



campaigning
by the
Railway Development
Society Limited

Policy Group

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Dear Richard,

DfT Consultation on Bus Subsidy Reform

Introduction

Railfuture is long established and increasingly recognised as the UK's leading independent organization campaigning for better rail services for both passengers and freight. Our local branches and volunteers campaign to get stations and lines opened for the benefit of the community, economy and environment. We have had a major part in getting over 350 new and reopened stations and over 500 miles of route to join the network over the past half century.

We also campaign consistently for implementation of much improved connections between rail services and bus services, with practical connectional timings between trains and buses at the relevant interchanges, and for bus stops to be sited as close as possible to station entrances and exits. Where relevant, urban bus stations and terminals should be situated immediately alongside the relevant major rail station, and urban planning departments should ensure full consideration of this potential major improvement before approving redevelopment schemes. We see the proper role of rail and bus services as integrated and complementary, to assist passengers making their total journey by public transport, and not as competitors for the same traffic where one mode has a clear advantage over the other for passenger benefits and convenience.

We note that there is no reference in the consultation to the greater role that electrified street transport could play, both trams and trolleybuses, especially when considering the fuel duty aspects and when suggesting potential reductions in fuel pollution resulting from changes in pricing policy, although we obviously acknowledge that the initial capital costs of providing electrified street transport are a major factor at the outset. However these are all areas of policy where major transport and environmental improvements are possible, and likely to be more effective in major urban areas in the long term, than revised pricing mechanisms for fuel duty.

It is in this context that we submit our response to the consultation on Bus Subsidy Reform.

Context

Rebate or Grant

"Bus Services Operator Grant" (BSOG) is somewhat of a misnomer. The payment was first introduced in 1965 as a rebate on the excise duty on fuels for buses, and was called the Fuel Duty Rebate (FDR) from 1965 until 2000. It was renamed BSOG, but it was still paid at a fixed rate *per* litre of fuel. It is, therefore, a tax rebate and not a grant.

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FDR was 100% until 1994, when it was reduced to 67%. In 2000 it was raised to 81%, but in April 2012 it was reduced to 64%: the lowest it has ever been since its introduction 47 years ago.

Equity with other transport modes

Fuel for civil aviation, including domestic flights competing with long-distance coaches, is duty-free under the 1944 Chicago Convention. The wealthiest quintile of the population benefit most from domestic aviation and the poorest quintile rely most on buses and coaches. Therefore giving a greater excise duty benefit to civil aviation than to buses redistributes wealth from the poor to the rich. The BSOG reduction in April 2012 increased the redistribution of benefit away from the poorest quintile while protecting the benefit to the richest.

Operator bankruptcies since BSOG was reduced

Since the reductions in April 2012 a number of relatively small, independent bus and coach operators have ceased trading and gone into receivership.

It is not possible to exclude a Treasury-imposed increase in fuel costs from the reasons for which these and other operators have ceased trading.

Misrepresenting BSOG's effects

In the DfT's *Impact Assessment*, the "Summary: Interventions and Options" on page 1 claims "*as BSOG is linked to fuel consumption, [bus operators] receive more subsidy if they increase consumption which suggests it is poorly linked to environmental objectives*". Given that the rebate is only 64% of fuel costs, there is already a strong cost incentive for operators to minimise consumption. The DfT's statement is therefore seriously misleading.

Even a 100% rebate would not reward bus operators for running unnecessary mileage, as (a) they would receive no more rebate than they had spent and (b) the rebate is only on the excise duty, not on the fuel price before duty is applied. 100% excise duty rebate would not mean free fuel.

DfT proposals

The current DfT proposals to "*reform*" BSOG rely entirely on a false assertion that it is a grant, and sets aside the truth that it is a rebate to bus operators on the fuel excise duty they have paid. Therefore the DfT proposals are flawed and misleading at the most fundamental level.

Section 5 (paragraph 19, page 8) specifies "*mode shift and lower congestion*" as "*The key policy objective of the proposed reforms to bus subsidy*", and sets "*Reducing carbon emissions from buses*" as "*an additional objective*". However, the proposals reverse this order of priorities (see below).

The DfT's *Impact Assessment* for the proposals acknowledges a fundamental risk in switching payments from bus operators to local councils. Section 6.2.2.2.2, paragraph 36 (page 11) claims the change would be cost-neutral to bus operators "*assuming [the payment] is spent on buses*", but offers no way of ensuring that local authorities would spend it as assumed.

Policy Option 2 – BSOG devolution in limited circumstances

Encouraging operators to reduce bus services

Paragraph 37 (pages 11–12) stresses that low-carbon buses such as electric hybrids cost significantly more than conventional diesel-powered ones. From this it draws the peculiar conclusion that the way to "help" bus operators buy lower emission buses is to force up fuel costs. It fails to acknowledge that the easiest response to forcing up fuel costs is for operators to simply withdraw or reduce those services on which it is harder to make a significant profit.

It also seems to operate in a false environment in which there are no cars, or no bus passenger has the option of using one. At typical rates of occupancy, all buses, not only the lowest-emission ones, tend to have lower emissions *per* occupant than cars. Any measure that reduces the cost difference between bus and car travel risks nudging travel choices away from buses and towards cars. This overturns paragraph 19 (see above) by prioritising bus CO₂ reduction ("*an additional objective*") while putting modal shift and lower congestion ("*the key policy objectives*") at risk.

Green Bus Fund

Paragraph 37 does not take into account the DfT's own Green Bus Fund (GBF) which since 2009 has off-set the cost of nearly 1,000 buses built with either hybrid propulsion or other forms of very low-

emission power. GBF awards helped bus operators to buy 349 buses in 2009, 169 in 2010 and 434 in 2012: a total of 952 low-emission buses in three years.

GBF payments to bus operators have in turn helped to establish volume production of hybrid drive trains and hybrid buses in the UK, which helps to reduce hybrids' cost premium over conventional diesel buses. UK bus builders are now starting to introduce buses designed from the start as hybrids, succeeding first-generation models that were simply hybrid versions of current conventional diesel models.

Encouraging councils to reduce bus services

Section 6.2.2.3, paragraph 40 (page 13) correctly acknowledges that switching BSOG payments from bus operators to local councils would tempt the latter to reduce spending on bus services and bank the savings. Its proposal *“to ring fence the devolved BSOG funding for a transitional period to avoid unnecessary turbulence in the bus market and for passengers”* offers no security after the transitional period. Nor does it say how long the transitional ring fencing would last.

Better Bus Areas

Railfuture supports the introduction of multi-operator and multi-modal ticketing, and better information to passengers including RealTime displays at bus stops (and inside stations with significant bus interchange), and automated next stop displays and announcements inside buses. However, section 6.2.4 offers no evidence for its assumption that changing BSOG is a legitimate instrument to persuade operators to take part in Better Bus Areas (BBAs).

Section 6.2.4.3, paragraph 51 (page 15) admits that devolving BBA funding to local authorities would increase costs by 6%, which would lead to either a 4% increase in fares, a 6% reduction in services or a combination of the two. It says *“a local authority will need to use the devolved resource to tender more services or agree a partnership arrangement with their local bus operators”* but offers nothing to ensure that a local authority would do so.

Paragraph 52 (page 15) states that BBAs may either increase carbon emissions or at best not reduce them. It then claims *“The increases in CO₂ emissions from the BBA policy need to be offset against the CO₂ emission reductions from not paying the BSOG directly to operators in BBA areas”*. This relies on the assumption that a 64% rebate on fuel duty is an incentive to burn more fuel than necessary. We have established in an earlier section that this assumption is false. Therefore it is entirely unsound to claim that reducing BSOG will reduce CO₂ emissions.

Paragraph 53 (page 15) promises to monitor BBAs for *“perhaps a three to four year period”*, but for this to be a *“light-touch monitoring system”*. Given that monitoring is not regulation, what does the DfT mean by *“light-touch”*? Does the DfT not want to scrutinise closely and carefully the effects of its own actions?

Policy Option 3 – BSOG devolution in all circumstances

Encouraging councils to reduce bus services

Section 6.3.1, paragraph 54 (page 15) would leave local authorities *“free to use the resource as they see fit. The impact of this option depends crucially on how the local authority decides to use the devolved resource”*. It does nothing to limit local authorities' choice of how to spend the BSOG payment. What would stop a local authority spending its 'un-ring fenced' BSOG on car parks, a new road, or school buildings or public libraries?

Paragraph 6.3.3, paragraph 59 (page 16) admits that devolving all BSOG payments to local authorities would increase costs by 6%, which would lead to either a 4% increase in fares, a 6% reduction in services or a combination of the two. This is the same level of damage as paragraph 51 predicts for BBAs in option 2 (see above). It then contemplates local authorities *“buying back”* bus services that this reform would render un-commercial. Already 23% of bus services outside London are subsidised. It seems perverse to make more bus services subsidy-dependent.

Miscellaneous

Some of the points that section 7, paragraph 60 (pages 16–17) makes may be sound. BSOG is helpful for rail services, tourist services, port and airport courtesy buses and supermarket-funded free services, but it may be less damaging to reduce support for these services than for scheduled bus services. In particular, major supermarkets are highly profitable commercial enterprises for which free buses are a loss leader and not a significant cost.

The proposal to withdraw BSOG from scheduled coach services is unsound. The poorest quintile of the population is the one that most relies on long-distance coaches, which are more affordable than long-distance rail or domestic civil aviation. Already HM Government has withdrawn the subsidy that provided half-price coach travel for senior citizens and disabled people. This has caused fare increases for those types of passenger, thus deterring and reducing long-distance travel.

Withdrawing BSOG from scheduled coach services would increase this damage, and thus threaten the viability of some routes. This could cause some services to be reduced in frequency, and other services that are already down to only one coach each way *per day* could be withdrawn altogether.

Paragraph 60 does not consider mileage in which buses are not in passenger service, commonly termed “dead” mileage because it does not earn revenue. However, the *Consultation on Bus Subsidy Reform* document proposes withdrawing BSOG for such mileage under Option 2 (paragraph 4.45, page 18).

If it were administratively feasible to withdraw BSOG from dead mileage, it might be reasonable to do so. This might increase the incentive for operators to plan vehicle movements with as little waste as possible. In the process of tendering for subsidised bus services, it should increase the competitive advantage of bus operators whose bases are nearest the tendered route(s), rather than subsidising less local operators to win the contract and run significant mileage between a depot and a bus route without carrying passengers.

Concessionary travel reimbursement

The *Impact Assessment* concentrates largely on reforming BSOG and gives very little attention to the English National Concessionary Travel Scheme (NCTS). Section 8 skims over the NCTS in one paragraph (paragraph 62, page 17). The *Consultation on Bus Subsidy Reform* document’s treatment of the NCTS (paragraph 4.67, page 22) is even more cursory and less satisfactory.

HM Government may have underestimated the uptake of the NCTS before introducing it in 2008–09. Certainly it has never adequately funded it. The ideal that bus operators should be reimbursed at a rate that leaves them neither worse nor better off has been fulfilled in relatively few counties and unitary areas. Spending cuts have sharply reduced that number. Initially some local authorities refunded operators at up to 75 pence in the pound. The average repayment was already falling before the 2010 Comprehensive Spending Review, which sharply reduced local authority budgets and withdrew ring fencing for NCTS reimbursements. Typical NCTS reimbursements are now in the order of 40 pence in the pound.

This is low enough to make NCTS passengers unattractive to operators, which in turn is endangering an increasing number of routes and operators that have a high proportion of NCTS passengers.

Mitigating Options 2 or 3

One of the dangers of options 2 and 3 is that they treat ring fencing as a transitional arrangement that would be for only a limited period of three or four years. After the CSR withdrew ring fencing for the NCTS, many local authorities reduced the rates at which they reimburse bus operators. The withdrawal of BSOG ring fencing would have a comparable harmful effect on bus services.

Conclusions

Neither Option 2 nor Option 3 is acceptable. However, nor is Option 1 sufficient.

BSOG should not be transferred to local authorities. HM Government should continue to pay it to operators, and should increase it in stages from the current 64%, eventually reaching 100% after few years. There should also be parity between fossil fuel costs for bus, coach and rail services, all of which are mutually complimentary forms of sustainable low-carbon transport.

Applying excise duty to fuel for civil aviation within the UK should mitigate the cost to HM Treasury. The UK should also seek to extend this redress by seeking agreement with all EU member states to apply excise duty to fuel for flights anywhere within the EU.

BSOG could be withdrawn from tourist and excursion services, courtesy buses and free supermarket buses, and from “dead” (non-revenue-earning) bus and coach mileage. However, it should continue to be paid to all revenue-earning scheduled bus and coach services.

The misleading name BSOG should be discontinued and the original, correctly descriptive name “*Fuel Duty Rebate*” should be restored.



If, against our recommendations, Option 2 or 3 is implemented, ring fencing should be permanent, not transitional. Otherwise fare increases; service reductions and consequent congestion increases will result.

We trust these comments will be of assistance.

Yours sincerely,

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