

**HERTFORDSHIRE COUNTY COUNCIL**

**ENVIRONMENT  
SCRUTINY COMMITTEE**

**TUESDAY 29 JUNE 2004 AT 10.00 AM**

**CONTRACT BUS SERVICES**

*Report of the Director of Environment*

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Agenda Item No.  <b>8</b>
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**1. Purpose of Report**

This report has been produced in response to a request from Councillor Chris White and seeks to inform members of the process used to decide which bus services to provide and how changes to services are made.

**2. Summary**

2.1 The present practices, policies and strategies have evolved over a considerable time. They seek to establish a broad consensus on provision between the tiers of local government. They also seek a practical approach which recognises that both cost and use need to be balanced in a system where responsibility for the network is fragmented between the public and private sector.

2.2 Planned changes to services initiated by the County Council, which are significant in their effects, are normally subject to consultation processes with County and District Members. However, there will always be shorter-term changes precipitated by commercial operators where meaningful consultation is not possible within the legislative time scales.

**3. Conclusion**

3.1 The process by which bus service changes are decided has developed over a long period. Some of these changes to contract services are necessitated by funding issues or by commercial service changes.

3.2 The Environment Scrutiny Committee is invited to consider the current processes regarding planned and emergency changes to bus services, and to consider how to undertake any further scrutiny and whether they wish to make any recommendations to the Council, Cabinet or Chief Officer.

## **4. Background**

- 4.1 The provision of bus services outside London was deregulated by the Transport Act 1985. Bus operators are free to run services on a commercial basis where they wish and the statutory duty of the County Council is to consider where needs are not met and provide contract services where appropriate. It has to consider the effects of its action on the commercial sector and to have regard to the transport needs of members of the public who are elderly or disabled.
- 4.2 In Hertfordshire this function is considered in conjunction with the district and borough councils (who also have powers to secure bus services) and the funding is shared on a 75% county/25% district basis. Dedicated home to schools services are provided and funded wholly by the County Council. The situation is complex and this is compounded by cross-boundary bus services into and out of London, which operate under a different legislative framework.
- 4.3 The Passenger Transport Unit manages around 200 contracts for local bus services, of varying value and complexity.
- 4.4 The Transport Act of 1985 and 2000 require the County Council to have:
- Passenger Transport Policies; and
  - A Bus Strategy

These statutory documents set out how the County Council intends to fulfil its passenger transport duties and a strategy to implement them.

## **5. Provision of Contract Bus Services**

- 5.1 The Transport Act (1985) and supporting Regulations specify the open tendering process to be used to secure local bus services and the establishment of contracts.
- 5.2 There is no prescriptive process for determining which services to support and each authority is free to establish its own criteria. Broadly the choices are:
- (a) Specify minimum standards of service for settlements of particular sizes, taking little or no account of usage or cost.
  - (b) Specify minimum levels of use (usually by journey) for different types of service, again without consideration of specific cost of provision.
  - (c) Provide services up to a maximum level of financial support, per passenger or another measure of value for money, e.g. a cost benefit analysis. This seeks to take account of both use and cost.
- 5.3 In developing its policy and strategy documents, the County Council chose to use a cost benefit approach.

- 5.4 This is detailed in Appendix 1, which is an extract from the approved Bus Strategy.
- 5.5 Hertfordshire's bus network is complex and a minimum standard of service approach does not reflect the range of travel destination options that communities desired. The minimum level of use approach was also rejected because it did not take account of real costs and the variations between different types of service or areas.
- 5.6 The cost benefit approach was therefore designed to improve on these weaknesses and it attempts to quantify both costs of provision and benefits to users from running a bus service based on cost indices sourced by DfT. The rate of return sought is 25%. If benefits exceed costs by 25% then the service should continue to be provided. If the benefit is less than 25% or even negative (i.e. less than costs) then the service should be considered further. It does not follow that the service should be withdrawn. For example, the service may be at a development stage and its future potential is not fully realised. The service may be the only route for a village and the cost may be seen as a worthwhile price to retain access for a small number of bus users.

## **6. Changes to Services**

- 6.1 The Transport Act 1985 limits the length of a bus contract to five years. During that time a number of circumstances can change:
- (a) The District or County budget may be insufficient to fund the route in its present form. It should be noted that there is a legal contract in place (with a termination clause) but no guarantee that year to year revenue funding will enable the County Council to meet its obligations.
  - (b) The pattern of demand may change. This might include the timing of school starts/finishes or the level of use (both up and down) of particular journeys.
  - (c) A commercial bus operator may start a new service or modify or withdraw an existing service at eight weeks notice and this may have an impact on a contract service, directly or indirectly. It might mean that the need for a service reduces, it might mean that resources need to be re-deployed to meet a need left unserved by the commercial operator.
  - (d) A contract may be terminated because of poor performance or operator failure.
- 6.2 Although the County Council aims to keep its funding partners, the Districts, informed and involved, the speed at which some changes occur does not always permit consultation. The County Council is the lead authority and the objective is to reach the best service solution within available combined budgets. However, some situations require emergency action to ensure continuity of service such as temporarily contracting new operator's etc.

- 6.3 Local members are advised of service changes through a monthly bulletin.
- 6.4 Where the County Council is making significant change to its contract services e.g. a change to service level or withdrawal of a part/whole route to its own time scales, either for budget reasons or as part of the re-tendering of service contracts, there is wider consultation. Priority is given to the responses of the funding partners but all substantial comments are reported to the Executive Member.
- 6.5 While the management of bus service contracts is delegated to the Integrated Transport Services Manager, decisions are taken following consultation with the Executive Member.
- 6.6 The Bus Strategy committed us to a programme of Bus Network Reviews on a four 'quadrant' basis. The review process identifies:
- The main strategic bus routes in the areas;
  - The commercial and contract routes;
  - Congestion 'hot spots' which require bus priority action;
  - Options for developing routes.

This work is being carried out in conjunction with the District Councils and will enable a structured, partnership approach to service planning.

## **7. Financial Implications**

- 7.1 Funding for contract bus services has been shared with the District Councils over the last 25 years.
- 7.2 The budget position of the district and borough councils, who fund only 25% of total cost, can have a disproportionate effect on bus services in that a reduction in District contribution will lead to a service reduction.
- 7.3 There are pressures on this long-standing arrangement. The Districts are reporting increasing difficulty in funding this expenditure (a combined total in excess of £1m each year) and District Council Best Value Reviews highlight that this is an area where Districts have powers but not duties.
- 7.4 Occasionally the outcome of consultation may be that a District Council will want to keep a service that the County Council does not consider provides value for money. If, after having considered the other factors such as those in paragraph 5.6, the service continues, the District's 25% contribution would have secured the continuation of that service.
- 7.5 Similarly, there may be situations where the County Council wishes to keep a service but the lack of a 25% District contribution may lead to an overall budget shortfall.

7.6 Other authorities contribute £1.2m towards a budget of £5m for local bus contracts. The gross budget is significantly greater as it includes income from fares and the cost of school services which are 100% funded by the County Council as shown below:

	<b>£m</b>
Gross Budget	14.4
Income from fares etc	<u>-7.5</u>
	6.9
School services	<u>-1.9</u>
	<u>5.0</u>

**8. Access to Services Implications**

8.1 Consideration of reduction or changes to services includes an evaluation of the numbers of passengers affected and the alternatives available.

**9. Conclusion**

9.1 The process by which bus service changes are decided has developed over a long period. Some of these changes to contract services are necessitated by funding issues or by commercial service changes.

9.2 The Environment Scrutiny Committee is invited to consider the current processes regarding planned and emergency changes to bus services, and to consider how to undertake any further scrutiny and whether they wish to make any recommendations to the Council, Cabinet or Chief Officer.

**Appendix 2 from Hertfordshire Bus Strategy 2002/3 – 2005/6**

**COST BENEFIT ANALYSIS CRITERIA FOR SUPPORT OF CONTRACT SERVICES**

This appendix sets out the County Council's approach to value for money on contracted local bus services.

**Background**

Hertfordshire has a wide range of communities of varying sizes, both rural and urban, with no dominant single centre. Its bus network reflects this complex pattern. The County Council has always resisted the adoption of concepts of minimum service levels. Either the minimum is unacceptably low in relation to current or historical provision in some areas or in other areas the minimum may be too high to be deliverable. The approach has been based on realistic costs and measurable benefits and needs.

When the Transport Act 1985 was implemented, the criteria used to evaluate which services should be provided was based on a number of factors. These included usage levels, type of service, relationship with other services (especially those provided on a commercial basis), the policies of District Councils and adjacent authorities, and future changes in land use and development.

From this, three yardsticks were developed:

- Expenditure per passenger
- Operating costs per mile
- Revenue to cost ratio

While these criteria were useful they did not measure the value of a service to the user or to the County as a whole. Expenditure of say £1 per head might be quite low for a long distance service but high for a short urban service, so comparisons were inappropriate.

In 1990 an external consultant was appointed to review the economic evaluation approaches for local bus services. The present cost benefit technique resulted from this work and was approved by members and incorporated into the Council's Passenger Transport Policies, revised in 1993.

**Cost Benefit Analysis**

The principle of an economic evaluation is to take into account all the costs and benefits of a policy decision, regardless of who incurs them. It is widely used in significant transport investment decisions such as road construction and major capital projects. It was applied in Hertfordshire to a broad countywide review of passenger transport networks in 1984 and prior to that on the Stevenage Superbus demonstration programme in the 1970's.

The objective is to quantify whether the expenditure (in this case the provision of a local bus service) gives a positive rate of return and whether that rate of return is better value than other uses to which the money could be put. It also offers a means to comparing expenditure between services should the available budget be limited and it can also model “what if” scenarios to assess the effects of changes in policy.

Cost Benefit Analysis cannot provide all the answers. On relatively small investment decisions it is impractical to look at the wider environmental, traffic and safety implications and it may be difficult to examine the future potential for a service in a developing area. It is however an extremely valuable management tool.

There are two elements to cost benefit analysis – the cost is the expenditure committed to provide the service; the benefit is the value (quantified in monetary terms) to the passenger of that service compared to the alternatives available.

This value is calculated for both the passenger journey using the contract service, (taking account of the walk to the bus stop, the wait at the bus stop and the time travelling), and the nearest equivalent (usually walking or another bus/train or a taxi). Nationally accepted values of time are used to value each element of the passenger trip. To these are added the actual fares incurred. The difference between the total values of contract provision and the alternative gives a value of the benefit. These are summated for the total number of passengers on the service and compared to the expenditure to give a rate of return.

In practice the County Council cannot know where each passenger is travelling and what the most realistic alternative might be and so up to three generic trips on each contract are taken and weighted on available usage and information. These calculations are computerised.

### **Criteria for support of Contracted Bus Services**

Members in 1990 agreed that 25% was a suitable target rate of return. General interest rates and inflation were higher at that time than now but the target rate of return has not been changed. It is accepted that a margin of error is desirable given the difficulty and cost of obtaining representative data and in any event those services below the target rate of return are investigated in more detail.

The County Council will continue to keep the target rate of return under review, as part of its Bus Strategy.

### **Comment**

As indicated above the technique is a tool for assessing value for money. It does not take account of many wider issues. It only looks at passenger trips actually made on a contract service whereas many journeys are only possible by using other parts of the passenger transport network. It does not take account of the value of a service used on an irregular basis by a wider population and accounting for only the trips actually being made on the journeys supported is likely to under-value the benefits. It is at this stage that interpretation of the results is important.