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## **REVIEW OF BUS SUBSIDIES - CONSULTATION PAPER**

### **1 SUMMARY**

- 1.1 This report seeks Members' views on the Government's proposals for changes to and alternatives to existing bus subsidies.
- 1.2 A copy of the consultation paper has been placed in the Members Room. Comments on the paper are required by 25<sup>th</sup> October 2002.

### **2 INTRODUCTION**

- 2.1 The review of bus subsidies was announced as part of the Budget on 17<sup>th</sup> April 2002. A copy of the questions for consultation are attached to this report as Appendix 1.
- 2.2 There are seven separate revenue funding streams through which the Government supports bus services as follows:
  - Fuel duty rebate (FDR), now called Bus Service Operators Grant (BSOG). This grant is paid directly to bus operators depending on how much fuel they use (£300 million a year in England).
  - Local Authority support for socially necessary services (£200 million p.a.)
  - Rural bus subsidy grant - paid to 73 Local Authorities (£50 million p.a.)
  - Rural Bus Challenge (£20 million p.a.)
  - Urban Bus Challenge (£15 million p.a.)
  - Concessionary fares - Local Authorities provide concessionary fares to pensioners and disabled people.
  - Funding through transport for London.
- 2.3 The review concentrates on the FDR and considers whether or not there is a better way of allocating these funds. However, the review also considers how concessionary fares fit into the wider picture of bus subsidies.

### **3 ISSUES AND OPTIONS**

#### *FDR/BSOG*

- 3.1 The FDR provides funding directly to the bus operators and in broad terms is intended to support the Government's objectives for bus policy.
- 3.2 The grant is however relatively untargeted and not directed to achieving specific objectives. FDR does not take account of:
- how many passengers are carried
  - quality of service
  - whether services operate in rural or urban areas, at peak or off peak, and whether accessibility to essential services is improved
  - the environmental impact of the vehicle, etc.

#### *Local Authority Support for Tendered Services*

- 3.3 The system in operation has been used since deregulation in 1986 to support socially necessary services that are not provided commercially.
- 3.4 Whilst there are advantages in this, there are also no guarantees that all Local Authorities will be fairly effective in identifying and meeting local needs.

#### *Rural Bus Subsidy and Challenge Schemes*

- 3.5 Rural bus subsidy increases the resources available to Local Authorities to support non-commercial bus services. The Challenge schemes are annual competitions for funding.
- 3.6 The Government is concerned that:-
- grants may not meet social exclusion needs;
  - grants may be seen as diverting resources from other equally deserving areas - say, ordinary bus services to small Towns;
  - Challenge schemes involve considerable effort and expense.

*Concessionary Fares*

- 3.7 Concessionary fares as they currently stand do contribute to social inclusion. However, there are others who may be socially excluded who might also benefit from cheaper fares.

**4 OPTIONS**

**1. FDR retained with variable rates for different services**

- 4.1 The Government considers this option would promote social inclusion and retention of marginal services. On the other hand, it may do little to encourage substantial passenger growth, as the subsidy would be directed away from high volume services.

**1a. FDR retained with variable rates for cleaner fuels or vehicles**

- 4.2 The concern with this option is that it would still not overcome the fundamental problem of FDR, that is operators receiving more subsidy for using more fuel.

**2. FDR replaced by a per-passenger subsidy**

- 4.3 The Government sees this option as attractive in that it would encourage services to meet objectives. There would be implications for community transport services that became eligible for FDR from 1st May 2002.
- 4.4 A per-passenger subsidy would give operators a direct incentive to increase patronage and operators could increase subsidy without increasing fuel consumption. On the other hand, already successful routes would be rewarded and some less commercially viable services might suffer or close.

**3. FDR replaced by a per-passenger kilometre subsidy**

- 4.5 Similar to Option 2, if anything, this arrangement would be somewhat biased towards rural services. Longer journeys would be rewarded but, of course, in environmental terms, operators would then be rewarded for travelling longer distances.

**4. Transfer funds from FDR to Local Authority funds for tendering**

- 4.6 This would increase the budget available to support public transport. Those services relying on FDR would need to be supported through Increased Local Authority tendering.

- 4.7 Local Authorities would, of course, have more influence over the local bus network, although there would be no guarantee that all money from FDR would be used on bus services. The main advantage though would be a significant shift from providing resources to the bus industry to providing resources to Local Authorities.

**4a. Transfer funds from FDR to Rural and Challenge Funding**

- 4.8 The Government suggests that about 10% of FDR could be diverted to the Rural subsidy or Challenge funding schemes. This option could work with any of the previous options, although it shares the disadvantages of Option 4.

**4b. Scrap Challenge Funding**

- 4.9 This would remove a significant administrative burden.

**5 Discretionary extension of concessionary fares**

- 4.10 The Government does not propose further fundamental changes to the current scheme, but wonders whether it might be extended to cover the unemployed, or those in full-time post 16 education.

**5 DISCUSSION**

- 5.1 It is clear that the services provided by bus operators in Rochford District are somewhat patchy at best and that adjustments made by the commercial operators continue to reduce the flexibility and availability of services to residents. In addition, the funds that are allocated to the County Council as the Highway Authority for rural services are very limited and Rochford seems to consistently lose out in the allocation process.
- 5.2 If bus subsidies are intended to contribute in such a way that the Government's bus policy objectives are achieved, then it can really only be concluded that the present arrangements are not as effective as they might be, at least in a District with Rochford's urban/rural characteristics.
- 5.3 Any alternatives to the FDR subsidy must promote social inclusion and help to retain marginal services. On the basis of the information available in the consultation paper, it is considered that if the FDR is retained, Option 1 offers the best compromise, although some safeguards would be required.
- 5.4 On the other hand, Option 3 proposes the replacement of the FDR with

a subsidy based on per-passenger kilometres. This Option has some merit since it would reward longer distance journeys and this would assist a modal shift from bus to car. Accurate journey information would be required though and this would be expensive and difficult to implement.

- 5.5 The transfer of PDR funds to Local Authorities has some attraction since this would enable much better targeting of resources towards local requirements. Local Authorities would have a greater say in determining the bus routes to be provided. Certainly in Essex, such an arrangement could enable subsidy to be directed away from commercially viable services to providing much needed support for rural bus services. On the other hand, it must be remembered that Rochford has not been particularly successful in obtaining grants for rural services from the County under the current arrangements.
- 5.6 With regard to Challenge funding, this process is time consuming and bureaucratic and it would make more sense for this money to be added to the rural bus subsidy grant, although in a situation where funds were to be allocated by Local Authorities, it may be that a distinction between urban and rural would not be required. Local Authorities could allocate funds based on local needs and in Essex the rural requirements are significant.
- 5.7 Finally, the Government does not propose to make any major changes to the concessionary fare arrangements, but would allow local authorities to extend the scheme to other groups (unemployed, post-16 education, etc.) if this was affordable. There is no reason in principle why the scheme should not be extended, though it appears that the affordability issue may mean that funding would be limited.

## **6 CONCLUSIONS**

- 6.1 This report outlines the options on which the Government is seeking a view. No doubt bus operators will have strong views on the mechanisms for payment of subsidy, but from a Local Authority perspective, the options are not so clear cut.

## **RECOMMENDATION**

It is proposed that the Committee **RESOLVES**

its view on the options for changes in the mechanism for the payment of bus subsidies, based on the consultation questions reproduced in Appendix 1.  
(HPS)

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**Background Papers:**

Review of Bus Subsidies - Consultation Paper, Department of Transport, August 2002.

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**APPENDIX 1**

**QUESTIONS FOR CONSULTATION**

1. How far do you think existing forms of support for bus services help to achieve bus policy objectives, or fail to do so (fuel duty rebate, support for tendered services, concessionary fares, rural subsidy, rural and urban challenge)?
2. What alternatives do you think would do more to achieve those objectives, including the possible options in this paper? (variable rates of FDR, replacing FDR with per-passenger or per-passenger-kilometre subsidies, or by increased local authority funds for tendering or challenge schemes, ending challenge schemes, giving local authorities discretion to extend concessionary fares to other socially excluded groups?)
3. Do you have any other suggestions for changes to bus subsidies or new forms of subsidy to meet bus policy objectives?
4. What do you see as the advantages and disadvantages of any of these options, and why?
5. If changes are introduced, should they be implemented in one go or phased in over a number of years?
6. What practical or administrative obstacles do you think need to be addressed in delivering alternative solutions?