

National Assembly for Wales

Enterprise and Business Committee

Inquiry into Bus and Community Transport Services in Wales

RESPONSE OF TOBYN HUGHES, NORTH EAST COMBINED AUTHORITY/NEXUS

In this paper I set out the background to the provision of, and funding for, bus services in Tyne and Wear, followed by an explanation of how bus franchising can contribute to meeting transport policy objectives. My experience is based on work over the last four years in Tyne and Wear, a metropolitan conurbation that is a different transport and operating environment to Wales in many ways. However there are some lessons from our work in Tyne and Wear that can inform the transport debate in Wales.

In this document I will variously refer to Tyne and Wear, the North East Combined Authority, and Nexus. Tyne and Wear is a metropolitan area of approximately 1.2 million people in the North East of England, comprising the council areas of Gateshead, Newcastle, North Tyneside, South Tyneside and Sunderland. The recently-formed North East Combined Authority covers Tyne and Wear, Durham and Northumberland. The North East Combined Authority is the local transport authority for the entire area. Nexus is the Passenger Transport Executive (PTE) covering Tyne and Wear, and acts as a delivery agent for the North East Combined Authority in the Tyne and Wear area.

In my role I am the Managing Director (Transport Operations) for the North East Combined Authority, which incorporates the statutory role of Director General of Nexus.

The Committee will no doubt be aware that bus patronage outside London is declining, a trend that has continued for several decades. There is much discussion about whether this decline is due to the deregulation of buses, due to the growth in car ownership or due to the different characteristics of people's home and work life – in reality it is likely to be a combination of these three inter-related factors, alongside many other influences.

What is evident though, is that if there is an objective to arrest and even reverse the decline in bus patronage, leaving things as they are will be very unlikely to meet that objective. It appears from your questions that this is the current experience in Wales.

In Tyne and Wear we have three objectives set out in our bus strategy – to arrest the decline in bus patronage, to maintain and improve the accessibility offered by the bus network, and to deliver good value for public money that we spend.

Accepting that the status quo is very likely to lead to further decline in bus patronage, and that is something to be avoided if possible, there are options that need to be considered. These generally boil down to:

- **working in closer partnership with commercial bus operators** to deliver service improvements, infrastructure improvements and other quality benefits that will encourage existing passengers to stay on the bus and new passengers to switch to the bus;

- **local transport authorities taking control of bus networks** in a more formal contractual framework, commissioning bus operators to provide services using the operational skills they have built up over many decades, and adding quality benefits through a franchising arrangement that allows the transport authority to determine networks, fares and service standards.

In England the Transport Act 2000 (and the subsequent amendments in the Local Transport Act 2008) made provisions for both of these approaches, by setting out the legislative framework for various forms of bus quality partnerships, and for quality contracts schemes.

In Tyne and Wear our challenge is similar to that faced by local transport authorities across the country - it is a story that is also mirrored by other forms of public service. At a time when the cost of delivering our statutory obligations¹ is growing, the funding available for providing those statutory services and other discretionary services is declining, or at best remaining steady in cash terms.

Concessionary travel reimbursements will grow because the population is growing older, but more significantly because bus fares are very likely to rise in line with the increasing cost of providing staff, vehicles and fuel to operate buses. Funding for bus services is being squeezed by public sector austerity, continuing the trend that has pushed down on transport revenue funding for many years. There are no signs that this trend is to be reversed in the foreseeable future.

In Tyne and Wear we are therefore faced with a conundrum. We want to deliver accessibility, we want to stop the decline in patronage, we want to give good value for public money - but the money that we have to spend on bus services is being increasingly consumed by the concessionary travel scheme. This means that discretionary spend is being squeezed, resulting in the disappearance of funding for secured bus services, child fare concessions, group travel for elderly and disabled people and other bus services prized highly by our political leaders. In Tyne and Wear we think this squeeze will be complete in 8-12 years' time when all discretionary services will have gone, depending on what assumptions one makes about trends in fares and concessionary travel usage. The first significant cuts will be happening in 2016 if left unchecked, and Nexus has only avoided these cuts in recent years by spending its reserves on securing bus services, something that evidently cannot continue for ever. Accessibility and patronage associated with bus services will decline, and our bus strategy will inevitably fail.

It is important to say that this decline is not simply "the commercial bus operators' fault". They have undoubtedly had a role to play in the decline of bus patronage, pushing up fares ahead of inflation, withdrawing less profitable services and focussing their attention on the most popular routes (and sometimes making startling profit margins in the process). However, factors such as growing car ownership and the decline of discretionary local government spending are clearly not in their control. But this background leads to the conclusion that if the current trend is to be reversed, relying on existing structures and funding streams is highly unlikely to be enough to deliver.

So what has Nexus done about this?

¹ In the case of bus transport, this is principally Nexus' statutory duty to reimburse bus operators for revenue forgone as a result of carrying eligible passengers in compliance with the English National Concessionary Travel Scheme.

Our discussions with bus operators in Tyne and Wear over the last three years have led to a draft Voluntary Partnership Agreement (VPA) that is widely seen as industry leading, in terms of a large-scale conurbation-wide agreement. It brings three operators together to work in partnership with the public sector (insofar as competition law allows) to agree shared objectives and work in partnership to deliver them, with the final commercial decisions on fares and networks lying with bus operators (who after all, receive the fares and are taking many of the financial risks). Bus operators will provide and develop bus services; local transport authorities will provide the roads and infrastructure for their operation as well as funding for socially necessary links. This is an enhanced version of the status quo.

Our draft VPA would bring benefits once enacted. It has secured a promise of new cheaper fare products for 16-19 year olds, a move towards integrated smart ticketing. It includes a commitment to operate some of Nexus' secured bus services as commercial routes without subsidy, as part of an annual network review process. It provides targets for investment in new buses. And it promises 50 additional buses on new and strengthened commercial services across Tyne and Wear. These initiatives will, as long as they are carried through², address to some extent the decline in bus patronage and accessibility that would otherwise occur.

But does that go far enough? The VPA does not provide simple, effective and integrated ticketing throughout the area, nor does it allow smartcards to be exploited to their full potential. It does not avoid the eventual removal of funding for, and the operation of, secured bus services, although it does delay it somewhat. It does not provide a commitment for a stable bus network that remains in place for the long term, allowing people to make life choices based on using the bus and not bothering with a car. It does not introduce real democratic control over the provision of such a vital public service, and it doesn't address the growth in bus fares that could squeeze out people on low incomes wanting to get to a new job opportunity, access a college course or visit their relatives and friends.

My sense is that while the geographies and social make-up of Tyne and Wear and Wales might be different, these underlying issues with working in partnership with operators in Tyne and Wear may well also apply to Wales. A voluntary partnership can be progressive and secure genuinely meant and achievable benefits – but it can't entirely address the underlying problems that lead to declining bus services and bus use, it can only delay them.

An alternative that we have considered in Tyne and Wear is to be more radical – to sweep away the current commercial freedoms in the provision of bus services, procure bus operators on low risk and lower margin service specification contracts and take the fare revenues directly into the public purse. Any growth in fare revenues that can be generated will then be matched with the revenues previously diverted to the more excessive profit margins of operators, and used to “buy” bus passenger benefits:

- **Reduced fares** - Nexus proposes to peg bus fares to inflation, whereas bus fares have in the last decade increased well above inflation.

² Nexus has some real concerns about the many termination clauses that operators can invoke to bring an end to the VPA, although they have recently said that these clauses can be revisited and reworked.

- **Simpler fares** – the current multiplicity of operators’ own fares and multi-modal fares will be swept away and replaced by one simple zonal fare structure that applies to any bus as well as any Metro train and ferry in Tyne and Wear.
- **A stable network** – the revenues generated will, we believe, allow us to maintain secured bus services (be they socially necessary links or child fare concessions) even in the teeth of declining funding from our district councils.
- **A democratic say** – bus boards and user forums will be established in order that elected members and the travelling public can bring their ideas to us for improving bus services and track those ideas through a business planning process.
- **Improved service standards** – achieving high levels of reliability (the bus turning up at all) and punctuality (the bus turning up on time) will be contractualised and incentivised, and a higher standard of vehicle will be specified in order to deliver air quality benefits and an improved passenger environment.
- **Technology advancements** – Nexus will work with its contracted bus operators to deliver further improvements to vehicles, information and the passenger environment as they become affordable, ensuring that the Tyne and Wear bus network is amongst the most advanced in the UK.

Members will be aware that our proposal for a Quality Contracts Scheme in Tyne and Wear has recently been examined by an independent panel, the QCS Board, a time consuming and unnecessarily adversarial requirement of the current legislation. That Board published its opinion in early November, and stated that it thought our scheme was not in the public interest. Their opinion (it is only an opinion, the final decision to progress, amend or halt the scheme rests with our political leaders) boils down to three issues:

- They considered that the **economic benefits** that we claimed for the scheme were not always supported by evidence - hardly surprising as we have no experience of other QCSs to draw upon, that’s the danger of “going first”. We don’t believe the Board’s criticisms are fair and we are considering whether additional evidence can be gathered in support our case.
- They considered that introducing a QCS could expose Nexus to **risk of spiralling costs**, and optimism bias should be applied on top of our assessment of the cost of operating bus services. Nexus has already said that it will establish a contingency that will see 6½p of every £1 of bus fares set aside to deal with unanticipated risks and shocks to our revenue, but the QCS didn’t appear to think that was enough. We respectfully disagree, but will review our risk management arrangements and consider any further recommendations.
- They considered that the **adverse effects on operators’ future profits** were so severe that the public benefits that arise from the QCS (or indeed any scale of public benefit that the Board could envisage) could not justify these lost future profits – in particular because compensation is not on offer, and the Scheme could not be considered proportionate. Nexus is clear that there is no legal requirement to compensate operators for their future lost profits³. In any event, who is to say what operators’ profits will be in ten years’ time, given that the bus market is fully commercial and open to competition from new market entrants and new technologies? Will new disruptive technologies such as Uber have halved Stagecoach’s profits in ten years’ time, for instance?

³ Operators are not being prevented from operating buses, Nexus is simply introducing a control on those operations.

The North East Combined Authority is reflecting on its position, and the way forward will emerge following this pause. We remain of the view that our QCS is financially sound and brings real benefits to bus passengers in Tyne and Wear that outweigh the adverse effects. We suspect that the QCS Board's opinions are founded on the portrayal of the benefits and risks of the Scheme as presented by litigation experts in a highly charged and adversarial cross-examination environment, rather than inherent weaknesses in our Scheme. We therefore believe that there remains a strong case for bus franchising, be it in Tyne and Wear or elsewhere, and it is gratifying to know that the Chancellor of the Exchequer evidently agrees with us as he brokers devolution deals with English regions willing to elect a mayor, deals that make provision for bus franchising in the future.

So what are the implications for Wales?

Firstly, bus regulation and bus franchising is not a panacea for bus services everywhere. Taking control of bus services is only a benefit to the public if the public sector can generate the necessary funds – from growing patronage and growing bus fares, from diverted operator profits and from external sources – to fund measures that will arrest the decline in bus use.

Secondly, bus franchising allows the local transport authority to receive and approve all bus service registrations, which can be a powerful way in which bus service standards can be driven up – but this can also be achieved through less intrusive means than franchising the whole network.

Thirdly, community bus service provision in Tyne and Wear is relatively modest, in contrast with many rural parts of Wales, so my experience in advising you in this regard is limited. However it is evident from my experience that when bus services decline around the margin, it is less profitable services operated by community transport providers that are often the first to go. So affirmative action to arrest the decline will be of benefit to community transport operators.

Finally, and perhaps most importantly, are the social and economic consequences of taking no action. As set out above, Nexus believes that in 8-12 years' time the child fare concessions and the socially necessary links that it subsidises will all be gone. While these bus services by their very nature carry relatively few passengers, it is still the case that this loss of service will affect numerous people: workers getting to the jobs; youngsters getting to school and college; older and disabled people getting the chance to interact and socialise and improve their quality of life; and people in isolated communities getting the chance to do basic things such as shop, socialise and meet up with their friends and relatives. Bus services are a vital social lifeline to many people, and the current trends, if left unchecked, will see those lifelines removed. Taking no action appears to me to not be an option.

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North East Combined Authority

November 2015