# How far should bus re-regulation go?

**Ian Taylor** believes a new regulatory model combined with sources of revenue can transform buses

Three decades after deregulation of bus services outside London, most people still seem to think their bus services are controlled by their local councils. Many people I ask about their bus services do not realise the bus services they travel on are mainly determined by the commercial imperatives of bus companies, with local transport authorities largely reduced to running along behind trying to fill in the gaps. Some people may have noticed that the names of their local bus companies have changed, but when I ask, they generally think their council still plays a shaping role.

Some council officers have become understandably fed up with being blamed for bus services they have limited means to influence. One exasperated officer I spoke to last year even went so far as to tell people who phoned up, "The buses are nothing to do with us!" That of course is not correct either. Many councils try their best to have a shaping influence, nurturing good relationships with bus companies, with some reaching for the limited powers available to them under 'statutory partnerships' where cuddling up has failed to produce sufficient results.

This is the context within which we recently undertook research to try to understand how Britain might create a 'world class' bus system (published in January, our report, *Building a World-Class Bus System for Britain* is available at www.transportforqualityoflife.com).

We asked ourselves what changes to bus governance and financing might be needed in order to create a bus system that worked well for passengers, used public money wisely, and fitted with a city's or a region's strategic vision.

Expert interviewees for our research rated the issue of 'cherry-picking' of services by commercial operators at the top, or close to the top, of their lists of failings in the present system. A survey of local bus activists (carried out by Campaign for Better Transport) and a survey of ATCO members also rated the inability to create a complete network as a key issue. They pointed out that, however efficiently a council goes about procuring socially necessary additional services, the overall network will not be designed as a coherent whole, and council-tendered services cannot be provided in the most cost-effective manner because interactions with the rest of the network are outside council control.

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Interviewees did point to a few positive examples where commercial operators have taken a whole-network approach to bus services, in places like Brighton and Hove. These instances were the exception rather than the rule, however, where a single company felt it had a sufficiently safe local monopoly to take a long-term view of its whole network, and recognised that some lower margin services might be merited in order to build patronage across the whole area. Such behaviour is only possible where the original concept of deregulated competition has almost completely died and the de facto situation is closer to a regulated monopoly than the perfectly efficient market dreamed of by 1980s bus deregulators.

Even in these cases commercial bus operators are only prepared to operate route sections showing negative returns for short trial periods. Profit from the prime routes is extracted to shareholders and the local council is left to procure the routes it identifies as social priorities, paying the same bus companies to provide those services, and giving them a further profit margin in the process. ▸▸▸


Could Munich's buses provide a model for British cities outside of London?

It is significant that HM Treasury was the first part of government to finger bus deregulation as financial nonsense, quite apart from its disbenefits to bus travellers. It was not the Department for Transport that initiated the present round of bus reform, as might have been expected, but chancellor George Osborne that pushed the DfT to prepare the forthcoming Buses Bill, with London-style franchising powers for areas receiving his devolution deals.

## Financial gains

Our study calculated the potential financial gains if all local authorities outside London were to move to a system of franchising bus services. The gains, shown in the table below, derive from three sources: removal of 'excess profit', so that profit margins elsewhere matched those in London; more efficient provision of tendered services through integration with the rest of the network; and (over a longer timescale) greater patronage from providing a more attractive network with integrated ticketing and services.

We were surprised to find that just the immediate savings from the first two sources were larger than the sum of the financial cuts to bus services by local authorities since 2010 and the cuts to BSOG (Bus Service Operators Grant) since 2010, and would be sufficient to reinstate all the services removed as a result of those cuts. In the longer term, a virtuous circle could result as the improved network would stimulate more patronage, bringing more revenue, and giving funds for further improvements. The figures make allowance for some additional staff expenditure in local transport authorities to run franchising.

So franchising could deliver financial gains. In addition it would enable major benefits for travellers from unified network design. Simple network-wide ticketing would become possible, with a single fares structure across all operators and daily and weekly fare caps as happens in London with Oyster (a second lament from our expert interviewees and surveys was the impossibility of achieving this under the present system). Information provision could be vastly improved: the nightmarish problems that local authorities face providing up-to-date information when multiple operators can change schedules at a whim would be ended.

## Municipal ownership

But is franchising the best we can aspire to? Britain is out of step with the rest of Europe in how it governs and provides bus services. If you make a bus journey in cities in Austria or Germany, you will certainly be using services that are provided within a regulated framework, but moreover the chances are you will be using services that are run by a municipally-owned bus company. Unlike Britain's vestigial municipal bus companies, these companies work within regulations ensuring they can invest in their entire networks without fear of cherry-picking incursions.

Cities like Vienna and Munich offer the kind of world-class service that deregulation has prohibited Britain's major cities (other than London) from achieving. The Munich Verkehrsverbund (transport association) works to, and achieves, the delightfully simple principle 'One network, one timetable, one ticket'. The municipal operator MVG operates bus services within the city as well as trams and underground trains, but has contracts with commercial bus companies to run buses across surrounding areas of the network. Vienna shows a rather similar pattern.

In France, there has been a trend over the last decade towards setting up new municipally-owned companies to run buses. This has largely been driven by a desire to achieve savings over whole-city franchises run by large private firms (primarily Veolia) or large public-private firms (primarily Keolis). Since 2003, about 25 public transport authorities in French cities and départements have set up municipally-owned companies to run their buses. The town of Saumur estimates it has saved 15% of its bus expenditure "because of the absence of a profit margin".

Our research analysed the financial gains Britain could achieve through municipal ownership. These are substantially larger than the savings from franchising: we estimated they could generate an additional £160m per year for investment in bus service improvements across Britain. This sum is considerably greater than the cuts made by local authorities to bus services since 2010.

## Funding

However, it would be wrong to conclude that changes to bus governance and ownership will, on their own, achieve the bus services our cities and regions deserve and require in order to thrive. If we want to achieve a world-class bus system, the rules for financing our bus services need to undergo a seismic shift. Our

**FINANCIAL GAINS FROM EXTENDING BUS FRANCHISING, COMPARED WITH RECENT CUTS**

Source: Transport for Quality of Life

| FINANCIAL GAINS FROM FRANCHISING | Britain (excluding London) | England (excluding London) |
|---|---|---|
| Retention of excess profit | £114m | £94m |
| Unified network design / simplified ticketing | £168m | £136m |
| Efficiencies in provision of currently tendered services | £79m | £63m |
| Lower profit leakage on reinstated services | £1m | £1m |
| **COSTS OF FRANCHISING** | | |
| Additional staff in transport authority | (£13m) | (£11m) |
| Bidding costs for commercial operators | (£9m) | (£7m) |
| **NET GAINS** | **£340m** | **£276m** |
| **RESTORATION OF FUNDING CUTS** | | |
| Cuts to local authority support for buses since 2010 | (£76m) | (£73m) |
| Cuts to BSOG since 2010 | (£113m) | (£72m) |

Note: Buses Bill will only apply to England. Figures for Britain are given for comparison.
For explanatory notes see *Building a World-Class Bus System for Britain* at www.transportforqualityoflife.com

expert interviewees and ATCO members saw under-funding as a massive barrier to service improvement. So we need to look afresh at how to raise new revenue to invest in bus services and bus infrastructure.

Britain's local transport authorities appear to be almost uniquely hamstrung in how they are permitted to raise revenue. Our research cast around the world for examples of how local cities and regions raise money for public transport. The table on the right shows a list of 16 different ways in which local authorities raise revenue for public transport, of which only two are widely used in Britain. If devolution is to mean a renaissance for buses (and public transport more widely) it is vital that powers of these kinds become available to local transport authorities.

One comparison of Britain's level of ambition with France is telling. In England, local authorities that become part of combined authorities with elected mayors will have powers to levy an extra 2p in the pound on business rates to pay for infrastructure projects. At the maximum, if exercised by all English local authorities including London, this could raise about £1bn per year. This would only be for capital schemes (not revenue), and would not be dedicated to public transport. By contrast, the Versement Transport payroll tax on employers in France raises five times this amount, dedicated to public transport, and for both capital and revenue schemes.

## Conclusion

The Buses Bill is very welcome. But we should see it as just the first step in reversing the 30-year decline in bus patronage outside London. We should aspire to financing a new era for public transport, based on bus governance and ownership systems that prevent wasteful competition, stop leakage of public funding as shareholder dividends, and permit optimal design and operation of public transport networks in the public interest. ■

**ABOUT THE AUTHOR**
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## POSSIBLE LOCAL FUNDING SOURCES

| SOURCE | EXAMPLES |
|---|---|
| Development charges | Widely used. In Britain, the Community Infrastructure Levy and Section 106 agreements fund public transport capital upgrades. |
| Local payroll tax | Widespread in France. In Oregon, the cities of Portland and Eugene levy 0.6% for public transport. New York levies 0.34% for public transport. |
| Local income tax | Cincinnati levies 0.3% local income tax to support public transport. |
| Local corporation tax | New York partly funds public transport from a surcharge on corporation tax. |
| Local sales tax | The most common dedicated source of public transport funding in USA. Los Angeles levies 0.5% for public transport and some road schemes. |
| Business property tax | Widely used to support public transport in USA. Being used to expand the Metro in Paris. The Crossrail project in London raised £4bn from a temporary supplement to business rates. |
| Residential property tax | Widely used to support public transport in USA. Being used to expand the Metro in Paris. |
| Land value capture levy | Miami, Los Angeles, and Denver defined 'transit benefit districts' to capture land value uplift. Tax Increment Financing borrows to build public transport on the basis of future increases in property taxes (Atlanta is an example). |
| Property sales tax | New York partly funds public transport from a local tax on property transactions. |
| Visitor lodging tax | Local authorities throughout Switzerland levy taxes at various rates for each night of accommodation. Funds are partly used to support public transport, on which visitors who have paid the tax get free local travel. Paris also has a visitor levy to support public transport improvements. |
| Charges for parking | A widespread source of income in the UK and elsewhere, some of which is used for public transport. |
| Levy on commercial car parks | Chicago levies $0.75-$2.00 per day as a surcharge on parking. |
| Levy on workplace parking | Nottingham levies a workplace parking levy, which it uses to help fund its tram. Melbourne, Perth and Sydney use workplace parking levies. |
| Road user charges | London, Singapore and Stockholm apply congestion charges. San Francisco is using bridge tolls for public transport improvements. Lorries in Germany pay a fee per km, but this is not locally controlled. |
| Local vehicle tax | 33 states and 27 local governments in USA use a vehicle tax to fund public transport. Toronto collects $60 per vehicle per year. |
| Local fuel tax | Vancouver levies 15c per litre for public transport. |