The Chartered
Institute of Logistics
and Transport

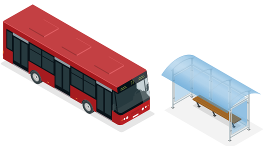
CILT(UK) BUS & COACH FORUM

Bus reform: survey of senior directors of local bus service operators

SUMMARY OF FINDINGS
JUNE 2016

The Chartered Institute of Logistics and Transport in the UK (CILT(UK)) is a professional institution embracing all transport strategy, planning and delivery on behalf of its members, who are engaged in the provision of transport services for passengers and freight, the management of logistics and the supply chain, transport planning, government and administration.

Our principal concern is that transport policies and procedures should be effective and efficient, based on objective analysis of the issues and practical experience, and that good practice should be widely disseminated and adopted.



Introduction

CILT's Bus & Coach Forum focuses on the professional planning, management and operation of local bus and long-distance coach services. We aim to achieve this through understanding and representing the concerns of all parties to the provision of bus and coach services, encouraging mutual understanding between different parties, and facilitating training and development among staff working in the industry in its broadest sense: private and public sectors, across policy, planning and delivery of services.

The Forum has engaged with the Department for Transport's (DfT) bus reform process, including attendance at one of the workshop sessions held in autumn 2015 and sending a response to the DfT's: Background Document issued at the workshop – see http://bit.ly/BusReformCILT.

The Forum had concerns that medium-sized and smaller operators may not have been able to participate in DfT's engagement process on a comparable basis to the large group operators, so that some of the implications of bus reform might not be fully appreciated through the channels that were in place:

- The potential creation of service franchises or operating contracts across whole urban or rural areas could be a challenge for medium-sized and smaller operators that might not have the capacity to participate in such large-scale operations
- These operators could have an important role in sustaining bus services outside the major urban areas, as their lower cost base and closer connection with local stakeholders can enable them to provide services in areas that would be unattractive to the larger operating groups
- We considered that it was important that the views of a sample of medium-sized and smaller operators were presented alongside those of the large group operators on a comparable basis

To address this, we engaged Protel Fieldwork, an independent provider of market research services with substantial experience in the transport sector, to undertake research with 10 bus service operators in England. In order to achieve a degree of comparison across the industry, the research covered the five major public passenger transport groups and a sample of five medium-sized and smaller independent operators. While just 10 companies were covered by the survey, this sample represents the operators of around 90% of all local bus services in England outside London.

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Survey scope and sample

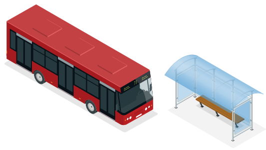
- Qualitative survey of sentiment towards DfT's bus reform agenda and process, and the commercial context
- A small selection of bus service operators in England outside London:
  - **Major transport groups** – all five (Arriva Bus, FirstGroup Bus, Go-Ahead Bus, National Express Bus and Stagecoach Bus)
  - **Medium-sized groups** – one company with operating subsidiaries in four regions of England
  - **Small independents** – four companies based in the Midlands, south-east and south-west of England: note, medium and small-sized operators in the northern regions are under-represented, because planned sample quotas were fulfilled through quick response from companies based in the Midlands and southern regions
- The research form was an in-depth interview with the managing director or a board member – for example, strategy director, with responsibility for the development of the operator's business and engagement with transport policy; the discussion guide provided by the Bus & Coach Forum to Protel Fieldwork is appended
- Conducted by telephone interview during February and March 2016
- The DfT's bus reform agenda is not applicable in Wales, Scotland and Northern Ireland; the major transport groups were asked to respond on the basis of their operations based wholly or primarily in England

Care in interpretation

It must be borne in mind that the survey was of a small sample of small and mid-sized companies, plus the bus service divisions of the five major public transport groups. Findings cannot be extrapolated to be representative of the industry as a whole. They should be interpreted not as conclusions, but more as indicators of the perceptions, concerns and responses of the industry to the bus reform agenda.

Within the findings are selected quotations from the interview responses. We consider these broadly representative of operators' views, but as noted above they should be considered indicative and not definitive of the industry position. To preserve respondent anonymity certain text has been redacted; other text has been added in square brackets to assist accurate interpretation of a quotation extracted from a longer response.

One respondent expressed that its main stakeholders are its passengers



Survey findings

Engagement with the bus reform agenda and local stakeholders

DfT bus reform workshops:

- Large operators attended extensively at the workshop sessions
- Some mid-sized and small operators found it harder to make the time to attend the workshops
- Those who attended the workshops found them useful and considered that the DfT was genuinely listening to the industry

The large operators are fully engaged with the bus reform agenda: directly with the DfT; through their trade association, The Confederation of Passenger Transport (CPT); and with local authorities, and business and economy organisations – for example, Chambers of Commerce and Local Economic Partnerships

Large operator: *'Meeting individual stakeholders, meeting the DfT. I've attended the MV where the DfT has come to see the MDs. I've been to CPT base meetings we've also worked with stakeholders such as PTE areas, I've spoken at a number of events and been on panels where this has been raised as well.'*

Some of the medium-sized and smaller operators had engaged with the bus reform agenda through the Association of Local Bus Undertakings Managers (ALBUM), but some reported that they had not:

Small operator: *'In many ways, as a member of ALBUM we have been very active in the whole debate through the manager directors group of that organisation.'*

Small operator: *'Well I haven't really done anything. I haven't even written to our local MP.'*

The industry considers engagement with local authorities to be important to bus service policy and planning.

Mid-sized operator: *'It's a case of having to ... it's very important, isn't it?'*

Small operator: *'We do see them as a customer, as well as a local authority.'*

Most respondents anticipate that future engagement with local authorities and other stakeholders could be substantially affected by the Buses Bill – for example, if operators become contractors to deliver a service specified by the local authority, theirs would become a purely contractual relationship with the authority and the latter would be responsible for wider stakeholder engagement. However, others expect little change, either because the new powers will not be taken or because existing arrangements could be readily adapted.

There is a perception that the bus reform agenda is triggering a wider and fuller discussion of the role of bus services. While potentially beneficial to society and the industry, there is concern that this could distract from customer focus:

Small operator: *'Our main stakeholder are our passengers . . . delivering what passengers want . . . hopefully, it shouldn't change too much.'*

Commercial conditions and prospects

Current trading conditions are mixed across the country and industry. A theme is that passenger volume and commercial viability is stronger and has better prospects in urban areas and along core corridors, but in rural areas and on peripheral services commercial performance is poorer and services will probably reduce in the short, medium and longer term.

A widespread and strongly expressed concern is traffic congestion. Several operators identified that it is having and will have an adverse effect on the attractiveness of bus services. It is seen by many respondents as being the greatest cost pressure on the industry, because reducing operating speeds mean that more resources are required to provide the same level of service:

Large operator: *'. . . levels of congestion which almost all urban areas experience, which increases journey times, which is having an impact on our resources and our ability to be punctual.'*

Small operator: *'The main [regulatory] concern is reliability. It is difficult operating in a network which is constantly hit by closures and congestion; those are the key pressures.'*

This decline of high streets and a shift to online retailing is perceived by several operators as a threat to future bus patronage. Falling fuel prices are seen as making car more attractive for some, though there seems to be a perception that this could be a temporary condition.

All respondents considered that local authority funding for supported bus services would continue to fall and strongly expressed their concern regarding, using words such as 'bleak', 'dire' and 'abysmal'. However, several considered their business to be quite resilient to such funding cuts – for example, because they derive most of their revenues from passenger fares or other contracts, such as staff transport to major employers, or their business portfolio includes coach services.

Operators cited a range of cost pressures additional to the widespread concern regarding traffic congestion. Some operators consider that wage rates are being pushed higher in some areas by overall labour market tightening:

Large operator: *'Labour costs remain a pressure; it varies in the local market place.'*

A widespread of respondents strongly expressed traffic congestion as a concern

Legislative and regulatory issues

When asked about the main legislative and regulatory issues, the forthcoming Buses Bill was identified explicitly as the main concern by one respondent and regulatory uncertainty was mentioned by others as a key concern. Issues that were cited include: complying the Traffic Commissioners' punctuality requirements in congested highway networks; employment regulations; disabled access regulations; traffic regulations restricting bus access to town centres; environmental regulations; the living wage; and taxation changes:

Mid-sized operator: *'The other thing is that there are better paid jobs out there for bus drivers, we're fighting against warehousing, big stores and they will obviously pay more.'*

Small operator: *'I think labour costs at the moment . . . pension, health insurance, living wage, National Insurance charges . . . and generally the labour demands in the market.'*

Insurance costs were mentioned by several operators as a cause for concern, but one that the industry is handling better that a few years previously.

Role of bus services in wider societal aims

Respondents were very aware of and concerned about the contribution of bus services to society's wider economic, social and environmental goals. They recognise that the public and government expect more of them than just to trade in a commercial sustainable form. A theme that emerged was that the industry should promote its central role in facilitating economic activity among those who could not participate in work or training without access to the bus.

Some respondents also identified the importance of services for younger people and in education access. There is a view that the free travel concession for elderly people is not sustainable and the public support for these should be redistributed to include younger people in the transition from school to work:

Large operator: *'. . . a much higher impact on the wider economy . . . looking at things holistically . . . how do you decrease unemployment . . .?'*

Large operator: *'. . . important thing is transport for education . . . not just* schools but colleges and so forth.'

Small operator: *. . . over 65s should never get free travel . . . [if] someone . . . has to pay the full rate to get to college or an apprenticeship then that is outrageous [while pensioners travel for free].'*

Large operator: *'. . . we see more of those external contributions coming from the Local Economic Partnership [rather] than the local authorities.'*

The survey respondents consider that partnerships between public authorities and commercial operators as being the best way to deliver on society's wider aims. There is some perception that local authorities set long-term goals, but do not demonstrate sufficient long-term commitment to the required actions, whereas operators' longer term business imperative focuses minds on following through:

Small operator: *'Often with short-term decisions the actions have been taken and there's instability down the line because of political changes. When you get a commercial interest involved that . . . acts as a balance . . . with stability in what you're doing, it needs to become a joint venture.'*

Large operator: *'Ability to maintain a punctual service against current traffic conditions . . . that's a big regulatory concern.'*

Small operator: *'The main concern is reliability . . . operating in a network which is constantly hit by closures and congestion [caused by roadworks].'*

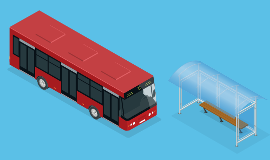
There is concern regarding whether local authority decisions under a regulatory framework in which they formulate services would reflect the best interests of the travelling public:

Large operator: *'It takes decision-making and planning several steps away from the customer.'*

Small operator: *'. . . giving local authorities more powers . . . they get changed every election . . . we don't know what . . . we should be investing in.'*

Respondents expressed a wish to avoid an extended period of uncertainty over service regulation and business control:

Small operator: *'We'd like to see it clarified so that we can crack on.'*



Potential market models

CILT defined four market models in its response to the DfT's bus reform workshops and these were presented to the survey respondents:

Open market
In which commercial companies formulate, promote and operate services – that is, as implemented in Transport Act 1985

Respondents mostly considered that the current model was working well and was the most appropriate way forward, while recognising that local authorities have a role to play. However, one small operator stated that the current market conditions were disadvantageous to the smaller operators as large operators create effective barriers to entry. Many of the responses seem to show a failure to appreciate the extent of concern among other stakeholders, and they endorsed this model with little reference to others' perception of its failings:

Large operator: *'That's what we do now. I think that it has worked really, really well.'*

Medium-size operator: *'I would still say it's fit for purpose.'*

Small operator: *'I think that as a model it has served well.'*

Small operator: *'. . . the current model . . . that's fine if you don't want competition. An aspirational bus business . . . can't compete on equal terms, that's just never going to happen. Operators ring fence areas and so it's very difficult to provide a viable alternative ...'*

Concession
A commercial company bids for the right to formulate, promote and operate services under its own brand at its own commercial risk in a defined area, within conditions laid down by the concession letting authority

Most respondents did not favour this over open market, although some of them consider that they could adapt. They consider that the need to define at the time of contract letting what service level the concession holder would provide means that it would be unresponsive to changing passenger needs over the life of the concession. A concern of small operators is that there would be no opportunity for them to participate in area-wide concessions:

Large operator: *'. . . the danger is that you are only going to have a finite . . . period, how much are you going to invest in marketing and developing that area?'*

Large operator: *'I'm not sure that this model would be particularly responsive to changing market conditions.'*

Small operator: *'We just feel that . . . smaller companies . . . would not find a place within it for all the wrong reasons.'*

Small operator: *'If you're a smaller independent you're never going to break into that ...'*

Franchised
A commercial company bids for the right to promote and operate services under the franchise authority's brand at its own commercial risk and that have been formulated by the franchise letting authority

The respondents view overall was that this would be worse than the concession model, as they would carry the patronage and thus revenue risk, but have very little influence over any aspect of service specification:

Large operator: *'That would be the worst . . . because it would be our revenue risk, but at a specification decided by somebody else.'*

Large operator: *'That would suffer from two issues, firstly absence of competition in the market. It also suffers from a rigidity which isn't compatible with the current [dynamic] online environment.'*

Small operator: *'The commercial operator is carrying the risk, but hasn't got all the levers that they need to really and honestly accept that risk.'*

Small operator: *'It has all the problems of [the Concession model] with the added [issue] of not really having the ability to grow [the business] ... That will stymie any entrepreneurial skill.'*

Contract to fulfil
A commercial company bids for the contract to operate services under the franchise authority's brand and that have been formulated by the contract letting authority and at the contracting authority's commercial risk

This was considered more logical than the concession and franchise models, as the specifying authority carries the patronage risk. There was widespread concern as to whether local authorities have the commercial skills and financial resources to make this model successful:

Large operator: *'. . . would be better than [franchised], because the revenue risk would transfer to the franchise authority.'*

Large operator: *'For local authorities to carry commercial risk in an age of austerity can only put fares up.'*

Small operator: *'We . . . feel that we, and many others like us, are much more capable than just churning out bus services for someone else's passengers to ride on. There's much less incentive [in this model].'*

Small operator: *'You mentioned contracts . . . I can see a . . . wad of paper . . . even to send in a price in.'*

Some respondents also identified the importance of services for younger people and in education access

Bus partnerships

Respondents in the small, medium and large categories had a mostly positive view of partnerships with local authorities as a means to deliver their aspirations. A concern that was clear is that local authorities and all participating operators need to be bound by and enforced to deliver their parts of the partnership. In particular, operators were concerned that because of either insufficient funding or a lack of commitment from council members, local authorities would not implement their works:

Large operator: *'You can achieve a heck of a lot with partnership . . . I'm all for more regulations . . . to improve partnerships.'*

Large operator: *'I think that they can meet all our aspirations.'*

Medium operator: *'Authorities are struggling on the financial side . . . they can't always fulfil their commitments.'*

Small operator: *'I think that most of their aspirations could be met because the great majority are fairly well aligned with what a commercial bus operator would also require to make their business work.'*

Small operator: *'That's a difficult one for local authorities – they struggle to deliver the kind of things that partnerships require.'*

Small operator: *'. . . it's got to have teeth . . . to be robust . . . to deal with congestion and reliability.'*

Effect on investment and business development

Small operators reported that the prospective regulatory change had led them to reduce or review their investment in local bus fleet renewal. Large and medium-sized operators anticipate such an effect. If there were a likelihood that the current open market model were to be changed to a restricted entry market model, operators would curtail their business development activities, because they would not have time to recoup their upfront outlay:

Small operator: *'We have stopped investing in our local bus assets for the time being, waiting for some greater clarity.'*

Small operators: *'In terms of reinvestment, the changes in how we work are fundamental.'*

Medium operator: *'I think that it is difficult [but] at the moment we are still investing.'*

Large operator: *'. . . I'm genuinely concerned about it because it will make investment decisions more difficult.'*

Large operator: *'. . . a serious threat of franchising . . . will certainly inhibit investment across the board.'*

Small operator: *'What we are not going to do just at the moment is to open up new routes ...'*

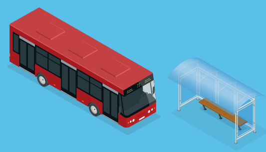
Large operator: *'It all depends on the circumstances and payback period . . . [if] an authority hangs a franchise over an area they are unlikely to see any innovation.'*

Medium-sized operator: *'If you see a city centre and it's regulated . . . there won't be the opportunity for innovative things happening . . .'*

Small operator: *'We are not going to [implement service innovation] at the moment, because we feel this is a hiatus . . . unfortunately.'*

Large operator: *'. . . there's no point in the private sector committing investment to develop [an untapped market segment] when that . . . will not be rewarded in any way.'*

Medium-size operator: *'I think that [operator diversification] would stop . . . some of it would fall on [local authority] shoulders.'*



Bus service planning, staffing and operation

Operators are concerned that the potential change of market form could stifle the recruitment and retention of talented staff and the dynamic of business planning and operation. One comment summed up concerns regarding staffing:

Large operator: *'I think that if there is a strong move to franchising, then there would be a loss of talented staff. The commercial model has a vitality and attracts people. If we moved to a franchising model there wouldn't be a place for these people.'*

Business planning responses varied more across respondents:

Large operator: *'There's just a danger of some kind of paralysis – that we lose momentum.'*

Medium-size operator: *'We're not looking at more long-term decisions until we know what's going to happen.'*

Small operator: *'I think that there is quite a block at the moment on what we should do.'*

Changes in society and prospects for local bus services

Operators responding to the survey are giving thought to how demographic and consumer attitudes will affect bus service demand, and the impact of new information and communication technologies. They are mostly optimistic about bus service prospects in urban areas and inter-urban corridors because of the fundamental cost efficiency and environmental impact merits of buses, but have substantial concerns regarding the financial sustainability rural services:

Small operator: *'We are continuing to see increased urban population growth and this is favourable to bus services.'*

Small operator: *'House prices are another major factor . . . people are having to live further . . . from their employment . . . means that [commuting] patterns are becoming more diverse . . . more difficult to serve by conventional public transport.'*

Large operator: *'Part-time working or working from home will be significant to us.'*

Large operator: *'. . . people wanting things on demand and not wanting assets . . . I see that as a real positive.'*

Large operator: *'We've got a lot of market disruptors . . . in terms of the app based companies that offer personal mobility . . . might encourage people to get rid of their cars . . . if they can use taxi services and use buses more.'*

Small operator: *'In rural areas we're going to see a degradation of the network to the point where there will be areas with no bus connectivity. In urban areas we will continue to see investment and probably an increase in passenger numbers.'*

Large operator: *'I'm very optimistic for the longer term, because buses are the best value solution to congestion.'*

Small operator: *'The only . . . solution is the most sustainable way . . . bus is the most practical and easily implemented way forward.'*

Large operator: *'. . . at the end of the day . . . public transport will always be more environmentally friendly than private transport.'*

Large operator: *'I think that there's a lot of opportunity, but we are going to have to create it . . . We've got to adapt and change with it . . .'*

Appendix: Interview Discussion Guide

1. Interview introduction

'Hello, this is <interviewer name> from Protel Fieldwork. We have been commissioned by the CILT Bus & Coach Forum to undertake research with directors in companies operating local bus services. The research findings will inform the CILT's response to the forthcoming Buses Bill and the wider discussion of buses reform and the future of local bus services that is taking place across the industry as a whole – local authorities, service operators and passenger representatives.'

Add Protel standard preamble re MRS Code of Conduct and Confidentiality. All findings will be treated confidentially and reported in a way that is non-attributable to any particular respondent.

Question S1/1: Do you need any information about the Bus & Coach Forum at this stage?

If yes: The Bus & Coach Forum is a group of professionals within CILT that seeks to promote the successful contribution of buses and coaches to society's economic, social and environmental wellbeing; through professional good practice, sharing of knowledge and skills; and creating connections between stakeholders that each have a contribution to make. Forum members are drawn from public authorities, service operators and consultancy.

Question S1/2: Do you have any questions at this stage about the research?

If yes: either answer from the content of this guide, or refer to the CILT Bus & Coach Forum.

2. The buses reform agenda

2A. The Buses Bill

S2A/Q1: Did <interviewee's employing company> participate in the DfT's bus reform workshops? (Four separate questions)

Yes, one session/Yes, multiple sessions/No

If No: why not?

If Yes: how effective did you find it/them?

What did you think could have been better?

S2A/Q2: How else has <interviewee's employing company> made input to the Buses Bill process?

S2A/Q3: How and about what do you expect to make inputs to the Buses Bill process in future?

- Channels: DfT bus reform group/other DfT officer/to Minister/other MP/CPT/UTG (formerly PTEG)/other
- Mechanism: written/meetings/press articles/TV and/or radio interviews/advertising/other
- Subjects: market form – see <S4/Q3> – ticketing/information/registration

2B. The wider buses reform agenda

S2B/Q1: Is [interviewee's employing company] engaging with other national, regional/city-region or local authorities regarding buses reform; which ones?

S2B/Q2: How? (as S2/A3)

S2B/Q3: How do you expect the Buses Bill process and provisions, if enacted, to affect future engagement with these authorities?

S2B/Q4: How do you expect the Buses Bill process and provisions, if enacted, to affect future engagement with other stakeholder representatives?

3. Commercial conditions and prospects

S3/Q1: How would you describe current trading conditions for local bus services outside London?

Variation by: UK region/subregion; urban conurbation/city/town/rural/inter-urban; core services/secondary services/minor services

S3/Q2: What are your views on future prospects for passenger demand, in the next one to three years?

Variation: (as S3/Q1)

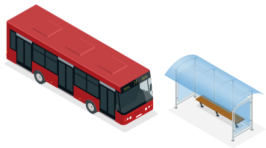
S3/Q3: What are your views on future prospects for local authority funding for supported services, in the next one to three years?

Variation: (as S3/Q1)

S3/Q4: What are the main cost pressures on the industry at present?

Probe: staff wages/staff on-costs, such as NICs, pensions, training, other/insurance/fuel/vehicles/property/other

S3/Q5: Buses are important policy tools for society's aims for economic growth – for example, employment density and inclusion – access to work and training for low-income groups, for social welfare – for example, family and friends contact among those unable to drive – and environmental mitigation – for example, noise and pollution reduction. How do you think services for such purposes are best planned for and financed in relation to bus service development and delivery?



4. Legislative and regulatory issues

S4/Q1: What are your main legislative and regulatory pressures and concerns?

Probe: service registration regime/competition law/employment regulations/vehicle regulations/traffic law/other

S4/Q2: What are your views on potential changes in the market/regulatory framework for local services?

S4/Q3: The CILT Bus & Coach Forum has identified four potential market models for local bus services. What are you views on the merits of each of these models?

- Open market: commercial companies formulate, promote and operate services – that is, as implemented in Transport Act 1985
- Concession: a commercial company bids for the right to formulate, promote and operate services under its own brand at its own commercial risk in a defined area, within conditions laid down by the concession letting authority
- Franchised: a commercial company bids for the right to promote and operate services under the franchise authority's brand at its own commercial risk and that have been formulated by the franchise letting authority
- Contract to fulfil: a commercial company bids for the contract to operate services under the franchise authority's brand and that have been formulated by the contract letting authority and at the contracting authority's commercial risk.

NB The model under which the authority also operates the service using internal resources is not considered a realistic prospect under EU state aid regulations, should the respondent query the absence.

S4/Q4: Bus partnerships, informal and formal under the Local Transport Act 2008 and Transport Act 2000, have been implemented in major conurbations and other towns/cities. To what extent do you think that partnerships could meet local authorities' aspirations for bus services within an essentially open-market form and to what extent could their aspirations not be met?

S4/Q5: What do you think will be the effect of potential changes in regulatory regime on industry investment in (four separate questions):

- Asset renewal/replacement for perpetuation of the as-current local bus service business?
- Incremental growth of the local bus service business – that is, similar customers, similar services?
- Innovative services for existing customer base or similar customer groups?
- Diversification into innovative service offerings for untapped market segments?

S4/Q6: What do you think will be the effect of potential changes in regulatory regime on recruitment and retention of talented staff?

S4/Q7: Are there any other effects on business planning and operation arising from the uncertainty over industry regulation and market form?

5. Wider and longer term context

S5/Q1: What do you think are the medium to long-term prospects for local bus services?

Probe: underlying demand for travel in urban and/or rural areas; bus patronage; competing options – for example, novel taxi/shared ride systems; staffing; traffic congestion; fuel/energy; vehicle design

S5/Q2: What wider changes in society are affecting or will affect the prospects for local bus services?

Probe: economic changes; social changes – for example, age profile, household structures; education system/outcomes; technology; political; legal; ecology/environmental

End of questions

Closing statement

Thank you for your time and input in answering the questions and discussing these matters. The findings will be reported by the CILT Bus and Coach Forum during spring this year and used to help the Forum in its liaison with the DfT regarding bus service policy and legislation.

All information will be kept confidential and reported anonymously in a way that is not attributable to each respondent.

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