

Report to: Finance, Resources and Corporate Committee

Date: 5 April 2022

Subject: **Bus Service Funding**

Director: Dave Pearson, Director Transport & Property Services

Author: Dave Pearson, Director Transport & Property Services

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

1. Purpose of this report

- 1.1 To advise the Committee of the current position regarding bus service funding and to inform the Committee of the bus transport related cost pressures faced by the Combined Authority in 2022/23.
- 1.2 To seek the Committee's endorsement of actions in this regard.

2. Information

Government COVID Bus Service Funding

- 2.1 Since April 2020, Government has issued emergency funding to bus operators and Local Transport Authorities, the COVID Bus Subsidy Grant (CBSSG), and continued to pay Bus Services Operators Grant (BSOG) at pre pandemic rates. It requested that Local Transport Authorities (LTAs) continue to make concessionary fare and tendered service payments to operators at pre pandemic rates.

- 2.2 The Combined Authority has complied with the Government request to make concessionary fare and tendered service payments to operators at pre pandemic rates. Specific conditions were attached to these payments ensuring bus operators work collaboratively with the Combined Authority and financial and patronage data is shared. These conditions have been amended at each stage in the pandemic.
- 2.3 In September 2021, Government revised the system for supporting bus services and introduced the Bus Recovery Grant (BRG) which operates until March 2022. Unlike the previous CBSSG grant, BRG is intended to be tapered to reflect an anticipated growth in passenger revenue. The conditions of grant also enable bus operators to adjust fares providing the aggregate effect is within the Consumer Price Index. BRG is paid direct to bus operators and to LTAs to reflect the suppressed fares revenue on tendered services contracts. The Combined Authority received a grant of £800k for this purpose in 2021/22.
- 2.4 Since September, bus service frequencies have reduced as a consequence of Covid absence and shortages of bus drivers in the labour market. Commensurate adjustments in payment have been made to reflect the reduced services.
- 2.5 Bus Recovery Grant ends on 5 April 2022 with a double payment made to bus operators and LTAs in March. There was a high degree of uncertainty around continued funding support for buses. Bus operators nationally had advised that a complete withdrawal of Bus Recovery Grant would necessitate a reduction in commercial bus service mileage of around 30%. Urban Transport Group commissioned a study by Steer to assess the impact of the pandemic on bus provision and recommended that Bus Recovery Grant is needed for a further 12 months in order to stabilise the economics of the service and provide a platform upon which to deliver the Government's Bus Back Better ambitions.
- 2.6 On 1 March, Government announced a further funding programme for bus and light rail, the Local Transport Fund. This provides funding for six months direct to bus operators and LTAs calculated on the basis of the difference between costs and revenues and therefore intended to reduce as passenger revenues increase. Government has made it clear that no further funding will be provided after six months and is encouraging LTAs and bus operators to work on a "sustainability review" to enable a network going forward which reflects the changed travel behaviours and demand.
- 2.7 At the time of writing, bus use is currently at around 82% of equivalent periods in 2019 therefore there is a revenue gap to fill with this funding. Workforce challenges have reduced service provision to around 90% of planned mileage.

LTA Support through Concessionary Fare Payments

- 2.8 Along with other LTAs, the CA pays bus operators for the revenue forgone by accepting concessionary fare. The annual cost of this is £55m (£45m for the English National Concessionary Travel Scheme (ENCTS) free bus travel scheme for older and disabled people and £10m for under 19s and rail

concessions for ENCTS pass holders). Under normal conditions, reimbursement is based upon the actual number of journeys recorded multiplied by a rate per passenger calculated using a methodology set by the DfT.

- 2.9 At the request of Department for Transport in 2020, LTAs have been paying bus operators assuming pre pandemic rates of passenger journeys. This is in effect an overpayment compared with the normal practice of payment relating to actual use representing a subsidy to support services. ENCTS use in the pandemic dropped to less than 30% of the equivalent period in 2019 and currently stands at 60%. Concessionary bus travel by under 19s has almost returned to pre pandemic levels. This is now a fixed expenditure agreed with bus companies under the Fare Deal for Young People approved in 2020.
- 2.10 Government is recommending that LTAs continue to pay based upon pre pandemic for the six-month duration of the Local Transport Fund and then to step back to payment on actual use by 5% per month. At current levels of use, this would represent a c £1.5m subsidy per month. This approach is affordable within the approved budget, and it is recommended that the Combined Authority follows this recommendation.
- 2. 11 The alternative approach would be to revert to payment on actuals from April and generate a saving which could be deployed to offset the cost of replacing withdrawn services or to start the 5% per month reduction now. This would be disruptive to bus operator cash flow which will have assumed a smoother transition and could precipitate earlier service withdrawals.
- 2.12 DfT is reviewing the methodology for calculating ENCTS reimbursement and it is likely that bus operators will claim that the current payment rates per passenger trip no longer represent the financial impacts of offering free travel. This may result in paying more for each trip in future. Notwithstanding this, If actual use of ENCTS passes does not return to 2019/20 levels in 2022/23, an underspend will develop in this budget area during the second half of the year.

Tendered Bus Services Cost Pressures

- 2.13 The Combined Authority spends a net £19m pa on the provision of socially necessary bus services, school buses and AccessBus. As with other sectors of the economy, cost pressure especially around wages and fuel are impacting on bus operation. Whilst the Combined Authority's contracts include provision for inflationary costs, there have been a number of contracts for school services where it has been necessary to re-tender because the incumbent SME operator considers the contract value unsustainable. Other SME operators are seeking a short term adjustment in contract values to reflect the recent escalation of fuel prices. Larger operators have longer term "hedge" deals for fuel which may delay in the impact of this. Whilst to date, this has not significantly impacted on service levels it has increased costs by c£300k (some of which is shared with Councils)

- 2.14 In addition, Arriva Yorkshire has reduced its commercial operation creating several situations where communities access to bus services have been threatened. In October 2021, the CA stepped in to fund the operation of bus service 205 (Dewsbury- Morley – Pudsey). From the end of February, Arriva withdrew its service 117 (Ossett to Leeds), together with links between Knottingley and Castleford and evening services in SE Wakefield. The Combined Authority has made arrangements with other operators to maintain these links pending a longer-term review. The current cost to the CA of these interventions is around £25,000 per month.
- 2.15 The uncertainty around demand for bus travel, industry cost and operational pressures and funding beyond October heightens the risk that bus operators seek to withdraw marginal but socially necessary services. The CA will be under pressure to intervene to secure service provision. Whilst there may be some flexibility to fund this from underspending on concessions, any significant demands in this regard could become a pressure on the Combined Authority's reserves.

Bus Network Sustainability Review

- 2.16 Government has asked LTAs and bus operators to use the remaining period of funding to collaboratively undertake a "sustainability review" to determine a network in the autumn which reflects the new levels of demand and travel behaviours. The Combined Authority's approach to this is proposed as follows
- A review of the criteria which determines which bus services the CA funds was commenced in 2021 and a revised criteria will be recommended to Transport Committee
 - Independent advisers have been commissioned to model the impacts of different funding and demand scenarios on the bus network and to provide a report which can be made available to Transport Committee and the Bus Alliance
 - This work will identify those commercial services at risk and will assess them against the Combined Authority criteria to identify options to secure their continuation where appropriate
- 2.17 This will provide a basis upon which the Combined Authority can make decisions bus service support from October 2022 onwards. Decisions regarding ongoing bus service support will be made by Transport Committee with oversight of the financial implications reported to this Committee.

3 Tackling the Climate Emergency Implications

- 3.1 A financially healthy, attractive to use bus service is a key element in providing sustainable low carbon travel choices

4. Inclusive Growth Implications

- 4.1 The Combined Authority funds socially necessary bus services and concessionary fares to enable mobility and accessibility particularly for those people without their own means of transport

5. Equality and Diversity Implications

- 5.1 Equality Impact Assessments will be undertaken for any changes to CA funded bus services or for changes in the value and means of delivery of concessionary fares.

6. Financial Implications

- 6.1 The Combined Authority's meeting on 3 February 2022 established a budget based on 2021/22 expenditure however, as this report sets out, there is likely to be much uncertainty as the year progresses. ENCTS concessions expenditure may underspend whilst bus service contract expenditure may overspend.
- 6.2 The cost of funding the additional services outlined in 2.15 has been partly met to date by the Government COVID funding. The full budgetary impact of these will be felt from autumn 2022 when this ends.
- 6.2 The cost of external consultants to support the analysis required in the sustainability review is £25k and is funded from the approved budget provision for Bus Reform.

7. Legal Implications

- 7.1 There are no legal implications directly arising from this report.

8. Staffing Implications

- 8.1 There are no staffing implications directly arising from this report.

9. External Consultees

- 9.1 Engagement with bus operators on these issues has been undertaken through the West Yorkshire Bus Alliance.

10. Recommendations

- 10.1 That the Committee notes the current position regarding bus funding and the implications for the Combined Authority finances.
- 10.2 That the Committee endorses payments to be made under the English National Concessionary Travel Scheme in line with Government guidance

- 10.2 That the Committee notes and endorses the approach to review bus service sustainability ahead of the end of Government bus funding

11. Background Documents

Urban Transport Group “Continuing COVID Funding Support for Urban Public Transport” published 17 February 2022

[Continuing COVID Funding Support for Urban Public Transport \(urbantransportgroup.org\)](https://urbantransportgroup.org/continuing-covid-funding-support-for-urban-public-transport)

12. Appendices

None