections can be agreed by local authorities. If this cannot be achieved, the Act must be modified at the earliest opportunity.

122. In the long run, the main competitor to the bus industry is the car. If co-ordinated services cannot be provided, more people will leave the bus for the car and concerns about collusion between bus companies and profiteering will become even more academic than they appear today.

123. The current policy of improving the bus network through quality partnerships between local authorities and bus companies is in danger of creating a two-tier network of bus services. Quality partnerships are only suitable for a minority of routes, albeit the busiest. These routes have seen increased passenger numbers and profits, allowing for faster renewal of the bus fleet. Whilst some major cities and larger towns may benefit significantly, a large number of small to medium sized towns, rural areas and parts of cities will receive little or no improvement. Bus quality contracts, where the local authority specifies minimum service requirements and bus companies compete at the tendering stage to run services, are currently only considered to be a fall back position by the Department. We identified a number of circumstances where such contracts might offer significant benefits to passengers and better value for money. The bus industry’s approach to the use of quality contracts is entirely negative and unhelpful. However, the Department must continue to ensure that its bus policy is driven by the interests of the tax payer and the ticket holders and not just the shareholders. These interests overlap but are not the same.

124. The Government has made significant improvements to public transport in rural areas through new funding initiatives. The future of public transport in rural areas seems to be to the provision of small, dial-a-ride, vehicles for people in more remote areas to use to connect to a network of regular inter-town commercial bus services. It is inevitable that these services will require ongoing revenue support and the Department must provide this funding to ensure that successful schemes can continue beyond the end of their trial periods.

125. Improvements to bus services offer a quick and cost-effective way of tackling congestion and a range of social exclusion problems. The UK currently provides the lowest subsidy for bus use in the whole of the European Union. The Government must build on its success to date and invest more heavily in the provision of quality bus services. In doing so, it has to ensure that its investment is matched by the required improvements to the quality of bus routes and the frequency, coverage and co-ordination of services. We have set out in this report how we believe this can best be done. A failure to invest more in the bus network will be a lost opportunity to reduce congestion and improve the quality of life in urban and rural areas. A failure to invest will also have significant impacts on expenditure by other Government departments such as Health, Education and Skills and Work and Pensions as a result of poor access, poor reliability and narrow horizons for those dependent on public transport.
VI. LIST OF CONCLUSIONS AND RECOMMENDATIONS

126. Through the course of this wide ranging inquiry, the Committee has reached a number of conclusions about actions required to improve bus services in England. The conclusions and actions recommended are listed below and cross-referenced to the paragraphs from the main text of the report where more details can be found.

(a) **Bus companies must commit to a fixed schedule of locally agreed timetable changes to enable the provision of co-ordinated and up-to-date information. To ensure that a stable network of bus services is provided, there should be no need to change the timetable more than six times a year** (paragraph 30).

(b) **The Office of Fair Trading must allow services to be co-ordinated. If the application of the Competition Act to the current de-regulated regime does not permit this then it is clearly at odds with the Government’s aim of providing a truly integrated transport system** (paragraph 39).

(c) **We find it unacceptable that the Competition Act is being applied without sound evidence, based on observation and research from the bus industry and bus users. There are significant negative side effects of on-the-road competition, including unco-ordinated services, instability of the network and restrictions on ticket use. Local authorities should be able to make common sense agreements with bus companies about services in their area without fear of investigation by the Office of Fair Trading. Co-operation and co-ordination are not synonymous with collusion. The application of the Competition Act, or the Act itself, must be adjusted to this sensible outcome. If it is not, many local authorities will request quality contract powers as the only means of ensuring a co-ordinated network of bus services** (paragraph 40).

(d) **Bus companies must push ahead with the introduction of multi-operator Travelcard schemes. They should not use the Competition Act as an excuse for failing to progress such schemes. New schemes should adopt Smartcard technology wherever possible, to reduce boarding times** (paragraph 41).

(e) **Bus lanes must be enforced to be effective. The police have a responsibility to police bus lanes and must do so. The Government has promised to decriminalise enforcement of bus lanes fully by the end of the year. We welcome this initiative as it will allow a combination of static cameras, on-bus cameras and mobile patrols to catch offenders** (paragraph 45).

(f) **The Traffic Commissioners should continue to take local traffic conditions into account when assessing the reliability of bus services** (paragraph 46).

(g) **The Department should issue guidance on how to reduce the time taken to design and implement bus priority schemes. It should assess what regulatory burdens can be removed. The responsibility for implementation lies with local authorities. These schemes must be implemented if the speed and reliability of bus journeys are to be improved. The Department should link future local capital funding settlements to progress made in this area** (paragraph 47).

(h) **Bus service withdrawals in one area are not ‘offset’ by improvements elsewhere. Improvements to other services do nothing for those left without a service or with a reduced service that provides inadequate timings and connections. The trend of increasing service withdrawals is worrying, as it can leave those most dependent on public transport without a service** (paragraph 52).
(i) The Department must provide more revenue support to ensure that increasing service withdrawals and rising tender costs do not leave areas with inadequate public transport provision. More cost-effective public transport solutions should be sought to improve non-commercial services. It may prove more cost-effective for local authorities to run some non-commercial services. The Department should support the purchase of buses with local transport plan funds where local authorities demonstrate the value in doing so (paragraph 57).

(j) The Government must face up to the need for greater revenue support for local public transport. This will benefit both low and high income groups (paragraph 60).

(k) The failure to provide adequate public transport has significant hidden costs to the public purse. In particular, we believe the Department should:
   - support the integration of health, social care, school and subsidised transport services through more co-ordinated centres such as that in Cheshire. Greater revenue support will be needed to establish these centres. However, the savings are likely to far outweigh these costs and provide a much better service, achieving better value for money.
   - Commission research into what the costs of failing to provide adequate public transport are to other Government Departments and the economy.
   - Ensure that local transport plans include social exclusion targets such as reducing the number of people whose transport needs are not met and determine whether wider minimum concessionary fares standards can reduce social inclusion (paragraph 65).

(l) New targets for bus growth outside London are required. These targets should take into account regional variations in conditions. The targets must be challenging and should be set to achieve a minimum of 10 per cent growth in bus use outside London (paragraph 69).

(m) The Department has set targets for improving bus services, particularly reliability, which are welcome. However, the targets relating to the age and accessibility of the bus fleet are not ambitious and should be revised. The Department must also ensure that all aspects of the bus journey including information, pavement quality and easy access bus shelters are improved to make travel easier, not just the bus (paragraph 71).

(n) The Police must give greater priority to reducing anti-social behaviour on and around public transport. Attacks on public transport users and staff are as serious as any other form of anti-social behaviour. Bus companies must use the Department's guidance on improving security in partnership with local authorities and police authorities (paragraph 73).

(o) Bus services in the areas surrounding London are a poor relation to those services running into and around the capital. This disparity is difficult for the travelling public to understand. Local authorities surrounding London should develop bus strategies to address these problems including, where appropriate, the use of bus quality contracts. The Department should provide greater revenue support for these new strategies to ensure that a stable network of integrated services is maintained (paragraph 76).
(p) Bus quality partnerships have shown the benefits of bus companies and local authorities working together. However, bus quality partnerships will only improve services in some parts of major towns and cities, effectively creating a two-tier bus service. Whilst this will help to reduce congestion in major cities, it will offer little to improve services in smaller towns and across rural areas and there is a danger of these services deteriorating still further. The Department must ensure that operators have obligations to improve services outside quality partnership routes. Bus quality partnerships should be strengthened by allowing local authorities to agree minimum service frequencies and fares with operators using the route. Where road space is handed over to buses, the local authority must have some guarantee of the quality and level of service provision (paragraph 86).

(q) London has achieved an impressive growth in bus use. The wide variety of factors that contribute to this growth mean it is not possible to attribute this growth to the use of a tendered system of bus procurement. However, there are a number of separate and strong arguments in favour of an approach similar to London being used in other large cities. London has achieved an expansion of services and a level of integration of information, ticketing and fares not seen elsewhere in England. The experience in London shows that if large amounts of public subsidy are used to improve bus services, quick and significant improvements can be made. If such investment is to be made elsewhere, tendering may offer the best way of ensuring accountability for public funds (paragraph 100).

(r) The Department should encourage those local authorities that have a strong case for introducing quality contracts to do so. It must remove the barriers to introducing quality contracts, such as the 21 month waiting period for which there appears little justification. The Department must also be prepared to find additional revenue support for areas seeking to boost bus use, particularly to pump-prime new services. It must ensure however, that those authorities given extra resources achieve best value in improving their bus networks and that the money is not siphoned off to other areas. The Department should monitor the first few quality contract schemes closely to ensure that the costs and benefits of quality contract schemes are properly understood in a variety of different geographic areas (paragraph 102).

(s) The bus industry should take a more positive approach to bus quality contracts. Instead of down playing contracts as heavy handed regulation, the industry should engage in developing forms of contract that allow for innovation and flexibility for bus companies whilst at the same time allowing local authorities to have influence over minimum service requirements and most importantly, co-ordination of services between operators and modes. Some of these desirable outcomes do not appear possible under de-regulated operation with the current application of the Competition Act. We believe that the bus companies preferred solution of quality partnerships works, but only for some areas and in a limited way (paragraph 103).

(t) The Department should investigate whether the quality network proposal can be developed further. In particular, the Department should examine how agreements can be negotiated within the current Competition Act and how this might need to be altered. It must also examine what contractual obligation to the agreements might be required. Local authorities and bus companies should work together to bring forward collaborative proposals showing the extra benefits to the passenger of this new approach (paragraph 108).
(u) It is clear that the Department must continue to provide extra funding for rural services to recognise the challenges of rising tender costs and to enable the most successful and cost-effective services to continue to operate once the challenge funding comes to an end. Few schemes will be commercially viable. The Department should publish urgently the results of its study into the effectiveness of the various schemes to enable all rural areas to benefit from the best practice it identifies. The Department should also reduce the bureaucracy surrounding Challenge Fund bids. We recommend that future bids be made as part of Local Transport Plan strategy progress reports (paragraph 115).

(v) It is currently too difficult for local authorities to put in place all of the innovative public transport improvements that they desire. A maze of regulations exist, dating from a time when many of these new schemes were not in place and they require simplification. Local authorities should not have to find ways around existing legislation to enable them to introduce new schemes that will benefit the public. We recommend that the Department undertake a full review of the regulations and legislation surrounding flexible transport services to remove these barriers (paragraph 116).
ANNEX

Visit to the Transport Co-ordination Unit, Cheshire County Council, Ellesmere Port
3 May 2002

Participants:

Transport Co-ordination Unit, Cheshire County Council

Mr Garth Goddard, County Transport Co-ordinator
Mr Michael Ross, Transport Co-ordinator (Policy and Projects)
Mr Frank Hont, Transport Co-ordinator
Mr Greg Yates, Transport Co-ordinator (Policy Projects and Support)
Mr Steve Williams, Acting Transport Co-ordinator (Operations and Contracts)

Transport, Local Government and the Regions Committee

Dr Greg Marsden, Committee Specialist, Transport Sub-Committee

Background
The Transport Co-ordination Unit is responsible for providing and co-ordinating a range of
transport services across Cheshire as well as strategic transport planning. Transport
services provided by Cheshire County Council include arranging statutory free home to
school transport provision, special needs education transport, social services client
transport, supported local bus services, several rural bus service initiatives and a range of
flexible, demand-responsive transport services, and management of the County Council
vehicle fleet. Most of this transport (bus, taxi or hire car) is procured by tender and
operated under contract. However the Service directly operates a fleet of 65 accessible
vehicles for social services and special needs transport and 3, 60 seat, yellow school buses.
In addition to the provision and management of these services, the unit administers the
concessionary fares scheme for Cheshire, Halton and Warrington, runs a Travel Line public
information service for all public transport services, maintains and develops bus route
infrastructure, co-ordinates and provides bus service timetable information at bus stops and
enquiry offices at main bus stops and has co-ordinated a new electronic Smartcard system.
The unit co-ordinates an annual budget of £30 million pounds.

Bus Market
The major bus companies operating in Cheshire are FirstGroup, and Arriva. A municipally-
owned operator, Chester City Transport, is also a major provider of services in and around
that city. The major companies tend to keep to their traditional operating areas and in many
towns the market is only large enough to support just one operator. Cheshire provide a
network of subsidised scheduled bus services to complement the commercial network,
operating particularly in rural areas, in the evenings and weekends and to take children to
school. This accounts for around 25 per cent of bus services in Cheshire and carries 4.2
Million passengers a year. The Association of Transport Co-ordinating Officers has noted
that tender prices for subsidised services are increasing by, on average, 21 per cent
compared with the contracts they replace, and this is reflected by current experience in
Cheshire where some individual contract renewals have shown price increases well over
30%. Cheshire has a process of continually managing the cost-effectiveness of the
subsidised services it operates. The rises in tender costs and a continued steady withdrawal
of commercial services has placed pressure on the supported services budget with some
supported services showing poorest value for money being withdrawn.

Bus Quality Partnerships
Cheshire have developed a number of bus quality partnerships with bus companies in the
area. Improvements in bus stops, improved information, bus lanes and improved kerbside
boarding for mobility impaired travellers have been introduced, whilst the bus companies have brought newer buses to the routes. Cheshire have encountered difficulties in putting the bus infrastructure improvements in place as this is a comparatively new process at the scale now required, and because there are a number of different agencies with responsibility for different parts of the route. For example, Cheshire County Council does not own all of the bus stops on a route (some being provided by Adshel) and does not have the right to modify bus shelters set back from the kerb on grassy verges without the agreement of District Councils. It has however, developed a standard shelter and bus stop sign that will enable a faster deployment for future schemes. More importantly, local authorities have a duty to ensure adequate public consultation and political approval when new infrastructure is introduced, and this can be a time-consuming process.

In addition to the difficulties in putting in place new infrastructure, Cheshire has not always been able to attract brand new buses for the quality partnership routes, diluting their impact. Cheshire borders both Merseyside and Greater Manchester Passenger Transport Executives. Both of these areas have a large number of routes with higher passenger numbers and greater potential for growth. The bus operators therefore tend to provide brand new buses on routes in these areas to give priority to investment in quality partnerships in those areas where returns are likely to be substantially higher. Recent evidence suggests that operators are likely to provide refurbished buses for quality routes that are four to five years, rather than new ones. The profile of bus age in Cheshire is shown below in Table 1.

<table>
<thead>
<tr>
<th>Types of Service</th>
<th>Routes</th>
<th>Numbers and Category of vehicles operated</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>QP Quality vehicles</td>
<td>Intermediate type (low floor)</td>
</tr>
<tr>
<td>Inter-urban &amp; rural</td>
<td>135</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Town services</td>
<td>100</td>
<td>22</td>
<td>4</td>
</tr>
<tr>
<td>Park &amp; Ride</td>
<td>4</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>239</td>
<td>46</td>
<td>21</td>
</tr>
</tbody>
</table>

Cheshire believe that only between 10 and 20 per cent of their services will be sufficiently commercially attractive for operators to participate in a Quality Partnership.

Future Issues on the Commercial Bus Network
Cheshire expressed some concern over the instability of services in their area. Whilst increases in bus use would be created on quality partnership routes, current trends pointed to an increase in withdrawal of commercial bus services and greater requirements for a supported network. Figure 1 shows the current and future models for bus services in areas such as Cheshire.
Worst performing supported services requiring highest subsidy per passenger. Managed to look for savings or new non-bus solutions

Interface between networks unstable. Supported networks respond to operator's actions on poor performing commercial services, Criteria for commercial decisions are unclear.

Most profitable commercial services

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**Figure 1(a): Representation of current service split**

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Larger supported network

Commercial services are lower priority and poorer performers than elsewhere. Investment in new vehicles is less likely.

Quality partnerships oriented to the better performing commercial routes where operators expect to get best rates of return

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**Figure 1(b): Representation of future service split with quality partnerships**

The limitations of quality partnerships, whereby local authorities have no say in fares or service frequencies and the large areas of the network on which quality partnerships are unlikely to be suitable for improving bus services have led to Cheshire considering the alternative quality contract approach. However, whilst this would allow greater control over services, it would be unlikely to achieve benefits over the whole of the network without significant increases in revenue support which would be unlikely to be acceptable to the County Council without grant aid from central Government. Other issues surrounding the transfer of assets between incumbent bus companies and companies that win the franchises also remain to be resolved.
Improving Fleet Utilisation
Cheshire County Council is responsible for a small fleet of vehicles which are used to meet a range of their transport responsibilities, in particular, for social services and for pupils with special needs. It has a budget of £12 million a year to manage these services. Recently, it has been working more closely with the health care sector trying to utilise the time in which its vehicle fleet is less heavily used (i.e. outside school start and end times) to relieve stress on the ambulance service. It would also like to expand the use of its fleet to offering the vehicles for use in providing a rural bus service and is experimenting in this area with a Rural Bus Challenge Project. This type of integrated approach offers financial savings through economies of scale. However, Cheshire is restricted from doing all of the things it would like to through regulations governing this type of vehicle.

Alternatives to the Bus
Cheshire is also seeking to expand the use of taxis and more flexible forms of public transport. However, taxis are regulated by district authorities and a recent consultant’s study has suggested that taxi companies appear unwilling to engage in the smaller bus market under present licensing arrangements. The County Council believes that public transport is a continuum of services from taxis, through minibuses to traditional buses and trains. However, at the moment, not enough potential is being made of the full range of options available.
PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

WEDNESDAY 17 JULY 2002

Members present:

Andrew Bennett, in the Chair

Sir Paul Beresford  Helen Jackson
Mr Clive Betts  Miss Anne McIntosh
Mr Brian H Donohoe  Mr Bill O’Brien
Mrs Gwyneth Dunwoody  Dr John Pugh
Mrs Louise Ellman  Christine Russell
Chris Grayling  Mr Bill Wiggin

The Committee deliberated.

Draft Report [The Bus Industry] proposed by the Chairman, brought up and read.

Ordered, That the Report be read a second time paragraph by paragraph.

Paragraphs 1 to 125 read and agreed to.

Annex agreed to.

Resolved, That the Report be the Seventeenth Report of the Committee to the House—(The Chairman.)

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select committee (reports)) be applied to the Report.

Ordered, That the Appendices to the Minutes of Evidence taken before the Transport Sub-committee be reported to the House.

[The Committee adjourned.]
LIST OF WITNESSES

Wednesday 8 May 2002

First

Mr Moir Lockhead
Stagecoach Group

Mr Keith Cochrane
Arriva UK Bus

Mr Steve Clayton
Devon County Council

Mr Edward Chorlton
Lincolnshire County Council

Mr Tony Cross
Northamptonshire County Council

Mr Brian Welch
Oxfordshire County Council

Mr Noel Newson
Centro

Mr Rob Donald
Coventry City Council

James Russell
Passenger Transport Executive Group

Mr Kieran Preston

Wednesday 15 May 2002

Office of Fair Trading

Mr John Vickers, Mr Justin Coombs and Mr Gover James

Association of Transport Co-Ordinating Officers

Mr Martin Robertson, Mr John Hodgkins and Mr Garth Goddard
TRANSPORT FOR LONDON

Mr Peter Hendy

SURREY COUNTY COUNCIL

Mr Alan Teer

TRANSPORT AND GENERAL WORKERS UNION

Mr Graham Stevenson, Mr Martin Mayor and Mr Roger Sealey

Tuesday 21 May 2002

DEPARTMENT FOR TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS

Rt Hon John Spellar MP, Mr Alan Davis and Ms Sandra Webber

SOCIAL EXCLUSION UNIT

Ms Claire Tyler, Ms Louise Dominian and Mr Ravi Gurumurthy

INSTITUTE OF LOGISTICS AND TRANSPORT

Mr John Carr, Mr Paul Matthews and Mr Giles Fearnley
LIST OF APPENDICES

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01 Department for Transport, Local Government and the Regions
1A Supplementary memorandum
02 Transport for London
03 First
04 Greater Manchester Passenger Transport Authority
05 National Express Group PLC
06 North Hertfordshire District Council
07 Local Government Association
08 National Federation of Bus Users
8A Supplementary memorandum
09 Wokingham Unitary Authority
10 Confederation of Passenger Transport UK
10A Supplementary memorandum
11 City of Stoke on Trent
12 Community Transport Association
13 Transport and General Workers Union
14 Passenger Transport Executive Group
14A Supplementary memorandum
15 Lincolnshire County Council
16 Surrey County Council
17 Eastleigh Borough Council
18 Catalyst Corby
19 The Go-Ahead Group plc
20 Thurrock Council
21 Labour Finance & Industry Group
22 Planet Practice
23 Central and West Lancashire Chamber of Commerce and Industry
24 Dr R J Langridge
25 Dr Roger Sexton
26 Transport 2000, Cambridgeshire & W Suffolk Branch
27 Sustainable Transport for the Eastern England Region (STEER)
28 Ray Wilkes Esq
29 National Pensioners Convention
30 South East Forum for Sustainability
31 Association of Transport Co-ordinating Officers
31A Supplementary memorandum
32 Department for Education and Skills
33 Health and Safety Executive
34 Harrogate District Community Transport Ltd
35 Wootton-Under-Edge Town Council
36 John Dowding Esq
37 Paul Kevill Esq
38 The Institute of Logistics and Transport
39 Northamptonshire County Council
40 Arriva Passenger Services Ltd
41 The Institution of Highways & Transportation
42 Office of Fair Trading
42A Supplementary memorandum
43 Coventry City Council and Centro WMPTE
44 Unison
45 The Public Transport Consortium
46 Oxfordshire County Council
47 Devon County Council
48 Stagecoach Group plc
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49 Transport 2000
50 Avril Fox FLS
51 Basingstoke and Deane Borough Council
52 Social Exclusion Unit
52A Supplementary memorandum
53 YMCA
54 Philip Longdon Esq
LIST OF REPORTS

TRANSPORT, LOCAL GOVERNMENT AND THE REGIONS COMMITTEE
REPORTS IN THE CURRENT PARLIAMENT

Session 2001-02

First Report: Passenger Rail Franchising and the Future of Railway Infrastructure (HC 239–I)

Second Report: London Underground (HC 387)

Third Report: Public Spaces: The Role of PPG 17 in the Urban Renaissance (HC 238–I)

Fourth Report: The Attendance of Lord Birt at the Transport, Local Government and Regions Committee (HC 655)

Fifth Report: European Transport White Paper (HC 556)

Sixth Report: Empty Homes (HC 240–I)

Seventh Report: London Underground - The Public Private Partnership (HC 656)

Eighth Report: 10 Year Plan for Transport (HC 558–I)

Ninth Report: Road Traffic Speed (HC 557–I)

Tenth Report: Ordnance Survey (HC 481)

Eleventh Report: Air Transport Industry (HC 484–I)

Twelfth Report: The Need for a New European Regeneration Framework (HC 483–I)


Fifteenth Report: Draft Local Government Bill (HC 981–I)

Sixteenth Report: Tall Buildings (HC 482–I)

Seventeenth Report: The Bus Industry (HC 828–I)