COMPREHENSIVE SPENDING REVIEW 2020
SUBMISSION BY THE CONFEDERATION OF PASSENGER TRANSPORT: BUS

1. The Confederation of Passenger Transport (CPT) represents the operators of bus and coach services across the UK. We have more than one thousand enterprises in membership, including major PLCs, municipally-owned companies and family businesses with fewer than ten vehicles and accounting for in excess of 95% of the bus fleet and 55% of coach fleet in the UK.

2. This submission sets out what we would like to see in the Spending Review for the bus sector. We have submitted a separate response on behalf of the coach sector.

Executive Summary

3. Earlier this year the Government announced £5bn for buses and cycling, of which £3bn has been set aside for bus. We welcome the recognition of the importance of investing in bus services so that the industry can continue to contribute to the UK's economic growth, support social inclusion and play a key role in the green recovery and achievement of the Government's net zero emissions targets.

4. Covid-19 has hit the bus industry hard. To recover, and grow, the bus market needs a strong partnership between central government, local government and bus operators. Central Government should confirm through the National Bus Strategy and Spending Review that the £3bn set aside for bus will be used as follows:

    - Funding of at least £1.2bn on bus priority measures in towns and cities
    - £1bn of government investment to deliver at least 4000 green buses by 2024 with funding front loaded to help secure UK bus manufacturing jobs
    - Funding of the order of £10m per year for a sustained industry/government campaign aimed at attracting more people to use the bus
    - Short term funding – we propose £500m in 2021, declining thereafter as networks become self-sustaining - to prevent excessive reductions in local services and foster the growth of new services
    - A requirement for local transport authorities and bus operators to join forces in new, agile Recovery Partnerships which will provide the local framework for agreeing the new network, the distribution of funding to support it in the short term and the rapid mobilisation of bus priority measures to sustain it for the long term

5. In return, operators will:
    - Commit to only purchasing next generation ultra-low or zero emission buses from 2025
    - Reinvest savings made from reduced congestion in improving services for passengers
    - Play their part in the new Recovery Partnerships to deliver attractive bus services and networks fit for a green economic recovery and sustainable future

6. These measures would help deliver the Government's priorities for a green economic recovery and a levelling up of economic opportunity. In particular they would:
    - Deliver 4,000 new green buses and a reduction in carbon dioxide emissions by 2 million tonnes
    - Safeguard 10,000 jobs and apprenticeships in UK bus manufacturing
    - Deliver £6bn of benefits to the economy, public health and the environment from bus priority measures
    - Improve bus services for passengers as operators reinvest the savings made from Government investment in bus priority
    - Safeguard and grow local services which are essential to secure access to jobs and services, particularly in those parts of the country that are key to the Government's levelling up and economic recovery agenda

Putting bus first in the transport network

7. Getting people out of their cars and onto the bus would have a dramatic impact on carbon emissions and air quality. If everyone took one more bus journey a month we would reduce the UK's carbon dioxide emissions by 2 million tonnes a year. Alternatively if, as predicted, COVID-19 results in one million extra cars on our roads, we would have over one million extra tonnes of carbon dioxide going into the atmosphere annually which would seriously undermine efforts for the UK to be carbon neutral by 2050. Reducing car use would also reduce nitrogen oxide emissions and improve air quality - the Centre for Research and Clean Air has calculated that, during April 2020, the drastic reduction in private car usage led to a reduction in deaths of around 1,700 as a result of improved air quality.

8. We know that journey times are a key reason that people choose not to travel by bus. Congestion is a key cause of long and unreliable journey times. The economic costs of congestion are at least £11bn a year in urban areas in England.[1] Some routes across the country take an hour longer in peak times as buses become stranded in congestion, and KPMG research suggests that over 160 million bus journeys over five years have been lost as a result of increased journey times.[2] More reliable journey times will mean people feel confident to leave the car at home and use the bus. Before the pandemic 25% of car users said they would consider switching to buses if they were more reliable.[3]

9. Ever worsening congestion increases bus operators' costs as they are forced to use additional resources to maintain service levels but without any associated increase in passenger numbers. For example, this may include extra buses on routes to maintain frequency. A 10% decrease in bus speeds increases operating costs across the bus network by £400m a year. This is money which could be spent on providing an improved service for passengers, for example through improved bus frequency.

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[1] Greener Journeys (July 2012) *Buses and Economic Growth: Summary of a Report by the University of Leeds, Institute for Transport Studies*

[2] KPMG (2018) *Trends in English Bus Patronage: Report to the Confederation of Passenger Transport*

[3] Greenerjourneys.com/news/ditch-the-car-catch-the-bus-week

10. It is vital that government introduces policies, including a pro-public transport message, which gives people the confidence to travel by bus and will help maximise the investment in green buses discussed later in the paper. This must include ensuring that bus, alongside other active travel measures, has priority within our transport networks to help provide more reliable journey times.

11. Where successful schemes are implemented there is clear evidence that passenger numbers increase as people become more willing to use the bus. Examples include bus priority measures in Bristol which were matched with investment in low emission vehicles and integrated ticketing options by operators and which led to an increase in bus use of over 50% over 7 years, and Crawley Fastway which increased passenger numbers by 160% over 10 years. In Hull, extensive investment in bus priority, park and ride and interchange facilities coupled with operator-led investment in new vehicles and rationalisation of the network and fares to present a more effective customer offer has increased passenger numbers at a rate close to 7% per year.[4]

12. A recent report by KPMG commissioned by Greener Journeys[5] sought to explore broad strategies to maximise the wider economic, social and environmental benefits associated with investment in local bus networks, looking in particular at how the £3bn allocated to bus expenditure by the Government earlier this year could most effectively be invested. Their starting assumption is that £1bn would be allocated to investment in zero emission buses. To then achieve a balance between economic efficiency and equity, their analysis suggests on average between 60% and 70% of the remaining £2 billion should be spent on infrastructure and between 30% and 40% on supporting fares and additional services. Taken together, KPMG believe that this investment could result in at least a 20% increase in patronage in all local authority areas in England outside of London.

13. We therefore believe that <u>at least</u> £1.2bn should be spent on bus priority measures in towns and cities in England as part of this spending round to ensure faster, more reliable and more attractive journey times to get more people onto the bus.

14. KPMG research has shown that **£1.2bn of investment in bus priority delivers £6bn in benefits:**[6]

    2.3bn in direct benefits to passengers
    Quicker bus journeys free up passenger time to spend with family, friends or allow people to work more productively.

    £2bn through improved access to jobs
    Dudley is less than 10 miles from the centre of Birmingham the journey takes around 80 minutes in the morning peak. Making this and other journeys quicker will increase the jobs available to people.

    £700m in health benefits linked to increased activity and employment
    The average bus user walks for at least 20 minutes as part of their commute and there is a clear link between using public transport and a lower Body Mass Index (BMI).

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[4] KPMG (July 2020) *Maximising the benefits of local bus services* A report commissioned by Greener Journeys for the Transport Knowledge Hub
[5] KPMG (July 2020) *Maximising the benefits of local bus services* A report commissioned by Greener Journeys for the Transport Knowledge Hub
[6] KPMG (June 2017) *The true value of local bus services: A report to Greener Journeys*

£440m linked to improved air quality and reduced carbon emissions
Moving traffic produces fewer pollutants associated with poorer air quality and less carbon dioxide.

£420m in other benefits such as increased volunteering and general wellbeing
With better, more reliable connections people are better able to undertake activities associated with good mental health and social cohesion.

Zero emission buses

15. Buses are the greenest vehicles on our roads and have a crucial role to play in helping to meet the Government's targets on improving air quality and fighting the climate emergency.

16. Operators have led the way in decarbonising road transport and have invested £2 billion in new cleaner and greener buses over the last five years[1], meaning the UK now has its cleanest ever bus fleet.

17. The entire industry was delighted by the Prime Minister's pledge to support further investment in ultra-low and zero emission buses during this Parliament, with a commitment to delivering 4,000 new zero emission buses. These 4,000 new green buses on our roads will mean we will reduce carbon dioxide emissions by 2 million tonnes.

18. We want to see this transformational pledge delivered but the mechanisms used need to reflect the industry's own constraints on investment at a time when passenger revenue has been held back by Covid-19 restrictions. Forward orders have already been drastically reduced as operators are forced to defer or cancel orders for new buses. The Covid-19 crisis therefore represents an immediate threat to the future of the UK bus manufacturing industry and its extensive supply chain.

19. If no new bus orders are placed this year, UK bus manufacturers will need to take the difficult decision to scale back their workforce and production lines. This not only puts around 10,000 jobs and apprenticeships at risk, but would seriously impact the industry's ability to deliver orders of zero emission buses in the future. If the UK is to be a leader in the development of zero emission bus technology to support its net zero carbon ambition, orders of at least 1,000 buses are needed as soon as possible. This represents just under half the typical UK market for new vehicles of 2,000-2,500 a year and would allow manufacturers a critical six months breathing space while more medium term solutions – such as the leasing model set out below – are developed and deployed. In order for this initial order to happen at the necessary pace, we propose that Government use its 'all electric bus town' programme to place some early orders and urgently develops further mechanisms to deliver the required level of support (including infrastructure).

20. Any financial support model that is introduced needs to sufficiently incentivise operators to invest. The previous Ultra Low Emission Bus Scheme and its predecessors, whereby Government funded 75% of the cost difference between a Euro VI diesel bus and a zero emission bus, went a significant way towards building a business case for electric. It has certainly proved sufficient to kick-start

small-scale roll out across England and Wales. But the comparator whole life cost of diesel continues to outperform electric (and zero more generally). The 75% grant therefore falls short of what is required to underpin volume roll out. That is why the Scottish Government decided to complement the 75% grant with an Enhanced BSPG rate for zero emission buses. This enhanced support does not need to be in the form of current/resource spend; it could equally be capital expenditure. We recommend that the UK Government look seriously at offering capital expenditure support for the first battery changeover, the costs of which are a sizeable constraint on the business case for electric.

21. Looking ahead, capital for investment in new vehicles has disappeared as a result of Covid-19 and there is uncertainty over what the bus network and market will look like post-pandemic. To make investment worthwhile for operators a model which requires no upfront capital and which reduces monthly costs is required.

22. We have therefore been exploring leasing options, whereby Government invests £1bn to purchase zero emission buses and this is match funded by private finance. This would provide enough finance to purchase 4,000 zero emission buses, as per the Prime Minister's pledge earlier this year. This finance could be further supported with Government guarantees over either part of the lease and/or the residual cost of the vehicle. The buses can then be leased to operators over a long timeframe at a price that is lower than the depreciation costs of a diesel bus. The lower operational costs of a zero emission bus over a diesel bus would make this an attractive proposition to operators who might otherwise be reluctant to invest in new vehicles in the current climate.

23. Ensuring sufficient infrastructure is in place to support the investment in new cleaner vehicles – for example charging points for electric vehicles on a scale that allows for charging of entire fleet overnight, or a sufficient network of hydrogen refuelling points – is vital. CPT has estimated the cost of upgrading a single depot at around £1.5 - £2m. There may also be additional supplier connection charges which vary from place to place.

24. The industry recognises that the future of urban road transport lies with zero emission vehicles. There is a challenge is to ensure that the UK can provide the technology which allows operators to continue to run commercial, economic and efficient high frequency services for at least 21 hours, and ideally 24 hours a day. Support from Government is needed to ensure the development of adequate technology, including battery life and sufficient charging points, to make this a reality. Until such time as fully zero emission options are available which are suitable for all types of networks (including e.g. rural areas with high mileage) we need Government support to include ultra-low vehicles - for example hybrid vehicles which can run as zero emission in built-up areas and then low emission diesel outside of this.

25. Zero emission buses cannot deliver increased passenger numbers and net zero emissions by themselves. They need the journey time improvements brought about by bus priority measures (discussed above) to deliver an attractive travel option for passengers along operational cost savings which can be reinvested in improving services even further.

Industry/government campaign to promote bus travel

26. During the height of the pandemic the Government asked people to only use public transport if absolutely necessary. This was to ensure that there was sufficient capacity for key workers and essential journeys. This message has been repeated in some local lockdown areas and has had a lasting effect on people's psyche when it comes to public transport, leaving some with the feeling that public transport is in some way 'unsafe'.

27. Even as restrictions have been eased, passenger numbers remain well below their pre-Covid levels and we do not expect numbers to return to pre-pandemic levels in the near to medium future. In a survey for CPT, of those that said they planned to use the bus less post-pandemic than before, nearly two-thirds of those said this was due to concerns around safety (in terms of Covid) and a quarter said they would switch to a car for those journeys.

28. We need Government to work with the industry on a campaign to promote both the safety and the benefits of bus travel. This should firmly assert the bus as a favourable option over the car. Whilst this needs to be an important part of the National Bus Strategy, this work needs to start in advance of that in order to secure the viability of bus networks. We believe that around £10m a year is required for this campaign.

Bus Recovery Partnerships

(i) The case for continuing the deregulated model of bus service provision

29. During the Covid-19 pandemic bus operators and local authorities have worked incredibly well together to safeguard services and put passengers first. The industry has been agile in its response to rapidly changing circumstances, for example rolling out social distancing measures in less than a week; restoring service levels from less than 50% to over 75% in less than two weeks; duplicating services and standby vehicles to serve excess demand at peak times, including making sure that enough capacity was available to get children back to school in September. All this has been carried out working inclusively with local authorities, demonstrating the benefits of a partnership approach to bus service delivery.

30. Bus operators, government and bus passengers all want the same things - a joined up, integrated network, fast and reliable journeys, simple fares and ticketing and clean, well-equipped buses. Experience across the country shows that these outcomes are most effectively delivered where operators and local authorities work in partnership without council tax payers having to take on the risk and cost of council control. We have seen the results of such partnerships in places like Merseyside, whose Bus Alliance has seen a 15% increase in fare-paying passengers since 2013-14 and the number of bus journeys taken by young people rise by 168%, and in Bristol where the bus partnership has seen passenger numbers grow by 52% since 2013.

31. Some have pointed to franchising as a solution, but there are considerable challenges that this would create for DfT, local government and operators. A franchised model of bus service would have the following disadvantages:

- There are huge transitional costs involved, none of which deliver direct service improvements to bus passengers
- The time taken to make the transition to franchising could be better spent delivering real improvements to bus services for passengers
- A franchised model places all the risks associated with underwriting any shortfalls in fares income on the local authority and, ultimately, the taxpayer
- It is in commercial bus operators' interests to continuously strive to improve the customer experience in order to increase passenger numbers and revenue
- A deregulated model maintains shared incentives to reduce the level of public subsidy going to operators so they are able to generate a profit
- Private bus operators have the expertise and culture to effectively restore and grow bus markets

32. There are also concerns over the capacity of local authorities to take on this additional responsibility and any logjams created by extra bureaucracy would undermine the practical delivery of services. There would also be a serious risk that some of the money allocated for bus services by central Government would not be spent on bus, but would be reallocated for things such as light rail or to plug gaps in parking income.

(ii) Bus Recovery Partnerships

33. We recognise that the pandemic has had a huge and lasting impact on lifestyles, working patterns and travel patterns, all of which affect the bus network. Business as usual will not be enough. As we exit the pandemic and move back to commercial operations, operators and local transport authorities (LTAs) will need to work together to evaluate what the network should look like going forward, not just to cater for existing demand but to deliver their ambitions for future bus travel.

34. Planning assumptions are that, when Government support for bus services in the form of CBSSG Restart comes to an end, passenger numbers are likely to be at around 80% of pre-Covid levels. This would leave around 20%-25% of the network commercially unviable in the short term. While reducing services may be appropriate in some circumstances, simply cutting all non-commercial services not only leaves those that rely on them at a severe disadvantage, going against social and economic inclusion goals, but also makes it incredibly difficult to grow passenger numbers in the longer term. Equally, leaving LTAs to deliver them through the traditional tendered route with no

ambition to return the services to commercial operations places long term pressure on Government funds and increased pressure on already stretched LTAs.

35. The industry believes that, with strong partnership working between central government, local government and bus operators to deliver measures to encourage growth in passenger numbers, many of these services can become commercial again. Priority interventions should include in particular bus priority measures and a major, national promotional campaign, alongside revamping of existing networks to better serve changing travel patterns.

36. We therefore propose that, once CBSSG ends, LTAs and bus operators are required to join forces in new, agile Recovery Partnerships which will provide the local framework for agreeing the new network, the distribution of funding to support it in the short term and the rapid mobilisation of bus priority measures to sustain it for the long term. These partnerships need to be supported with short-term funding to prevent excessive reductions in local services and foster the growth of new services.

37. All local recovery plans should have the following elements:

    - The setting up of new, agile Recovery Partnerships, bringing together local transport authorities and bus operators
    - Local contribution to a sustained industry/government campaign aimed at attracting more people to use the bus
    - Short term funding to prevent excessive short term reductions in local services – we propose £500m in 2021, declining thereafter as networks become self-sustaining - is required and should come from the £3bn set aside for bus earlier this year (there will also be savings to Government expenditure as CBSSG ends). This money can be used to protect some routes that would otherwise be lost; help new routes to grow; and, where partnerships think appropriate, subsidise fares to encourage people onto the bus
    - Quick wins on digital ticketing and information to build the foundations for growth
    - An agreed new network for the long term which seeks to make the best use of available revenues to benefit the maximum number of passengers
    - Rapid identification and mobilisation of bus priority measures to sustain networks for the long term

38. The agile Recovery Partnerships we are proposing would be tailored to the specific needs of recovery after Covid-19. They can be established with minimum process and get to work quickly. The Leeds Alliance is a good example of what can be done, with the Leeds Bus Deal partnership agreed and at work in a matter of weeks. Once the initial actions are underway, local authorities and operators can then take stock and decide what statutory and other partnerships would be best suited to their local circumstances going forward.

Bus Service Operator Grant

39. At present, bus operators are receiving BSOG payments at pre-pandemic levels. This is essential to secure delivery of services while the restrictions required by the pandemic limit revenue. There is clearly little to be gained by reforming BSOG while operators remain dependent upon Government funding support.

40. BSOG should also be supported by a range of other measures delivered by both central and local government to make the bus an attractive and viable alternative to the car and promote modal shift towards more sustainable transport. In particular, bus priority measures to tackle congestion and improve journey times are crucial.

41. CPT supports the move towards zero emissions transport and recognises the need for future Government funding to be increasingly focused on cleaner vehicles. Recent years have seen substantial investment by operators in cleaner vehicles, contactless ticketing, Automatic Vehicle Location technology and real-time information. And the industry is not complacent – it recognises that there is still room for improvement and CPT's vision for 2030 set out ambitious targets for further investment in greener vehicles and the continued rolling out of contactless, multi-operator, price-capped tickets in urban areas. Despite the devastating impact of Covid on the industry, the industry remains committed to these goals. The sector is also gearing up to deliver the requirements of Open Data, providing passengers with simple, comprehensive information on fares and ticketing and encouraging the development of online ticketing and MaaS applications.

42. This ambitious programme of work would not have been easy for bus operators to deliver pre-Covid, particularly SMEs, many of whom are providing the more marginal bus services, and the pandemic has made delivery of this programme even more challenging. As noted by the Transport Committee in its report on the health of the bus market in May last year, BSOG keeps fares lower, service levels and patronage higher and enables operators to maintain services that might not otherwise be profitable. Cuts to the overall levels of BSOG and sudden shocks to the system would threaten service stability in a fragile market. Research pre-Covid suggested that halving BSOG would result in the loss of over 2,000 jobs, a loss of output of over 20%, an annual reduction in net benefit of £91.3bn and a 10% loss in economic welfare.[7] It is therefore important – particularly given the impact of the pandemic on bus operators - to avoid making sudden, radical changes to BSOG, and to ensure that any future reform is phased, recognising the devastating impact that a sudden loss of funding could have on an already fragile bus market.

43. Nonetheless, we recognise BSOG needs to change in the future, and that the Spending Review provides an opportunity to set the direction of travel. It is important to make sure that any reform of BSOG is fit for the longer term changes taking place in the bus sector, and that the aspiration for the transition to ultra-low and zero emission buses is backed by financial support for new vehicles and associated infrastructure. We have set out our proposals on delivering this elsewhere in this paper.

[7] Johnson, D. Mackie, P. and Shires, J. at the University of Leeds, Institute for Transport (July 2014) *Buses and the Economy II*

44. We have developed a set of principles against which any future model for BSOG should be tested. It should:
    - Be fair and transparent
    - Be simple to both understand and administer
    - Have low administration costs (ideally should be cheaper than the current system)
    - Provide certainty to operators so that they can make informed investment decisions
    - Be phased in, recognising that operators have made long-term investment decisions on the basis of the current BSOG arrangements and rapid implementation of a new model will have a devastating impact on an already fragile bus market
    - Be rigorously tested prior to implementation to ensure that the impacts on bus services across the country are well understood
    - Supports the maintenance of routes and growth in passenger numbers
    - Support operators to deliver a world-class bus service for passengers

45. CPT would like to work with Government to develop a new BSOG regime that is fit for the future and that recognises both the constraints that bus operators currently face and the transition period required.

Concessionary Fares

46. Older adults who own concessionary passes are likely to report better quality of life and fewer depressive symptoms than peers who do not have the benefit of free bus travel. It found that older adults with bus passes were also more physically active and less socially isolated than counterparts without bus passes. Maintaining wellbeing is likely to help people stay physically active in later life, thus reducing the financial costs associated with an ageing population.[8] A study for Greener Journeys found that every £1 spent on the concessionary fares scheme generates at least £2.87 in benefits. Half of these benefits accrue directly and immediately to concessionary travellers themselves, around 20% to other passengers and other road users from transport network improvements, and the rest to the wider community through economic and social impacts and improvements in health and wellbeing.[9] However, concessionary fares are currently underfunded – the LGA estimate by £700m[10] – which puts services at risk. We would like to see this addressed in the Spending Review.

[8] UCL News (1 May 2019) ucl.ac.uk/news/2019/may/bus-pass-linked-increased-happiness-older-adults

[9] Analysis by KPMG for Greener Journeys (2014) *The costs and benefits of concessionary bus travel for older and disabled people in Britain.*

[10] https://www.local.gov.uk/lga-responds-bus-and-cycling-funding-announcement

Conclusion

47. The spending priorities set out in this paper will help to deliver the Government's priorities for a green economic recovery and social inclusion. Investment that improves bus journeys, encourages more people to travel by bus and reduces congestion and journey times will help to level up economic opportunity across the country as people feel confident to travel further to work, spreading opportunity and maximising productivity. Investment that enables the UK bus manufacturing industry to deliver zero emission buses will safeguard the Government's ambition for the UK to be a leader in the development of technologies that will support its net zero carbon ambition. Our proposals will enable the improvements in air quality and carbon dioxide emissions seen during the pandemic to be captured for the long term. And this investment by Government will enable bus operators to also invest and further improve bus services for passengers across the country.

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