



Buses: grants and subsidies

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This note summarises the different types of government financial support for bus services in England, including Bus Service Operators' Grant, the Green Bus Fund and the Better Bus Areas Fund.

Grants and subsidies perform a variety of functions in the bus industry and in the provision of services. Some, like BSOG, effectively subsidise bus travel for everyone because they go to all bus operators, irrespective of the type of service they run (commercial or local authority-supported). Others, like concessionary travel grants, reimburse operators for carrying certain types of passenger at a discounted or nil fare and are administered via local authorities. Finally, at the most fundamental level there are direct subsidies for specific services from local authorities to bus operators; these tend to help people who live in isolated areas or in places which, for one reason or another, are not able to sustain a commercial bus service.

The [overall net level of Government subsidy](#) (i.e. public transport support, BSOG and concessionary fare reimbursement) for bus services increased dramatically after 1997, rising from approximately £763,000 in 1997/98 to approximately £2.3 billion in 2011/12. Subsidies account for around 45 per cent of all bus operators' revenues.

Since the 2010 General Election a combination of cuts to local authority budgets, changes to the administration of concessionary bus travel and reductions to BSOG has raised concerns that the local bus network in England could be severely cut back. While there is some evidence of this, the Government has pointed to improvements in other areas and increased financial support for green buses and bus partnerships. In line with its broader localism agenda it has also announced its intention to devolve some BSOG funding to local authorities and to further reform BSOG in 2014.

Concessionary fares are not dealt with in this note; for further information, see HC Library standard note [SN1499](#); notes on other bus-related matters can be found on the [Buses Topical Page](#) of the Parliament website.

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1 Local authority subsidised services

1.1 Tendering and subsidy rules

Under section 63 of the [Transport Act 1985](#), as amended, English local authorities outside London have a duty provide subsidised bus services where there are no commercial services and *where they think it appropriate*.¹ Services are tendered and let to commercial operators in return for payment from the council.² The powers of local authorities to subsidise public passenger transport services are subject to the detailed tendering provisions laid down in sections 88-92 of the 1985 Act, Department of Transport circular 5/85, and in the *Service Subsidy Agreements (Tendering) (England) Regulations 2002 (SI 2002/2090)*, as amended.³ The subject was discussed at length in the Transport Select Committee's 1999 report on tendered bus services.⁴

Section 152 of the [Transport Act 2000](#) amended the criteria set out in section 89 of the 1985 Act. Originally an authority could only subsidise a local bus service if it had invited open and competitive tenders for the provision of the service. The decision whether to accept a particular service was taken solely by reference to what in the authority's view was the most effective and economic application of the funds available for paying subsidies. The 2000 Act introduced a new 'best value' test by requiring local authorities to have regard to economy, efficiency and effectiveness and also to have regard to the relevant bus strategy, and environmental issues such as the reduction or limitation of noise or air pollution. The section also removed the constraint, imposed by section 92(1) of the 1985 Act, that in exercising powers to subsidise those services local authorities must not act so as "to inhibit

¹ section 63 places a similar duty on local authorities in Wales and Scotland; further details of the deregulation and privatisation of the bus industry in the 1980s is set out in HC Library standard note [SN1534](#)

² the last major review of the tendering process was carried out in 2004 by Atkins, see: Atkins for the DfT, [Monitoring local bus service tenders in England: final report 2004](#), May 2005; and the [good practice guide to bus tendering](#)

³ the 2002 Regulations repealed the original 1985 regulations (SI 1985/1921, as amended by [SI 1989/464](#) and [SI 1994/1227](#)) in England only

⁴ ETRA Committee, [Tendered bus services](#) (eighteenth report of session 1998-99), HC 429, 28 July 1999

competition". Local authorities could, for example, be in danger of inhibiting competition if the subsidy mechanism was used to support services that combined lower fares and higher frequencies to such an extent that existing commercial services could not be expected to compete successfully. This requirement was replaced by a new duty to have regard to the interests of the public and of operators. This was intended to make it easier for authorities to subsidise additional service frequency.

The Labour Government also consulted local authorities and the bus industry on proposals to increase the *de minimis* limits and the maximum contract length for tendered services.⁵ The 2002 Regulations (see above) increased the maximum size of each individual contract that can be let without being subject to tender to £25,000 in any twelve month period;⁶ this was increased to £29,999 in 2004.⁷ In March 2010 there was a further consultation on changes to local bus services; one of the questions in the consultation was whether the *de minimis* limits should be either raised or removed entirely to allow European Rules to take precedence.⁸ The EU rules, as set out in Article 5(4) of [Regulation 1370/2007](#) provide for contracts to be let up to a maximum value of €1 million (€2 million if the award is to an SME not operating more than 23 vehicles).

1.2 Subsidised bus services: are they sustainable?

Since the 2010 General Election concerns have been expressed about whether local authorities would be able to sustain their previous levels of spending on subsidised bus services. This is because these types of service are funded out of general local authority budgets, and Government funding⁹ to councils¹⁰ has decreased by 27 per cent, in real terms, since 2010/11.¹¹ Campaigners have pointed to service reductions that have occurred as the result of budget cuts, while the Government has insisted that local authorities now have more autonomy to make choices about how they spend their budgets and it is up to them to prioritise services for their areas.

In its August 2011 report the Transport Select Committee concluded that reductions in local authority budgets, combined with changes to other support mechanism such as BSOG and concessionary fares, had led to some local authorities withdrawing subsidised bus services "with inadequate or no consultation", affecting "some of the most vulnerable people in society, including the elderly".¹² The Committee insisted that the Government "cannot wash its hands of any responsibility for enabling this to happen", and that:

The Department for Transport must put its full weight behind helping those directly responsible find solutions to the social and economic impacts of the disappearance of the only public transport that may be available in some places. It is also the DfT who should be monitoring, analysing and drawing conclusions about the effects of changes

⁵ *de minimis* limits set a financial ceiling below which authorities may procure services without undertaking a competitive tendering procedure

⁶ DTLR press notice, "Government relaxes bus tendering rules", 9 August 2002

⁷ *Service Subsidy Agreements (Tendering) (England) (Amendment) Regulations 2004 (SI 2004/609)*

⁸ DfT, *Improving Bus Passenger Services through the Regulatory Framework: Consultation Paper*, March 2010, para 5.2; no response appears to have been published

⁹ based on formula grant and start-up funding assessment; % changes have been calculated using adjusted figures which allow for the changing roles and responsibilities of authorities over time

¹⁰ single tier authorities, shire districts and shire counties

¹¹ DCLG, *Local Government Finance Settlement 2013/14*, and previous years

¹² Transport Committee, *Bus Services after the Spending Review* (eighth report of session 2010-12), HC 750, 11 August 2011, para 21

in bus services, and the wider costs and benefits to the country of policy decisions which affect those services.¹³

In its response to the Committee, the Government stated that it:

... maintains that local authorities must be free to make their own decisions about the provision of local bus services. We set out in the Local Transport White Paper our commitment to ending top-down decision making and one-size fits all solutions, and it is entirely to be expected that we are seeing different results in different places. As the Committee has recognised ... there are many places where communities, operators and local authorities are coming together to improve services and bring about growth in local bus networks.¹⁴

In November 2013 pteg summarised the subsidised bus service cuts to date in England as follows, drawing on the work of the sustainable transport campaigning group the Campaign for Better Transport:

According to research by Campaign for Better Transport, during 2012/13 some 41% of local transport authorities in England made cuts to their budget for supported bus services. They calculate that nationally, cuts totalling £18m have been made in 2012/13, with almost 11% of local authorities making cuts of more than £1 million. The latest cuts come on top of previous reductions identified in 2011 when one in five council supported bus services were either withdrawn or cut back. The total estimate for cuts in 2011/12 was £36m.¹⁵

The March 2012 buses green paper set out the Government's strategy for the industry going forward, and in light of the recommendations of the Competition Commission's December 2011 report on competition in the local bus market.¹⁶ This included a pledge to: "support local councils in their ability to procure non-commercial services, including more flexible, innovative options such as community buses".¹⁷ It acknowledged that some local authorities had made cuts to their subsidised bus services following cuts to their overall budgets:

As local councils and PTEs have reviewed their budgets, they have begun to reconsider their supported local bus networks and how they interact with commercial services. Some have made considerable cuts that have severely adversely affected the ability of local communities to access key services. Others have taken a more holistic and considered approach, introducing innovative and flexible approaches to procurement and delivery across local authority service areas – integrating the provision of adult social care, school and public transport.¹⁸

The Government sees the promotion of community transport as filling this gap in service provision. And although it's main thrust in local transport policy is to leave decisions to local areas to decide for themselves what suits them best, the green paper did state that the Government would publish "updated guidance on the tendering and commissioning of local bus services, illustrated with examples of successful tendering exercises".¹⁹ It also stated:

¹³ *ibid.*, para 55

¹⁴ *Government Response to the Committee's eighth report of session 2010-12* (ninth special report of session 2010-12), HC 1550, 24 October 2011, p2

¹⁵ pteg, *Bus Policy Briefing 2013*, November 2013; you can read about CBT on their [website](#); they have a 'Save Our Buses' campaign [accessed 3 December 2013]

¹⁶ the report and all supporting documentation are on the [inquiry website](#) [accessed 3 December 2013]

¹⁷ DfT, *Green Light for Better Buses*, March 2012, p43

¹⁸ *ibid.*, pp43-44

¹⁹ DfT, *Tendering Road Passenger Transport Contracts: Best Practice Guidance*, October 2013

The Government will also explore the possibility of changing primary legislation by the end of this parliament, so that they have access to revenue and patronage information about commercial routes (i.e. those not under contract) if they are deregistered, and can make that information available to other companies looking to bid for a contract to run the route instead.²⁰

These more recent concerns about funding for subsidised bus services dovetail with more long-standing worries about the growth of this sort of service as commercial operators have withdrawn unprofitable services. A 2006 report by the Transport Committee observed:

We had evidence that, under the current system, operators are abandoning unprofitable routes which are nevertheless used and are necessary links for communities to work, social and leisure facilities. This forces local authorities to take the routes over and to issue a tender for their operation. Often, an operator who cannot make a commercial success of such a route will apply for the subsidised, tendered route. This practice can be particularly frustrating for a local authority when routes are being abandoned when they are simply *less* profitable, rather than *unprofitable*. Services are withdrawn in order to maximise profits for the operator by shrinking their network and concentrating on the highest revenue-raising routes, at the expense of the travelling public. On occasion, this can mean that, as a transport authority implements bus priority schemes or introduces a quality bus corridor, it finds the result is a shrinkage of the bus network.²¹

Many local authorities, particularly in the metropolitan areas outside London, have long argued that the solution to this is more control over the bus network, combined with one combined stream of bus funding.²² This ‘solution’ has been much talked about over the past decade, even before the present government proposed cuts to local authority budgets. In 2000 the Labour Government legislated to give local authorities (and ITAs²³) the power to implement what are effectively franchising arrangements (called ‘Quality Contracts’), whereby the local authority specifies the types of bus services, routes, timetables etc. that it wants in its area and commercial bus operators bid to run them. The legislation was amended in 2008 to make this easier to implement. Local authorities and ITAs have long said that this type of arrangement is the ‘answer’ to many of the problems they have, as they see it, with a purely deregulated system in which commercial operators can chop and change services and timetables as they see fit. It would also address the growth of subsidised services. However, though the legislation has been on the statute books for over a decade no authority has ever implemented such scheme, or even made a formal application for one to the Secretary of State.²⁴

2 Bus Service Operators’ Grant (BSOG)

The Government is proposing major reforms of BSOG – see section 2.4, below

Bus Service Operators Grant (BSOG) is a grant paid by the Department for Transport to reimburse bus operators for some of the excise duty paid on the fuel consumed in operating an eligible bus service. It was formerly known as the Fuel Duty Rebate (FDR). In around mid-2002 the Labour Government renamed the rebate the Bus Service Operators’ Grant; the

²⁰ *ibid.*, p45

²¹ Transport Committee, *Bus services across the UK* (eleventh report of session 2005-06), HC 1317, 26 October 2006, paras 59 and 62-63

²² see, e.g. LGA, *The future of bus subsidy*, August 2010

²³ Integrated Transport Authorities – see section 1.2 of HC Library note [SN5735](#) for further information

²⁴ Nexus, the ITA in the north-east of England, is the closest to formally proposing a scheme, see the [website](#) for information [accessed 3 December 2013]

governing regulations are the *Bus Service Operators Grant (England) Regulations 2002* (SI 2002/1015), as amended. It is not a 100 per cent rebate on the pump price of fuel but allows registered local bus services to receive a rebate of around 70 to 80 per cent of the fuel duty they pay for diesel and petrol. Formerly bus services that provided a door-to-door service for a select group of people, such as community buses, did not qualify for the rebate, but this was changed in 2002. The [conditions for BSOG eligibility](#) are available on the Department's website.

2.1 Fuel Duty Rebate: background

Bus operators were first given grants to help with paying fuel duty in 1964.²⁵ The then Labour Government agreed to make grants to cover the increased cost of local stage services, following an increase in road fuel duty of 6d. In fact the Minister of Transport was given the discretion to provide this subsidy to bus operators, and the rebate was not defined in terms of a numerical rate. Operators had claimed that the increase in fuel duty would have an injurious effect on the provision of services as they faced a declining market and shrinking profit margins. Grants were not payable on excursions, tours, or any services unavailable to the general public. In subsequent years, relief covered all further increases in duty until 1974, when relief was given for up to the full cost of fuel duty.²⁶

The maximum rebate the Secretary of State could provide was set as the full value of excise duty charged on oil and petrol. Full relief continued to be given up until the November 1993 Budget, when the then Chancellor, Ken Clarke, announced a three pence per litre increase in excise duty on petrol and diesel fuels. In addition, he explained that rebate would be frozen at pre-Budget levels. Since the level of rebate is paid under the Secretary of State's discretion, no legislation was required for the rebate to be frozen.²⁷

In terms of obtaining the rebate, the National Audit Office published a report on the scheme in February 1989, which stated:

Claims for grants are based on the number of vehicle miles run on eligible local services and the average fuel consumption achieved by the service fleet. Operators submit claims quarterly on the basis of estimated mileage. Within three months of the end of the financial year, they are required to submit a statement of actual mileage and average fuel consumption, certified for accuracy and regularity by an independent qualified accountant (i.e., the operator's external auditor). After checking by the Department, any over or under payments are adjusted in the course of the subsequent year.²⁸

It is worth noting that this report commented, "because of the practical difficulties in distinguishing between eligible and non-eligible routes the Department considered in 1964 that it would not be feasible to rebate duty at source, i.e. to provide cheaper petrol".²⁹

Unsurprisingly local bus companies argued that in the long run freezing the rebate would lead to a reduction in services, and an increase in car traffic, worsening the level of vehicle emissions as a result. In a paper produced in March 1994, the Confederation of Passenger

²⁵ section 92(1) of the *Finance Act 1965*

²⁶ section 54 of the *Finance Act 1974*

²⁷ [HC Deb 30 November 1993, c938](#); the rate of duty on road diesel rose from 25.14p per litre to 27.70p per litre

²⁸ NAO, *Department of Transport: Bus Fuel Grants*, HC 195, 9 February 1989, p10

²⁹ *ibid.*

Transport, the industry's trade association, argued that the rebate was a successful form of subsidy.³⁰

At the time of the summer 1997 Budget the Labour Government stated that it would look at the operation of this relief as part of its review of vehicle excise duty (VED).³¹ In his spring 1998 Budget speech the then Chancellor, Gordon Brown, announced that excise duties on oil and petrol would be increased by at least six per cent in real terms. The Chancellor also announced that the fuel rebate would be increased "to help keep bus fares down".³² In the March 1999 Budget, duty was again increased and the rebate was increased by the equivalent amount.

In the 10 year transport plan, published in July 2000, the government said that it would consult on extending the rebate and other measures to encourage the expansion of the community transport sector.³³ Section 154 of the *Transport Act 2000* made new statutory provision for grants to bus operators, including power to make regulations as to the classes of bus services for which grant may be paid, and the method of calculation. This power replaced the rebate scheme with a more flexible power enabling grant to be paid by the Secretary of State or the National Assembly for Wales to bus operators on a different basis from the previous scheme. Provision could, for example, be made for differential rates of grant to encourage the use of more environmentally friendly fuels or vehicles.

2.2 Community transport

Eligibility was extended to community bus services on 1 May 2002 following an interim report by the *Commission for Integrated Transport (CfIT)*. Until May 2002 the criteria for eligible bus services was that they should be available to all members of the general public, and that members of the public were aware of the service's stopping times and places.³⁴ Most community transport schemes did not qualify for the rebate as these schemes were not available to all members of the general public and, as a door-to-door service, could not supply a schedule of their stopping times and places.

Eligibility was extended to community bus services operated under section 19 of the *Transport Act 1985*. Section 19 Permits are issued to services run on a not-for-profit basis. Eligible services include those used wholly or mainly by the over 60s, disabled people, those on income support or jobseekers' allowance and those who are socially excluded by reason of "unemployment, poverty or other economic factors". The *Bus Services Operators Grant (England) Regulations 2002 (SI 2002/1015)* came into force on 1 May 2002.

2.3 Reforms by the Labour Government, 2002-2010

In Budget 2002 the then Chancellor, Gordon Brown, announced a review of bus subsidies to be undertaken by the Department for Transport.³⁵ A consultation paper was published in August 2002. The review considered changes and alternatives to existing subsidies.³⁶ The outcome of the review was summarised in the 2004 transport White Paper. It stated that it

³⁰ Confederation of Passenger Transport UK, *Fuel Duty Rebate : the impact of the Autumn Budget 1993*, March 1994, p15

³¹ HM Treasury press notice, "Tax measures to help the environment", 2 July 1997

³² [HC Deb 17 March 1998, c1109](#)

³³ DETR, *Transport 2010: the 10 year plan*, July 2000, para 6.57

³⁴ the description of a bus service allowed for the purposes of the fuel rebate duty was set out most clearly in the schedule to the *Fuel Duty Grant (Eligible Bus Services) Regulations 1985 (SI 1985/1886)*

³⁵ HM Treasury, *Budget 2002*, HC 595, paras 7.51-7.52

³⁶ DfT, *Review of Bus Subsidies*, August 2002, p9

would not be possible to gain requisite benefits from replacing or modifying BSOG. It did, however, state that for routes procured under a Quality Contract, the Government would no longer pay BSOG, but instead transfer a parallel sum to the local authority for procurement of bus services. The paper also proposed consulting Transport for London (TfL) on implementing this change for the existing franchised service in London.³⁷

Following a three year study looking at public subsidy of bus services, CfIT published a final report in December 2002.³⁸ It concluded that the bus could compete with the car in certain circumstances “if subsidy is increased and re-focused”.³⁹ The report recommended that FDR should be replaced by an Incentive Payment per Passenger boarding (IPP) although additional funding should be made available for socially necessary services in areas adversely affected by the change.⁴⁰ CfIT renewed its call for the Government to adopt the IPP approach in 2008.⁴¹

In December 2006, after an extensive review, the Labour Government published its proposals for reforming the bus industry. Part of this was to consider the scope for refocusing the bus subsidy regime to target it as effectively as possible and support the Government’s environmental objectives. The proposals stated that the Government was in the process of reviewing whether there was a case for reforming BSOG to “ensure that it continues to deliver best value for taxpayers’ money, and supports as far as possible the Government’s objectives, e.g. for bus performance and environmental protection”.⁴² This was followed by a consultation paper in March 2008. The paper stated that BSOG provided “good value for money” and that any reform must take account of the environmental costs of road traffic pollution.⁴³ It also highlighted the potential problem of ensuring that any reformed BSOG meets EU state aid criteria.⁴⁴ The package of reforms in the consultation paper included, *inter alia*, capping BSOG at a minimum fuel efficiency level; introducing new arrangements for Low Carbon Buses; devolving payments to areas undertaking Quality Contracts; and tiering rates.⁴⁵ The paper also put forward some ideas for longer term reform of bus subsidies, including:

- devolving all bus subsidies to local authorities;
- paying BSOG on a per passenger payment rate, or a passenger kilometre basis; and
- exploring more radical options for linking BSOG and concessionary fares reimbursement.⁴⁶

The consultation closed in June 2008. In December 2008 the then Secretary of State, Geoff Hoon, announced his decisions on the future reform of BSOG.⁴⁷ This resulted, in April 2009, in a change to the BSOG scheme so that operators could claim an additional payment of six

³⁷ for an outline of the system as it operates in London, see section II.B of HC Library research paper [RP 08/36](#)

³⁸ CfIT, *Public subsidy for the bus industry*, 2 December 2002

³⁹ CfIT press notice, “CfIT puts bus at heart of transport delivery”, 2 December 2002

⁴⁰ op cit., *Public subsidy for the bus industry*

⁴¹ “CfIT urges ministers to grasp per passenger payment to boost buses”, *Local Transport Today*, 25 July 2008 [LTT 499]

⁴² DfT, *Putting Passengers First*, December 2006, p9

⁴³ DfT, *Local Bus Service Support – Options for Reform: Consultation paper*, March 2008, p11

⁴⁴ *ibid.*, p12; a summary of the state aid rules for transport is given on the European Commission [website](#) [accessed 3 December 2013]

⁴⁵ *ibid.*, pp14-21

⁴⁶ *ibid.*, p23

⁴⁷ [HC Deb 16 December 2008, cc112-113WS](#)

pence for each kilometre operated by a low-carbon bus.⁴⁸ In addition, from April 2010 two further changes came into force - operators receive an eight per cent increase in their BSOG rate if they have operational ITSO smartcard systems and, separately, a two per cent increase if they fit their buses with GPS equipment.⁴⁹ In December 2009 the then Secretary of State, Lord Adonis, indicated the Labour Government's intention to overhaul the scheme over the following two to three years:

... the Government wish to move away from paying support on the basis of how much fuel is consumed. We will therefore bring forward new arrangements for support on the basis of passenger numbers. This will act to make public transport more attractive thereby delivering environmental benefits through reduced congestion and improved air quality.

These new arrangements will mean that operators will face the full cost of the fuel they use. This will strengthen the commercial incentives for operators to find ways to reduce their fuel consumption and improve the business case for investment in driver training and low-carbon buses. It also builds on the fuel efficiency target and the distance-based payment for use of low-carbon buses that are now part of the current BSOG system.

[...]

It remains our intention as part of these reforms to stop providing BSOG direct to London operators, as announced last December. We will seek to agree detailed arrangements with TfL at the appropriate time.⁵⁰

Nothing further happened before the 2010 General Election.

2.4 Reforms by the Coalition Government, 2010-

The Conservative-Liberal Democrat Government that took power in May 2010 said that the bulk of the fiscal consolidation would come through spending cuts rather than tax increases. In the October 2010 Spending Review the Government announced that BSOG would be reduced by 20 per cent, saving £300 million by 2014/15.⁵¹ The incentives for smartcards, low carbon buses and automatic vehicle location would be maintained. However, the existing non-statutory arrangements that enabled long distance coach operators to claim BSOG in return for offering a half price concession to older and disabled people would end by October 2011.^{52,53}

In written evidence to the Transport Committee, published in January 2011, the Department offered the following assessment of the potential impacts of the cut in BSOG:

We have previously said that the Bus Service Operators Grant (BSOG) helps ensure that, on average, bus fares are around 7% lower than they otherwise would be and bus service levels around 7% higher than they otherwise would be outside London. On the same basis, this would suggest a 20% reduction in BSOG might be expected to lead to around a 1% increase in fares and a 1% reduction in bus services outside London.

⁴⁸ a 'low-carbon bus' would be one which, for example, is capable of achieving at least a 30 per cent reduction in greenhouse gas emissions compared to a similar size conventional diesel bus

⁴⁹ [HL Deb 15 December 2009, cc223-225WS](#)

⁵⁰ *ibid.*

⁵¹ HM Treasury, *Spending Review 2010*, Cm 7942, October 2010, para 2.28

⁵² this caused considerable controversy; for more information see HC Library note [SN1499](#)

⁵³ DfT press notice, "[Transport Spending Review 2010](#)", 20 October 2010

Using this analysis and the Department's new National Bus Model (NBM) to estimate sub-national impacts, we have also estimated the following impacts outside of London following a 20% reduction to bus subsidy (note however that this reduction is less than the overall reduction in local transport revenue funding of 28%):

Table 1: Estimated approximate average impact of a 20% reduction in BSOG outside London

Area	Impact on fares	Impact on services	Impact on patronage*
Metropolitan	+2%	-1%	-1%
Conurbations	+1%	-1%	-1%
Small towns	+1%	-2%	-1-2%
Rural	+2%	-2%	-2-3%
Average	+1%	-1%	-1%

Source: DfT analysis and modelling

* Impact assumes all else being equal e.g. no change in the cost of travelling by other modes of transport.

Although the above table provides estimates of the potential impact of the reduction in BSOG, as the bus market is deregulated outside London, it is up to commercial operators to decide what fares they set. In reaching their judgement on fare changes, bus operators will take account of a range of factors, not least the costs involved from increasing fares. The Confederation of Passenger Transport (CPT), who represents the bus industry, has suggested the reduction in bus subsidy could be absorbed without fares having to rise.⁵⁴

In March 2012 the Government published its green paper on the future of the bus industry. This announced a package of reforms to BSOG that it would implement, subject to consultation. The main change involved devolving to local authorities the administration of BSOG for the services that they subsidise. Altogether, the package was described as follows:

- rather than paying all BSOG subsidy directly to bus companies, we intend to pass down to local councils the funding that relates to services they support – i.e. tendered services – to allow decisions to be taken locally on how it should be spent. Our presumption, subject to consultation, is that this will extend to all councils
- using some of the subsidy to set up a new local government fund – Better Bus Areas – to encourage local transport authorities and bus companies to work closely together to improve services and boost passenger numbers
- a move in the medium term to a more environmentally sustainable basis for paying "residual" BSOG than the current one based on fuel usage
- changes to the incentive payments which bus companies may qualify for

⁵⁴ published in: op cit., *Bus Services after the Spending Review*, Ev. 64; other organisations such as the LGA and pteg made estimations as to the effects of the BSOG cuts on local services; all these are available in their respective written evidence to the Transport Committee in the same document

- tightening the existing rules defining which bus services can claim BSOG, so that the funding is put to the best possible use.⁵⁵

In September 2012 the Government published a consultation paper on how to take these reforms forward⁵⁶ and in July 2013 it announced its intention to:

- create a new local fund, Better Bus Areas (see section 4, below), in which BSOG would be devolved to the local transport authority and topped up with a grant worth 20 per cent of the BSOG for commercial services;
- devolve to Transport for London and the Greater London Authority the BSOG paid to London bus operators who operate services under contract to TfL;
- tighten the existing rules defining which bus services can claim BSOG, so that the available funding is put to the best possible use; and
- pay BSOG to local authorities, rather than operators, where funding relates to services they support.⁵⁷

The *Bus Service Operators Grant (England) (Amendment) Regulations 2013 (SI 2013/2100)* came into force on 1 October. They provide that from that date London franchised bus services are ineligible to receive BSOG and that the following specific types of local bus service are no longer eligible to receive BSOG:

- rail replacement services;
- temporary services intended to operate for less than six consecutive weeks;
- services for which the fare includes a special amenity element (this includes services to transport passengers between rail stations, airports or sea terminals and their dedicated car parks);
- services operated primarily for the purpose of tourism or because of the historical interest of the vehicle; and
- community transport services operated by local authorities using their own staff.

From 1 January 2014 DfT will merge the devolved community transport grant for the period 1 October 2013 to 31 March 2014, and the devolved tendered bus service grant from 1 January to 31 March 2014 into a single payment. DfT will then pay a further merged grant to each authority in April each year.⁵⁸

The [BSOG rates](#) from 1 October 2013 are available on the Gov.uk website.

3 Green Bus Fund

General information on the [Green Bus Fund](#) can be found on the Gov.uk website.

In July 2009 the then Secretary of State for Transport, Lord Adonis, announced “a new £30 million fund to encourage the purchase of low carbon buses”.⁵⁹ Bids for funding would be

⁵⁵ op cit., [Green Light for Better Buses](#), p35; described in detail on pp36-41

⁵⁶ DfT, [Consultation on bus subsidy reform](#), September 2012

⁵⁷ [HC Den 5 July 2013, cc74-76WS](#)

⁵⁸ DfT, [Bus subsidy reform: letter to local councils stating when BSOG funds will be devolved](#), November 2013

⁵⁹ DfT press notice, [“New £30 million fund for Green Buses”](#), 1 July 2009

assessed according to the following criteria including environmental performance and manufacturers' commitments to environmental objectives.⁶⁰

The first round of winning bids were announced in December 2009. The Labour Government claimed that "up to 1000 jobs will be secured and up to 10,000 tonnes of CO₂" would be saved because of the fund.⁶¹ Despite the Department's enthusiasm for the scheme, there were reports that some of the bigger bus groups did not apply because they could not see enough benefit in doing so.⁶²

In July 2010 the Coalition Government confirmed that it would proceed with a second round of funding for 2010, though the amount available was reduced to £15 million.⁶³ In the 2011 Autumn Statement the Chancellor announced a further £20 million for the third round of the Fund.⁶⁴ The March 2012 buses green paper indicated that this would be increased to £31 million due to the level of interest.⁶⁵ A fourth round was launched in December 2012 with £20 million of funding.⁶⁶ In October 2013 the Government stated that since 2009, through four rounds of the Green Bus Fund, it had provided £88 million of funding to bus operators and local authorities.⁶⁷

[Details of the buses purchased](#) under rounds 1, 2 and 3 of the Green Bus Fund and grants paid and offered through round 4 of the fund are available on the Gov.uk website.

4 Better Bus Areas Fund

General information on the [Better Bus Areas Fund](#) can be found on the Department for Transport's website.

In December 2011 the then Minister for Local Transport, Norman Baker, announced a new Better Bus Areas (BBA) Fund. It is designed to boost partnership working between local authorities and bus operators:

A new £50 million Better Bus Areas fund is an initiative which will see bus operators working in partnership with local authorities to increase passenger numbers. Successful bids must have the backing of at least one major local bus operator. Bids could include measures to reduce congestion, provide better information to passengers, make improvements to bus stations or encourage people to switch to buses from the car in densely populated urban areas.⁶⁸

The March 2012 buses green paper stated that the proposals received to date had been of such a high quality that funding would be increased to £70 million: "this will provide grants of up to £5 million to local transport authorities to spend in 2012/13 and 2013/14".⁶⁹ The green paper also announced the Government's intention to "take the concept of BBAs a stage further by setting up a longer term BBA fund" using Bus Service Operators' Grant (BSOG):

⁶⁰ DfT, [Green Bus Fund – Bidding Document](#), July 2009, Annex A

⁶¹ DfT press notice, "[£30 Million for Green Buses to save jobs and reduce CO₂](#)", 4 December 2009

⁶² e.g. "DfT's flagship Green Bus Fund struggles to generate excitement", *Local Transport Today*, 20 November 2009 [LTT 533]

⁶³ DfT press notice, "[£15m Government funding for green buses](#)", 5 July 2010

⁶⁴ DfT, "[£90 Million boost for Buses across England](#)", 8 December 2011

⁶⁵ op cit., [Green Light for Better Buses](#), p24

⁶⁶ DfT, [Green Bus Fund Round 4: Guidance for Bidders](#), December 2012

⁶⁷ [HC Deb 29 October 2013, c424W](#)

⁶⁸ op cit., "[£90 Million boost for Buses across England](#)"

⁶⁹ op cit., [Green Light for Better Buses](#), p23

Under this new fund, local transport authorities can bid to be designated as a BBA, where they can show that they have a clear plan for improving bus services in their area that is being developed locally in partnership with bus companies. A BBA could cover either part or all of an authority's area, or two or more authorities could join together to create a BBA across part or all of their joint areas.

Where a BBA is established, the Government will calculate how much BSOG is paid each year to all the bus companies operating services within the area covered by the BBA. For as long as the BBA continues, that amount will be paid to that authority – or authorities – in order to allow them to introduce a wide range of measures to improve bus services within the BBA. So, for example, this could be used to improve bus stops and stations, better ticketing systems or introducing new arrangements to allow buses to beat traffic jams.

A key consideration in the designation of a BBA will be the ambition of the local council to use its traffic management powers to help make buses more punctual.

Each year, every BBA will also receive a share of a new 'top-up' fund which is being set up to support BBAs. Although bus companies in BBA areas will no longer have BSOG paid directly to them, local transport authorities will have to work very closely with them in order to decide how best to spend the money. Indeed, one of the criteria to be used in deciding which areas to award BBA status to would be evidence that the bid is supported by local bus companies. The creation of the top-up fund means that each BBA will receive significantly more funding than the area would have been paid under the existing BSOG system. This also means that the extra funding will be available to improve bus services in an area straight away, alongside the devolution of the BSOG funding to councils.⁷⁰

In February 2013, the Government announced that South Yorkshire Passenger Transport Executive had successfully developed the first BBA in Sheffield.⁷¹ At the same time the Government published guidance to be used by local transport authorities wishing to apply to be designated as a BBA. In BBAs the Bus Service Operators Grant (BSOG) – which is currently paid directly to bus operators – will be devolved to the local transport authority and topped up with a grant worth 20 per cent of the BSOG for commercial services (see section 2, above).⁷²

5 Grants for which funding has changed or ceased

Rural Bus Subsidy Grant (RBSG) was paid to local authorities to help support the provision of non-commercial rural services and is targeted to support accessibility in rural areas. In April 2008 RBSG was moved into the pooled area-based funding for local authorities, the transport elements of which have now been rolled into the general formula grant.⁷³ It was small in comparison with BSOG with annual spending in the region of £58 million.⁷⁴ RBSG was one of a series of measures introduced in 1998. It was intended to provide for new or enhanced local bus services in England for rural communities of up to 10,000 residents, previously not well served. The Grant was allocated to local authorities on the basis of the size of their rural population. In January 2001 the population limit for qualifying communities was increased to 25,000, and up to 20 per cent of the funding from 2001-02 onwards was

⁷⁰ *ibid.*, p37

⁷¹ [HC Deb 26 February 2013, cc20-21WS](#)

⁷² DfT, *Bus Service Operators Grant reform and Better Bus Areas*, 26 February 2013

⁷³ [HC Deb 1 March 2011, c338W](#)

⁷⁴ [HC Deb 22 February 2010, cc199-200W](#)

used to safeguard services that existed prior to 1 May 2001.⁷⁵ An October 2003 report indicated that for some local authorities, the additional funding represented up to a 500 per cent increase over what had previously been available to support rural services.⁷⁶ For the last year RBSG was paid as a separate grant (2007/08), a [breakdown of the figures](#) by local authority area can be found on the Department's archived website.

Kickstart funding was aimed at helping local transport authorities subsidise bus services where commercial routes were not viable. It was initially introduced in 2003 on a pilot basis and the scheme was re-launched in September 2008 when the then Secretary of State, Ruth Kelly, announced £25 million in new funding for the scheme.⁷⁷ In January 2009 the then Secretary of State for Transport, Geoff Hoon, announced further details of the scheme.⁷⁸ In March 2010 the then Minister for Transport, Sadiq Khan, announced that the amount of available funding had been reduced to £15 million and published a list of the successful bidders.⁷⁹ However, as part of Transport's contribution to the initial £6 billion savings in public spending announced by the Treasury in June 2010, the Kickstart funding was cut and the scheme was essentially cancelled.⁸⁰

Rural Bus Challenge (RBC) was introduced as an annual competition in which local authorities bid for funding for schemes aimed at stimulating innovation on the provision of rural public transport. The criteria, set out in July 1998, were broad and funds could be used for either revenue or capital spending.⁸¹ From 2001 the guidance invited bids that would either copy successful schemes from elsewhere or enhance a previously supported project. A 2003 study found that Rural Bus Challenge had met its primary objective of encouraging innovation in rural transport provision.⁸² In the last year that the RBC operated, 2002-03, £18.2 million was provided to local authorities.⁸³ The Minister later stated that a total of £110 million was awarded to successful authorities in RBC competitions held from 1998 to 2003. Many of the 300 projects initially supported by RBC funding are now continuing with mainstream funding from local authorities and other sources.⁸⁴

Urban Bus Challenge (UBC) was announced in the 10 year transport plan to tackle the problems that people in urban areas encountered when trying to access work, health care, shops and schools.⁸⁵ Like the RBC, the UBC ran until 2003. To be eligible for UBC the project had to serve a town with a population of at least 25,000 (or an area within it); in other words bids could be made for anywhere that was not rural for the purposes of the expanded RBSG. The UBC was available for capital as well as revenue expenditure and successful applicants could spread their award over more than one year. On 21 June 2001 the first

⁷⁵ DETR, *Rural Bus Services Grant: guidelines to local authorities*, June 1998 [HC DEP 98/584]

⁷⁶ DfT, *Evaluation of Rural Bus Subsidy Grant and Rural Bus Challenge - Summary report*, 20 October 2003

⁷⁷ DfT press notice, "[£25 million to kick-start better buses](#)", 24 September 2008; following the publication of a monitoring report on the effectiveness of the trial schemes, see: Transport Studies Group, Loughborough University, STAR Independent Consultants Ltd, and the Open University for the DfT, *Improving public transport research – monitoring Kickstart schemes (UG589): Final Report*, February 2007

⁷⁸ HC Deb 29 January 2009, c28WS; see also: DfT, *Kickstart Bus Funding Competition 2009: Guidance on the application process*, January 2009

⁷⁹ DfT press notice, "[£15M to kickstart bus services](#)", 25 March 2010

⁸⁰ CLG, *Local government's contribution to £6.2 billion efficiencies in 2010-11*, 10 June 2010, p8 [HC DEP 2010-1284]

⁸¹ DETR, *Rural Bus Challenge: criteria for grant*, 3 July 1998 [HC DEP 98/750]; DETR press notice, "Reid invites bids for £5 million rural bus challenge", 14 August 1998

⁸² op cit., *Evaluation of Rural Bus Subsidy Grant and Rural Bus Challenge - Summary report*

⁸³ HC Deb 19 May 2004, c1002W

⁸⁴ HC Deb 22 March 2007, cc1045-6W

⁸⁵ op cit., *Transport 2010: the 10 year plan*, para 6.53

urban bus challenge competition was launched and towns and cities were invited to bid for the first tranche of £46 million which was to be available over the period 2001-02 to 2003-04.⁸⁶ The results of the first round were announced in November 2001; 32 schemes in 24 different local authorities were given funding totalling £15.3 million. In the 2002 competition £18 million was given to support 34 projects.⁸⁷ For the last year for which there are figures, 2004-05, the government provided £16 million to local authorities via the UBC.⁸⁸

⁸⁶ DTLR news release, "Government launches £46 million urban bus challenge", 21 June 2001

⁸⁷ DTLR news release, "Urban ticket to ride", 12 November 2002

⁸⁸ [HC Deb 24 January 2005, c198W](#)