

REPORT

GREASING THE WHEELS

GETTING OUR BUS AND RAIL
MARKETS ON THE MOVE



Mark Rowney
and Will Straw

August 2014
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This paper was first published in August 2014. © 2014
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POSITIVE IDEAS
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ACKNOWLEDGMENTS

We would like to thank our IPPR colleagues Spencer Thompson and Tony Dolphin for their assistance with the quantitative research in this report. We are also thankful to Nick Pearce, Graeme Cooke and Ed Cox for their comments on earlier drafts of the report.

We owe a debt of gratitude to individuals and representatives of many organisations with whom we have spoken over the course of the research, and to those who kindly commented on earlier drafts of this report. These include Stephen Joseph, Passenger Focus, Journey Solutions, Greener Journeys, the TUC, the Passenger Transport Executive Group, Transport for London, Andrew Adonis, Hackney Community Transport, CPT, Siemens, Which?, First Group, the ORR, Christian Wolmar, Nexus, Liberty, the DfT, ATOC and the Rail Delivery Group.

SUMMARY

This report concerns bus and rail markets in Great Britain. Our analysis examines the pros and cons of existing policy for both of these transport markets and makes policy recommendations for railway in Great Britain (GB rail) and bus markets outside London.

We find that although both of these markets could benefit from reform, the national policy debate has focused too heavily on GB rail and not enough on buses, which are used by three times as many passengers each year. In fact, a closer examination of the two sectors reveals that the regulated markets for GB rail and London buses, which have generated significant increases in patronage and quality in recent years, provide a number of lessons for the liberalised bus markets outside London.

Historical policy and outcomes

The relative success of London buses and GB rail

The markets for London buses and GB rail have a number of similarities. They are both heavily regulated, operate under government contracts, and the government has strong legal duties to ensure that these markets succeed. For GB rail, the government is legally obliged to provide train services should a train operating company (TOC) unexpectedly stop doing so, as was the case with East Coast. London buses are indispensable to the mayor's statutory duty to promote and encourage safe, integrated, efficient and economic transport facilities and services in London. Government has strong powers over fare levels for both, takes much of the fare revenue risk in relation to GB rail and all of the risk in relation to London buses.

Both GB rail and London buses have seen significant growth in patronage in recent years. GB rail patronage has increased by 88 per cent since 1996/97 when the industry was restructured. London bus patronage has increased by 72 per cent since 2000/01, when Transport for London (TfL) was established. In both cases, taxpayer subsidy levels increased for a period before falling back.

The London bus subsidy increased because the policy of growing bus patronage was a victim of its own success. Public expenditure rose sharply in the early 2000s to increase the number of buses and improve the quality of the network, while fares fell in real terms. The result was that costs rose faster than fare revenues. The taxpayer subsidy is now falling again and fare rises are at the rate of inflation. The taxpayer has clearly enjoyed value for money. London buses are available to people from all backgrounds and the subsidy per passenger is lower than for bus passengers outside London.

By contrast, GB rail's subsidy increase was driven by the need to improve infrastructure, which was essential after a series of horrific accidents in the years following the break-up of the industry. This has successfully improved the safety of our railways to the credit of both industry and the last government. Grants to Network Rail have now fallen by 26 per cent since 2007/08. Although Network Rail remains an inefficient infrastructure manager in comparison to the top 25 per cent of international rail infrastructure managers, it is on course to deliver 44 per cent efficiency savings since 2004. Given this track record, we are hopeful Network Rail, working with the Office of Rail Regulation, will deliver further efficiency savings.

In addition to the infrastructure subsidy, TOCs were provided with a net taxpayer subsidy for most of the period since the industry was restructured. The economics of many franchises meant that services could only operate at a loss because there were

too few passengers. In the last three years, the audited accounts of the Department for Transport (DfT), Transport Scotland and the Welsh assembly show that the TOCs have transformed themselves from subsidy addicts to net contributors to the exchequer. Last year the TOCs paid back over £400 million net to the Treasury.

With more rail passengers than at any time since the 1920s, TOCs paying a net premium to government and the infrastructure subsidy decreasing (excluding expenditure on Crossrail), GB Rail has, on balance, become a policy success. There is, however, an inherent conflict of interest within GB rail policy. The government wants both to protect the taxpayer (by increasing patronage) and to protect the passenger (by decreasing patronage at peak hours to prevent an increase in overcrowding).

As a result, above-inflation rail fare rises over the past decade have hit rail commuters hard. Meanwhile, policy has done little to make GB rail available to those on lower incomes. Households with gross incomes in the top quintile spend almost three times as much on fares as households in the bottom quintile.

There is also a regional imbalance. Rail passengers in Scotland, Wales and the English regions continue to travel in older rolling stock while newer rolling stock is operated on intercity routes, and in London and the south east. The former group have seen the average fare paid per journey increase by over 8 per cent in real terms since 2004. Over the same period, the average fare paid per journey by intercity passengers has dropped just over 8 per cent and passengers in London and the south east have seen a drop of 2.5 per cent, both in real terms. Within these groups, advance fare passengers have benefited the most. It seems the TOCs have kept these unregulated fares low to increase patronage overall. Unregulated fares now make up two thirds of passenger revenue, helping to reduce taxpayer subsidy.

Since blame for these disparities lies as much with central government as with the TOCs, GB rail policy and budgets need a new round of devolution so that decisions are made in and by the communities that they effect. We make a series of recommendations relating to this below. Notwithstanding these issues, GB rail and London buses clearly show that taxpayer subsidies can be used to deliver positive outcomes where combined with clear regulatory powers.

The failure of buses outside London

Bus markets outside London are dramatically different. These markets are completely liberalised and there is a much weaker legal duty on government to guarantee bus services than is the case for either London buses or GB rail.

Liberalisation has not resulted in a competitive market – 37 per cent of weekly services outside London do not face any effective head-to-head-competition and just 1 per cent of weekly services face effective head-to-head competition over all or most of their route. Many operators are now making excessive profits. The Competition Commission found that average profits for operators were 3.5 percentage points above the mid point of its calculated range of appropriate returns.

Instead of a liberalised market driving better outcomes, fares have risen and patronage has fallen. Fares in England (outside London) rose by 35 per cent above inflation between 1995 and 2013. Fares rose in real terms in Wales by 34 per cent and in Scotland by 20 per cent over the same period. Overall bus patronage across Great Britain (excluding London) dropped by 32.5 per cent since 1986 compared to a 99 per cent increase in London. The bus is therefore not fulfilling its potential in terms of relieving congestion, increasing access to jobs and public services, and reducing the carbon emissions of transport. This is a public policy failure since buses are used by households from all income groups.

Public spending on buses has tended not to be strategic. For example, the Department for Education and the Department of Health spend approximately £1.4

billion per year on transport. Much is spent on buses at specific times of the day, such as the school run and some hospital shuttle services. The same bus companies often operate commercial services during the rest of the day, often with state support, or alternatively receive further state funding from the local authority to provide tendered services. This approach to local transport procurement may suit Whitehall budget headings but does not support a community's local transport needs.

Meanwhile, austerity has hammered support for buses. The bus service operator grant, which subsidises fuel duty costs, has been cut by 20 per cent, and the local government grants, from which local authorities support tendered services, have also been cut. As a result, many unprofitable services have ceased to operate and local authorities have been unable to cover the slack in many cases.

That said, the decline in bus patronage has not been uniform across the country. Where concessionary fare spending has been particularly high, for example in the south west, south east, east and east midlands, bus patronage has increased. At the same time, strong local political leadership in cities such as Nottingham, Brighton and Oxford where car use has been restricted has resulted in increased bus patronage. In essence, some intelligent public sector interventions have bucked what is otherwise a depressing national trend.

Policy recommendations

While policy for London buses seems to be performing reasonably well, there are challenges facing GB rail which need addressing. But these pale in comparison to those facing bus markets outside London. We make the following recommendations to improve these sectors.

In relation to GB rail, the north tends to do worse than the south, fares remain unaffordable to many, and – although falling – the public subsidy for infrastructure improvement is still too high.

To ensure that taxpayers and consumers are getting the best value for money, public sector rail operators should be allowed to compete for franchises as and when they come up, including as part of a joint venture with the private sector. Continuing to prohibit the British government from bidding for franchises does not stop operators owned, for example, by the French government from doing likewise. To ensure that the operation of a franchise by the public sector delivers a strong risk/reward ratio to the taxpayer, the DfT and HM Treasury should work together to examine the potential increase in the national debt that might result following an award.

In order to create a level playing field for the private sector, the Office of Rail Regulation should take over the franchising process from the DfT. Over time, we believe that regional franchising (that is, not for intercity) should be carried out by regional transport bodies (discussed in more detail below). There is a case for some regional transport bodies electing to move from franchising to management or concession contracts similar to those for Merseyrail and the London Overground.

Meanwhile, **we believe that new franchising arrangements should encourage TOCs to make a greater contribution to infrastructure costs.** To facilitate this, Network Rail will need to remove an existing regulatory conflict of interest in co-managing infrastructure with TOCs. Its capacity management activities (scheduling, signalling, planning new investment) and its operation, maintenance and renewal activities should be regulated separately. Much as the public sector pays for the maintenance of Britain's road network, we do not believe that all infrastructure costs should be born by the private sector. But taxpayer support for Network Rail can and should be reduced further.

As outlined above, the deregulation of buses has largely failed with patronage down and fares rising higher than inflation. That said, there have been some good examples of local authorities working effectively with bus companies to deliver a better deal for citizens. **As with GB rail, we do not believe that a uniform change to the system of bus regulation is the right approach. Instead, we believe that it should become easier for local government to take on regulatory powers known as quality contract schemes (QCSs).** This would allow them to re-regulate their bus markets and have greater control over routes, service frequency and prices. Although available to local authorities, QCSs have never been used because of the costs and legal difficulties involved in their implementation. **We recommend that the test to implement a QCS should be removed and replaced with a simple requirement that the relevant local transport authority satisfies itself that the QCS is ‘justified’.**

Our research recognises that in many instances local authorities do not have sufficient scale to negotiate better deals for local residents from national bus companies. To address this **we recommend the creation of regional transport bodies modelled on Transport for London at the level of city-regions and combined authorities.** These new bodies should reflect travel-to-work areas. They should have a remit to take on the delivery of transport policy, including the regulation and contracting of bus markets, regulation of regional rail services, and the encouragement of modal shift. This would allow for better services, quality and fare levels; help address the regional imbalance that currently exists in GB rail; and allow for greater integration of GB rail with buses and other modes of transport. The ‘Transport for the North’ rail body, previously recommended by IPPR North, would be consistent with this approach with bus regulation and contracting remaining at the city-region level.

These new regional transport bodies should be allowed to take statutory responsibility for the delivery of transport services relating to education and health. Community transport funds at the local level should be established by carving out the relevant transport budgets from other government departments. The regional transport bodies should be able to keep any savings made from achieving efficiencies and reinvest the funds into other sustainable transport projects at the local level.

To satisfy the UK’s longer-term public transport needs, the DfT should put together a national transport strategy. This should examine how changing demographics and employment patterns, technological changes and the need to decarbonise the economy by 2050 are likely to affect the demand for transport at the national, regional and local level. The strategy should model a number of scenarios and provide a basis around which to make decisions about modal shift, demand management and future infrastructure investments.

The outcome of different transport markets in recent years clearly shows that the liberalised approach of the 1980s towards local bus markets has failed. Where regulatory powers and taxpayer subsidies are used strategically by strong political leaders alongside private sector providers, outcomes for consumers in terms of fares, frequency, quality and safety can improve. If the government wants to ensure that the UK’s transport markets deliver their social and economic functions of connecting people to employment, public services and the marketplace while delivering the UK’s legally binding decarbonisation targets, major reform is clearly needed.

1. FUNDING, GOVERNANCE AND REGULATION OF BUS AND RAIL MARKETS

This report examines public passenger transport markets in Great Britain. It provides a high-level overview of both bus and rail policy in recent years and its outcomes, and identifies some recommendations and key policy questions to be answered for the future. This chapter will set out an overview of rail and bus funding, governance and regulations, setting out key differences. It will then set out some conclusions on the consequences of these differences in approach. Chapter 2 will provide an overview of historic policy and outcomes for rail markets in the UK and chapter 3 will do the same for bus markets. Chapter 4 will then summarise our findings and make policy recommendations and suggestions for further work.

1.1 Governance and regulatory framework of Great Britain's rail market

Rail in Great Britain (GB Rail) is organised as follows.

- 95 per cent of rolling stock is owned by three rolling stock operating companies (ROSCOs)¹ (CC 2009).
- Network infrastructure² is owned by Network Rail, a 'not for dividend' statutory corporation. Train operating companies (TOCs) contract with Network Rail to operate rolling stock leased from ROSCOs on the infrastructure.³
- Passenger services are provided primarily by 17 TOCs which compete for passenger rail franchises from the Department for Transport/Transport Scotland.⁴ Two other TOCs operate services under concessions from Transport for London (TfL) and Merseytravel (the Merseyside passenger transport executive (PTE)). Both concessions have been hailed as successes with good levels of punctuality and high levels of passenger satisfaction (CbT 2013).
- The Office of Rail Regulation (ORR) regulates Network Rail's operation and expenditure; imposes health and safety regulation across the industry; enforces competition law over TOCs; and licenses operators on the network ensuring that passengers can buy one ticket for a journey using multiple operators' services.

The transport secretary has a legal duty⁵ to ensure the continuance of rail services should a contract with an operator unexpectedly terminate, as was the case with the Intercity East Coast franchise in 2009. Partly as a consequence of an

1 Eversholt, Porterbrook and Angel Trains. Each are owned by consortia of infrastructure companies, private equity companies or banks. The remaining 5 per cent of rolling stock is owned by TOCs or smaller ROSCOs set up by government. ROSCOs are unregulated but their business operation is constrained by government's control over TOCs.

2 The Channel Tunnel is owned by Eurotunnel.

3 Although Network Rail owns all train stations, in practice the TOCs manage all but 18 stations.

4 There are 4 open access operators (OAOs) that operate supplemental passenger services. These operators operate rail markets not subject to franchises. They apply for rights to operate from Network Rail and like other TOCs, have an ORR licence. They operate on a fully commercial basis but operate only 1% of passenger services.

5 Railways Act 1993: s30.

understandable desire to manage this risk, control of rail in England and Wales lies with the Department for Transport (DfT), with some exceptions.⁶

The DfT distributes government subsidies to the rail industry and regulates passenger service operation by the TOCs through the franchise agreements. Under a franchise, the government takes the long-term risk and reward of passenger revenue levels (see box below). Government also controls some fare rises under these agreements, including most commuter fares.⁷

The farebox

The DfT sets TOCs annual targets for fare revenue generation. From four years into the franchise term, if revenue falls below 98 per cent of target, the government will subsidise a TOC 50 per cent of the shortfall. That subsidy increases to 80 per cent if revenue falls below 94 per cent of target.

Government's share of the reward begins from the very beginning of a franchise; it takes 50 per cent of any excess of the target. That premium rises to 80 per cent once a specified excess revenue target is reached. That second target will vary between TOCs (ATOC 2009).

This regulatory regime is known as the 'farebox'. As is set out further below, government is now a net recipient of premiums from all TOCs under the farebox.

1.2 Governance and regulatory framework of the bus market in London

London buses do not enjoy the industry-specific statutory safety net that GB rail does. Instead, the mayor has a statutory duty to promote and encourage safe, integrated, efficient and economic transport facilities and services in London.⁸ That duty, combined with the political importance of transport to London's directly elected mayor, guarantees all public transport, including buses, an equivalent amount of attention from the mayor as GB rail receives from Whitehall.

The London bus service market is more heavily regulated than GB rail. Like rail franchises, London's bus operators compete for the right to provide services under exclusive contracts awarded by TfL (an executive agency of the Greater London Authority) on a route-by-route basis. TfL sets all service and fare levels on the mayor's behalf. Bus operators bid on service cost and quality but do not bear any fare risk or reward, which lies entirely with TfL. Bus operators contract for an income from TfL with bonuses and deductions made by TfL for good and poor service performance. Operators earn profit by reducing their costs.

TfL's duty to promote integrated traffic is partially satisfied by its management power of 'bus infrastructure': the London road network. Demand management policies⁹ help keep traffic (including buses) flowing. For example, CentreComms, the 24-hour London bus command and control centre, turns traffic lights green if a delayed bus approaches. London bus service management is more integrated with infrastructure management than is the case for GB rail.

6 The National Assembly for Wales invests capital funding into rail infrastructure and is a co-signatory to the Welsh rail franchise. The six passenger transport executives (PTEs) serving England's largest conurbations (Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire) make some rail investments too. Their powers were eroded by the break-up of British Rail and increased centralisation of their powers back to the DfT for example they can no longer negotiate and co-sign new rail franchises.

7 Transport Scotland has similar powers to the DfT over Scottish railway.

8 Greater London Authority Act 1999: s141.

9 Such as red routes, bus lanes and the London congestion charge.

1.3 Governance and regulatory framework of the GB bus market outside London

Outside London, bus service governance and regulation is very different. Governance rests with local transport authorities (LTAs) which are either the PTEs,¹⁰ or otherwise are unitary authorities, district or county councils.

Bus services outside London do not have the same level of statutory or political underpinning enjoyed by London buses and GB rail. GB rail and London buses both enjoy an absolute duty upon government that ensures that those services are provided. LTAs have only a qualified legal duty to secure public passenger transport services. They have discretion as to whether or not they need to take action to ensure that bus services are provided,¹¹ and they can ultimately refuse support for bus services if they wish to do so, with some limited exceptions.¹²

Bus markets are fully liberalised, subject only to safety and punctuality licensing requirements imposed by traffic commissioners.¹³ Operators design and develop their own commercial services and set their own fares. In 2011, this market consisted of approximately 1,245 companies operating registered local bus services in Great Britain. It is dominated by five companies,¹⁴ which in 2011 operated roughly 69 per cent of all local bus services outside London (TC 2012).

LTAs can fund local bus services by tendering contracts for unprofitable services. Consequently, operators can cease unprofitable service provision rather than providing a cross-subsidy from other services. If the LTA cannot fund the service, it is lost to those who still need it. Outside London, approximately 22 per cent of bus services are LTA supported although this can vary from 5 per cent of services in some urban areas to 100 per cent of services in some rural areas (CbT no date).

LTAs do have three regulatory interventions open to them if they have concerns about service provision: voluntary partnerships, quality partnerships and quality contract schemes (QCSs).

Partnerships

Voluntary and quality partnerships provide exceptions to general competition rules that allow cooperation between LTAs and operators. Quality partnerships will stipulate that operators can only provide bus services if they meet the LTA's requirements (for example on fare levels or frequency of services). However, neither partnership obliges an operator to provide a service; operators can cut services without liability.

Only 15 voluntary partnerships and seven quality partnerships have been established to date (BP 2014). Reasons given by stakeholders include the fear of bus operators ceasing to provide services once the LTA has made the investment, the difficult negotiating process, the lack of limits on competition with other operators, and perceived difficulties in meeting the competition test. State aid issues also arise under partnerships if an LTA provides funding. Where partnerships have arisen, interviewees said that they came about through strong leadership from an LTA, sometimes using the threat of a QCS to encourage operators to enter into a partnership.

10 Accountable to established integrated transport authorities (ITAs) made up of local councillors in the areas that they serve.

11 Transport Act 1968: s9A and Transport Act 1985: s63.

12 For example, the provision of free school travel to under-16s and administering concessionary fares.

13 Seven individuals with responsibility in their area for licensing bus, coach and heavy good vehicle operators and drivers and also for registering local bus services.

14 First Group, Stagecoach, Arriva, Go-Ahead and National Express.

Quality Contract Schemes

QCSs grant LTAs powers to regulate their local bus market in a manner similar to TfL's. To introduce a QCS, an LTA must satisfy the following five-point test:¹⁵

1. the proposed scheme will result in an increase in the use of bus services
2. the proposed scheme will bring benefits to bus passengers by improving the quality of bus services
3. the proposed scheme will contribute to the implementation of the local transport policies of the LTA
4. that contribution will be in a way which is economic, efficient and effective
5. any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the wellbeing of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives set out in the other four requirements of this test.

Should an incumbent operator object to the QCS, they can refuse to continue services but must give 112 days' notice. However, the time it takes to implement a QCS could be over one year.

Many stakeholders interviewed by IPPR during the course of this research stated that the QCS test was too onerous. In addition, the process is expensive for LTAs. If operators proposed a counteroffer once the assessment was done, this would necessitate a re-evaluation of the test, increasing costs. To date no LTA has successfully introduced a QCS although Nexus, the Tyne and Wear PTE, is currently attempting to do so.¹⁶ That debate has been toxic, with the chief executive of Stagecoach saying he would rather 'take poison' than hand over his buses (Pearson 2012). Other plans, such as in Yorkshire, have been abandoned.

1.4 Public expenditure on GB rail and buses

Public expenditure on GB rail

Taxpayers support GB rail by the following means:

- network grants to Network Rail
- subsidies paid to some TOCs
- grants to the PTEs and Strathclyde Partnership for Transport in Britain
- freight grants and other miscellaneous government support, including support for major projects.

In 2012/13, taxpayer support to GB rail amounted to £5.06 billion (DfT 2013a). That year, government provided 61 per cent of income for Scotland's railway, 56 per cent of its income in Wales, and 27 per cent of its income in England. Overall, 31 per cent of GB rail's income comes from the taxpayer (ORR 2014a). Figure 1.1 below provides an overview of the total government support to GB railway in nominal terms since the late 1990s.

The majority of government support to GB rail has been to support infrastructure rather than service provision. The network grants began in 2001 when Network Rail replaced Railtrack which had been funded solely by payments from the TOCs. As figure 1.1 shows, network grants account for the majority of public expenditure on GB rail: £3.78 billion in 2012/13.¹⁷ Network grants form roughly two-thirds of Network Rail's revenue. The growth in 'other government support' is largely

15 Transport Act 2000: s124.

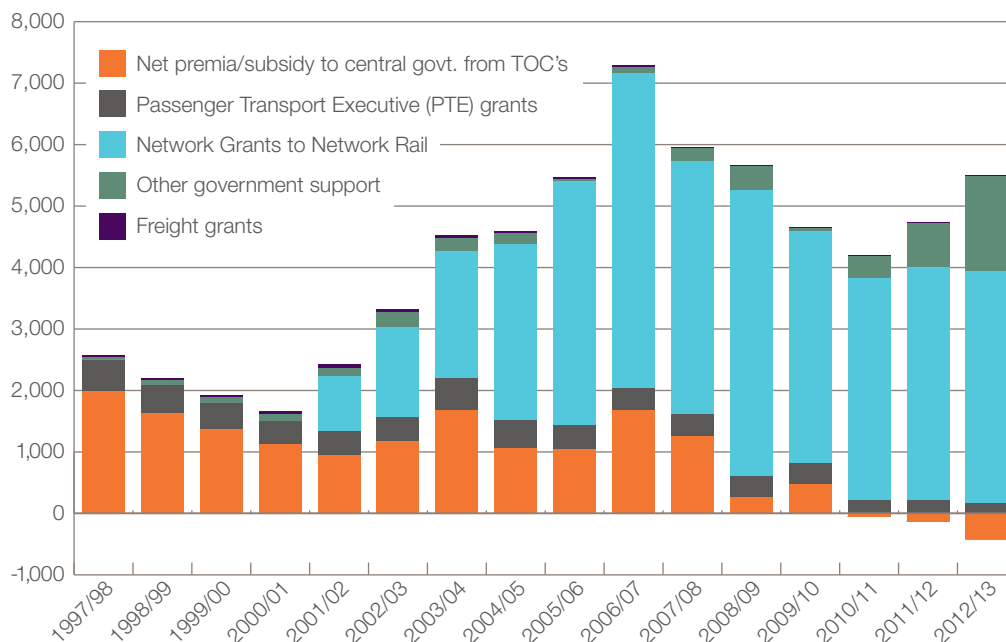
16 <http://www.nexus.org.uk/busstrategy>

17 This includes contributions by the Scottish government.

accounted for by expenditure on Crossrail.¹⁸ By contrast, government is now a net recipient from TOCs: £420 million in 2012/13.

Figure 1.1

Total government support (£ million) for British railway in real terms



Source: DfT 2013a

A recent publication by the ORR (2014a) has thrown some confusion on this point. In its industry financials report, the ORR published its own analysis showing that the TOCs were recipients of a net subsidy of £38 million in 2012/13 (ORR 2014a). The reason for a discrepancy of £458 million in one financial year is because the two analyses relied on accounts prepared on a different basis. The ORR's figures relied upon the TOCs' unaudited monthly management accounts. The DfT's figures are based on its audited accounts and those of the Welsh assembly and Transport Scotland. The latter have therefore been verified by auditors and give a more accurate reflection of the economic relationship between the TOCs and government. The ORR also publishes the DfT's figures in its official statistics dataportal rather than the figures prepared using the TOCs' management accounts. We therefore rely upon the DfT's figures rather than the ORR's in this report.

Public expenditure on buses

Government support to bus operators (inside and outside London) takes the following forms.

- Support for concessionary travel for the elderly and disabled, which began in 2000 and was extended to cover all of England in 2008.¹⁹ Funding is provided to LTAs (or local councils in London) by the Department for Communities and Local Government (DCLG). Operators (or in the case of London, TfL) are then reimbursed for providing free travel on the principle that the operators are 'no better off and no worse off'.

¹⁸ 'Other government support' includes DfT support to the British Transport Police, Rail Pensions, Passenger Focus, the Rail Heritage. This category totalled £1.536 billion in 2012/13 and has seen a real terms increase of £1.496 billion since 2009/10. This is mostly due to expenditure on Crossrail, which in 2012/13 alone accounted for £1.205 billion.

¹⁹ Equivalent concessions are also provided in Wales and Scotland.

- The bus service operators grant (BSOG) which is a rebate of 70 to 80 per cent of the fuel duty paid by the bus operators.²⁰ It is paid to operators regardless of how many passengers they carry. In October 2013, BSOG funding was fully devolved to TfL and in January 2014, it was partially devolved to local authorities for LTA tendered services. In designated Better Bus Areas (BBAs) BSOG funding for commercial services will also be devolved but it will only be ringfenced for buses until 2017. This means that this funding may ultimately be spent on other local services because of the lack of statutory underpinning for bus services outside London.
- Support for tendered services (including London) that is paid from the LTA's general funds.
- Other financial support. For example, the Department for Education provides local authorities with around £1bn a year to fund home to school transport, some of which pays for bus passes on regular bus services. The NHS spends around £400 million per year on non-emergency transport (PTEG 2014). Funding of £600 million is available over the current parliament to LTAs from the DfT for sustainable transport projects and some further funding is available for buying low-emission buses.²¹ The DfT has also set up the Better Bus Area Fund. LTAs can compete for this fund 'to increase bus patronage' and in 2012 a grant of £70 million was made from this pot, although not all LTAs submitted bids. The government's stated intention is to fully devolve BSOG to the BBAs over time.

Level of support for bus service operation

Figure 1.2 below shows the estimated net support paid by central and local government (at 2012/13 prices) for local bus services and concessionary travel in England from 1996/97 with a regional breakdown for London, the PTEs and the rest of England. The data shows an overall rise in public support for bus services in all three areas during this period, although net public support began to decline again in 2008/09 in London and a year later outside of London. In 2012/13, taxpayer support to bus services in England amounted to £2.19 billion.

However, in London the overall rise was largely due to a ninefold increase in the subsidy paid by TfL from its general funds²² to operators over three years between 2000/01 and 2003/04. TfL's support then increased by a further 14 per cent over the next five years. It then declined by 37 per cent from its 2008/09 levels by 2012/13. TfL's support to London buses is currently at its lowest level since 2001/02 and overall net public support to London buses is at its lowest level since 2002/03.

By contrast, in non-metropolitan areas, although nominal support for LTA-supported services did rise from 2000/01, that support peaked at a 57 per cent rise in 2005/06 (much less than TfL's ninefold increase). The overall rise in net public support to bus services in non-metropolitan areas was instead driven by a trebling in concessionary travel support between 2005/06 and 2010/11. That support has since fallen by just under 7 per cent. The total drop in net public support for bus services in non-metropolitan areas has really been driven by a 22.5 per cent drop in support for LTA services since 2008/09 and a 23 per cent drop in BSOG funding over the same period.

20 Currently, in England and Wales the repayment for diesel is 34.57p/litre; a 20 per cent cut from 43.2p/litre announced in the 2010 Spending Review.

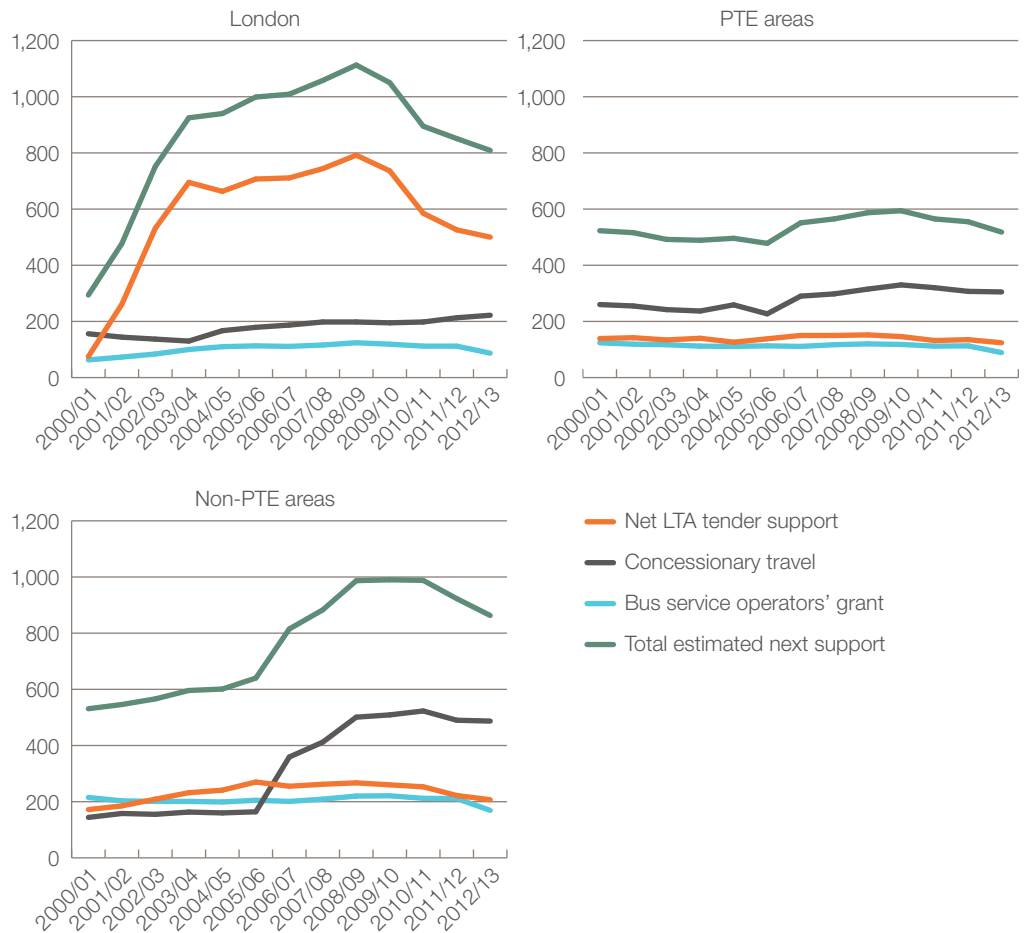
21 Since 2009, £88million has been awarded under the Green Bus Fund.

22 TfL's income differs from other LTAs. It is a mixture of central government funding (including borrowing), a proportion of London's business rates, income from fares and the Congestion Charging scheme, commercial activities such as advertising, property rental and development, and some third-party funding for specific projects. Therefore, subsidy from TfL should not be thought of as taxpayer subsidy in the same way that, for example, BSOG is.

In PTE areas, the level of net public support for bus services is almost the same today as it was in 2000/01. However, during this period there was, as with non-metropolitan areas, an increase in concessionary travel support. Although there has been a recent decline in that support, the much larger decline in BSOG and LTA-supported services has made a much greater contribution to the offsetting of the rise in net public support that occurred between 2005/06 and 2006/10.

Figure 1.2

Estimated net support paid by central and local government (at 2012/13 prices, £m) for local bus services and concessionary travel by area type



Source: DfT 2013b

There are several important points to draw from this analysis. First, there is a regional imbalance in net public support with most money going to London and non-metropolitan areas and not to the densely populated PTE areas in the north of England. Second, there were two very different drivers in the overall increase in public subsidy; in London it was targeted at support given to the industry as a whole through its contracts with service providers while in non-metropolitan areas the rise was driven by public payments for free travel for concessionary passengers. Third, because support in London was driven by increases in subsidy from TfL's general funds, which are only partially funded by the taxpayer, it is arguable that the increase in taxpayer funding for buses in London is actually much lower than figure 1.2 suggests. We return to these points in chapter 3, and draw out their significance when compared to policy outcomes.

1.5 Conclusion

London buses and GB rail are similar in many respects. They both benefit from a strong statutory underpinning that requires government to ensure that services are provided. Government takes most (GB rail) or all (London buses) of the revenue risk/reward and has strong (or total) powers over fare levels. Two key differences, however, do arise between GB rail and London buses. First, control over bus infrastructure is better integrated with London bus services than is the case with GB rail infrastructure and services. Second, taxpayer funding for GB rail is now mostly to support infrastructure, with rail services now delivering a return for the taxpayer. London buses still have a high level of public funding for service operation, and road infrastructure is of course funded exclusively by the taxpayer.

The situation with bus markets outside London is in stark contrast. The government's obligation to support these services is much weaker than either London buses or GB rail. With devolution of funding progressing, the risk that those funds will be spent on other services increases. Buses outside London have, however, seen an overall increase in taxpayer support between 2000/01 and 2012/13. However, that overall increase has been in the form of central government support to the non-metropolitan areas where the statutory underpinning is weakest. Instead of being strategically directed at funding improved bus networks, as is the case in London, the money is used to directly fund individual journeys.

Is the taxpayer getting value for money in all three cases? Chapter 2 will examine the policy intentions and outcomes for GB rail to date and chapter 3 will conduct the same examination of the bus markets.

2. PAST AND FUTURE POLICY FOR GB RAIL

Chapter 1 outlined the governance, regulation and public funding of bus and rail services. This chapter sets out how policy has affected GB rail since the 1990s and outlines a framework for future policy trajectory for GB rail.

2.1 British rail policy intentions and outcomes

'Make passengers pay'

Since the late 1990s, government policy has been to decrease taxpayer subsidy to the rail industry (Butcher 2014). Originally this was to be achieved simply by increasing patronage, thereby increasing fare revenue. However, since the abolition of Railtrack, the government has funded infrastructure directly. The policy focus moved to reducing subsidy to TOCs using franchising, while the ORR would reduce taxpayer support to Network Rail. Yet by 2003/04, the taxpayer subsidy had increased to £3.7 billion that year from £1.9 billion in 1997/98 (DfT 2013a). This was despite passenger numbers having increased from 846 million to 1,012 million in the same period (DfT 2013c). A new approach was required.

The solution was above-inflation fare rises. For 10 years, between 2004 and 2014, policy has been to increase average regulated fares by RPI + 1 per cent (that cap is now RPI + 0 per cent). This policy also had a second less well-known intention. As patronage increased (see further below), it was an important demand management tool to prevent trains becoming dangerously full at peak travel times.

Policy success? Are passengers paying more for GB rail than the taxpayer?

Chapter 1 showed that overall taxpayer subsidy decreased between 2006/07 and 2010/11. It has since increased largely due to expenditure on new infrastructure, specifically Crossrail. In terms of support for service operation, taxpayers are now recipients of a net income from TOCs. How has this been achieved?

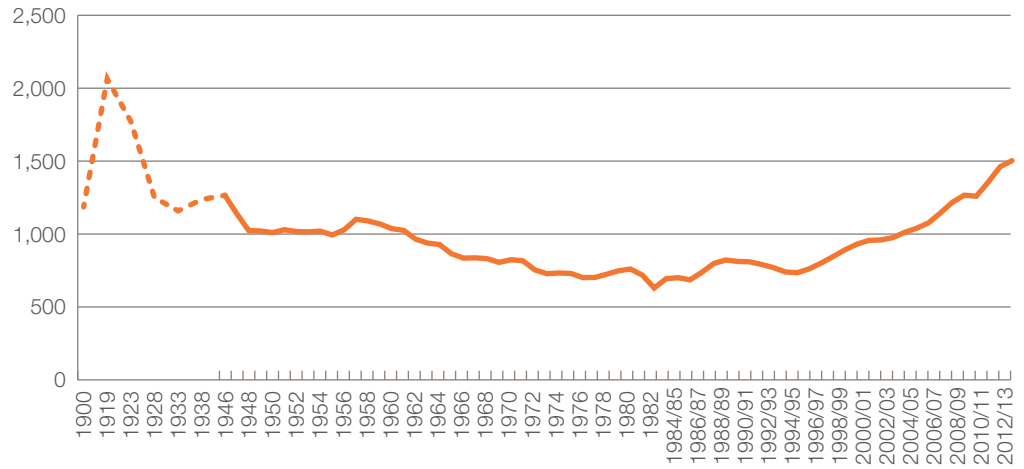
Figure 2.1 shows that GB rail currently enjoys more patronage than at any time since the 1920s.²³ Figure 2.2 shows that in real terms, passengers as a whole pay 70 per cent more today than at the turn of the century.

In 2012/13 fares made up 59 per cent of industry income and taxpayer support made up 31 per cent (ORR 2014a). In 2006/07, taxpayer support made up 49 per cent of GB rail's income (McNulty 2011). Excluding government decisions to fund new infrastructure, policy has been a success. Despite above-average fare rises for a decade, patronage and fare revenue have increased and the taxpayer pays less. Peak hour overcrowding has not materially worsened, but it has not significantly improved either (DfT 2013h). This outcome begs some questions. How much more are individual passengers paying and who are the winners and losers? Who is affected by rail fare rises? How has all this income been spent, if not on keeping fares low?

²³ Note, however, that in 2012/13, 69 per cent of journeys were made with London and south east operators, 23 per cent with regional operators and 9 per cent with long-distance operators. In 2002/03, 70 per cent of journeys were made with London and south east operators, 22 per cent with regional operators and 8 per cent with long-distance operators (ORR 2014b). Although growth has been relatively uniform across the country over the past decade, there remains a regional imbalance in rail travel in the UK.

Figure 2.1

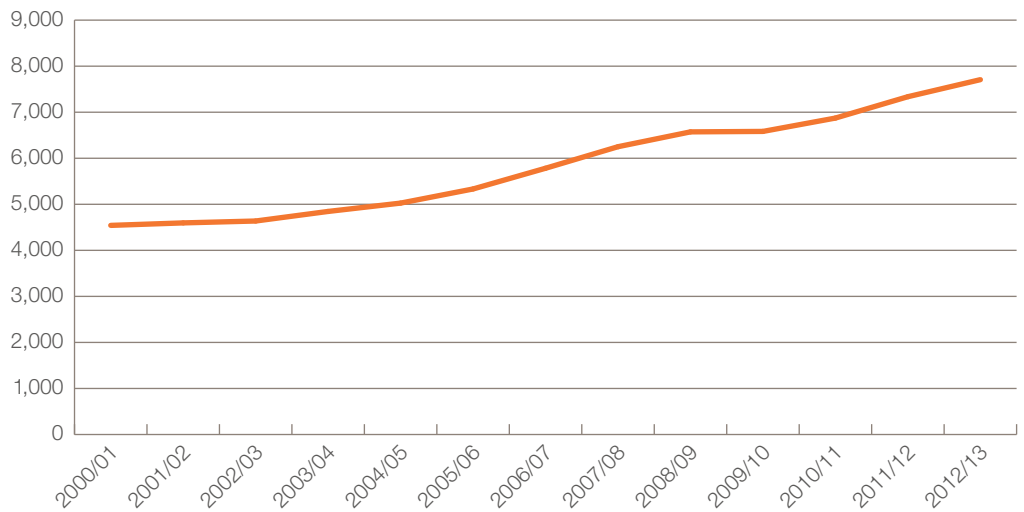
National rail passenger journeys, 1900 to 2012/13



Source: DfT 2013c

Figure 2.2

UK rail passenger fare receipts (2012/13 prices, £m)



Source: DfT 2013d

How much more does a passenger pay and who are the winners and losers?

Office for National Statistics (ONS) data relied upon by the DfT shows that rail fares (regulated and unregulated) have increased between 1997 and 2012 by 22 per cent in real terms (DfT 2013e). However, the ONS figures are based on ‘GB and Northern Ireland rail fares, London transport, other metro fares and international rail fares ... Other fare values are collected either directly from relevant organisations or from their websites.’²⁴ The ONS statistics are (a) based on advertised fares, not on actual fares paid; (b) show a national average increase and therefore mask winners and losers; and (c) as outlined above, include fares for journeys outside GB rail.

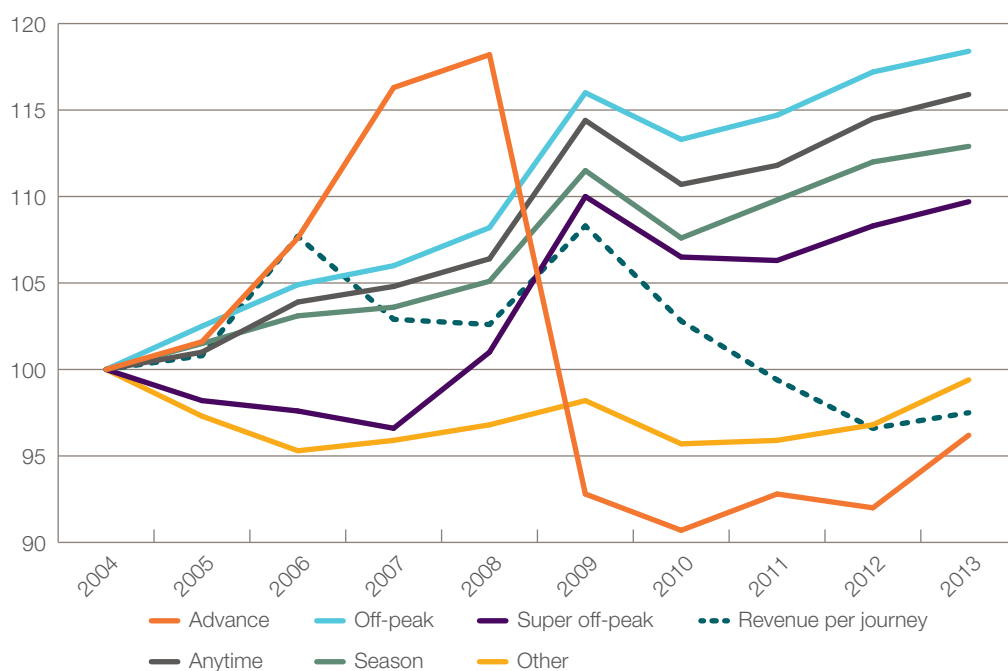
²⁴ Email communication with ONS.

Meanwhile, according to the Association of Train Operating Companies (ATOC), average rail fare receipts only increased by 4 per cent in real terms between 1997/98 and 2011/12 (ATOC 2013). These figures are based on total receipts of fares and, like the ONS statistics, inevitably mask winners and losers.

Can the ORR provide clarity? Its figures show that between 2004 and 2013, while average ticket prices rose by 17.5 per cent, average passenger revenue per journey for all tickets fell by 2.2 per cent (both in real terms) (ORR 2014c). Between the ONS, the ORR and ATOC's data, it is clear that *prices* do not reflect what passengers actually *pay*. A more detailed approach to the analysis is therefore required. Figures 2.3, 2.4 and 2.5 break these figures down between ticket types and between operators in London and the south east of England,²⁵ regional operators²⁶ and long-distance operators.²⁷

Figure 2.3

Average rise in fare prices and passenger revenue indexed to RPI in London and the south east of England



Source ORR 2014c

Figure 2.3 shows that average fare revenue in London and the south east dropped overall by 2.5 per cent between 2004 and 2013. Over the same period, overall average ticket prices rose by 8.75 per cent. Particularly striking is the 21 per cent drop in the price of unregulated advance fares between 2008 and 2009.

Figure 2.4 shows that, like rail in London and the south east, average fare revenue per journey from intercity travel dropped overall by 7.7 per cent between 2004 and 2013. Over the same period, overall average ticket prices rose by 20 per cent. This discrepancy is particularly noticeable from 2010 onwards where revenue continued

25 c2c, Chiltern, First Capital Connect, London Overground, National Express East Anglia (Greater Anglia), Southeastern, Southern and South West Trains.

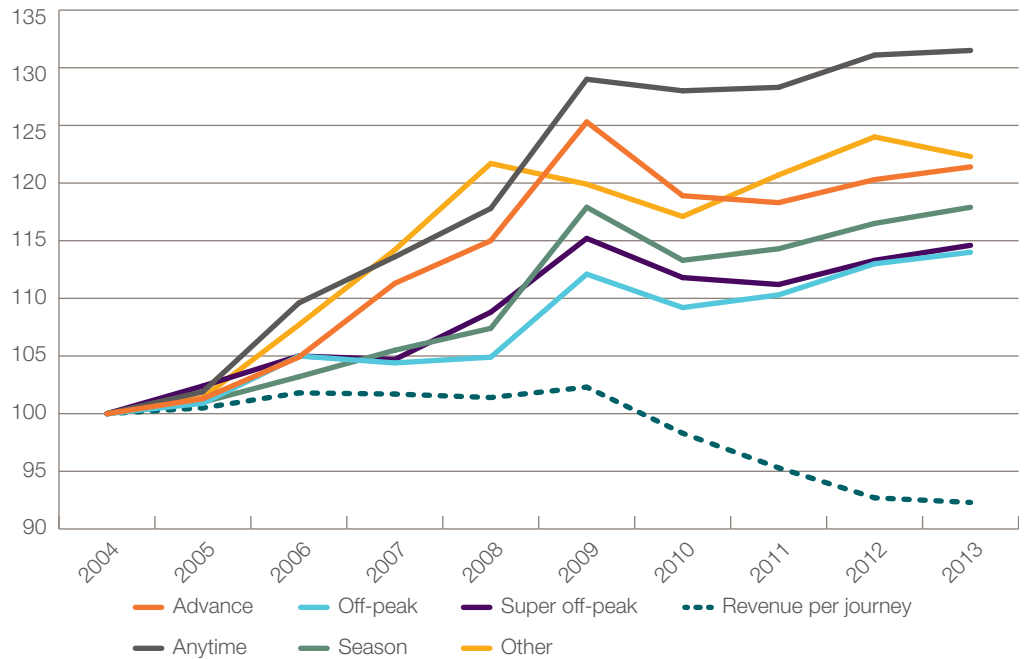
26 Arriva Trains Wales, First Scotrail, First Transpennine Express, London Midland, Merseyrail and Northern.

27 Cross Country, East Coast, First Great Western, First Hull Trains, Grand Central and Virgin Trains.

to fall despite a rise in prices for all categories of fares from 2010. The discrepancy is also in spite of an 11 per cent rise in passenger kilometres on long-distance journeys between 2009/10 and 2012/13 (ORR 2014b).

Figure 2.4

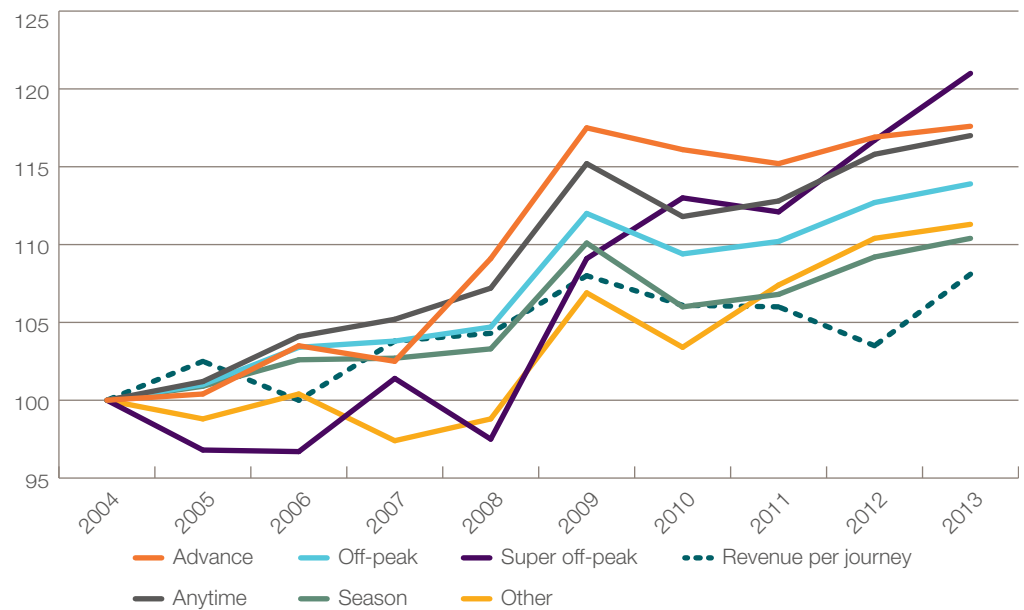
Average rise in fare prices and passenger revenue indexed to RPI for long-distance operators



Source ORR 2014c

Figure 2.5

Average rise in fare prices and passenger revenue indexed to RPI in Scotland, Wales and the rest of England



Source ORR 2014c

Figure 2.5 shows that overall average fare revenue in Scotland, Wales and the regions rose by 8.1 per cent between 2003 and 2014 and average ticket prices also increased by 15.2 per cent. Although there is a discrepancy between the rise in fare prices and fares paid in this sector, both have still risen above inflation. The paradox of prices rising and fares paid dropping that exists in the other sectors is not present in the regions.

So why does this discrepancy exist? First, railcards and other discounts that lower the cost to the passenger provide a partial explanation: discounted fares currently make up 40.3 per cent of total passenger revenue (ORR 2014a). Second, recent ORR analysis shows that unregulated fares make up 65.5 per cent of passenger revenue (ibid). This explains how, despite government policy to increase regulated fares above inflation, TOCs have been able to increase patronage and overall fare revenue by varying prices (particularly advanced fares in London and the south east) to reduce the cost to the individual passenger without increasing overcrowding at peak hours. Finally, fare evasion will reduce the amounts received overall (although this will not be directly reflected in the advertised prices). One estimate puts fare evasion at a cost of up to 10 per cent of total annual fare revenue (Elliot and Chesters 2010).

It is still not fully clear though why there is a discrepancy between fares paid and prices charged for intercity travel and travel in London and the south east. More detailed information is required. The ORR's (and ATOC's) data is calculated from information held in the Latest Earnings Networked Nationally OverNight system (LENNON).²⁸ However, LENNON is owned by ATOC and is not publicly available. Without increased transparency, third parties such as IPPR cannot make a full independent evaluation of rail fare price rises.

From this analysis, some conclusions can still be drawn.

- Fare prices do not reflect fares paid and neither the DfT's nor ATOC's statistics give an accurate reflection of how price rises affect passengers.
- There are very few, if any, winners in Scotland, Wales and the regions where both prices and fares paid have risen.
- In all three sectors, regulated ticket holders, especially regular commuters holding regulated season tickets are likely to have consistently seen their cost of travel rise above inflation.²⁹

Who is affected by rail fare rises?

We analysed ONS family spending data for household 'tube and rail' expenditure to show average weekly household spending by users of these services, and our results are set out in figure 2.5.³⁰

The data shows that those using rail services (including the tube) tend to be the better off in society. Households that use these rail services in the top income quintile spend over double the amount on fares spent by households in the middle income quintile. They also spend almost three times as much as households in the first and second income quintiles. Despite the marked difference in the amount spent by each income quintile, households using trains and tubes in the bottom income quintile are spending 4 per cent of their total expenditure on fares.

28 LENNON holds information on the vast majority of national rail tickets purchased in Great Britain. It facilitates the allocation of revenue between the TOCs.

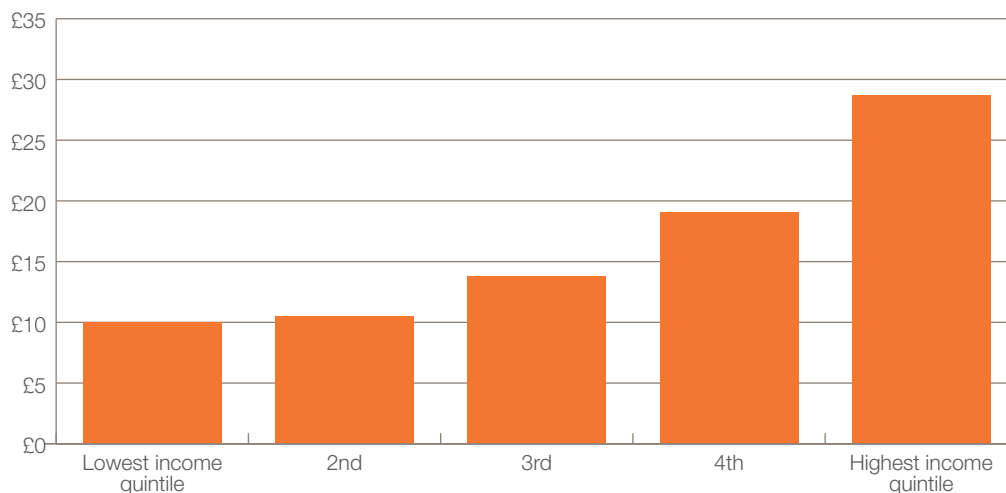
29 Generally speaking, the majority of intercity operators' income (such as East Coast or Virgin) is from unregulated fares. See figure 8 of ORR 2014a for a breakdown of income by ticket type for each TOC.

30 The ONS dataset did not allow us to break out expenditure on the tube from expenditure on GB rail. We therefore reran the figures to look at rail users outside London and also outside the greater south east of England. Although the amounts spent by households in each income differed, with households in London and in the greater south east spending more on GB rail than other households, there was no material difference in the amounts spent by households within each quintile, relative to each other.

Train/tube-using households in the top income quintile are spending 3.2 per cent of their total expenditure on fares (ONS and Defra 2013).

Figure 2.5

Average household weekly tube and rail expenditure (£)



Source: ONS and DEFRA 2013

This analysis is reflected by the National Travel Survey which shows that households in the top income quintile make three and a half times more trips by rail than households in the bottom income quintile (DfT 2013k).

Looking back at the ONS family spending statistics and the National Travel Survey for 2004, the picture is the same; railway was the purview of the better off in society even 10 years ago (ONS 2005 and NS 2005).

How has GB rail spent its increased income?

Are the TOCs profiteering?

There is no doubt that TOCs make profit,³¹ but are those profits excessive compared to the risk they take in operating services?³² Three points should be considered before answering this question. First, the farebox regime means that if a TOC is successful in raising passenger revenue, the government will take a large percentage of its receipts. This limits TOCs' ability to maximise profits. Once the farebox regime takes effect, the only way that a TOC can increase its profits without passing the reward to government is by reducing its costs which are largely determined by the terms of a franchise agreement. Second, the government regulates many fares, thereby limiting the ability of TOCs to exploit passengers. Third, a recent study advocating rail nationalisation concluded that 'many TOCs do not make much profit and that £160 million of dividends in the aggregate is a modest fee for operating the UK's trains which amounts to no more than 2.1 per cent of turnover ... Rail fares probably would not be much lower and employee

31 Transport for the Quality of Life estimated that in 2009 the TOCs made sufficient profits to allow them to make £227 million in dividends (Sloman and Taylor 2012). However, this figure must be treated with caution: it is actually the total dividends that year of the big transport groups (Arriva, National Express, Stagecoach, Go-Ahead and First Group) and so would include dividends made from profits from other activities such as coach and local bus services.

32 This is a different question to whether TOCs should be allowed to make profits at all (that is, should ownership of service operation be publicly held?), which is dealt with below.

wages would not be much higher if the extraction [of funds by dividend payments] were ended' (CRESC 2013).³³

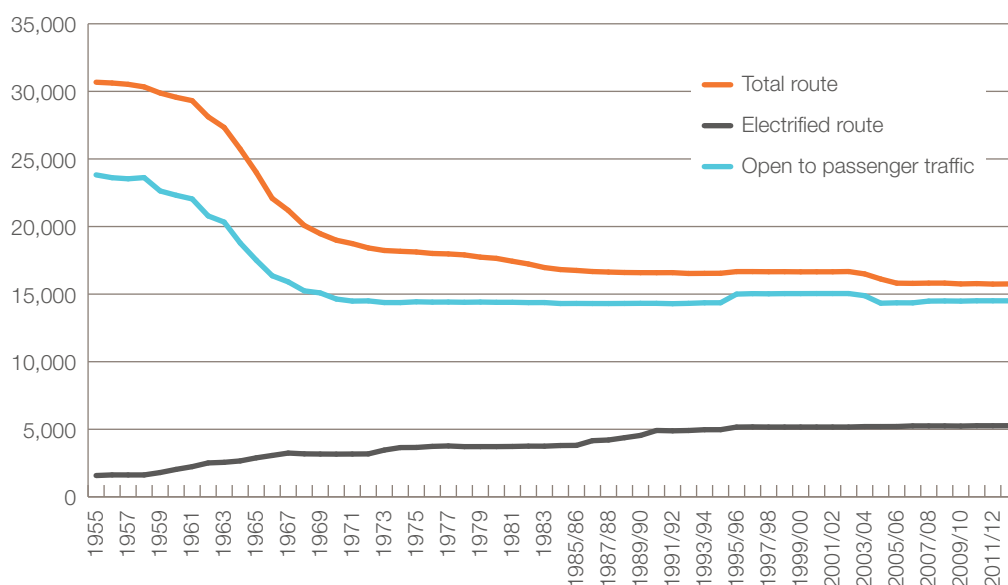
Our literature review revealed one source suggesting that TOCs' return on capital employed (ROCE) could be as much as between 50 and 70 per cent (Odell 2013). This is certainly high and results from the fact that TOCs have few assets on their balance books. However, this very fact would mean that ROCE would not be the appropriate test for determining the profitability of a business that is asset light and whose profitability is largely determined by its operational cash flows. Other tests, such as EBIT (earnings before interest and taxation), EBITDA (earnings before interest, taxation, depreciation and amortisation) or TIRR (truncated internal rate of return) may be more appropriate. Even if TOCs were profiteering, the government has clear powers to take action under the franchising system. The question is not fully answered but because of the reasons set out above, it does appear unlikely that the TOCs are profiteering.

New trains or infrastructure?

GB rail's income since the late 1990s until recent years was not spent on building new, or electrifying or reopening existing infrastructure, as figure 2.6 shows.

Figure 2.6

Length and electrification of Network Rail infrastructure



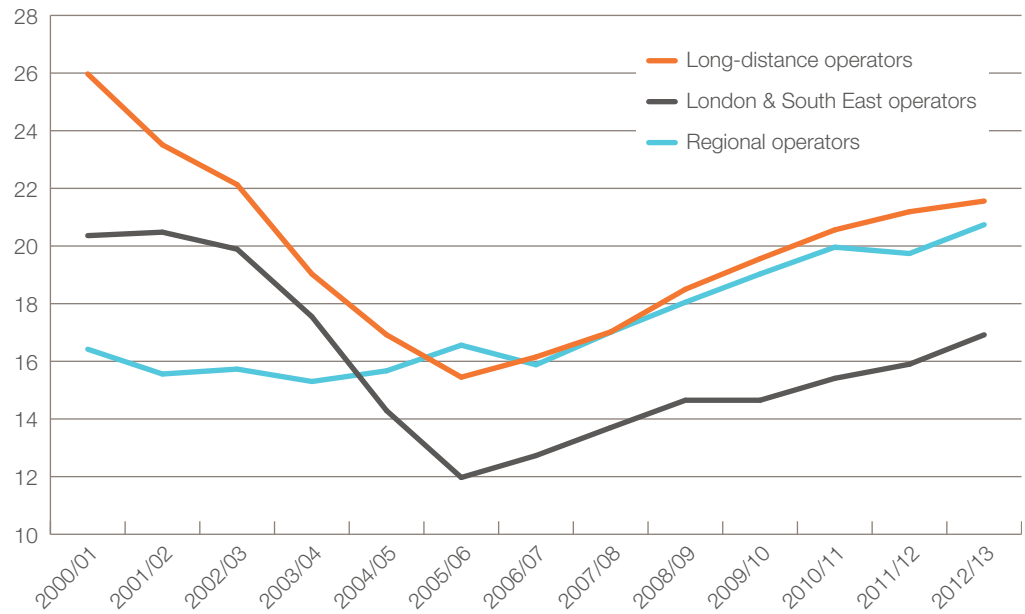
Source: DfT 2013c

Some money has been spent on new rolling stock. However, this was a decade ago and again, passengers in Scotland, Wales and the regions were the losers in this respect, as figure 2.7 shows.

³³ The £160 million figure was calculated on the basis of dividends made by 15 TOCs in 2010/11. Of those 15 companies, seven did not make any dividend payments that year.

Figure 2.7

Average age of national rolling stock (years)



Source DfT 2013f

So where has the income actually been spent?

Network Rail receives the overwhelming majority of taxpayer funds and over £2 billion annually from TOCs in track access charges. Figure 2.8 shows that expenditure by Network Rail has mostly (85 per cent) been on routine operation, maintenance and renewal of the rail network with the remainder (15 per cent) being spent on enhancing the network (such as the Thameslink upgrades). This improvement in the quality of GB rail infrastructure has resulted in its value rising from £6.7 billion in 2001/02 to £35.7 billion in March 2010 (McNulty 2011).

The need for increased infrastructure expenditure was driven by three factors. First, the increase in patronage increased normal operational and maintenance expenditure.

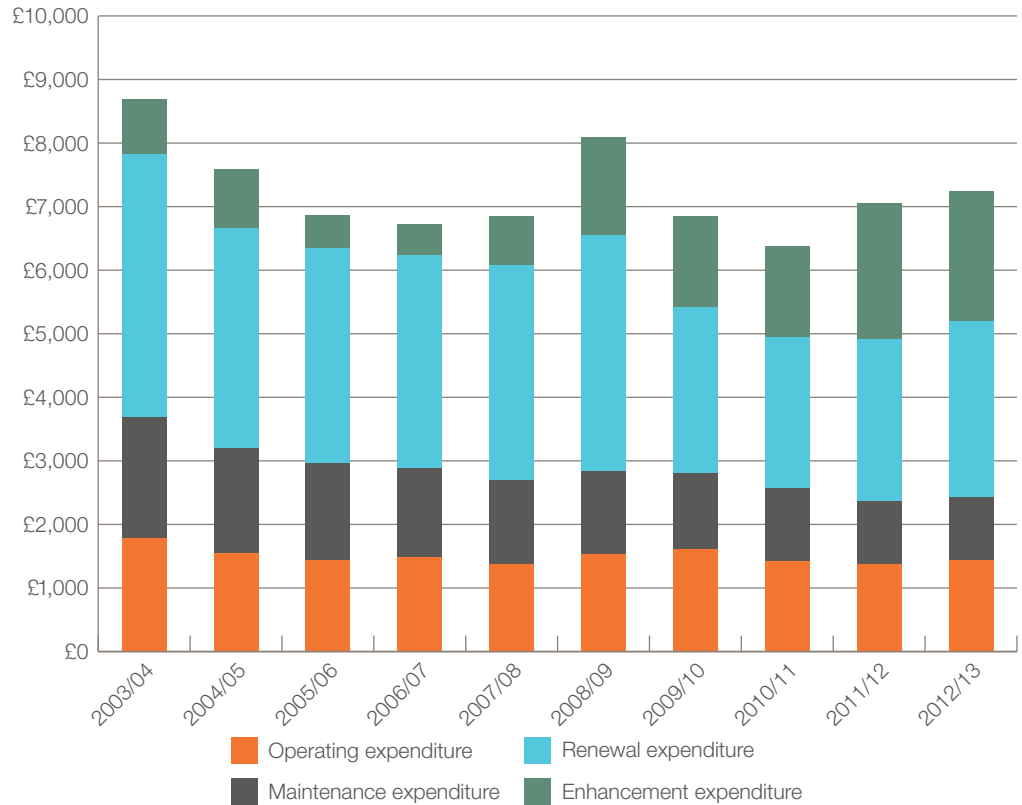
Second, Network Rail inherited a dangerous network. There had been a spate of fatal accidents in the late 1990s and early 2000s – at Ladbroke Grove, Potters Bar, Southall, Selby and Hatfield.

Third, Network Rail was and remains an inefficient infrastructure manager without shareholder or debtor scrutiny.³⁴ In 2008, Network Rail was 37 per cent less efficient than the top 25 per cent of international rail infrastructure managers (McNulty 2011). Nonetheless, the expenditure since the fatal accidents of the late 1990s and early 2000s has resulted in the UK having the second-safest railway in Europe behind Luxembourg (Brown 2013).

³⁴ Network Rail's debt is wholly guaranteed by government and appears on the UK's balance sheet. The knowledge that the government, one of the world's safest debtors, will always pay Network Rail's debts reduces the incentive for Network Rail's creditors to take steps to protect their investment.

Figure 2.8

Analysis of Network Rail/Railtrack expenditure (£ million, in 2012/13 prices)



Source: ATOC

2.2 The future of GB rail policy

Increased efficiency

If Network Rail is an inefficient infrastructure manager, what has been done to change this? Since its establishment in 2004, the ORR has helped achieve significant efficiency savings within Network Rail. In the five years to 2008–09, efficiency gains of 27 per cent were made (ORR 2009). Its current target is to find a further 23.5 per cent efficiency savings (about £1 billion) by 2014. Network Rail was last estimated to be 2.8 per cent behind target (ORR 2013). Even if it does miss the 2014 target by that amount, it will still have delivered impressive efficiency savings of over 44 per cent over 10 years.

Pressure continues for efficiency savings not just in Network Rail, but also in service operation. The McNulty report identified potential efficiency savings for GB rail amounting to between £2.5 billion and £3.5 billion annually by 2019. Of these savings, 70 per cent will lie with Network Rail; the remainder lies with the TOCs (McNulty 2011).

In February 2014, Network Rail and the ORR agreed new efficiency targets for 2019 that in financial terms are more ambitious than McNulty's recommendations (ORR 2014d). Given the ORR's and Network Rail's history to date of delivering efficiency savings, we can be optimistic that this trend will continue.

The DfT, which is the contractual regulator of the TOCs, intends to seek efficiency savings through upcoming franchise tenders, themselves delayed by the West Coast franchising fiasco. It will offer longer franchises and allow TOCs to take more of a franchise's reward and risk (DfT 2012a). It also wants to encourage shared management models, known as 'alliancing', between TOCs and Network Rail (DfT 2013g). However, the DfT has no record of delivering efficiency savings nor is it as transparent as the ORR in how they will be delivered. We return to this point below.

Ownership

Although performance on GB rail has improved in recent years in terms of safety and passenger satisfaction, there are still a number of debates about whether fares are fair, whether TOCs are profiteering and whether the railway is sufficiently efficient.

In order to make further improvements in each of these areas, a national debate is taking place on whether more of GB rail should be brought back into public ownership. The bias in current legislation that prevents public sector operators from competing either against, or alongside (as part of a joint venture) the private sector is perverse. It is inconsistent to allow Keolis, a company whose majority shareholder is the French government, to bid for the East Coast franchise but not let the UK government. The success of the East Coast franchise since 2009 shows that public sector operators can produce strong business models even if we cannot say that the public sector is better or worse than the private sector per se. A public sector comparator in a franchise competition could help ensure that taxpayers and consumers are getting the best value for money.

Nonetheless, criticisms have been made about allowing a public sector operator to compete. The rail industry has contended that a public sector operator will put future procurement of new carriages in jeopardy (Coates 2014). This, however, ignores the large level of control and experience that government has over the procurement process and the role of the ROSCOs as owners of the existing assets.³⁵

Private sector operators will need confidence that the franchising authority is sufficiently independent of a public sector operator for an award to be impartial. Without confidence in a 'level playing field', they may not submit bids for the franchise. At a minimum, a clear delineation of duties within the DfT would be required. Realistically, a transfer of franchising powers from central government to a body independent of the public sector operator is more likely to give the private sector the comfort it requires to compete against the public sector. Providing this kind of parity should temper any criticism that a public sector comparator's participation in franchise bids constitutes state aid.

Some industry figures claim that the £5 million cost of submitting a franchise bid would be prohibitive for government if it lost the bid (Wild 2014). In the context of the government's multi-billion pound subsidy to the industry, this is a reasonable expense for maximising competition.

Finally, it is argued that each franchise won by a public sector comparator could increase the national debt by the value of the outstanding lease obligations that relate to that franchise's rolling stock (Coates 2014). It would therefore be prudent to take each franchising decision on a case-by-case basis to ensure that the taxpayer is incurring value for this debt. This would be preferable to automatically nationalising all service operations, which would reduce the government's discretion to pick and choose the best franchises.

³⁵ Manufacturing and supply agreements for new rolling stock and their corresponding master operating lease agreements cannot be entered into without the DfT's approval.

There is a case for the law to be amended to allow public sector operators to compete in rail franchise competitions, including as part of a joint venture with the private sector. In order to create a level playing field for the private sector, the independent ORR should take over responsibility for awarding and managing franchises from the DfT as soon as possible. To ensure that the operation of a franchise by the public sector delivers a strong risk/reward ratio to the taxpayer, DfT and HM Treasury should work together to examine the potential increase in the national debt that might result following an award. The government should only make a decision to pursue a franchise bid once it is satisfied that there is a robust business case for public sector operation.

The UK would not be the first country to have a public sector comparator in rail. In both Sweden and Germany, counties and states are empowered to award the rights to operate local and regional rail services. In some cases these have been awarded to private sector operators, in others to a public sector operator. Although the UK does not have a history of the public sector bidding alongside the private sector, we do have two examples of local governance of railway in Liverpool (Merseyrail) and London (London Overground). The contracts awarded contain some important differences to each other³⁶ but both have been hailed as a success (CbT 2013).

In time, franchise awards for regional networks should be carried out at a regional level by regional transport bodies.³⁷ Both the ORR and these new franchising bodies may wish to look to London Overground and Merseyrail for lessons in deciding the terms of its rail operation awards.

Meanwhile, responsibility for infrastructure management and service provision should be merged so that TOCs make a greater contribution to the cost of infrastructure. Early indications are that ‘alliancing’ is delivering efficiency savings (Economist 2013). London buses, which have strong integration of infrastructure and service operation are also very successful (see chapter 3). To facilitate this, **Network Rail will need to remove an existing regulatory conflict of interest in comanaging infrastructure with TOCs. Its capacity management activities (scheduling, signalling, planning new investment) and its operation, maintenance and renewal activities should be regulated separately.** This would allow it to work closer with TOCs where that is practicable. Franchising should require TOCs to take responsibility for, and invest in, infrastructure and allow them to make returns on that investment. Consideration will have to be given as to how multiple TOCs, that run services on the same infrastructure, can make investments in shared infrastructure without subsidising a competing TOC.

Future investment and fares

There remains significant overcrowding on our trains (DfT 2013h). Although there is a clear political demand for fare reduction, any policy to do so must be matched with a detailed explanation of how passenger safety can be protected if demand at peak times increases.

Government fare policy has experimented with the introduction of offers to encourage commuters to either work from home some days or travel outside peak hours (DfT 2013i). Network Rail’s new five-year funding settlement to 2019 of £38 billion has also just been announced (DfT 2014). During this time, Network Rail will make a number of new investments including an electrification programme, an order for 600 intercity trains, HS2, Crossrail, Thameslink, the Northern Hub improvements and various station upgrades. Are these measures enough to lower fares at peak

³⁶ For example in London, London Overground is run in a similar manner to London buses: TfL as the concession authority takes fare revenue risk. In Liverpool, the local PTE does not take fare revenue risk but it does share in the profits of the operator. Those profits are reinvested into the local transport network over the 25-year life of the contract.

³⁷ See chapter 4 for further details.

times? That will depend on the level of future demand for GB rail. Our research has not revealed any analysis from the DfT or other sources as to how increased supply combined with some temporal movement of demand might allow peak-hour fares to be lowered.

To do so properly would require a long-term transport strategy from the DfT to examine how changing demographics and employment patterns, technological changes and the decarbonisation agenda are likely to affect the demand for transport. These scenarios can provide a basis around which to make decisions about modal shift, demand management and future infrastructure investments necessary at the national, regional and local level. It would also provide a context within which to debate the future balance of taxpayer support and fare revenue for GB rail. Without this strategy, the best that can be hoped for on fare reductions is a simplification of the current system and perhaps some small improvements for the more affluent people already using GB rail outside peak hours.

2.3 Conclusion

With more rail passengers than at any time since the 1920s, TOCs paying a net premium to government and the infrastructure subsidy decreasing (excluding expenditure on Crossrail), GB rail is on balance a policy success. There is, however, an inherent conflict of interest within GB rail policy. The government wants both to protect the taxpayer (by increasing patronage) and to protect the passenger (by decreasing patronage at peak hours to prevent an increase in overcrowding).

As a result, above-inflation rail fare rises over the past decade have hit rail commuters hard and little has been done to make GB rail available to those on lower incomes. Households with gross incomes in the top quintile spend almost three times as much on fares as households in the bottom income quintile. There is also a regional imbalance. Rail passengers in Scotland, Wales and the English regions continue to travel in older rolling stock; newer rolling stock is operated on intercity routes and in London and the south east. The former group's passengers have also seen their average fare paid per journey increase by over 8 per cent in real terms since 2004. Over the same period, intercity passengers' average fare paid per journey has dropped just over 8 per cent and passengers in London and the south east have seen their average fare paid per journey drop by 2.5 per cent, both in real terms. Advance fare passengers predominantly in the south east have been the biggest winners. It seems the TOCs have kept these unregulated fares low to increase patronage overall. Unregulated fares now make up two-thirds of passenger revenue helping to reduce taxpayer subsidy.

The largely untold story of GB rail policy is that it has been a significant success in making our railways safer. This is reflected both by a reduction in the number of fatalities since 2005 and the value of rail infrastructure more than quintupling this century. Grants to Network Rail have now fallen by 26 per cent since 2007/08. Although Network Rail remains an inefficient infrastructure manager in comparison to the top 25 per cent of international rail infrastructure managers, it is on course to deliver 44 per cent efficiency savings since 2004. Given this track record, we are hopeful that Network Rail working with the ORR will deliver further efficiency savings.

Buses outside London, however, are another story, as the next chapter sets out.

3.

PAST AND FUTURE POLICY FOR BRITISH BUSES

Having examined GB rail policy, in this chapter we turn our attention to bus policy. Chapter 4 draws together and summarises the conclusions from the first three chapters.

Unlike GB rail, there has never been an explicit bus policy to rebalance payments in favour of the passenger and away from the taxpayer. In fact, as chapter 1 highlighted, taxpayer subsidy increased across the country during the 2000s before falling back rapidly. In London this increase was driven by the subsidy from TfL, whereas in the rest of the country it was mostly driven by concessionary fares. In both cases, the increase was to boost patronage. How successful was that policy? As bus governance and regulation differs between London and outside London, we approach our analysis with this distinction in mind.

3.1 Why are buses so important?

Buses do seem to be the forgotten aspect of public transport in the UK. The regulated nature of GB rail means it is often in the national news. GB rail has two national regulators (the DfT and the ORR) who regularly put out material of interest to the national press, often involving very large figures for public expenditure. Regulated rail fare changes make headlines bi-annually: when RPI is announced in August and on 2 January when the fare rises take effect. However, the level of national media attention given to the liberalised and deregulated bus market about which there are no such announcements by a central regulator is much lower. Media interest in the London bus market is naturally limited to London local media.

Given buses' lack of presence in the national media, it is useful to remind ourselves why buses are so important before examining bus policy and outcomes.

Buses are used by everyone

Chapter 2 showed that GB rail was used primarily by households in the top two income quintiles. Buses are thought by some to be for the poor. Margaret Thatcher is often misquoted as having said 'a man who, beyond the age of 26, finds himself on a bus can count himself as a failure'.

Like GB Rail, we analysed ONS family spending data for household 'bus and coach' expenditure to show average weekly household spending by users of these services, and our results are set out in figure 3.1.³⁸

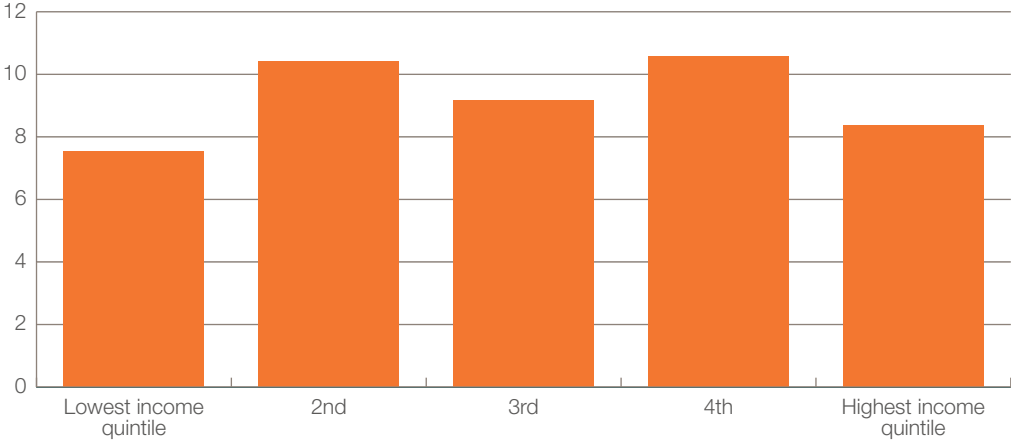
The data shows a more even spread across income quintiles for weekly fare expenditure among bus/ coach-using households than is the case for rail/tube using households. The amount of weekly expenditure is also much lower than that for GB rail. With there being 5.1 billion bus journeys in Great Britain in 2012/13 (DfT 2013l), compared to a total of 1.5 billion on GB rail that same year (DfT 2013c), it is clear that on average, buses are much cheaper than GB rail. Furthermore, they are much more available to the poorest in society. The National Transport Survey shows that the poorest quintile makes over three times as many trips per year by bus than the

38 The ONS dataset did not allow us to break out expenditure on coaches from expenditure on buses.

richest quintile (101 compared to 32) (DfT 2013k). Buses are important, affordable and used by a much greater proportion of the UK population than GB rail.

Figure 3.1

Average weekly household bus/coach expenditure (£)



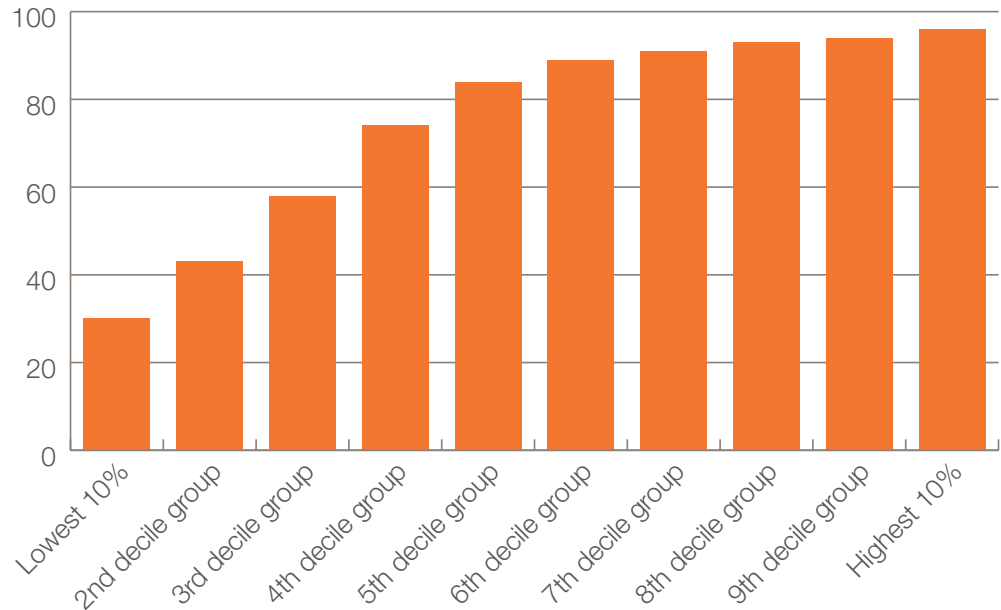
Source ONS and DEFRA 2013

Buses are essential for connecting people who do not own a car

Although car ownership has risen substantially over the past few decades, not everyone owns a car. Figure 3.2 shows the percentage of each income decile that owns at least one car or van in 2012. The majority of households in poorer-income groups do not own a car, with only 30 per cent of households in the poorest income deciles owning one.

Figure 3.2

Percentage of households owning at least one car/van by gross income decile, 2012

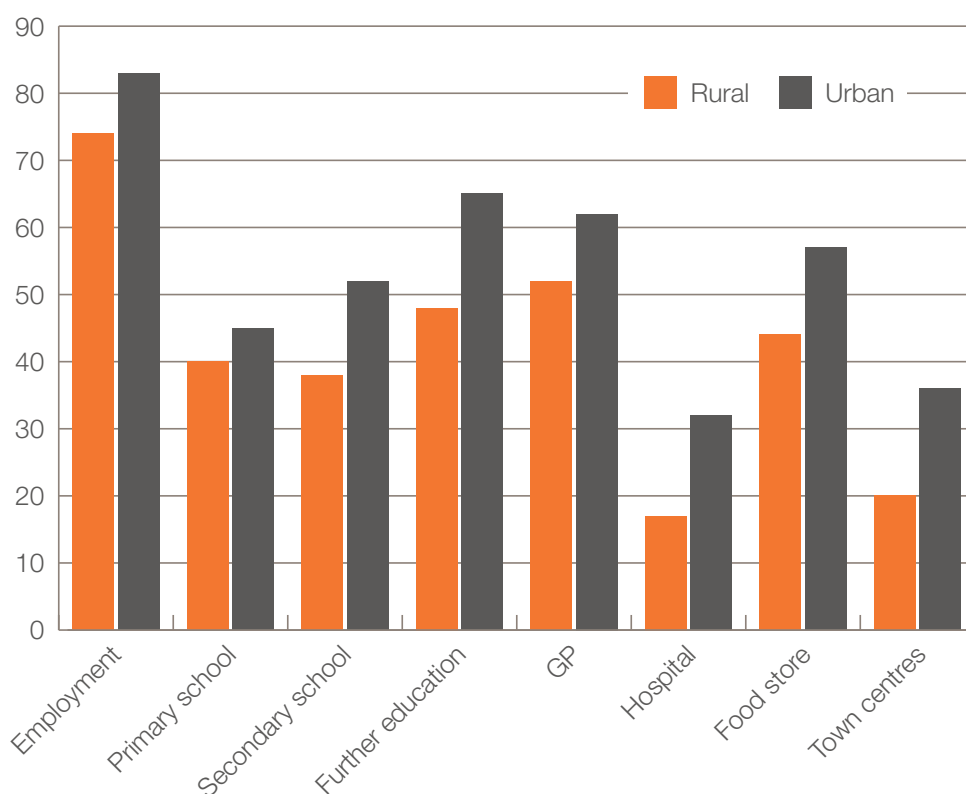


Source: ONS 2013

Households that do not own a car are dependent on GB rail, the bus, walking or cycling to access key markets and services. This is especially the case for the unemployed. 55 per cent of men and 65 per cent of women surveyed that are currently unemployed rely on the bus to get to work when they are in employment (Johnson et al 2014). Chapter 2 showed that GB rail was generally unavailable to poorer households. Figure 3.3 below shows that access to key services by modes of transport other than the car is far from fully comprehensive, especially for access to hospitals.

Figure 3.3

Percentage of users with 'reasonable' access to key services by public transport/walking in England (rural and urban areas), 2011



Source: DfT 2011

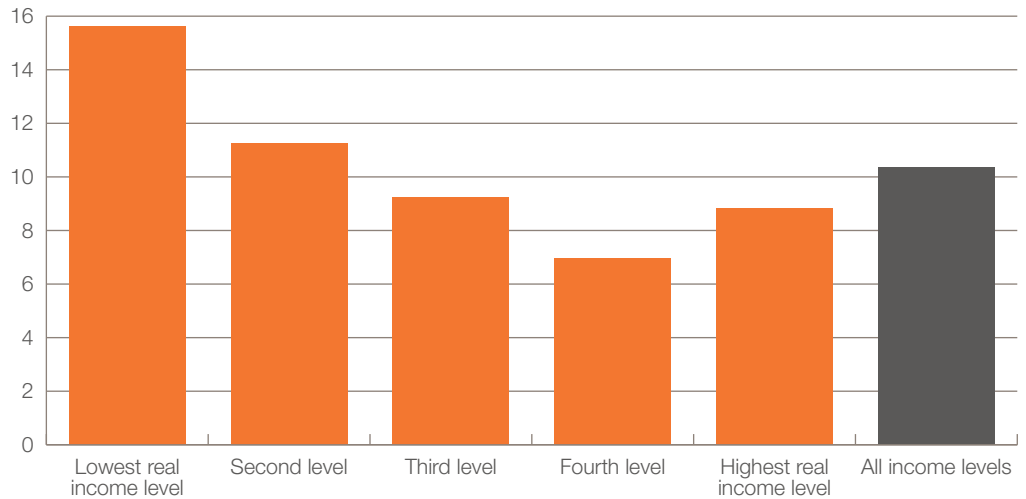
This lack of access has a negative impact on wider society. For example, the University of Leeds found that 19 per cent of workers have turned down a job because of poor-quality bus services (Mackie et al 2012). Partly as a consequence of this lack of access by public transport, the poorest 20 per cent of households take more expensive taxi journeys per year than any other income quintile, as figure 3.4 shows.

Why is this lack of accessibility occurring? It is a fault both of urban planning policy as well as transport policy and funding. A failure to consider the public's multimodal transport needs when planning the location of social infrastructure (including homes, public services and shopping centres) relative to each other can mean that for many, active travel is impracticable. Furthermore, in a deregulated bus market it is rational for a private sector operator to only want to run services where the levels of patronage are sufficient to allow a decent return. If urban planning has placed social infrastructure too far apart, the economies of scale are not there to

make public transport commercially viable. As a consequence, LTAs are forced to subsidise unprofitable but socially necessary services. However, when there is insufficient funding or taxpayers' money is spent ineffectively, bus services will not service the entire population.

Figure 3.4

Taxi journeys per person per year by real household income quintile

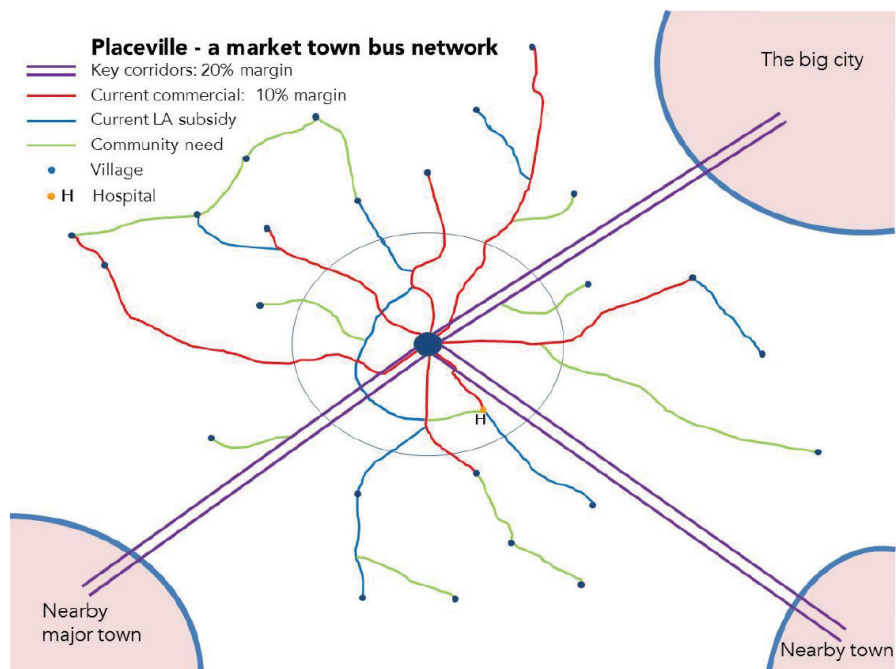


Source: Data supplied to IPPR by the Department for Transport, 2014

Figure 3.5 gives a visual demonstration of this effect, emphasising how a hospital can be difficult to access for many.

Figure 3.5

Placeville – a market town bus network



Source: HCTG 2014

It shows how in 'Placeville' – a fictional English market town of 80,000 inhabitants – private sector operators provide profitable routes and the LTA subsidises loss-making or break-even routes. The routes in green are routes that, if not provided by a charitable or community transport service, would remain unserved by private or publicly subsidised bus services because of the limitations in taxpayer funding. Non-car owners are left potentially isolated from society.

Cuts to bus funding because of austerity worsens this effect. Research conducted by Campaign for Better Transport (CbT) has found that cuts to BSOG and local authority funding have resulted in over two-thirds of English LTAs in England deciding to cut bus services. Meanwhile, 77 per cent of English LTAs are either planning to, or cannot rule out, further cuts in the future. Between 2011/12 and 2012/13, 147 services were withdrawn in England (outside London). While in 2011, 160 services in the south east of England alone were withdrawn or cut. Communities outside major urban centres have generally been worst hit and one in five of all LTA-tendered bus services have already been reduced or withdrawn (CbT 2014).

As set out above, in addition to funding unprofitable services, the government spends around £1 billion on home to school transport, much of which is received by the bus operators. The LTA might then subsidise the same bus company operating the school run to provide unprofitable services during the rest of the day. The NHS spends around £400 million per year on non-emergency transport (PTEG 2014). This disjointed approach to transport expenditure is inherently inefficient. Further research should be conducted on how a different approach to transport procurement, funded by resources spent across departments, could result in a local body providing a holistic approach to a community's transport needs. That approach, could result in fewer [green] routes in Placeville.

Buses contribute to growth

Buses remain vital to the economy both in terms of current economic output (through access to jobs) and future economic output (access to education). Recent research has shown that over 20 per cent of the working-age population outside London used the bus at least once a week (Mackie et al 2012).

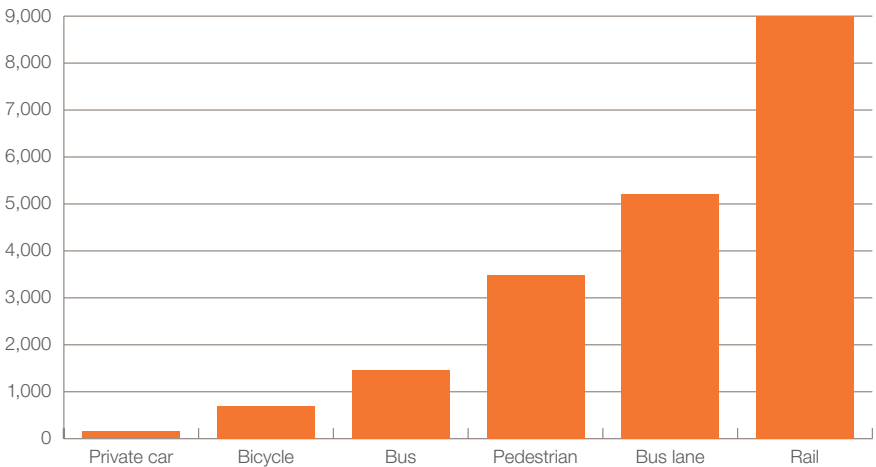
Over all (including London), about 2.5 million workers (or 8.5 per cent of all workers) normally commute to work by bus. A further 1 million workers use the bus as a back-up mode for getting to work. This means that 12 per cent of the working population in Great Britain use the bus on a regular basis and together generate £45 billion of economic output. Those who use the bus as a back-up mode contribute a further £19 billion of economic output. The research estimated that a minimum of 400,000 workers are either in employment or in a more productive job as a result of the bus network (ibid).

In terms of access to education, the research found that over 50 per cent of students aged over 16 are frequent bus users. Of students who usually took the bus to their training/educational establishment 11.6 per cent would have to cut classes if their bus service was withdrawn; 5.7 per cent of students who either normally use the bus or use it as a back-up would have to give up their course but would look for another; while 1.1 per cent would give up education altogether if their normal or back-up service was cancelled (ibid).

Increasing bus use is critical to combatting congestion and climate change

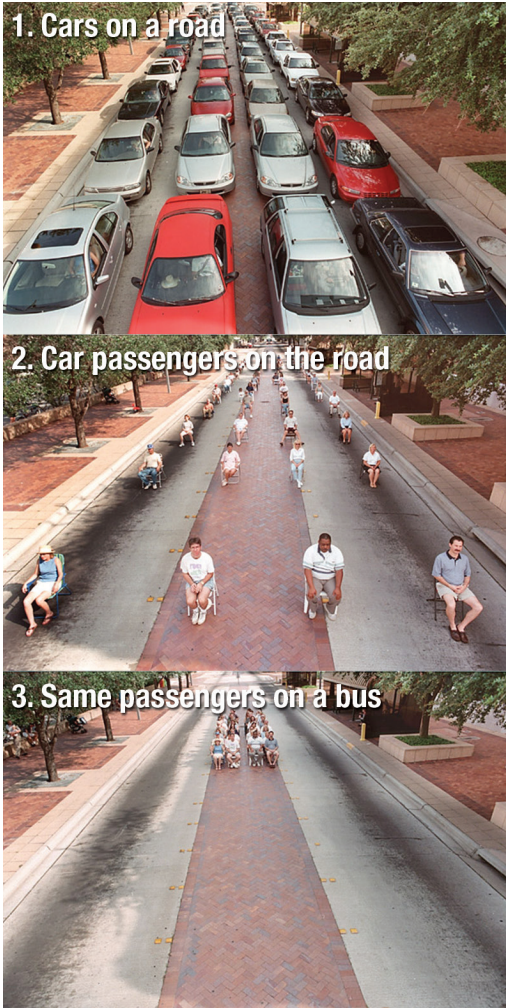
It is often said, 'congestion is the enemy of the bus as well as the car'. Yet unlike cars, buses offer a solution to congestion on the roads which makes commuters' lives a misery. Figure 3.6 shows how buses are a much better use of space than cars, while figure 3.7 illustrates the point quite plainly.

Figure 3.6
Carrying capacity of one-metre-wide infrastructure



Source: Begg 2013

Figure 3.7
Visual proof that buses are a solution to congestion



Source Begg 2013

With congestion estimated to cost England alone £22 billion a year by 2025 (Eddington 2006) and with the railways currently at capacity during peak hours, there is an imminent need to encourage modal shift from the car to the bus, particularly in urban areas.

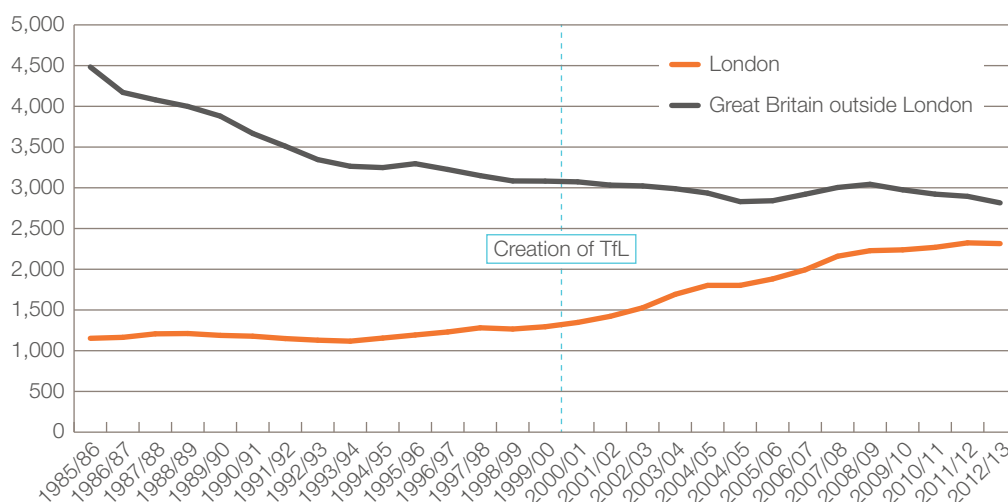
Buses could also have a role in combatting climate change. In 2011, buses only accounted for 4 per cent of the UK’s surface transport greenhouse gas emissions (CCC 2013). With cars and vans contributing 73 per cent of the UK’s surface transport greenhouse gas emissions in 2011, decarbonising these smaller vehicles is imperative to decarbonising transport (ibid). However, this involves millions of individual purchase decisions for technologies that are currently expensive and not fully trusted by the public, such as drive chains powered by batteries or hydrogen fuel cells.

That uncertainty means that it would be prudent to reduce the number of vehicles on the UK’s roads through modal shift to decarbonised buses. **However, as with GB rail, without a long-term strategy examining changing demographics, technological breakthroughs and decarbonisation requirements, it is not possible to say how much modal shift to the bus is required.**

3.2 Bus markets in Great Britain

With buses being so important to society, and policy inside and outside of London being designed to increase bus patronage, what has the overall trend in patronage been? Figure 3.8 shows that deregulation of the bus markets outside London did not prevent a decline in patronage. Patronage outside London declined until 2005/06 when it began to rise before beginning to fall again in 2009/10. Overall bus patronage in Great Britain (excluding London) has dropped by 32.5 per cent since deregulation in 1986 (DfT 2013j). In London, however – where the market has always had some form of regulation – patronage has increased by 99 per cent since 1986/87, with a particularly rapid rise evident after the formation of TfL in 2000/01.

Figure 3.8
Passenger journeys on local bus services since 1985/86



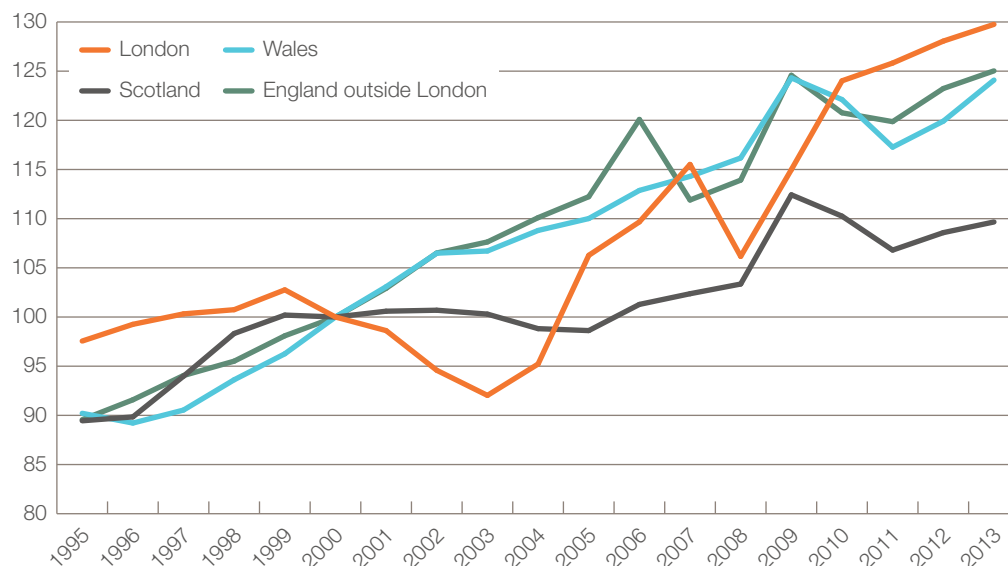
Source: DfT 2013m

Why is there such a stark difference in the markets outside and inside of London? In the period immediately following the creation of TfL, fares were cut below inflation. This coincided with rapid increases in bus patronage. Fares were then allowed to

increase but were still below relative fare levels in the rest of England and Wales in 2008. Since Boris Johnson became London mayor, fares have increased more rapidly in London than elsewhere and patronage has flattened.

Figure 3.9

Bus fares index (RPI adjusted for inflation, 2000 = 100.0)



Source: DfT 2013n

Decline in bus patronage outside London

It is not true that the overall decline of bus patronage outside London has been uniform across the country. Figure 3.10 shows that in the South West, the East of England and the South East there has in fact been an upwards trend in patronage since 2004/05. The East Midlands has also seen a slight increase in patronage over that time. Bus patronage in the South East is now higher than in 1986. However, in Yorkshire and the Humber, patronage has more than halved.

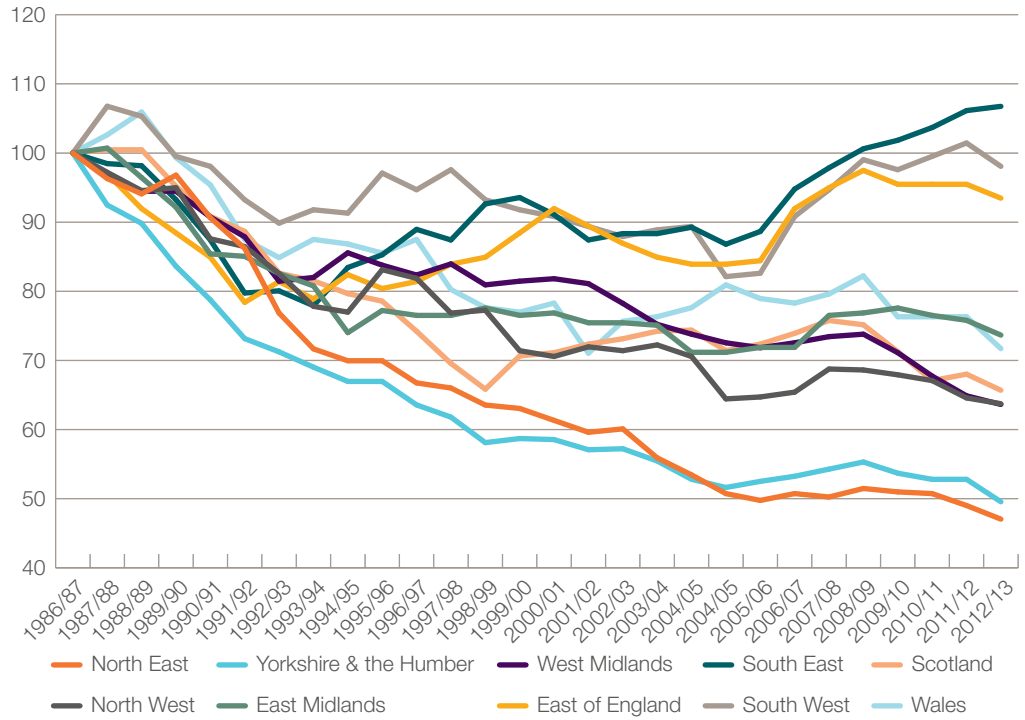
Why is there a regional differentiation in the markets? Unfortunately, the DfT's statistics on bus fares are not broken down by region so we cannot make regional comparisons between patronage and fares.

Chapter 1 showed that the increase in taxpayer subsidy for buses outside London was driven by an increase in concessionary fares, particularly in non-PTE areas. Figure 3.11 shows since 2006/07 (the year when concessionary fares covered the full fare for the first time), the increase in concessionary funding has tended to be greater in the regions where there has also been passenger growth.

This analysis strongly suggests that the increased patronage in those regions is in part a result of more people travelling for free. However, it would be wrong to suggest that concessionary fares are the only reason for the success or failure of various bus markets. Factors other than fares will play a role. The increase in patronage may be influenced by the increase in rail travel as people take a bus to the station and avoid car parking charges. Other measures such as difficulty parking in town centres, one way systems and bus lanes can all benefit bus use.

Figure 3.10

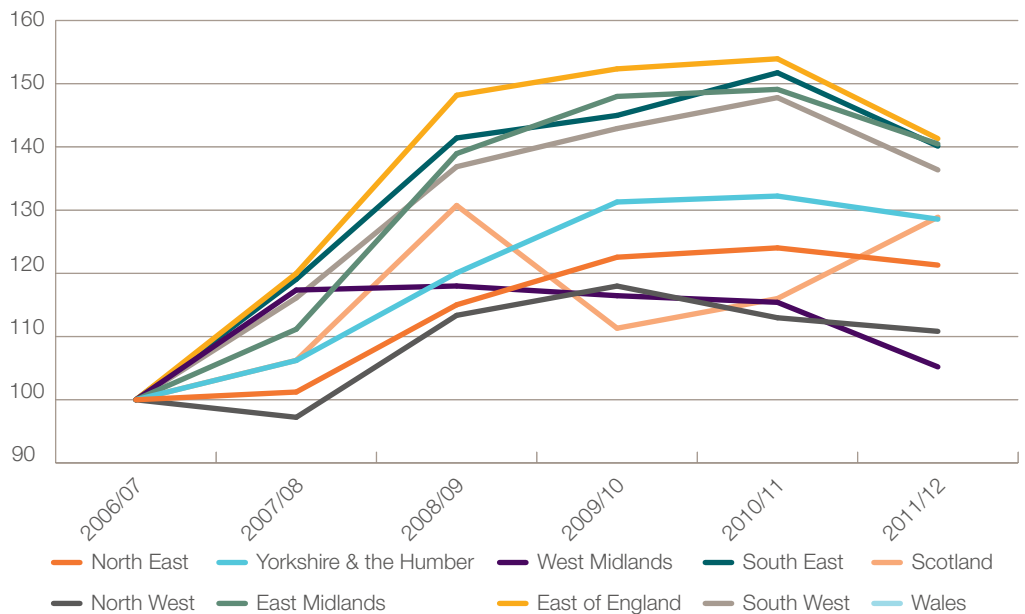
Passenger journeys on local bus services by region (excluding London), indexed at 100



Source: DfT 2013j

Figure 3.11

Net expenditure on concessionary travel in England (inflation adjusted, indexed at 100)



Source: DfT 2013o

People interviewed during the research were keen to emphasise that where the bus market works, it is in part because of a strong, if sometimes tense, relationship between the LTA and the local operators. All of our interviewees agreed that the key to improving bus services was a political will to do so within the LTA, including in some cases unpopular measures to increase the expense of driving a car in city centres. Nottingham, Oxford and Brighton came up regularly as positive examples of strong leadership leading to good outcomes for passengers. However, the lack of funding and powers that are available to TfL was seen as a barrier to an LTA doing more to improve services.

It is clear that on average there has been a continuing decline in paying passengers on buses outside London. Instead, operators appear to be the real winners of policy. The Competition Commission concluded that:

'Operators representing a substantial part of the [non-London] market have earned profits that were persistently above the cost of capital on a national basis ... The overall average ROCE for the five-year period of 13.5 per cent was 3.8 percentage points above the midpoint of [its] cost of capital range and 2.6 percentage points above the top of the range. In addition, some of the Large Operators' ROCEs in individual years were substantially above the top of the cost of capital range.'

CC 2011

Furthermore there are strong adverse effects on competition within these markets. The Competition Commission concluded that 37 per cent of weekly services outside London do not face any effective head-to-head-competition and just 1 per cent of weekly services face effective head-to-head competition over all or most of their route (ibid). Bus operators would not be able to earn excessive profits without taxpayer subsidy, and a change in policy approach to the non-London bus markets is necessary. Before looking to what the future policy trajectory should be for buses outside London, we should look to the London market for lessons.

London buses

Unlike the rest of Britain, buses patronage in London has increased. Although there was some travel growth in London during the 1990s, significant growth in London bus patronage coincided with the creation of TfL, the establishment of the office of the mayor in 2000 and the initial lowering of fares (see London data shown on figure 3.8).

TfL's policy has been to encourage modal shift from the car to public transport, including the bus. Demand management policies and integrated management of services and infrastructure (see chapter 1) made it more difficult to drive a car and easier to use a bus in London.

This has been achieved partly by a large subsidy given to TfL by the DfT for public transport generally. Excluding a grant for Crossrail, total operational and capital expenditure grants to TfL amounted to £3.44 billion in 2012/13 (TfL 2013). TfL then combines the operational grant with its other income streams (for example fares), to subsidise bus transport in London. Unlike the rest of the country, money from central government to the London LTA is ringfenced for transport and not mixed together with funds for other services.

Chapter 1 showed that unlike the rest of England, the rise in government support for London buses has predominantly been from TfL subsidising services, and less from rises in concessionary fares or BSOG. That subsidy increase, combined with the modal shift policies outlined above, led to the long-term growth in bus patronage in London. The increased subsidy in the early 2000s has come under criticism. Did it deliver value for money?

In an independent review of London's bus services, KPMG found that the growth in subsidy in London during the last decade was essentially due to costs rising faster than passenger revenue (KPMG 2009). The largest direct cost increases resulted from rises in wages, fuel prices and other consumables. To some extent this was outside the control of TfL. The largest directly controllable increase in cost was driven by the increase in bus mileage due to the mayor's policy of increasing the size of London's bus network. The increase in patronage did go some way to offset the real-terms fall in bus fares from 1999/00.

Peter Hendy, commissioner of TfL, recently stated that government spends 36p per bus passenger in London compared to 52p per bus passenger in other metropolitan areas. It would appear that the London model has delivered value for money for the taxpayer. Patronage has increased and subsidy per passenger has decreased. The rest of the country can certainly learn from London's success.

3.3 Policy proposals for buses outside London

London buses are doing well. The mayor has just reduced bus fare rises to the level of inflation and efficiency savings are reducing the need for public subsidy. No doubt there is room for improvement, but this report focuses its ideas on buses outside London.

The deregulation of buses outside London has largely failed with patronage down and fares rising higher than inflation. That said, there have been some examples of local authorities working effectively with bus companies to deliver a better deal for citizens. As with GB rail, we do not, therefore, believe that a uniform change to the system of bus regulation is the right approach. Instead, we believe that it should become easier for local government to take on regulatory powers if it feels that is necessary.

Reregulation – simplifying the QCS test

The decision to introduce a QCS, should be taken at a local level. Examples cited above show that reregulation is not always required. However, if an LTA decides that one is necessary, the process is currently too difficult and requires simplification.

The current QCS test should be removed completely and replaced with a provision requiring an LTA to satisfy itself that the imposition of a QCS is 'justified'.

Devolution to regional transport bodies

London demonstrates the merits of devolving both transport funding and policies as a means of improving bus services. Many of our interviewees pointed to a skills problem in LTAs as a barrier to devolution. These interviewees said LTAs often had well-qualified staff in planning, project management and delivery but weaknesses in strategic thinking and leadership. Other interviewees, especially representatives from LTAs, disagreed with this assessment. In fairness they are not responsible if it is accurate. After all, if you are not given concrete legal responsibility or funding to improve buses, why develop those skills? Any lack of skills should not be seen as a barrier to devolution. Instead, it is a problem to be addressed through devolution.

Critics of exporting London's model often argue that its unique geography, dense population and a shortage of residential parking, mean its successes cannot be repeated elsewhere. It is true that geography has been the key to London's success and that many LTAs are too small to exploit economies of scale if funding and power were further devolved. But this should not act as a barrier to devolution of transport policy in cities and regions where there is sufficient scale.

Outside the PTE areas, many LTAs will be too small to maximise economies of scale; the Placeville example above (figure 3.5) shows just how dispersed populations can be. In some cases, including PTE areas, boundaries may be

splintered and complicated. For example, in Birmingham, three local enterprise partnerships (LEPs)³⁹ work with the local PTE, which has created a situation whereby councils and the LEPs are forced to compete with each other for funding. Instead they should collaborate, share information, and require the local PTE to deliver all of their goals. **We therefore recommend the creation of regional transport bodies modelled on TfL at the level of city-regions and combined authorities.**

Carrots work best with sticks. The discretion that LTAs have to provide transport services should therefore be removed to match the statutory underpinning of transport in London and GB rail. In exchange for devolution, the provision of public transport services should become a compulsory statutory requirement of regional transport bodies akin to the statutory duties underpinning GB rail and transport in London.

3.4 Conclusion

Bus users in the UK face a tale of two policies. In London, strong political and legal support for the bus, devolved power and ringfenced funding over public transport services, and a period of fare restraint have resulted in increased patronage. Outside London, bus patronage has fallen overall with regions only bucking the trend if they have benefited from increased numbers of concessionary fares. Taxpayers are clearly getting better value for money for bus services in London than outside.

This divergence has meant that the bus, which is much more affordable than rail services, is failing on the following four grounds: first, fulfilling its potential to provide individuals with access to key markets and public services; second, stimulating the economy through access to jobs and education; third, tackling congestion at peak hours by encouraging commuters to use the bus more; and fourth, reducing carbon emissions. The lack of strategic funding and policy means that poorer people, who are less likely to own cars, take more taxi journeys than any other group. This situation has been exacerbated by the cutting of services particularly in rural areas, especially where there is no statutory and less political protection for passengers.

To improve this situation it should be easier for LTAs to take on regulatory powers over bus routes, services and fares. The QCS test should therefore be simplified to a requirement that the relevant LTA satisfies itself that the QCS is 'justified'. In the longer term, funding and power over transport policy should be further devolved to regional transport bodies modelled on TfL. Devolution should seek further spending efficiencies by taking account of the money spent by the Department of Education on home to school transport and also any money spent by the NHS on non-emergency transport at a local level. Chapter 4 expands further upon this.

39 From 2015/16, LEPs will compete for capital funding for local transport projects in a competitive bidding process, creating uncertainty and a lack of control for LTAs in planning future transport needs. Capital expenditure on local transport is outside the scope of this report.

4.

FUTURE PUBLIC TRANSPORT POLICY

Following our review of public transport policies in chapters 1, 2 and 3, this final chapter consolidates our conclusions.

There are three times as many bus journeys per year as on rail. Buses are relied upon by people in lower-income groups whereas GB rail is used primarily by people in the top two income groups. Policymakers should therefore pay at least as much attention to buses outside London as they do to GB rail. One journalist interviewed during this research reported: ‘my editors take overcrowded expensive trains into London ... They’re not interested in bus stories.’ Chapter 3 showed how GB rail’s regulated nature meant it received more national press attention than local bus services.

For buses outside London, the liberalised market arrangements clearly support operators, which often hold regional monopolies and earn excessive profits, rather than benefiting all passengers. By contrast, the regulated market in London has delivered improved services and increased patronage.

GB rail does have substantial issues with which to contend. The most immediate are overcrowding and the apparent unaffordability of rail services for many. The solutions to these relate ultimately to larger questions about how much new rail infrastructure is required for the GB rail markets and how much demand is moved to other modes of transport or to different periods of the day. These in turn, require answers to questions that relate to the long-term future of all UK transport. We therefore recommend the following policies for bus and rail.

4.1 Market specific measures

The following short- and medium-term measures should be carried out.

- Public sector rail operators should be allowed to compete for franchises and, in the short run, the ORR should conduct the tender process.
- TOCs should make a greater contribution to infrastructure costs. Changes to franchising and Network Rail’s regulations should encourage further integration of investment in, and management of, infrastructure between Network Rail and TOCs.
- The QCS test should be simplified to a requirement that the relevant LTA satisfies itself that the QCS is ‘justified’.

4.2 Devolution to regional transport bodies

The DfT should not remain the UK’s main franchising authority for GB rail because:

- it has a conflict of interest between the taxpayer and passengers
- there remain concerns about its recent performance in this role
- it would not be an independent franchising authority if a public sector operator was to compete for franchises
- the success of TfL and Merseyrail as franchising authorities shows the strength of a local approach to franchising and, in the case of TfL, integrating GB rail with other transport modes.

Rail franchising responsibility for local networks should be devolved further. There is significant support for this with 70 per cent of respondents to a government consultation expressing support for rail decentralisation (DfT 2012b). These devolved bodies should be responsible for local services including those linking smaller towns and rural areas. The success of London buses also leads us to conclude that responsibility for bus policy should be devolved.

We therefore recommend the creation of regional transport bodies modelled on TfL at the level of city-regions and combined authorities. These new bodies should reflect travel-to-work areas. They should have a remit to take on the delivery of transport policy, including the regulation and contracting of bus markets, regulation of regional rail services, and the encouragement of modal shift. This would allow for better services, quality and fare levels; help address the regional imbalance that currently exists in GB rail; and allow for greater integration of GB rail with buses and other modes of transport. The Transport for the North rail body, previously recommended by IPPR North, would be consistent with this approach with bus regulation and contracting remaining at the city-region level (IPPR North and NEFC 2012).

These new regional transport bodies should be allowed to take statutory responsibility for the delivery of transport services relating to education and health. Community transport funds at the local level should be established by carving out the relevant transport budgets from other government departments. These regional transport bodies should be allowed to keep any savings made from achieving efficiencies and reinvest the funds into other sustainable transport projects at the local level.

These bodies should be democratically accountable which would allow them to borrow or raise funds for infrastructure, as is the case in London,⁴⁰ and to retain fare receipts as TfL does with buses. A number of key policy questions need to be answered, including:

- the geographic scope of each devolved authority
- its democratic accountability
- how responsibility for managing infrastructure (road and rail) can be better integrated with management for services (bus and train)
- how money spent by all government departments on transport services, including the departments for health and education, could be better spent if pooled and utilised by devolved transport authorities
- how value for money for both passengers and taxpayers can be delivered
- how tensions between local and national objectives can be resolved.

4.3 A national transport strategy

Transport stakeholders have called for a long-term transport strategy for decades. It has also been promised by successive governments, without delivery. This should examine how changing demographics and employment patterns, technological changes and the decarbonisation agenda are likely to affect the demand for transport. These scenarios can provide a basis around which to make decisions about modal shift, demand management and future infrastructure investments at the national, regional and local level.

⁴⁰ For example, the Greater London Authority was able to introduce a business rate supplement to help raise £4.1 billion to fund Crossrail. In 2013, it borrowed £1 billion to fund the Nine Elms regeneration, which includes two new Northern line tube stations.

4.4 Conclusion

The outcome of different transport markets in recent years clearly shows that the liberalised approach to bus markets outside London since the 1980s has failed. Where regulatory powers and taxpayer subsidies are used strategically alongside private sector providers, outcomes for consumers in terms of fares, frequency, quality and safety can improve. If the government wants to ensure that its transport markets deliver their social and economic functions of helping to achieve the UK's binding decarbonisation targets and connecting people to employment, public services and the market place, major reform is clearly needed.

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