

## REGENERATION AND ENVIRONMENT SCRUTINY COMMITTEE – 21ST MAY 2013

**SUBJECT: REVIEW OF SUBSIDISED LOCAL BUS SERVICES**

**REPORT BY: ACTING DEPUTY CHIEF EXECUTIVE**

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### 1. PURPOSE OF REPORT

- 1.1 This report provides a review and recommendations to reduce the number of subsidised local bus service contracts in the light of the Welsh Government's reduction in the Local Transport Services Grant (LTSG) allocations to local authorities.

### 2. SUMMARY

- 2.1 This report quantifies the scale of the cuts to revenue funding for local bus services implemented by the Welsh Government (WG) for 2012/13 and 2013/14 together with the previously confirmed savings to the Council's internal revenue budget for subsidised local bus services identified under the Medium Term Financial Plan (MTFP).
- 2.2 Appendix 1 to this report identifies local bus service contracts with the highest subsidy per passenger and considers the impact of withdrawing these services, with recommendations to terminate a number of services to remain within the reduced budget available in 2013/14.

### 3. LINKS TO STRATEGY

- 3.1 This report links directly to Objectives 6 and 15 of the Council's Community Strategy; namely: *Encourage the improvement of town and village centres as a focus for community pride, with accessible services and activities for all.* and 15 – *Develop integrated, efficient local and regional transport systems including public transport, cycling and walking networks.*
- 3.2 It also links directly to the Council's Strategic Equality Objective 3 - Physical Access - *'To improve physical accessibility in terms of living in, working in, learning in, travelling around and visiting the county borough.'*

### 4. THE REPORT

#### Background

- 4.1 Most local bus services in the county borough are provided on a commercial basis by private bus operators and the Council pays no direct subsidy for these services. The Council reimburses operators for the carriage of concessionary passengers within the county borough, whilst operators are entitled to claim BSOG (Bus Services Operators Grant), which is effectively a partial rebate on fuel duty for buses operating local bus services (it can be claimed on both commercial and subsidised routes).

- 4.2 Within the county borough, around 80% of local bus services are commercially operated and receive no direct subsidy from the Council. It is estimated that over 10 million passengers are carried on commercial and subsidised routes serving the county borough annually.
- 4.3 The Council supports services that are not commercially viable, including some early morning and daytime services and all evening and Sunday journeys. Where services cross local authority boundaries, a lead authority secures the service and recharges the other authorities involved. At the start of the 2012/13 financial year, the budget provided for local bus services in the county borough was £1.262 million, of which £506,882 was allocated directly from the WG in the form of LTSG. The WG indicated that the allocation would be reviewed (following an initial announcement in January 2012 that it would be cut by 27% from 1st April 2012) and subsequently confirmed in July 2012 that it would cut the allocation of LTSG to all local authorities by 10% for the current financial year, along with a similar cut in BSOG for bus operators, effective from October 2012 (in effect therefore, a 20 % cut in funding from 1<sup>st</sup> October).
- 4.4 Since the LTSG Scheme was introduced over a decade ago, the Council has been using the grant awarded by the WG to supplement its own budget in the funding of local bus service contracts and new flexible transport services provided by the Council's in house operation – Connect2. This has enabled a number of improvements to be implemented to the public transport network across the county borough. It has also meant that by packaging work to ensure vehicles are efficiently utilise, the Connect2 service has successfully taken over the operation of a small number of contracts that were previously operated by external transport providers, reducing the overall subsidy cost to the Council by more than £17k per annum.
- 4.5 For 2013/14, the WG confirmed it has cut revenue support for bus services in Wales by £8 million (from £33m to £25m). This represents a 25% cut in the amount of LTSG allocated to local authorities and a 25% cut in BSOG funding for operators (including for Community Transport organisations and local authorities). For BSOG the cut is further compounded by the announcement that the grant has been capped for the first time. Such a reduction in BSOG will result in certain marginal services no longer being commercially viable to operate. In this situation, the Council would have to consider funding additional socially necessary bus services to replace those being withdrawn by the bus companies. The paradox is that the marginal bus services, which were just viable on a commercial basis before a cut in BSOG, carry more passengers than the services that the Council supports and currently considers to be socially necessary. The extent of the impact these cuts will have on commercial services is not yet known, but it is clear that there will be a need for further reviews of the subsidised service network as bus operators react to the reduction in funding.

### **Budget and Service Implications**

- 4.6 For Caerphilly, the direct effect of these changes is a £126,670 reduction in LTSG for 2013/14 (compared with 2011/12, the last year of full LTSG allocation). The effect of the reduction in BSOG is difficult to quantify, but from figures supplied by the main operator in the county, Stagecoach, and corroborated by information from the Department for Transport, a 25% cut in BSOG will equate to an increase in its operational costs of over £1 million across the company, that serves most areas of south east Wales. As part of the Medium Term Financial Plan (MTFP) for Caerphilly, a £75k reduction in the Council's budget for subsidised services has been identified for 2013/14 (a 10% cut, based on the current budget). The cumulative saving required in 2013/14 is therefore £201,670.
- 4.7 These reductions in funding will impact on the improvements to accessibility, which the Council has been striving to deliver through an enhanced local bus network. There is a concern that the overall reduction in revenue funding will destabilise the bus service network, losing passengers, which may never be recovered. The subsidy cuts, together with the currently unquantifiable impact of the reduced rate of BSOG will unbalance our transport priorities, leaving the Council with the difficult choice of either focusing on the reduction of social exclusion at the expense of providing a more convenient core bus service for a larger

number to use as an alternative to the private car or vice versa. Without careful planning, there is a risk that the bus service network would become disjointed, no longer provide an attractive, sustainable alternative to the car or meet the social cohesiveness sought by the Community Strategy.

### **Review of Local Bus Service Contracts**

- 4.8 In the light of these challenging conditions, this report examines the scope for the Council to achieve the necessary savings through an evaluation of the subsidised local bus service contracts with the highest subsidy per passenger cost. It is worth noting that Caerphilly has one of the lowest overall subsidy per passenger levels in Wales, being ranked lowest out of the 22 local authorities in Wales in 2010/11 (the latest data available). This has been achieved by letting contracts as efficiently as possible, through packaging services and carefully matching resources to demand – an illustration of this was the revised Sunday local bus network introduced in July 2011, which has seen passenger growth of 20% compared with the previous network. All contracts have been renewed within the past 18 months for a 5-year period and require the Council to give 12 weeks notice of termination to the operator.
- 4.9 A review of the 64 contracts has been undertaken and Appendix 1 identifies the action necessary to maintain services within the reduced budget available. This includes in detail the individual contracts, their cost and usage, whether alternative services exist, the implications for passengers, the scope to reduce costs and the action proposed. This includes all contracts with a subsidy of greater than £3.50 per passenger, with recommendations to retain certain contracts where it is felt the withdrawal would particularly isolate communities and leave residents with no alternative service.
- 4.10 If implemented, the potential savings in expenditure will ensure that the Council is able to react, as effectively as possible, to the substantial reduction in its 2013/2014 budget for supporting local bus services. It can be seen that the course of action set out in the Appendix is measured and targeted at contracts with the highest costs per passenger to ensure that the impact is minimised. Whilst, the cuts proposed will affect over 50,000 passenger journeys each year and reduce the overall spend on subsidised bus services by 15%, they will directly affect only 3% of passengers carried on subsidised services. However, the cuts will undoubtedly cause hardship for many. Whilst this report highlights the various measures that the Council can take at the present time, a great deal of uncertainty remains as to whether the Council will face further budgetary pressures during 2013/14. This is expected to follow from the changes to the commercial local bus network in Caerphilly, as a result of the reduction in BSOG funding, and will need to be closely monitored. A further review of contract reductions may well be necessary in order to minimise the pressure on the Council's local bus service budget in the remainder of 2013/14 and beyond.
- 4.11 As part of the ongoing MTFP, officers have also been asked to identify the effect of an additional £50k cut in funding to the Council's bus subsidy budget from 2014/15. This is more difficult to quantify at this stage, as the implementation of the cuts in revenue funding proposed in the Appendices to this report, along with the inevitable but as yet largely unknown cuts to commercial routes and service levels by operators in reaction to the cut in the BSOG rate will require a re-evaluation of priorities.
- 4.12 However, the first changes to services are now known and can be summarised as follows:-
- Service 56 (Blackwood to Newport via Ynysddu). Stagecoach increased the frequency of this service in January 2012 from half hourly to every 15 minutes. This has not generated sufficient demand to be sustainable, particularly following the cut to BSOG, so has reverted to a half hourly service from 7th January 2013.
  - Service 151 (Blackwood to Newport via Newbridge). Saturday service reduced from every 10 minutes to every 12 minutes to save resources overall because of lower demand for travel on Saturday and a consequence of the cut to BSOG.
  - Service X38 (Bargoed to Pontypridd) – Monday to Saturday route was withdrawn by Glamorgan Bus after operations on Saturday 2nd February 2013 as a consequence of

increased operational costs and the cut in BSOG. Fortunately the N.A.T Group (New Adventure Travel) has registered the service commercially. The new operator will monitor the financial performance of the service in the coming months to determine whether it is viable in the longer term.

- Glamorgan Bus subsequently gave notice to the Council that it would cease to trade after operations on 2nd March 2013. Part of the reason given for closing down the business was the cuts to bus funding and the impact this will have on the business. The company provides 3 tendered daytime services in the Caerphilly town area, which would cost an additional £25,000 per annum to operate based on the second lowest tenders submitted. Officers are working with operators to cover services within the current costs and will achieve this by repackaging some of the services and covering one of the routes with Connect2, avoiding further pressures on the reduced budget.

These changes are a direct consequence, at least in part, to the cut in BSOG from 1<sup>st</sup> October 2012 and with a further cut due from 1<sup>st</sup> April, it is anticipated that the Council will experience further cutbacks to routes that currently operate on a commercial basis, or operators giving notice of termination of existing contracts for local bus services.

## **5. EQUALITIES IMPLICATIONS**

- 5.1 Any reduction of public transport services could potentially have a negative impact on service users, and the negative impact will be even greater on those who fall under one or more of the protected characteristics (as noted in the Council's Strategic Equality Plan), who have no other affordable or accessible means of transport.
- 5.2 The Council recognises that older people, people with disabilities and young people who are seeking education or career opportunities for example, would be significantly affected by cuts to public transport services; however Section 4 above clearly notes the steps taken to mitigate the negative impact as far as possible at present, within the circumstances the Council is operating under due to the cuts in revenue funding.

## **6. FINANCIAL IMPLICATIONS**

- 6.1 It will be necessary to make the savings identified to maintain services within budget. The direct effect of these changes is a £126,670 reduction in LTSG for 2013/14 (compared with 2011/12, the last year of full LTSG allocation). As part of the Medium Term Financial Plan (MTFP) for Caerphilly, a £75k reduction in the Council's budget for subsidised services has been identified for 2013/14 (a 10% cut, based on the current budget). The cumulative saving required in 2013/14 is therefore £201,670.

## **7. PERSONNEL IMPLICATIONS**

- 7.1 None.

## **8. CONSULTATIONS**

- 8.1 The report has been amended to accommodate all comments made during consultations. A Member's Seminar was held on Wednesday 6th March 2013. Prior to this, a briefing report and the Schedule of proposed cuts (Appendix 1) was circulated to all Councillors, whilst a presentation was given at the Seminar, with time allowed after for questions to be asked. Appendix 2 identifies the Councillors who attended, together with a summary of the questions raised. There are no changes to Appendix 1 proposed following the Member's Seminar.
- 8.2 The briefing note and Schedule of proposed cuts (Appendix 1) has been circulated to Town and Community Councils and Community Partnerships for consultation (between 14 March

and 26 April). Those comments at the time of preparing the report are included in Appendix 3. Any other comments received thereafter from this consultation will be reported verbally at the Scrutiny Committee.

## **9. RECOMMENDATIONS**

- 9.1 It is recommended that Members review the content of the report and the appendices.
- 9.2 That Members comment on the report so that this can be included in a subsequent report to Cabinet.
- 9.3 That Members comment on the proposal to formally review the services in 12 months to evaluate any further impact arising from changes to commercial services or further WG funding cut announcements. .

## **10. REASONS FOR THE RECOMMENDATIONS**

- 10.1 To maintain services within the reduced revenue funding available to support local bus services in 2013/14.

## **11. STATUTORY POWER**

- 11.1 Transport Acts 1985 and 2000.

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Appendices:  
Appendix 1: Review of Local Bus Service Contracts  
Appendix 2: Summary of Comments from Members Seminar  
Appendix 3: Summary of Responses from Town & Community Councils and Community Partnerships