

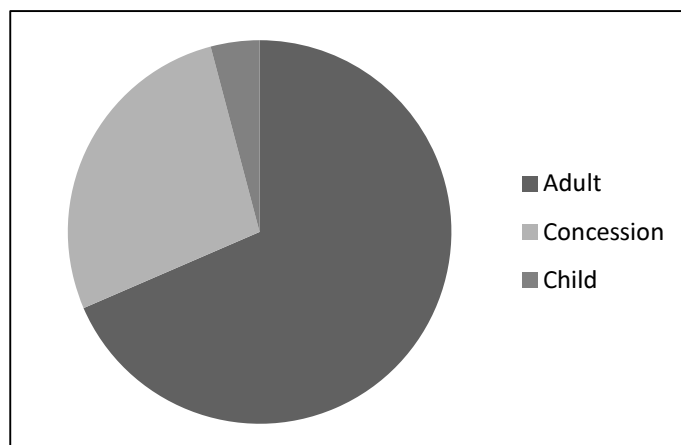
Local Bus Analysis

Proposals for the Local Bus element of the Transport Review are supported by detailed analysis of the usage, funding, and wider context of the service. This was undertaken by the Review team in seven workstreams during the winter of 2013-14.

1. Passenger Journeys

Each year 29.2 million passenger journeys (2013/14 figures) are made on buses in Surrey. This includes both commercial and SCC-supported services, and those run by Transport for London. These break down as follows:

- 20 m by fare-paying adults
- 8 m by concessionary pass holders
- 1.2 m by schoolchildren



Local buses are sometimes perceived as being provided mainly for older people. But in fact most users are fare-paying adults, who are essential to the services' commercial viability. Within the figure of 29.2 m journeys:

- 12.4 m journeys are made on commercial services
- 16.8 m are made on services supported by Surrey County Council

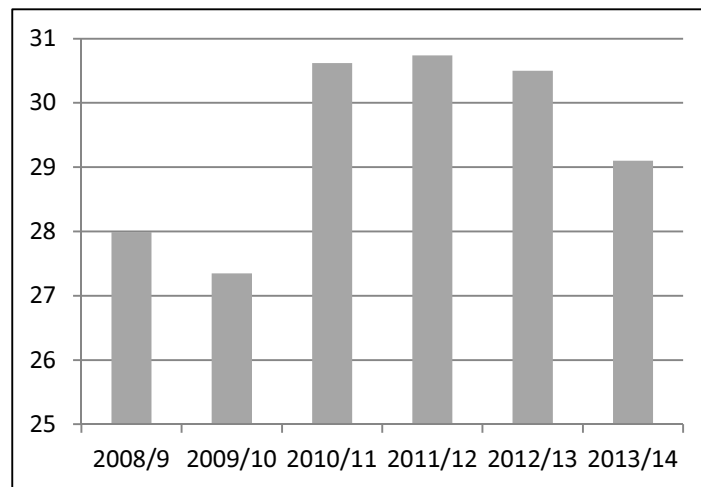
Analysis of provision by neighbouring County Councils (Annexe C) shows that the proportion using commercial services is lower in Surrey than in other County areas, for a variety of demographic and historical reasons.

Bus patronage has remained reasonably constant in recent years. The underlying trend has been an increase, caused probably by:

- The growth in Surrey's population – approx 10,000 extra people per year
- The recession post 2008, which caused some switch from car to bus use

The national trend has been for both passenger numbers and satisfaction to increase in recent years.

Equally services and therefore some travel opportunities were reduced during the Bus Review from 2010 to 2012. These are the total patronage figures during this period:



The figures show a relatively small variation, between 27.3 m and 30.75 m. Due to various changes in national guidance for collecting patronage data, these variations may not be significant in real terms.

2. Statutory Requirement

Since the bus market was de-regulated, the onus of providing local bus services lies with the commercial sector of the market. Bus operators will only offer a service if it is commercially viable. If commercial provision is deemed inadequate, transport authorities may supplement it by funding “socially necessary” services, as required by:

- The Transport Acts 1985 and 2000
- The fact that many services take statutory-entitled pupils to school, meeting requirements of the Education Acts 1944 and 1996, and the Education and Inspection Act 2006

There is no legally defined ‘statutory minimum’ for bus provision, which has never been defined by case law. For example, in February 2011 Cambridgeshire County Council decided to save £2.98m pa by removing all subsidy for local bus services over a 4-year period. This would be replaced by £220k pa of extra support to community transport for 2 years. In Cambridgeshire subsidised journeys account for 20% of all journeys.

Supported by the (national) Campaign for Better Transport and a local action group, a local resident launched a legal challenge to this decision, on the basis of:

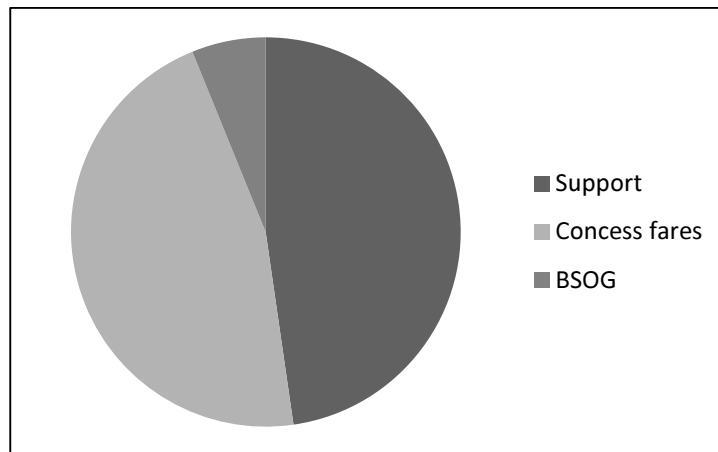
- The 1985 Transport Act
- Disability, Race Relations, and Sex Discrimination Acts

The case did not go to court, but in August 2011 Cambridgeshire CC suspended the reductions and agreed to pay costs to the local resident. In January 2012 the Council allocated £1.5m revenue to create a ‘Cambridgeshire Future Transport’ programme based on stimulating targeted community transport solutions.

3. Funding Support

SCC supports the Surrey bus market with three different forms of payment:

- Direct revenue support for socially necessary services, as above
- Reimbursement to bus operators for the fare they have foregone by giving free travel to a concessionary pass holder. This is a statutory obligation, not a subsidy.
- 'Bus Service Operators Grant' (BSOG), a fuel duty rebate to bus operators. Until recently this was paid directly by central government, but the funding was transferred (ring-fenced) to transport authorities from 1st January 2014.

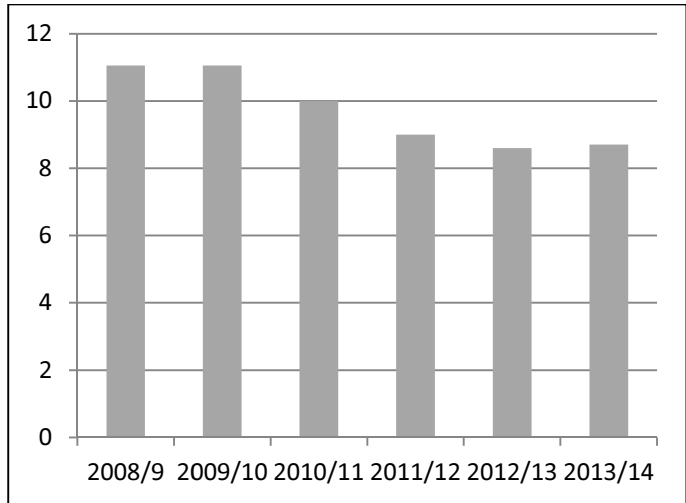


Budgeted revenue spend for the current year (2014/15) is:

- | | | |
|-------------------------------------|-----------------|---------------------|
| • Local bus support | £8.949 m | |
| • Concessionary fares reimbursement | £8.676 m | [Mainly DfT funded] |
| • BSOG | £1.125 m | [Mainly DfT funded] |
| TOTAL | £18.75 m | |

The local bus support element is subject to the underlying cost pressures described in para. 7. of the Cabinet report. Support costs were rising rapidly during 2008-9, so the Bus Review project was commissioned to find ways of reducing this spend.

Following wide public consultation during 2009-10, service changes and reductions were introduced on a phased basis during 2010 to 2012. These reduced local bus support costs significantly:



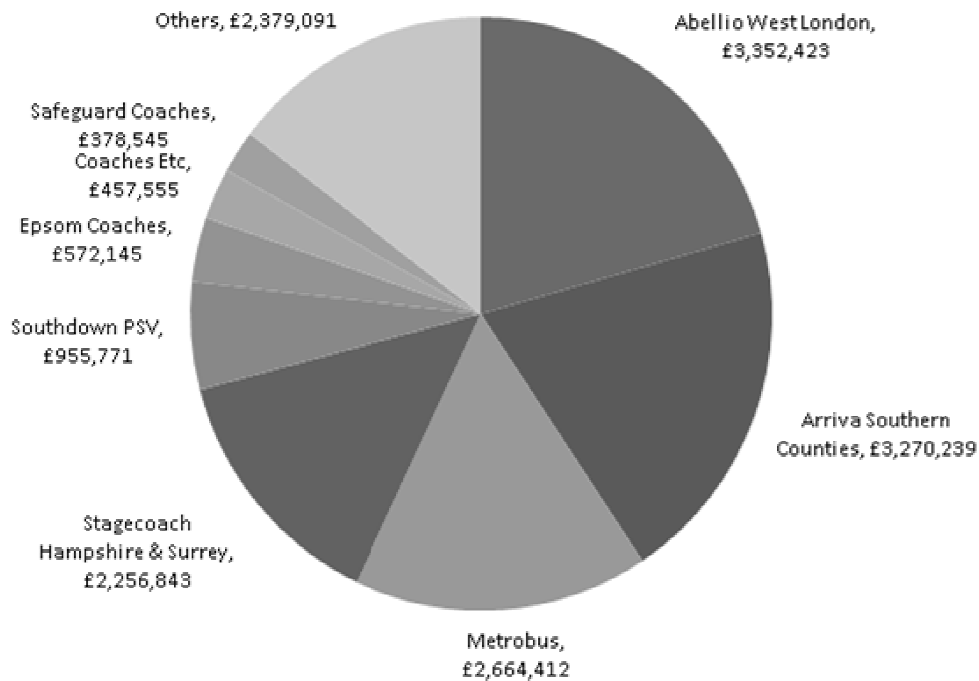
4. Bus Operators in Surrey

Within the Review, SCC Procurement have analysed the local bus market in Surrey, in the context of national trends and company structures.

Nationally bus travel accounts for two-thirds of all public transport journeys, and passenger numbers have grown in recent years. The bus market is forecast to rise by 28% in value between 2007 and 2016. Operating profits remain reasonable, at an average of 12% across the South-East.

This shows SCC's spend with all the local bus operators in Surrey:

**Aug 2012-Jul 2013 SCC Local Bus spend
(incl Concessionary fares)**



The Surrey market is dominated by four of the large players – Abellio, Arriva, Metrobus (Go Ahead), and Stagecoach. First Group is prominent in Hampshire, but not here in Surrey.

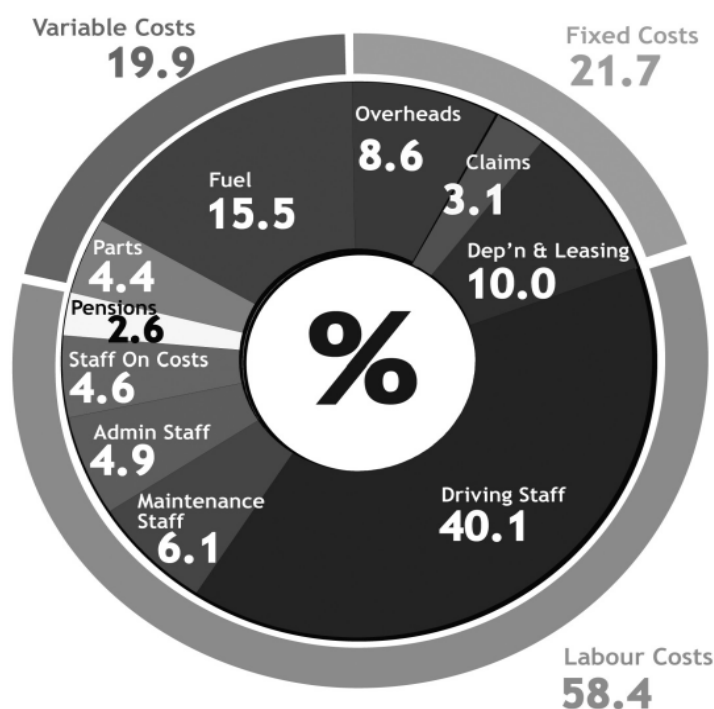
Each of the large players tends to have a recognised local bus ‘territory’, while the smaller companies often specialise in more localised or school services.

The four large operators are each part of national or Europe-wide companies: for instance Arriva is owned by Deutsche Bahn, an international transport and logistics corporation., while Stagecoach has world-wide interests. SCC closely monitors wider developments, such as mergers and takeovers, in the transport industry.

Close productive relationships are maintained with all bus operators, and any proposals for network review are fully shared with them in order to maximise cost efficiency.

5. Operating Costs

The Review has analysed the cost breakdown of running a bus service:



This shows that the largest single cost is the wages paid to the driver, at 40% of the total. This has prompted consideration of possible community-based alternative provision in suitable cases, based on using volunteer drivers.

The fuel component is offset by the BSOG payment described above. Up to 1st January 2014 this was paid directly to operators, but from that date BSOG for tendered services was transferred to local transport authorities. At present the funds are ring-fenced, but if the government were to further review the scheme, this could introduce a cost pressure.

Fuel costs for operators rose significantly between 2009 and 2011, but have stabilised during the last three years.

6. Market Forces

The Review has analysed the Surrey bus market in terms of 'Porter's Five Forces' – ie:

- Industry and competitive rivalry
- Buyer and supplier bargaining power (2 factors)
- Threat of new Entrants to the market
- Threat of substitute modes of transport

The main conclusion is that competition in Surrey is not yet perfect. There are a limited number of suppliers with the capacity to take on our major contracts, and significant cost and logistical barriers to deter new entrants.