Richard Yates
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Department for Transport
Zone 2/14
Great Minster House
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Friday 16th November 2012

Dear Mr Yates

Response to DfT consultation on Bus Subsidy Reform

This letter should be treated as the Rail, Maritime and Transport Workers Union's response to the government's consultation in the above area of bus policy, covering proposals for the future of the Bus Service Operators' Grant (BSOG), the Better Bus Areas (BBA) policy and the Quality Contract Scheme (QCS).

Key points:

- RMT support reform of BSOG, as the current formula contains no benefits to passengers. We seek a system of bus subsidy that is accompanied by better regulation and partnership working between local authorities, municipally owned bus companies and private operators, and should be linked to clearer objectives such as reducing congestion and carbon emissions, increasing passenger numbers and tackling social exclusion.
- BSOG funds should continue to be ring-fenced, otherwise cash strapped local authorities and those with no interest in bus services will spend this money in other areas.
- Basing the recalculation of BSOG funds on data from the last 12 months would lock in the 1,300+ bus services that have been lost or withdrawn by local authorities, as well as any cuts made by private operators in that period.
- Local authorities seeking to establish a QCS should be eligible for inclusion in and funding for bus services from the BBA pot.
- The government will threaten the existence of QCS if it does make local authorities pursuing a QCS ineligible for funding under BBA.
- Government guidance on Quality Partnerships and the Quality Contract Schemes should be updated, particularly as the Better Bus Areas policy provides no new or additional regulatory powers for local authorities.
- The government's proposed partnership working between local transport authorities and bus companies is heavily weighted in favour of private bus companies and will result in preservation of the de-regulated local bus network outside of London.

We welcome the opportunity to respond to the government’s consultation over the future of public subsidy for bus services which remain the most used form of public transport in the country. The following sections develop the points outlined above:

BSOG recalculation and devolution

We agree with the government’s view that reform of public subsidy for bus services, specifically BSOG, is needed. Public subsidy to the bus industry should not be based purely on fuel usage, as that has rewarded inefficient fuel use and has no social dimension. We believe that BSOG should be distributed using criteria that encourage bus use and benefit passengers, the environment, the industry skills base and combats social exclusion. Regrettably, we do not see this resulting from the government’s proposals, which in our view only tinker at the margins (by proposing passenger numbers as an element for consideration) of acceptability.

We are concerned that the government's proposals for recalculating and devolving BSOG will result in local authorities acting purely as commissioners of bus services, with no incentive to run them and could also see parts of the country where the local authority only has minimal involvement in local bus services.

In our view, the recalculation proposals also represent a threat to the future of the remaining 11 municipally owned and run bus services in the UK (although we recognise that the Welsh Assembly and the Scottish Government will design their own BSOG funding mechanisms). There were 49 municipal bus companies prior to de-regulation in 1985 and the remaining 11 seem to be overlooked in the government’s consultation, despite the fact that they offer a not-for-profit model that could be adopted more widely.

BSOG funds, whether they are devolved or not, should remain permanently ring-fenced. We note that the government's proposal only extends to transitional ring fencing, favouring removal of the ring fence in the next year or two in order to provide local authorities with 'flexibility' in the use of these funds. The government’s plan to eventually remove the ring fence would undoubtedly result in BSOG funds being spent on other areas of local government, particularly at a time when local authorities are contending with drastic cuts to their annual grant from central government.

We are also concerned that the proposal to use data from the last 12 months as the basis for calculating BSOG payments would lock-in cuts that local authorities have already made to bus services in their areas to date, as well as removing the financial incentive for the local authority to restore them.

Between 2010-11 and 2011-12 across the UK, the Traffic Commissioners' latest annual report registered a drop of over 22% in new licence applications from bus and coach operators and a fall of nearly 700 in the number of live bus registrations[1].

In addition, the Campaign for Better Transport’s mapping exercise of cuts to local authority bus services in England has revealed that two-thirds of the 88 local

[1] Traffic Commissioners’ Annual Report 2011-12, pg. 61 and pg. 64

authorities in England have made cutbacks to bus services, and 77% of local transport authorities are either planning to, or cannot rule out, future cuts. CfBT's work has established that around 1,300 bus services have already been reduced or withdrawn, which equates to 1 in 5 of all council supported bus services.

We believe that the significant changes to the bus industry in the last year, caused in the main by the government's decisions to cut BSOG by 20% and local government funding by 28%, undermine the proposal to use the last 12 months of data as the basis for calculating the distribution of the reduced BSOG pot.

It should also be noted that bus operators have significantly increased fares in response to the announcement of the 20% cut to BSOG. The DfT's analysis of bus fares states: *"Comparing June 2012 with June 2011, there was an increase in bus fares of 6.5 per cent in England (5.4 per cent in London, 6.8 per cent in metropolitan areas and 7.6 per cent in non-metropolitan areas). The all items retail prices index increased by 2.8 per cent over this period."*[2] Since 2007, bus fares in England have risen by 33%. We are concerned that this trend of fare increases way above inflation will continue.

RMT also believe that there will be a significant and negative social impact from combined proposals for recalculation and devolution of a reduced pot of BSOG funds. We fear that, if introduced in their present form, they will accelerate what Sustrans have described as 'Transport Poverty', where a double whammy of unaffordable fuel costs and a lack of alternative modes of transport combine to deny people easy or affordable access to public and commercial services.

However, we do recognise that devolving BSOG undoubtedly could benefit local communities, bus workers and the bus industry as a whole. But we would only countenance supporting devolution of BSOG funds in circumstances where it is accompanied by greater powers for the local authority to regulate bus services in that area. Quality Contracts, municipally owned bus companies and Quality Partnerships are all examples of such circumstances.

We do not believe that handing public funds for bus services to embattled local authorities will result in better, cheaper or more reliable bus services. If regulatory checks are not in place, private operators, particularly the big five - Arriva, Go-Ahead, First Group, Stagecoach and National Express - will be in a dominant position to increase their share of the local bus market by hoovering up these extra funds to the benefit of their shareholders and to the detriment of passengers, the workforce and wider society.

Quality Contract Schemes (QCS) and Better Bus Areas (BBA)

Although a QCS has yet to be introduced anywhere in the UK, we would expect local transport authorities that do implement a QCS to automatically receive BSOG funding. If this funding link were not immediate and guaranteed, it would be a further incentive to bus companies to destabilise the QCS establishment process.

[2] DfT Annual Bus statistics GB 2011-12

RMT also reject the government's proposal to remove eligibility for Better Bus Area funding from local authorities that establish a Quality Contract Scheme. By taking this position, the government has effectively ruled out additional funding from the BBA policy for local authorities who, quite legitimately, may seek to reverse the negative impact on bus services and fares (which have risen 60% in real terms since 1985) that nearly 30 years of de-regulation have had on the local bus services that their community has had to contend with.

We also note that by making QCS local authorities ineligible for BBA funding, the government is rejecting one of the Transport Select Committee's recommendations in its report from September 2012, *Competition in the Local Bus Market*, which stated: "We recommend that the Government makes the Better Bus Areas funding available, in principle, to support Quality Contracts as well as partnership schemes."(Pg 37, HC-10 Third TRANSCOM Report of Session 2012-13.)

It is important to note at this stage the level of hostility from private bus operators in those regions where the local authority or Passenger Transport Executive is considering introducing a QCS. In a meeting in Tyne & Wear in April, comments made by representatives from two of the private bus operators in the area, Stagecoach and Go Ahead, were reported in the North East Journal 4th April 2012:

"Les Warnford from Stagecoach made clear he found the approach 'outrageous'. [Local Government] Officers were told by the Stagecoach representative that the plan was considered 'blackmail' and 'theft to keep local authorities officers in jobs and to steal operators' businesses'.

"In a series of threats, Mr Warnford said that he 'would not see his buses taken away by some foreign train operator', as he believes has been the case with Metro, adding that 'Nexus and the transport authority were operating in the same camp as Marx, Lenin and Trotsky'.

"He added: 'If the transport authority were successful in the European Court, they would need to be prepared to take over bus services straight away as Stagecoach would immediately cease operations. Stagecoach would not hand over any of its depots to Nexus; the company would move its buses elsewhere and make all staff redundant.'

"A Go North East representative warned the quality contract scheme could ruin the firm's plans, saying that it could 'threaten Go North East investment in the region and made it less likely Go North East would hand over commercial data for any other purposes.'"

More recent evidence from Tyne and Wear and West Yorkshire underlines private bus operators' hostility toward Quality Contract Schemes. In the North East, Stagecoach and Arriva have commissioned transport consultancy Oxera to shoot down NEXUS's published plans for a QCS. In addition, Stagecoach's legal advisers, Herbert Smith Freehills have suggested that plans for a QCS in Tyne & Wear conflict with the provisions of the Human Rights Act 1998 and TUPE.

On the specific issue of TUPE, the *Local Transport Act 2008* was followed in 2009 by guidance to local authorities on Quality Contracts, including the impact on the workforce via TUPE and on bus operators. In the *Green Light for Better Buses* document published in March this year, the government stated that they would update guidance on QCS, Quality partnerships and voluntary agreements 'as and when required.' We would suggest that this guidance needs updating now, and the guidance on QCS should contain a requirement to consult and include trade unions in any discussions aimed at establishing a QCS.

In West Yorkshire, the local bus operators are acting in a more conciliatory manner toward the Conservative-led Integrated Passenger Transport Authority's plans for a QCS but are nonetheless determined to persuade the IPTA to drop its plans in favour of a voluntary partnership scheme.

Both cases demonstrate the threat that the excessive power of private bus companies pose to the public's democratic right to elect councillors who can represent the public's interest in securing better and more affordable bus services. It seems obvious that impoverished local authorities will be no match for the financial power of the big five bus companies should a Quality Contract Scheme be pursued and it is incumbent on the government to restore some democratic balance in the unequal relationship between private bus companies and local authorities.

We believe that the government should be more supportive of local authorities who pursue a QCS; devolving BSOG funds in these circumstances would be a demonstration of such support. Given that the government are using this consultation to advertise their intention to devolve BSOG funds to local authorities who are *not* seeking a QCS or other form of regulatory control of local bus services, it is vital that the government explicitly state that QCS local authorities automatically qualify for devolved BSOG funds and that such these local authorities will be eligible for BBA funding.

<u>Partnership working</u>

RMT believe that the government's proposals on partnership working represent a dire threat to the future of the Quality Contract Scheme and to any serious attempt that local authorities may wish to make to regulate local bus services.

The government base their argument for excluding QCS local authorities from BBAs on potential barriers to partnership working. This position is outrageously biased toward private bus companies and makes a mockery of the government's claims to be devolving decision making on local bus services to local authorities.

In our view, the Better Bus Areas policy (which the government has stated in written answers contains no new regulatory powers, apart from BSOG devolution for local authorities), is replacing the Quality Partnership scheme. Unlike the Quality Contract

Scheme, there are a number of Quality Partnership schemes in place across the country and they provide local authorities with modest regulatory powers, including the capping of fares and setting service standards. Therefore, the BBA policy is an example of further deregulation of the local bus market.

We also recall the recommendation from December 2011 of the Competition Commission, following its two-year inquiry into competition in the local bus market, which stated that partnerships contracts between local authorities and bus operators, including Quality Partnerships, should be tailored to ‘facilitate increased competition.’ We note that the government responded positively to the Competition Commission's recommendations: "....we have agreed to pursue all the recommendations made to us to address this shortfall in competition." [Para 35, pg 9. Govt response to Competition Commission, March 2012]. The decision to exclude QCS local authorities from applying for BBA funding would seem to be an example of the government tailoring partnerships between local authorities and bus companies to 'facilitate increased competition.'

RMT reject the Competition Commission and the government’s proposal that more competition is required to solve the ills of the local bus market.

We also note the government’s agreement with the Competition Commission’s call for the establishment of a forum chaired by the Office for Fair Trading at which local transport authorities and bus operators would discuss effective partnership working but, crucially, only in the context of removing barriers to competition for local bus services. We would hope that LTAs will not only be given a fair hearing by the OFT but that they will be encouraged to raise the obstructive and anti-partnership activities of bus operators toward Quality Contract Schemes.

On the specific question of partnership requirements for local authorities, we think that it would be divisive and unhelpful for the government to increase the bureaucratic burden on local authorities who seek to both establish a QCS and apply for Better Bus Area status.

We believe that BBA, QCS and Quality Partnership bus policies should be complementary, including where a local authority pursues both BBA and QCS options. This should be the way to conserve the reduced funding available from government for bus services.

In conclusion, RMT members working in the bus industry are concerned that the government is proposing devolution and recalculation of BSOG for political reasons - namely, localism and de-regulation - in order to mask a freeze in BSOG funds to local authorities for an indeterminate period. It is vital that the workforce is represented during any discussions between local authorities and private bus companies over changes to the regulation and funding of local bus services. We look forward with interest to the outcome of this consultation.

Yours sincerely

Bob Crow

Bob Crow
General Secretary