

26 May 2023

BUS FUNDING

Purpose

- 1 To provide an update on the latest position on bus funding and seek Leaders' support for the approach being taken to manage the available funding over the rest of this financial year.

Background

- 2 The ways in which bus service costs are met are complex. They vary both between and within council areas and have also been subject to constant change over time. Some services attract high numbers of fare paying passengers and can be run on a relatively commercial basis. Other services, that cannot be run commercially but are considered important for communities, may be subsidised from councils' own budgets. Under the mandatory concessionary fares (MCF) scheme, reimbursements are made to operators to make sure they are 'no better and no worse off' as a result of providing free transport to those who are eligible. The funding to cover those concessionary journeys comes from a combination of the Welsh Government and councils¹. In addition, £25m has been made available via the Welsh Government's Bus Services Support Grant, it has been frozen at that level since 2013². A number of councils combine home to school transport with public bus services, so they cross-subsidise each other. There are other sources of funding for services too, such via s106 agreements and contributions to the cost of discount schemes (e.g. My Travel Pass for young people).
- 3 During the Covid pandemic, the number of fare-paying and concessionary passengers fell dramatically. Without intervention the operators would have been forced out of business. The Welsh Government stepped in and introduced the Bus Emergency Scheme (BES). This pulled together and topped up a range of pre-Covid bus budgets and enabled operators to make claims to cover their loss of income. BES has gone through three iterations; each time being operated as a Public Services Obligation³. Payments to operators have been made in advance, with a subsequent reconciliation process to ensure that no operator is over-paid or under-paid once returns for the period are received and analysed.

¹ £10.3 m has been the contribution from councils, frozen since 2013/14. Some councils make more and some make less than their 'Green Book' allocation, reflecting concessionary schemes operated before the national CF scheme was introduced in 2002.

² In April 2014 BSSG replaced the Regional Transport Services Grant (RTSG). RTSG itself replaced the previous Local Transport Services Grant and Bus Service Operators Grant in April 2013. The LTSG element was cut from £11m to £8m and BSOG from £22.6m to £17m, resulting in an overall reduction from £33m to £25m. BSSG is paid to operators on the basis of live kilometres operated. Payments are managed by councils working together on a regional basis.

³ A PSO in this context is "*a requirement determined by a competent authority in order to ensure public transport services in the general interest that an operator, if it were considering its own commercial interests, would not assume or would not assume to the same extent or under the same conditions without reward*".

- 4 BES 3 was due to end at the end of 2022/23. On 10th February 2023 the Deputy Minister for Climate Change (DMCC), Lee Waters MS, announced an extension of BES 3 until the end of June. This was subsequently extended further, until July 24th, to coincide with the end of the summer school term and avoid any disruption to home to school transport. It was also due to recognition that passenger numbers (and therefore operators' 'income') have not recovered to pre-Covid levels, especially among concessionary fare passengers.
- 5 In the meantime, the DMCC has urged councils, bus operators and Transport for Wales to work intensively with the Welsh Government to agree networks that can be sustained once BES funding ends (i.e. a reversion to pre-Covid funding arrangements and a mixture of commercial and s63⁴ services).
- 6 Those discussions have been taking place, but operators were reluctant initially to disclose details of planned changes to their services as (i) this information is commercially sensitive and (ii) there was uncertainty over post-BES financial arrangements. The latter has made it difficult for them to determine which services they believe they can continue to run, which will need to be operated with reduced frequency and which to stop running and to deregister (in which case notice has to be given to the Traffic Commissioner). They also have had to consider staff implications, with the requirement to give 90 days' notice of any planned redundancies that might result from running fewer services.
- 7 Part of the uncertainty has been over the level of concessionary fare reimbursement post-BES3. Operators have been pressing for that to be updated to reflect the inflationary pressures they face (especially fuel and labour costs). Knowledge of likely income from MCF is crucial on routes that have depended heavily on MCF income, to help operators determine if they will be able to continue to run them or not.

Latest developments

- 8 In light of the serious concerns over likely cuts to services across Wales a number of significant developments have taken place over recent weeks, as follows:
 - The DMCC called all stakeholders together to get agreement on the way ahead
 - All operators were required to let councils know by 21st April their planning assumptions regarding service changes they might make at the end of July
 - Regional meetings⁵ have been organised by TfW bringing together Welsh Government, TfW, councils and, more recently, operators. These have been taking place several times a week
 - The DMCC has been meeting with all stakeholders at least once a week and daily meetings of officials have been taking place to report progress and identify issues

⁴ Under s63 of the Transport Act 1985 local transport authorities must: "secure the provision of such public passenger transport services as the council consider it necessary to meet any public transport requirements within the county which would not in their view be met apart from any action taken by them for that purpose".

⁵ South East, South West and North Wales are meeting as regional groups whilst meetings with Powys and Ceredigion are on an individual basis.

- There has been an ongoing political dialogue between the DMCC and Cllr Andrew Morgan as WLGA's Leader and Spokesperson for Transport
- The DMCC has indicated to operators that he plans to approve a 10.1% increase in MCF reimbursement to reflect inflationary pressures and close off one area of uncertainty for them
- Work has been undertaken to assess how much underspend on the MCF budget might be available this year due to reduced patronage. The 'best estimate' is that £20m could be freed up from the MCF budget to use between July 24th and the end of the financial year. This would have to be made available 'at risk' by Welsh Government as, if CF passengers were to increase substantially, the level of underspend might be lower than this. However, there is also the potential that not all of £24m in the budget to cover BES3 until 24th July will be used. However, as final spend on BES will be subject to reconciliation, it is too early to speculate as to whether that will be the case or not.
- Two options have been considered:
 - (i) to end BES and allocate the £20m to councils to try and negotiate tenders for services that would otherwise be reduced or cut altogether or
 - (ii) to extend BES in a slightly different form, using the £20m to continue to reimburse operators, but based on a reduced network
- Following detailed discussions, option (i) has been pretty much ruled out due to the unrealistic time pressures it would impose on councils and the risk of mass disruption for travellers that could occur if large gaps in provision were to emerge whilst tenders are still being sorted out.
- Therefore, each region has been working on the basis of option (ii). The Welsh Government has taken legal advice and an extension does appear possible. Each region is trying to agree which services can be run on a commercial basis, where efficiencies might bring down costs (e.g. elimination of cases of duplication of services by different operators; reducing use of agency drivers) and what 'at risk' services councils might support (e.g. especially where home to school transport is provided on public bus services).
- Consideration is currently being given to how the £20m could be allocated across Wales to help support services in each region and reduce the scale of cuts needed.
- The DMCC has pointed to the work in each region as a step towards the approach that will be needed under the franchised model the Welsh Government is pursuing via proposed legislative change.

9 It is clear that £20m will not be enough to sustain the current network and there will have to be cuts to services. The DMCC has made it clear that there is no more money at this point and BES cannot continue indefinitely (either legally or financially). Therefore, a way has to be found to scale the network down to reflect the current, lower number of passengers using buses. If good progress is made and can be clearly evidenced, though, the DMCC has not ruled out the possibility of making a case within the Welsh

Government for further funds later this year. It will not be possible to make that case, he has stated, if he can't demonstrate progress being made or if councils and operators take no action and simply look to preserve the status quo. From 2024/25, the network will need to be at a scale that can be supported from pre-Covid levels of funding. Only if fare box income starts to recover and more people can be encouraged to use the bus will it be possible to look at service enhancements. That, of course, will be all the more difficult as travellers react to service reductions and, possibly, make decisions over their mode of transport that result in modal shift moving in the *opposite* direction to that sought by the Wales Transport Strategy. The WLGA Bus Member Group⁶ met on 2nd May to discuss the current situation. It called for radical action to encourage people back on to buses, including reconsidering the current arrangements for concessionary fares. The point was made that a concessionary fare bus pass is no use to someone if they have no services running in their area.

- 10 There is agreement amongst all concerned that the current situation is very fragile and some service cuts are now inevitable. Each region will look at its potential share of the £20m and be able to point to dire consequences. For rural areas, councils have forcibly argued that any cuts to already limited services will result in more communities with no service at all. For the more urban areas, where the majority of bus funding is concentrated, the scale of lost income will be in the millions, so networks will have to be reduced substantially.
- 11 Consequences for home to school (HTS) transport in all areas have also been highlighted. If operators withdraw crucial services that currently carry children to school, councils will still need to meet their statutory HTS transport duties. They will be faced with having to go to tender, either for a closed HTS contract or for a subsidised public service. Either way there is the expectation that costs will be substantially higher than at present. For pupils *not* entitled to statutory HTS transport but currently paying to use public buses, withdrawal of those services could deny many their usual way of getting to school.
- 12 It has also been made absolutely clear in meetings that whilst the regional work by officers can *propose* network changes, these will still need to be subject to political agreement. Bus service cuts inevitably are highly sensitive and any such cuts, and the decisions over which services councils' step into support, will need to be taken by Members in each authority.
- 13 Councils find themselves in a position not of their making but are at risk of being blamed when services are cut. The 'least worst' option would appear to be to continue with the regional work, which has been productive to date, and seek to 'share the pain' as equally as possible. That means attempting to balance issues of community isolation in rural areas with the scale of losses in urban areas. The two main opportunities, looking ahead, are that Welsh Government may be able to identify additional funding later in the year and that BES reconciliations work out favourably. The latter could either be the source of the additional funding or could supplement other funding that is identified.

⁶ Given the seriousness of issues affecting buses at present, WLGA Executive Board agreed to re-establish this Group which existed prior to the May 2022 elections. It is chaired by Cllr Andrew Morgan and includes the chairs of each of the four regional transport bodies and the WLGA's Rural Spokespersons.

Recommendations

14 Members are recommended to:

14.1 Endorse the work that is currently underway to manage service reductions as sensitively as possible, whilst also enhancing the prospects of additional funding being identified later in the financial year.

Author: **Tim Peppin, Director of Regeneration and Sustainable Development**

Tel: 07747 483761

E-mail: tim.peppin@wlga.gov.uk