LONDONASSEMBLY

Transport Committee

Value added?

The Transport Committee's assessment of whether the bus contracts issued by London Buses represent value for money

March 2006

The Transport Committee

Roger Evans	- Chairman (Conservative)
Geoff Pope	- Deputy Chair (Liberal Democrat)
John Biggs	- Labour
Angie Bray	- Conservative
Elizabeth Howlett	- Conservative
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The Transport Committee's general terms of reference are to examine and report on transport matters of importance to Greater London and the transport strategies, policies and actions of the Mayor, Transport for London, and the other Functional Bodies where appropriate. In particular, the Transport Committee is also required to examine and report to the Assembly from time to time on the Mayor's Transport Strategy, in particular its implementation and revision.

The terms of reference as agreed by the Transport Committee on 20th October 2005 for the bus contracts scrutiny were:

- To examine the value for money secured by the Quality Incentive Contracts issued by London Buses to bus operators. This will include
    - An examination of the penalty/bonus element to the Quality Incentive Contracts
    - An examination of operator rate of return and operator market share
    - An examination of the criteria by which the subsidy's value for money is judged
- To compare all of the above with other contracting arrangements within the UK and other international major cities

Please contact Danny Myers on either 020 7983 4394 or on e-mail via danny.myers@london.gov.uk if you have any comments on this report the Committee would welcome any feedback.

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Chairman's Foreword

Roger Evans AM
Chairman of the Transport Committee

The expansion of London's bus network has come at a cost. In 2004/05 the annual public subsidy for London Buses had increased to £555 million. The total annual cost of bus contracts was estimated at £1,400 million. At a time of rising bus fares, this report set out to evaluate the return on this considerable expenditure.

The committee found that Transport for London has achieved value for money, principally through the application of strict reliability standards through the Quality Incentive Contracts regime. London now has a larger bus network than any other comparable international city and passenger numbers have grown by 500 million since 2001.

However the maintenance of standards is dependent on healthy competition and we applaud TfL's efforts to bring more operators to the London market, exemplified by the recent entry of National Express. The committee expects to see greater competition facilitated by TFL in the coming years and encourages greater transparency in the awarding of contracts, as far as is commercially viable.

We also believe that the contracting model provides opportunities to address some of the concerns previously highlighted by the committee, notably that targets should be set for the standard of driving and for the availability of wheelchair ramps as experienced by passengers, and that good performance against these targets should be rewarded. TFL should be even more ambitious for service quality.

We also welcome reassurances from TFL – and most recently the mayor – that articulated buses, whilst suitable for some high frequency routes, are not seen as a future option for most of the capital's bus services.

The committee extends its thanks to Colin Buchanan consultants for their technical assessment, which forms an essential contribution to our report, and to London Buses for assisting with our review.

Executive Summary

London's bus network is being used by more passengers than at any time since the 1960s. The prevalent downward trend on bus usage has been reversed in London as the network has been expanded, the fleet overhauled and reliability improved.

The improvement has come at a cost, though. The £1400 million it costs London Buses to contract operators to run the network is not being met by the fare box. In 1999, the bus network did not require a subsidy. In 2004/05, the subsidy required was £550 million. This review examined whether the improvements to the service were worth the price being paid by TfL.

The Committee has found that they do represent value for money to TfL.

Quality Incentive Contracts

Quality Incentive Contracts are issued by individual route for a five-year period. These contracts oblige bus operators to meet minimum reliability standards and reward or punish performance that exceeds or fails to meet these standards accordingly.

Operators are also encouraged to improve other aspects of performance, such as driving standards and cleanliness, through two-year contract extensions if certain benchmarks are met.

The Committee has however recommended that other aspects of performance –such as bus driving standards and wheelchair ramp performance - should be financially rewarded along with reliability, perhaps on the basis of operator performance league tables, available to London Buses.

Impact on the market

The QIC system appears to have worked. The operator market has remained competitive.

- There are seven major players operating across the network. This compares favourably to many other UK cities where only one or two operators provide the bus service.
- For every route retendered there are on average three bidders competing for the contract.
- Contract costs, which had maintained a much sharper upward trend under previous contracting systems, have by and large remained flat – between £4.20 and £4.30 per kilometre operated over the last four years.
- Operator returns, which average between 12-15% across the UK are around 8% in the capital. And this has been achieved against a backdrop of rising driver wages and fleet overhauls.

The Committee welcomes London Buses' attempts at encouraging new entrants into the market, most notably with National Express but are particularly keen that the market remains competitive. **The Committee is keen to seen the number of average bids per tender rise from the current level of three bids per route.**

The Committee would also wish to see even greater transparency brought to the tendering process and has recommended to TfL that more information be provided than is currently given on TfL's website as to why a bid which was not the cheapest has proved successful.

Impact on the service and demand

The network is also more reliable. Excess waiting time – the measure by which a bus' reliability is judged - has been halved over the last five years. The network is now also more extensive with 26% more kilometres operated since 2001.

And Londoners have responded to these improvements. 1.8 billion passenger journeys were undertaken on London's buses in 2004/05 – an increase of 0.5 billion on the journeys made in 2001.

It is therefore not surprising that the QIC model adopted by London Buses is now being promoted as a potential model for other world cities.

1. Introduction

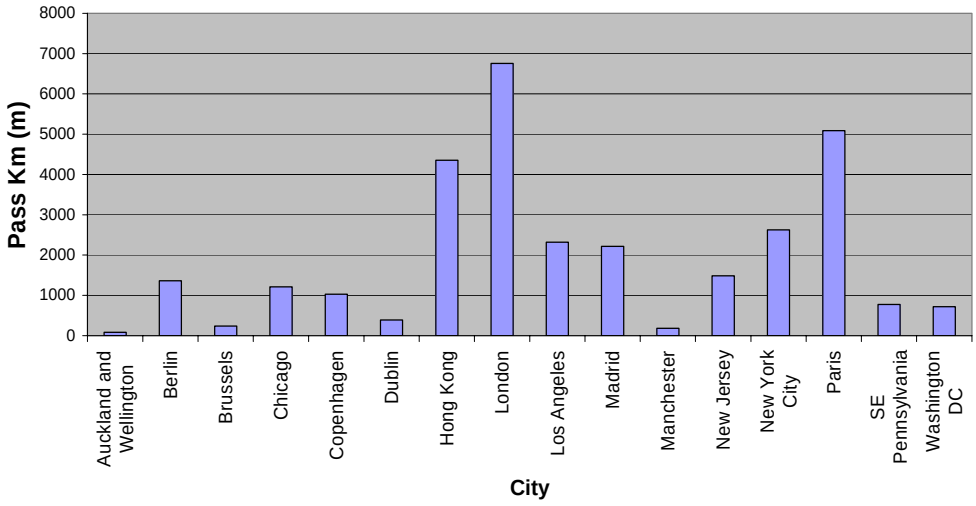
1.1 The turnaround in performance of London Buses has been much trumpeted. Over the last 5 years there have been new routes, new fleets of buses, increased frequencies and greater reliability.

1.2 The 7000 buses that operate on some 700 routes have allowed London Buses to provide 450 million operated kilometres per year (an increase of 25%) and passengers have responded to the more comprehensive and reliable bus network with the number of annual trips up from 1.3 billion journeys in 1999/2000 to 1.8 billion in 2004/05. London is unique in reversing a long established trend of declining use of public buses not only in the UK but also across Europe by actually increasing ridership on its buses.

The graph below illustrates that from among selected major international cities, London now has the largest bus network.

Figure 1: Annual Bus usage of selected major cities

Source: Colin Buchanan



1.3 However, costs have risen faster than revenues. The TfL subsidy to London Buses has increased from zero in 1997/98 to £555 million in 2004/05 to meet the estimated £1400 million costs of the contracts tendered by London Buses. The improvement has therefore come at a cost.

1.4 This review seeks to establish whether the improvement in London's buses actually represents value for money; whether the £1400 million cost of the bus contracts and the subsidy required to support the additional costs is a price worth paying for the improvements delivered.

1.5 In reaching its view, the Transport Committee commissioned independent research from Colin Buchanan Ltd and received extensive written and oral evidence from London Buses. Details of the final submission from Colin Buchanan is attached as Appendix B and this report is based largely on these findings. The research examined data from the Department for Transport, Office of National Statistics, European Metropolitan Transport Authorities, Jane's Urban Transport Systems (2004-05) and the annual accounts of bus operators. The researchers also met three bus operators (Arriva London, First and CT

Plus) as well as meeting independently of the Committee with London TravelWatch and London Buses.

1.6 The written evidence provided by London Buses can be found in Appendix A and their oral evidence submitted at a meeting on 19 January 2006 can be viewed at http://www.london.gov.uk/assembly/transport/index.jsp#47.

2. The evolution of London's bus contracts

2.1 Before assessing the current contract and procurement methodology adopted by London Buses it is useful to note the background against which the new system developed. Bus services in London are now almost all operated by commercial bus operators under contract to Transport for London. However, until 1986, London bus services were operated by London Transport, a state owned entity. From 1986, London Transport retained its planning role, but competitive tendering of the operation of bus routes to the private sector was introduced. By the mid 1990s, nearly all London bus routes were being operated by the private sector under contract to London Transport.

Net Cost Contracts

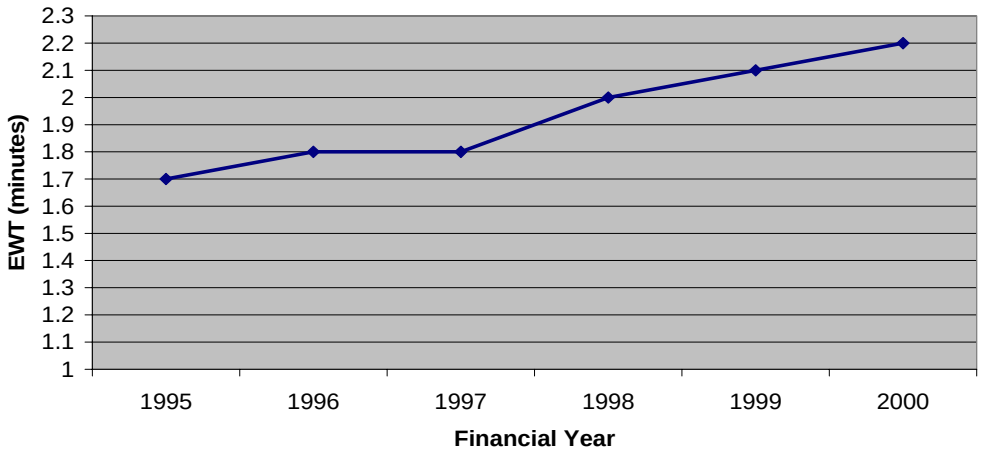
2.2 Initially, contracts were let on a gross cost basis. However, from the mid 1990s, net cost contracts were introduced. Net cost contracts involved bus operators retaining the cash revenue paid to the driver as well as a proportion of travelcard revenue received by London Transport – a crucial difference to the system currently operated.

2.3 Operators tendered on the basis of the lowest subsidy required. London Transport originally anticipated that there would be a strong incentive for operators to improve the quality of service provided to increase patronage and therefore profitability. As a result, it was intended that all new contracts would be retendered on a net cost basis. However, ultimately the incentive to increase patronage did not prove strong enough for operators to improve performance.

2.4 The bus passenger is not a consumer in the strictest sense. In almost all cases, a passenger will board the first bus that promises to reach its destination rather than wait for a bus, for example, that might have a better design. As illustrated in the graph below, average wait times between 1995 and 2000 rose.

Figure 2 : Reliability (Excess Wait Time) 1995-2000

Source: Colin Buchanan (Data from London Travel Report 2004)



2.5 The system was deeply flawed. This was due largely to operators adding a premium to cover the risk of losing revenue due to circumstances outside their control, such as long-term roadworks. Another disadvantage was that operators' revenues were affected by any changes to the bus network made by London Transport. Because the bus network constantly changes to match passenger demand patterns, a lot of effort was required to adjust contracts to take account of the effect on operator revenues.

Gross cost contracts

2.6 In the late 1990s, London Transport decided to remove the revenue incentive from bus operators. The introduction of gross cost contracts meant that London Transport kept the fare box, adapting to the turn-up-and-go nature of the demand on bus networks.

2.7 The move to gross cost contract was an interim measure to halt the award of net cost contracts while incentivised contracts were developed. Performance, as illustrated above, did not improve. In fact it got worse as excess waiting times increased. Although the contracts took account of general inflation, the rising costs of staff and fuel were not adequately covered and consequently, operators found themselves with loss-making contracts which in turn pushed up the cost of newly tendered contracts sizeably. Rising staff costs had led to a reduction in the salary of drivers, which resulted in a higher turnover of staff and acute shortages. Operators found themselves with fewer levers with which to control their performance and declining returns or even losses and London Transport found itself in the unenviable position of having to run a service itself when an operator, Harris Bus, went into administration and no other credible operator was prepared to take the risk and operate the route itself.

3. Quality Incentive Contracts

3.1 Quality Incentive Contracts (QICs) were introduced by London Buses in the autumn of 2001 in a direct response to rising costs and declining performance of the previous contracting regimes. They were also to be the principal delivery mechanism to achieve the Mayor's stated aim of increasing bus ridership by 40% by 2011, to renew the fleet and improve reliability.

How the QICs work

3.2 The QICs are a form of gross cost contract with a payment mechanism linked to reliability in terms of bus arrivals at stops. London Buses sets a standard for each route, and operators may incur a deduction of up to 10% of the contract price or a bonus of up to 15% of the contract price depending on the measure of reliability against the standard figure.

3.3 There is a further incentive for operators in that it allows a possible extension of the contract from the standard 5 years to 7 years, depending on performance of both reliability and mystery traveller surveys. Mystery traveller surveys assess such issues as vehicle condition, cleanliness, the visibility of bus blinds and ride quality.

3.4 Since Quality Incentive Contracts were introduced, 635 routes have been tendered under this system. The remaining 93 gross cost contracts will shortly be retendered as quality incentive contracts. London Buses has spent approximately £1400 million via the contracting system.

3.5 London Buses' management of the bus network can be divided into three stages, which are overlapping and ongoing. These consist of

- planning routes and services
- carrying out the contract tendering process,
- post-implementation monitoring and management.

Planning routes and services

3.6 Since most contracts last 5 years, approximately 20% of the bus network is retendered every year. London Buses uses contract renewal as an opportunity to implement any major changes that may be necessary to that route. It should also be noted however, that contracts may be renegotiated at other times to allow for changing passenger demand or other circumstances (see paragraph 3.32 for an example).

3.7 London Buses collects data on passenger demand through a number of mechanisms, including origin and destination surveys on buses, loadings surveys at bus stops, and data from ticket machines on each bus. It also considers suggestions from local authorities, bus operators, passenger correspondence and other interested parties. Consultation is also a significant part of the planning process.

3.8 The Transport Committee has recently conducted a review of the consultation process that London Buses operates and the Committees findings and TfL's response to our recommendations can be found in Appendix C & D.

The tendering process

3.9 Once the planning process is complete, an invitation to tender (ITT) is issued to approved tenderers. The tender includes a specification of the routeing, frequencies and vehicle type required. It also specifies standards for reliability and the proportion of operated kilometres. In addition to the specific requirements for each route, there is also a framework document outlining the general terms and conditions required for operating bus services under contract to TfL.

3.10 Operators submit bids for operating the bus service as specified in the tender. Their pricing takes into account all of the elements for which they are responsible. This includes the cost of drivers, vehicles, fuel, service control, garage and office premises, engineering support, insurance, administration, repayment of debt on capital expenditure and profit.

3.11 There is an average of three tenders per route – an average figure that has risen from 2.5 in 2000. London Buses evaluates tenders on the basis of value for money, taking into account the cost and anticipated performance of the operator during the life of the contract. As can be seen on the London Buses website, the lowest priced tender frequently wins, but in some cases a more expensive bid is chosen. The reason for selecting a particular operator is not generally explained in any detail. However the Committee feels that it could only help enhance competition if more explanation was offered publicly beyond the current level of explanation which rarely exceeds four of five words.

The Committee recommends that even greater transparency be applied to the system and a detailed explanation be given as to what competitive advantage swayed London Buses to award the contract on grounds other than cost, beyond the current level of explanation.

3.12 London Buses has actively sought to develop the market by approaching potential operators to gauge interest and encourage entry. For example, London Buses informed the Committee that it approached National Express. London Buses found that a significant barrier to a new entry into the market was owning depot premises and has consequently let out Walworth Garage for use by National Express.

3.13 The Committee welcomes London Buses' attempts to develop the market and increase competition for tendering routes. **The Committee expects to see greater competition over the next few years and hope that the slight fall in the average number of bids per route in 2005 (from 3.1 in 2004 to 3.0) is not the start of the a larger trend that would claw back the added competitiveness that has been brought to the market in the last five years.**

Monitoring the reliability

3.14 London Buses measures reliability in terms of Quality of Service Indicators (QSIs), a system which endeavours to measure reliability as experienced by passengers waiting at bus stops. There are two types of measurement, depending on whether a route operates on a low frequency (every 15 minutes or more) or on a high frequency (every 12 minutes or better).

3.15 Many passengers using a low frequency route will have a good idea of when the next bus is due to arrive and will arrive at the bus stop in the expectation of catching a particular departure. As a result, reliability is assessed in terms of 'on time' performance. In terms

of QSIs, a bus is assumed to have arrived on time if it arrives within a window of 2 minutes before or 5 minutes after the scheduled time.

3.16 When using high frequency routes, passengers tend not to consult a timetable but instead turn up at the bus stop in the expectation that a bus will arrive shortly. In order to measure this type of usage, excess wait time (EWT) is used. It is calculated by measuring the difference between actual waiting times against scheduled waiting times. The formula takes into account the fact that late buses will have more passengers waiting for them.

3.17 To measure both types of routes, London Buses uses observers with handheld computers deployed at key points along the route. Shifts normally last 2½ or 3 hours and are scheduled to occur on a randomised basis between 07:00 and 21:30 on weekdays, 10:00 and 17:00 on Saturdays and 14:00 to 17:00 on Sundays. Nightbuses are also monitored between 00:00 and 05:30.

3.18 There are 250 locations and each location has at least 16 observations during a quarter. QSIs are calculated for each route every 4 weeks, with data for each route published on the TfL website every quarter.

3.19 The reliability standard for each route is determined partly by a formula which takes into account the operating conditions and the length of the route (it is assumed that a longer route is more difficult to operate than a shorter one). In addition, the reliability history of a route is taken into account when setting the standard.

Other monitoring

3.20 London Buses also use an agency to carry out mystery shopper style surveys. Trained surveyors, who travel incognito, assess measures such as vehicle cleanliness, quality of bus blinds, ride quality, driver presentation and the presence of etching and graffiti. The results are sent to bus operators every quarter. The results of the surveys can determine whether an operator will be allowed an extension of a contract from 5 to 7 years.

3.21 Other surveys of quality of operation are also carried out.. For example:

- **Driver Quality Monitoring** is carried out on behalf of London Buses by the Driving Standards Agency. A large number of criteria are examined during each assessment, including acceleration, cornering, braking, speed, anticipation, and how close to the kerb a bus stops. Examiners also look out for behaviour which is considered dangerous, such as using a mobile phone or driving with the doors open.
- **Inspections of vehicle quality** are carried out on behalf of London Buses by engineers from the Freight Transport Association.
- **Lost kilometres -** Operators submit their own returns of kilometres not operated due to reasons such as traffic, driver shortage and mechanical reasons. London Buses carries out detailed audits of operators to ensure the accuracy of the lost kilometres reporting procedure.
- **Wheelchair ramp availability** – London Buses introduced surveys of wheelchair ramp availability to address public concerns about non-working ramps as well as using mystery travellers to assess successful implementation.
- **Customer satisfaction surveys** – passengers are asked to rate a number of categories of bus services similar to those assessed with Mystery Traveller Surveys.

QIC payment mechanism

3.22 Performance bonuses are calculated by comparing the observed reliability against the standard for that route. Depending on performance, operators may earn a bonus of up to 15% or a penalty of up to 10%. The emphasis on bonuses was no doubt designed to show operators during the early days of QICs that London Buses wished to promote good performance rather than simply clawing back money from poor performance.

3.23 The mechanism is perhaps most clearly illustrated by considering the example of a low frequency route. For such a route, every 2% improvement in the on-time figure over the standard results in a bonus of 1.5% of the annual contract price, while every 2% below the standard results in a deduction of 1% of the contract price. The tables below illustrate how this works. It is assumed for the purposes of the example that the route has an on time standard of 75%:

TABLE 1 : Performance against bonus/deduction

On time reliability performance	Bonus or deduction
95% and above	15.0%
93%	13.5%
91%	12.0%
89%	10.5%
87%	9.0%
85%	7.5%
83%	6.0%
81%	4.5%
79%	3.0%
77%	1.5%
75%	0%
73%	-1.0%
71%	-2.0%
69%	-3.0%
67%	-4.0%
65%	-5.0%
63%	-6.0%
61%	-7.0%
69%	-8.0%
57%	-9.0%
55% and below	-10.0%

3.24 As can be seen, any result above 95% does not result in any additional payments, nor does performance below 55% result in any additional deduction. The actual payment is settled annually. If the contract were worth £2 million, the bonus could be worth £300,000, while the deduction could be as much as £200,000.

3.25 For a high frequency route, the mechanism is similar - every 0.1 minute improvement in EWT above the standard results in a bonus of 1.5% of the annual contract price, while every 0.1 minute of EWT below the standard results in a deduction of 1% of the contract price.

3.26 Payments are calculated quarterly and are seasonally adjusted to take into account regular trends (such as the fact that traffic congestion is lighter during August and heavier just before Christmas). As with gross cost contracts, deductions are made for any

scheduled kilometres not operated for reasons which fall within the operator's control. These include staff shortages and buses not operating due to engineering issues.

The future development the QIC contracts

3.27 The impact of the QIC contracts are constantly shifting – the annual contract renewal of 20% of the bus services allows London Buses to further tweak and enhance the requirements of operators. The Committee recommends that the aspects of performance subject to financial incentives and performance-related payments be extended. In Copenhagen for example, although admittedly on a much smaller network operated in London, nine aspects of performance are subject to bonuses or penalties.

3.28 The Committee has in a previous review of bus driving standards[1] along the network recommended to London Buses that the standard of driving, at the moment only a condition for contract extension, should be given greater priority and included as part of the bonus/penalty component of the QIC contracts.

3.29 The Committee stand by this view. In response to the recommendations London Buses informed us that of the significantly higher prioritisation passengers gave to reliability over other aspects of service. The intention is to keep reliability as the sole aspect of performance that is subject to performance related payments.

3.30 Although the Committee accepts that an extension of a franchise from 5-7 years does potentially offer a financial incentive for operators, it is a limited one. The greatest return risk is traditionally at the end of a contract and although this trend has not been particularly acute under the current contracting regime, there is an understandable desire for operators to renegotiate a contract rather than merely extend it under previous terms.

3.31 London Buses informed the Committee that it is considering introducing an incentive based on the league tables at its disposal to detail operator performance on aspects of performance such as graffiti and bus driving standards.

The Committee recommends to London Buses that a more direct and obvious financial incentive, based on these league tables, be introduced to include more aspects of performance, including bus driving standards and mystery customer wheelchair ramp access scores.

3.32 The contracts, in specific circumstances, are also subject to renegotiation. The Committee was pleased to note that the impact of the congestion charge in reducing traffic in Central London had been reflected in a round of renegotiations. There was a concern that bus operators may profit from bonus payments for reliability on the back of the implementation of the scheme and essentially benefit from something for which they were not responsible.

[1] The Driver on the Bus can be downloaded at http://www.london.gov.uk/assembly/reports/transport/busdrivers.pdf

4. The impact of the Quality Incentive Contracts on performance and the market

Impact on the market

4.1 A persistent problem with the deregulation of bus services outside London has been the failure to develop a competitive market. The assumption had been when the market was deregulated in the mid 1980s that each market would be relatively easy to enter and that competition, or the threat of it, would consequently improve services and reduce costs.

4.2 The result was that over the next decade there were many mergers and acquisitions, but little new competition. In most UK cities, services are provided by just one or two bus operators. For example, In the West Midlands area over 80% of passenger journeys are provided by the largest operator, Travel West Midlands.

4.3 Obviously this is an uncompetitive and potentially unhealthy scenario that TfL was keen to avoid and through its commissioning, there has been a concerted effort to ensure that the market in London remains competitive – as illustrated earlier with the example of National Express. The number of significant players in the London bus market show that this aspiration has been realised – certainly in comparison to other parts of the UK.

The table below outlines the market share and kilometres operated across the bus network in London.

TABLE 2 : Market share by scheduled kilometres at 01 April 2005

Source: Colin Buchanan

Operator	Total Scheduled Kilometres	Market Share Percentage
Arriva Group Plc	88,376,057	19.1
Go Ahead Group Plc	81,120,829	17.5
Stagecoach Group Holdings Plc	73,459,265	15.9
First Group Plc	70,600,639	15.3
Metroline Plc	62,605,995	13.6
Transdev Plc	44,341,515	9.6
National Express Group Plc	21,477,267	4.6
Other operators	20,794,828	4.4

Source: London Buses

4.4 A measure of the effectiveness of competition in the market is to look at cost changes with time. The chart overleaf illustrates the cost per kilometre for single deck, double deck and articulated buses. This shows that the trend of increasing costs is slower than the recent rises in staff and fuel and would suggest that the level of competition in the London market has been a sufficient driver in keeping costs down.

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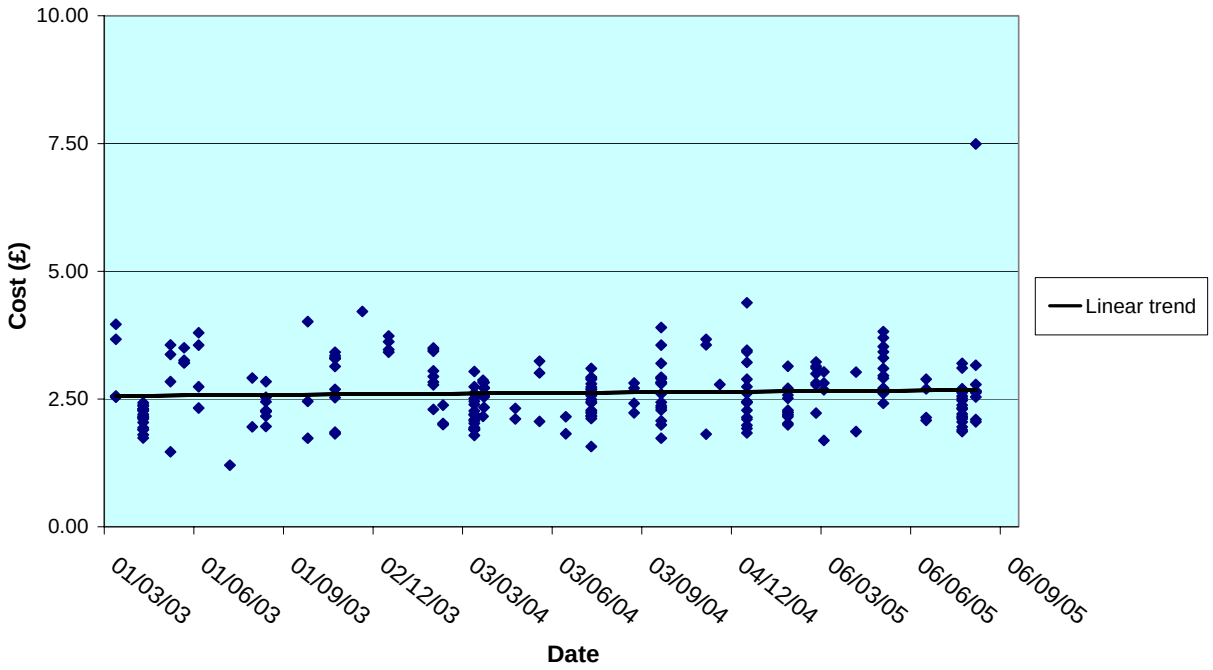
Figure 3 : Cost Per Kilometre Of Recent Bus Contracts

Source: Colin Buchanan (Data obtained from TfL Website)



4.5 Another indication of how effective the London bus market is proving can be seen through the profit margins that the same operators receive in other parts of the UK. Data from London Buses indicate that aggregate pre tax profits in 2003/2004 in London were 8% against 12.3% for operators working within the PTE areas (Greater Manchester, West Midlands, Tyne & Wear, etc). The Committee was informed that there is every indication that these returns would be even lower when the next set of figures are released.

The impact of the QICs on performance

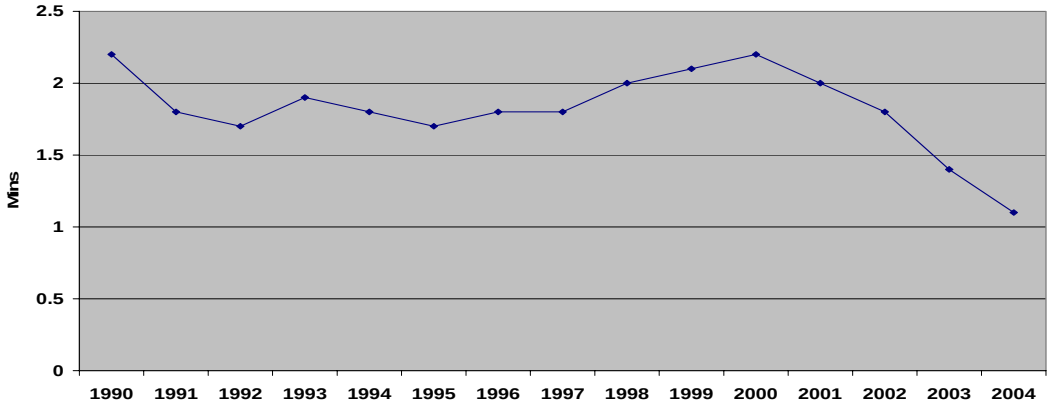
4.6 The market would appear healthy. However, the next question to ask is whether this market is actually responding and delivering on the strategic aims of TfL and the Mayor? And, more importantly, if it is delivering a greater capacity and reliability across the network, is the market actually meeting a sufficient level of demand from Londoners?

Service quality

4.7 Reliability was the key area that the QIC mechanism was designed to target. The graph below shows an improvement in quality. The reliability trend for high frequency routes is shown below. There has been a similar improvement in the quality of low frequency routes.

Figure 4 : Excess wait time by year

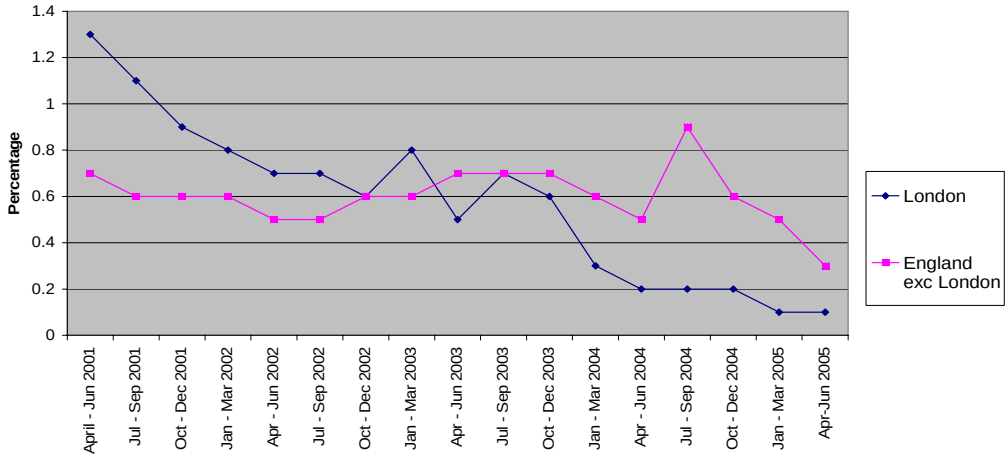
Source: Colin Buchanan (Data from London Travel Report 2005)



4.8 Excess wait time has reduced from over two minutes in 2000 to just over one minute 2004. In assessing the effectiveness of the QIC mechanism however it is essential to establish that the reasons for greater reliability are within the operators' control and not attributable to other factors such as the congestion charge. The chart below indicates that the former is the case. The data charts the amount of operated kilometres lost to staff shortages – an acute problem prior to 2000. Operators have also employed street-based regulators to monitor an even spread of services.

Figure 5 : Scheduled Kilometres Lost To Staff Shortages

Source: Colin Buchanan (Data from DfT website)



4.9 The percentage has dropped from 1.3% in April-June 2001 to 0.1% in April-June 2005. Performance has improved and for reasons within the operators' control.

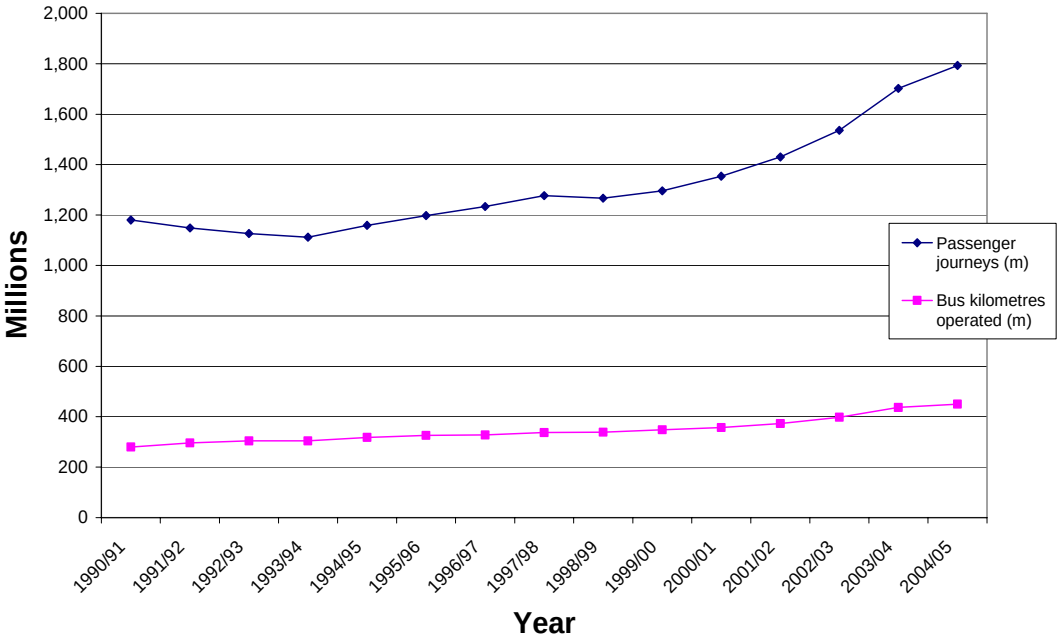
4.10 The improved performance of bus operators is also reflected in the proportion of bonus payments that London Buses pays out to operators. The percentage paid out in performance payments has increased from –2.0% in 2000/01 to 5.1% in 2004/05.

The impact on demand

4.10 The graph below illustrates that Londoners have responded to the more reliable and extensive network by using the bus service in ever-greater numbers.

Figure 6 : Bus Patronage And Kilometres Operated

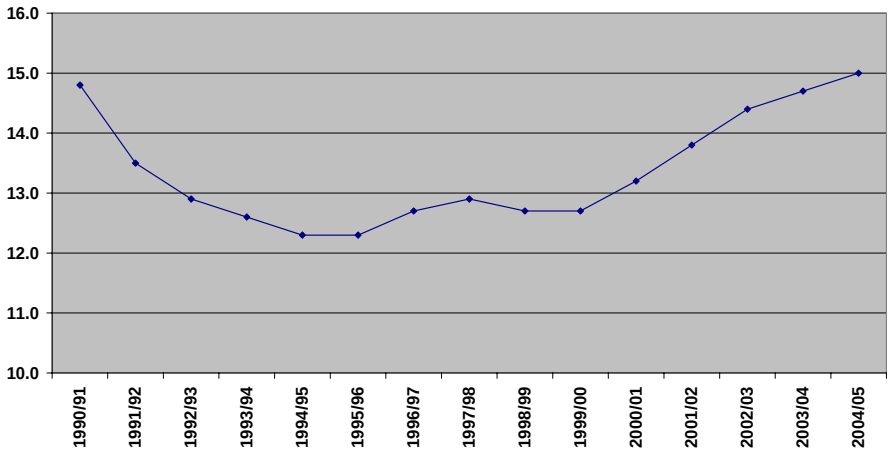
Source: Colin Buchanan (Data from London Travel Report 2005)



4.11 The 26% increase in the network's coverage (measure in kilometres operated) has been reflected in a 32% increase in the number of passenger journeys undertaken across the capital. This would indicate a greater number of people are now using the service per bus, a fact reflected in the graph below.

Figure 7 : Average Number Of Passengers Per Bus

Source: Colin Buchanan (Data from London Travel Report 2005)

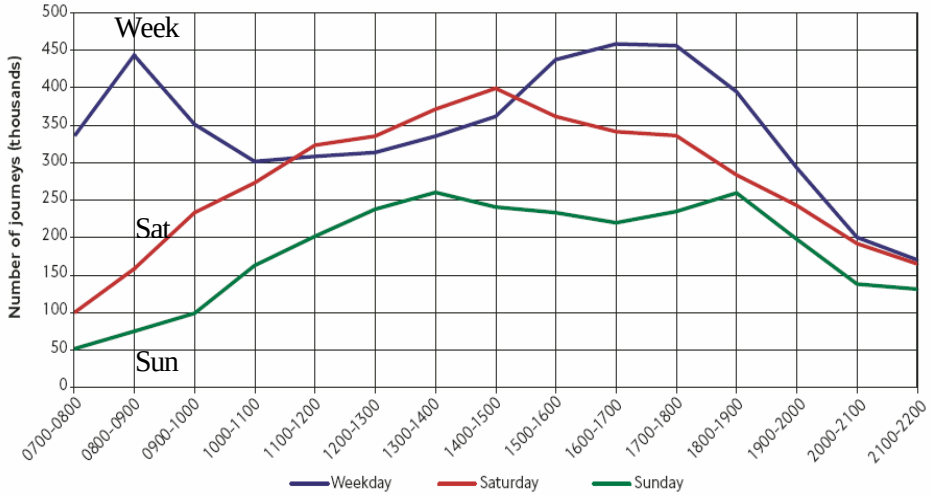


4.12 Although the figure of 15 passengers per bus sounds relatively small, London Buses argued to the Committee that the figure is an impressive one representing 'the average number of people on every bus at every time of day, from the first journey of the morning at 4am.'[2] London Buses also stated to the Committee that 'during the peak periods every single route will be filled to capacity at some point.'

4.13 Demand for the bus network across the day has its obvious peaks but is considerably more robust across service hours than the Tube for example. The chart below illustrates that on a typical weekday, demand drops by a third outside of peak during daytime but the afternoon peak lasts for almost three and a half hours.

Figure 8 : Usage By Time Of Day

Source: Colin Buchanan (Data from London Travel Report 2005)



4.14 The expansion of the bus network, levered through the implementation of the QIC mechanism has, it would appear, been able to stimulate successfully and meet demand, keep contractual costs down and improve reliability.

[2] London Assembly Transport Committee, 19th January 2006

Case Study: The bendy bus

The changes to the bus network over the last five years have not been without controversy. Perhaps the single most criticised move in the overhaul of the network was the decommissioning of the Routemaster bus from mainstream bus services. The replacement, along many of the routes served by the Routemaster with the articulated bus or the 'bendy bus', proved equally controversial.

The Transport Committee examined the costs of the bendy buses and the relative value for money that the new model represents.

The Committee was concerned that the average cost per kilometre for articulated routes - bendy buses – is around £6.30 per kilometre operated compared to between £4.20 and £4.30 on a traditional double decker route.

London Buses informed the Committee it does not expect 'a very substantial change in the cost of articulated buses relative to other types of vehicle' and that these buses will remain a 'relatively small part of the total London fleet' hence significant economies of scale are not expected to apply a downward pressure to operating costs.

So have the introduction of bendy buses proved value for money? Bendy buses are more expensive to operate largely because of the increased driver costs, the higher costs of the vehicles themselves and a limited supply of suitable depots. However, bendy buses have 50% more capacity and so are cheaper per passenger kilometre.

The greater capacity provided by the bendy bus was thought suitable for very high frequency, high demand routes where often the first Routemaster or modern double deckers to arrive were not able to collect all the potential passengers waiting. The aim of introducing the bendy bus was to increase capacity sufficiently to ensure that this did not happen and therefore to reduce the frequency of the service from 12 buses and hour to 8 an hour, thus keeping down costs.

There is a limited number of very high frequency routes and so London Buses does not anticipate significantly increasing the use of bendy buses. The bendy bus will not become a Routemaster of the 21st century on London's streets.

5. Are the QIC's value for money?

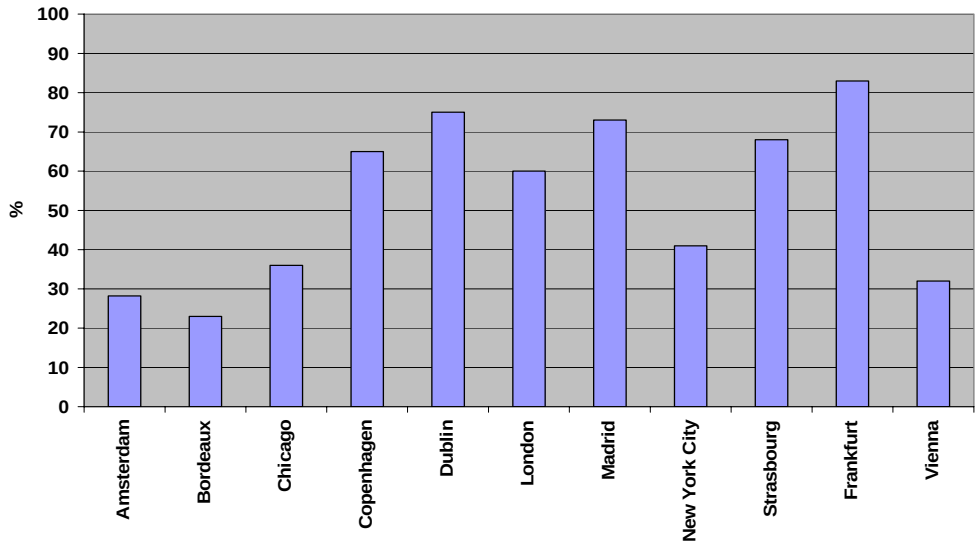
5.1 The improvements sought by London Buses have been delivered and the Committee acknowledges that the QIC mechanism for contracting routes out to bus operators has been a significant factor in this achievement. Another significant factor has been the change in public subsidy across the network which has increased from zero in 1999 to £550 million in 2004/05. The £1400 million cost of the QIC contracts are not met by the fare box.

5.2 The delicate balance between the fare box and the level of subsidy required to deliver the bus service is one that the Mayor responds to annually when he sets the fares across the bus network. After keeping fare prices low for a number of years to help stimulate the demand as the network was expanded, single fare prices on London's buses have risen in the last two years and there have been indications that the increase in demand is now slowing.

5.3 The proportion of subsidy required for London's buses is the median compared to other major cities outside of the UK.

Figure 9 : Percentage Of Operating Cost Covered By Revenue

Source: Colin Buchanan



5.4 The Mayor made it clear that improving and expanding the bus network was a political priority. He and London Buses have largely delivered, via an expensive but ultimately effective contractual mechanism. Operator profits are not excessive; contract costs have been kept down through competition rather than operators keeping driver wages low; the fleet has been renewed and demand stimulated. In addition, the extra 0.5 billion journeys per year since 2000 have undoubtedly contributed social and economic benefits to London.

5.5 The Committee concludes therefore that the £1400 million that TfL is paying to bus operators via the Quality Incentive Contract mechanism represents value for money. The QICs represent the most innovative and efficient way of ensuring their delivery of the ambitious, and some might argue extravagant, targets the Mayor set himself for the bus network.

Appendix A – Transport for London Written Evidence

London Buses provided the following responses to written questions submitted to them by the London Assembly Transport Committee.

London Assembly Transport Committee Questions on Bus Contracts

Background Statistics

1. Could you provide figures for the following, year on year, since 2001:

a) The number of bus operators hired by London Buses
b) The number of routes per operator
c) The number of passenger miles per operator
d) *The number of bidders per route*

Table 1 shows the number of routes operated by each company, for each of the last 5 years. The results are grouped and totalled by PLC company name under their current ownerships, for each of the larger Groups (for layout purposes the footnotes are included as an attachment). The numbers of individual companies providing services on 01 April each year are shown at the bottom of the table.

Table 1: Number of Routes operated by each company at 01 April each year

Company Name	2001	2002	2003	2004	2005
ARRIVA GROUP PLC	**116**	**117**	**119**	**123**	**127**
Arriva London North Limited	46	52	54	62	68
Arriva London South Limited	42	39	40	41	42
Arriva East Herts & Essex Ltd	6	4	4	5	1
Arriva London North East Limited (1)	9	7	7		
Arriva (Kent Thameside) Limited	9	11	10	11	11
Arriva (The Shires) Limited	4	4	4	4	4
The Original London Sightseeing Tour Ltd					1
FIRST GROUP PLC	**138**	**114**	**118**	**118**	**118**
First Capital East Limited	60	53	56	54	57
CentreWest London Buses Limited	51	55	58	60	61
First Beeline Buses Limited (2)	18				
Essex Buses Limited (3)	9	6	4	4	
GO AHEAD GROUP PLC	**104**	**105**	**120**	**128**	**135**
London Central Bus Company Limited	44	45	47	47	43
London General Transport Services Ltd	42	42	50	51	51
Metrobus Limited	18	18	23	30	41
METROLINE PLC	**115**	**111**	**107**	**103**	**102**
Metroline London Northern Limited (4)	35	28	32	23	
Metroline Travel Limited	41	45	46	60	82

FE Thorpe & Sons Limited	30	28	20	11	11
Armchair Passenger Transport Co. Ltd.	9	10	9	9	9
STAGECOACH GROUP HOLDINGS PLC	**90**	**92**	**96**	**95**	**95**
East London Bus & Coach Company Limited	53	56	57	58	58
South East London & Kent Bus Company Ltd	37	36	39	37	37
TRANSDEV PLC	**59**	**62**	**70**	**70**	**68**
London United Busways Limited	47	50	58	58	56
London Sovereign Limited	12	12	12	12	12
NATIONAL EXPRESS GROUP PLC	**20**	**31**	**32**	**42**	**34**
Connex Bus UK Limited (5)	3	15	14		
Travel London Limited (6)				13	17
Tellings Golden Miller Buses Limited (7)	14	13	14	25	
Travel London (West) Limited (8)					14
Wings Buses Limited (9)	2	2	3		
Tellings Golden Miller (Middlesex) Limited (10)				3	
Travel London (Middlesex) Limited (11)					3
Airlinks, The Airport Coach Company Limited (12)	1	1			
National Express Operations Limited (13)			1	1	
OTHERS					
Blue Triangle Buses Limited	2	6	8	8	8
HR Richmond Limited	7	5	6	7	7
Docklands Minibuses Limited		1	1	1	2
ECT Bus Limited				1	1
Sullivan Bus & Coach Limited				1	2
Wimco Group (Coaches) Limited (14)	5	7	7	7	
Central Parking System of UK Limited (15)					7
Hackney Community Transport	18	18	12		
CT Plus Limited (16)				3	3
East Thames Buses	7	8	11	11	11
Crystals Coaches Limited (17)	31	25	15		
Durham Travel Services Ltd (18)	1	1			
Independent Way Limited (19)	7				
London Traveller Bus & Coach Co Ltd (20)	7				
Metropolitan Omnibus Company (London) Ltd (21)		7			
NCP					
Total No. of individual Operating companies contracted to TfL – 01 April each year	**34**	**33**	**31**	**31**	**29**

The routes listed above vary in size from those requiring around 50 buses down to school services requiring 1 bus, information on the annual scheduled mileage by operator as at 01 April 2005 is set out in Table 2 below.

Table 2: Scheduled Mileage and Market Share at 01 April 2005

	Annual Scheduled Mileage	Total Scheduled Mileage	Market Share percentage
ARRIVA GROUP PLC			**19.1**
Arriva London North Limited	31,475,813		
Arriva London South Limited	18,877,066		
Arriva East Herts & Essex Ltd	23,776		
Arriva (Kent Thameside) Limited	3,063,434		
Arriva (The Shires) Limited	1,360,370		
The Original London Sightseeing Tour Ltd	113,877	**54,914,336**	
FIRST GROUP PLC			**15.3**
First Capital East Limited	16,224,642		
CentreWest London Buses Limited	27,644,561	**43,869,203**	
GO AHEAD GROUP PLC			**17.5**
London Central Bus Company Limited	20,705,447		
London General Transport Services Ltd	19,437,714		
Metrobus Limited	10,262,985	**50,406,146**	
METROLINE PLC			**13.6**
Metroline Travel Limited	33,234,501		
FE Thorpe & Sons Limited	2,740,178		
Armchair Passenger Transport Co. Ltd.	2,926,883	**38,901,562**	
STAGECOACH GROUP HOLDINGS PLC			**15.9**
East London Bus & Coach Company Limited	28,009,963		
South East London & Kent Bus Company Ltd	17,635,508	**45,645,471**	
TRANSDEV PLC			**9.6**
London United Busways Limited	23,285,213		
London Sovereign Limited	4,267,327	**27,552,540**	
NATIONAL EXPRESS GROUP PLC			**4.6**
Travel London Limited	7,744,499		
Travel London (West) Limited	4,960,862		
Travel London (Middlesex) Limited	639,994	**13,345,355**	
OTHERS			**4.4**
Blue Triangle Buses Limited	2,166,383		
HR Richmond Limited	1,661,506		
Docklands Minibuses Limited	484,833		
ECT Bus Limited	469,686		
Sullivan Bus & Coach Limited	120,213		
Central Parking System of UK Limited	2,638,905		
CT Plus Limited	965,208		
East Thames Buses	4,414,573	**12,921,307**	
TOTAL		**287,555,920**	

Data on passenger numbers per operator is available in the form of passenger boardings rather than passenger-miles. Table 3 below shows the number of passenger boardings per company in each year since 2000/01. Note: data for renamed companies is shown under most recent name.

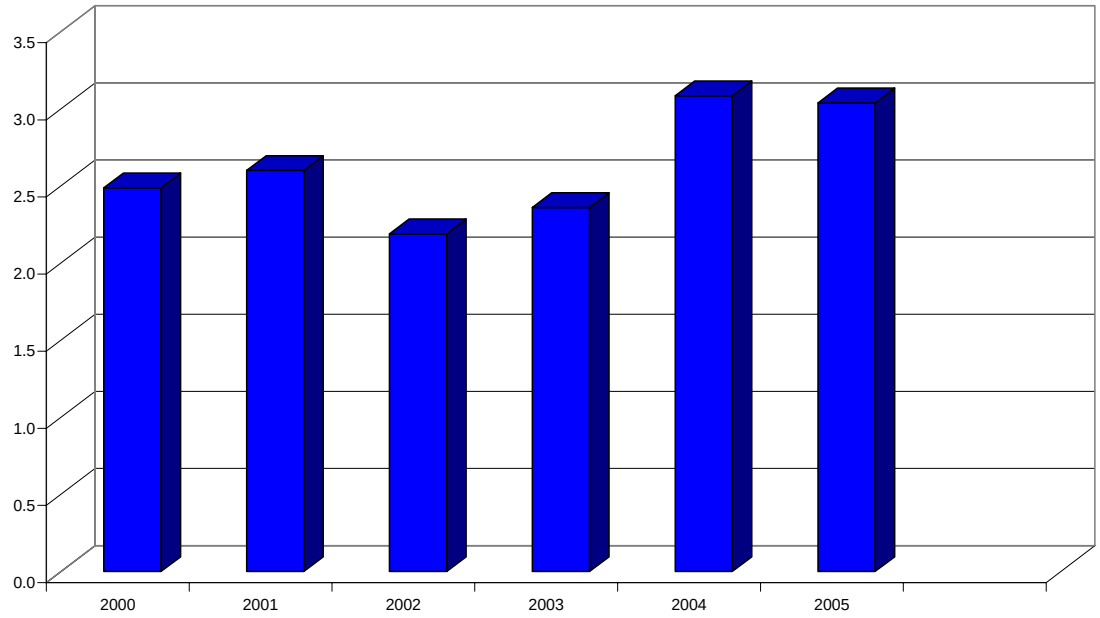
Table 3

Passenger Boardings (millions)	2000/01	2001/02	2002/03	2003/04	2004/05
ARRIVA GROUP PLC	**294.1**	**299.7**	**304.2**	**332.5**	**359.1**
Arriva London North Limited	170.9	178.6	186.4	205.6	220.9
Arriva London South Limited	96.8	100.5	99.2	108.5	119.3
Arriva East Herts & Essex Ltd	1.9	1.1	0.1	0.2	0.2
Arriva London North East Limited	11.4	6.0	3.8	2.6	0.0
Arriva (Kent Thameside) Limited	7.5	8.3	9.0	9.0	9.4
Arriva (The Shires) Limited	5.7	5.4	5.7	6.6	6.9
The Original London Sightseeing Tour Ltd	0.0	0.0	0.0	0.0	2.5
FIRST GROUP PLC	**221.8**	**231.9**	**250.5**	**269.3**	**270.9**
First Capital East Limited	97.6	98.5	105.6	108.3	100.3
CentreWest London Buses Limited	115.3	130.6	144.9	161.0	170.5
First Beeline Buses Limited	7.4	2.0	0.0	0.0	0.0
Essex Buses Limited	1.5	0.8	0.0	0.0	0.0
GO-AHEAD GROUP PLC	**243.3**	**258.3**	**279.3**	**315.8**	**318.5**
London Central Bus Company Limited	111.3	125.5	131.8	147.8	142.3
London General Transport Services Ltd	110.3	112.6	122.5	139.2	144.6
Metrobus Limited	21.7	20.1	25.0	28.8	31.7
METROLINE PLC	**196.2**	**202.4**	**216.2**	**245.6**	**260.8**
Metroline London Northern Limited	64.6	54.0	39.6	24.6	9.3
Metroline Travel Limited	103.9	118.5	149.1	188.3	217.7
FE Thorpe & Sons Limited	8.3	9.8	9.6	15.9	16.5
Armchair Passenger Transport Co. Ltd.	19.4	20.2	17.8	16.9	17.3
STAGECOACH GROUP HOLDINGS PLC	**227.9**	**237.3**	**254.8**	**277.2**	**305.6**
East London Bus & Coach Company Limited	142.2	154.9	167.0	178.9	202.0
South East London & Kent Bus Company Ltd	85.7	82.4	87.8	98.3	103.6
TRANSDEV PLC	**114.9**	**123.7**	**137.6**	**152.5**	**161.4**
London United Busways Limited	95.6	103.8	117.3	130.7	139.3
London Sovereign Limited	19.2	19.9	20.3	21.8	22.1
NATIONAL EXPRESS GROUP PLC	**31.8**	**40.8**	**50.6**	**55.8**	**61.4**
Travel London Limited	21.0	28.2	34.3	38.7	44.1
Travel London (West) Limited	9.6	11.4	13.5	13.9	14.5
Travel London (Middlesex) Limited	0.6	0.6	2.1	2.6	2.7
National Express Operations Ltd	0.6	0.6	0.6	0.6	0.0
OTHERS	**24.1**	**35.8**	**41.0**	**53.4**	**55.4**
Blue Triangle Buses Limited	1.4	4.7	6.9	7.1	7.8
HR Richmond Limited	2.6	2.5	2.6	3.5	4.0
Docklands Minibuses Limited	0.0	0.1	1.6	1.6	1.6
ECT Bus Limited	0.0	0.0	0.0	2.6	2.9
Sullivan Bus & Coach Limited	0.0	0.0	0.0	0.2	0.2
Wimco Group (Coaches) Limited	5.5	7.5	9.5	11.2	4.1
Central Parking System Of U.K. Limited	0.0	0.0	0.0	0.0	6.1
Hackney Community Transport	0.4	1.7	1.7	0.0	0.0
CT Plus Limited	0.0	0.0	0.3	4.1	4.9
East Thames Buses	12.1	13.1	15.1	23.2	23.9
Crystals Coaches Limited	0.6	0.4	0.0	0.0	0.0
Durham Travel Services Ltd	0.7	5.9	3.3	0.0	0.0
Independent Way Limited	0.6	0.0	0.0	0.0	0.0
Nostalgia Bus Limited	0.1	0.0	0.0	0.0	0.0
GRAND TOTAL	**1354.0**	**1430.0**	**1534.0**	**1702.0**	**1793.0**

The Graph below shows the average number of tenders received per route. The average number was lower in 2002 and 2003 at a time of considerable expansion to the bus network. Through TfL actively developing the market, the average number of tenders has risen to three in 2004/2005.

Graph 1

Average Number of Tenders per Route by Year of Award



Performance and roll out of Quality Incentive Contracts

2. How many and what proportion of routes now operate under Quality Incentive Contracts?

Contracts are generally awarded on a single route basis, there are however some exceptions to this, for example 24 hour services where the day and night services form part of a single contract. Currently there are 602 contracts, covering 726 routes.

Since Quality Incentive Contracts were introduced 635 of the 726 routes have been tendered, the remaining 93 Gross Cost (GC) routes are currently being or will soon be in the process of being retendered.

Not all routes operate under the full QIC incentive mechanisms, (e.g. night routes, schools services and other very low frequency services). TfL applies a notional threshold of 200,000 miles per annum for routes to operate on this basis.

Table 4 below shows the composition of the network by contract type, together with the aggregate mileage for each type of contract

Table 4

	Number of Contracts	Annual Mileage (million)	%'age of total mileage
QIC	437	256	89%
Non QIC	84	8	3%
Gross Cost	81	24	8%
Total	**602**	**288**	**100%**

3. Could you please provide figures, year on year, since 2001 that illustrate how many QIC routes:

a) Operated within the bonus range?

b) Hit required targets?

c) Operated with deductions made?

Table 5

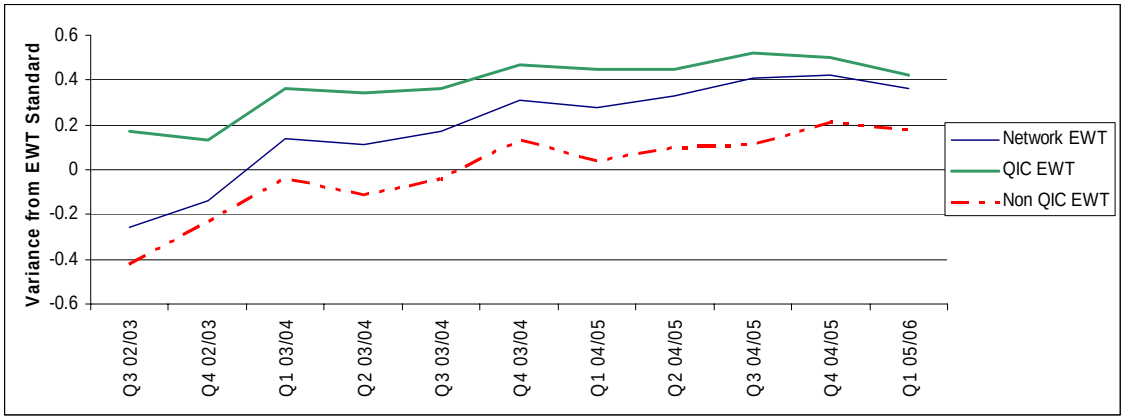
	Positive Performance Payment	Nil Performance Payment	Negative Performance Payment	Total
2001/02	0	0	1	1
2002/03	51	27	33	111
2003/04	144	41	25	210
2004/05	251	38	29	318
2005/06 (forecast)	*318*	*47*	*41*	*406*

Note that Performance Payments are paid annually. Table 5 provides results for the full year in question and does not include those routes which began operating as QICs during that year. The 2005/06 figures are based on year to date performance data.

4. In 2003, London Buses informed the Budget Committee that Quality Incentive Contracts were performing much better than gross cost contracts? Has this trend been maintained since then as more and more routes begin to operate under the new regime?

Graph 2 below shows the variance from standard for all routes operating on a QIC and non-QIC basis over the past three years, as well as for the network as a whole. A positive variance indicates routes performing better than their Minimum Standard and a negative variance is worse than the Minimum Standard. The trend has been for QIC routes to consistently perform better than non-QIC routes, but with all routes progressively performing better. The QIC and non-QIC variances have been converging as the number of non-QIC routes diminishes.

Graph 2: Variance from Minimum Standard – Minutes EWT



5. Do the QICs differentiate in its penalty and reward schedule between peak and non-peak targets?

Each route has a single reliability standard which reflects the differing operating conditions by time of day and day of week. Minimum standards of acceptable performance take into account a range of factors such as; frequency, route length, major retail centres, traffic hotspots and the current and historic levels of performance. Quality of Service Indicators (QSI), to measure the reliability of the services, are currently monitored by roadside observations and the contract sets out the minimum number of such surveys that will be undertaken in each Quarter. The overriding objective of the surveys is to sample the service at different times of the day and days of the week to reflect actual passenger usage.

Note however that the surveys are not only used for the Quality Incentive regime, but also as a key source of management information. Hence the disaggregated information by time of day and day of week is used by operators and TfL to identify if there are specific periods with problems where action needs to be taken.

6. How does the performance of the in-house East Thames operator compare to services delivered under QIC arrangements?

a) How useful a model or control does the in house East Thames operator provide to the QIC model?
b) Is its reach and market share adequate to provide a useful comparison?
c) Are there any plans to expand the East Thames operation to more routes?

The role of East Thames Buses (ETB) is threefold. It gives TfL the ability to step in and operate services directly in the event of operator failure or in the event of no other operator being willing or able to operate a specified service. It also helps to regulate prices and it can be used to operate services should prices submitted by operators be unacceptably high. It does not directly compete with the private operators by tendering for services.

To date East Thames has been effective in the first two roles. It has not been necessary to date to intervene directly in the face of high prices, as it has always been possible to negotiate acceptable prices with the private operators.

The geographical reach of East Thames could be considered to be restricted by its current garage locations. However its existence means that TfL has both the legal framework and the immediately available expertise should it be necessary to intervene elsewhere across the city.

The roles identified for ETB means that there are constraints on the routes allocated and operating locations, which, to an extent, means it is not used as a control for other operators. For example no operator would, by choice, bid to operate routes in Ilford from a base in Hackney as ETB did until recently. Nor is it likely that any other operator would agree to move its operation from Hackney to Southwark because the operation of another route (the 38 operated by Arriva) could most effectively be carried out from ETB's Hackney garage.

While re-locating ETB the opportunity was also taken to re- tender the Ilford services (the 129 and 150). In their place ETB now operate route 1 which is much more appropriate for the location of their current garage.

ETB are however monitored and their performance evaluated in exactly the same way as other operators and, given the constraints set out above, the performance is acceptable and improving. It should improve further with the current group of routes operated. There are no plans to expand the operation.

7. What percentage of the total contract cost paid out by London Buses has been paid out in bonuses year on year since 2001?

Table 6 below shows the percentage performance payment made against the total contract payments in respect of Quality Incentive Contracts in each financial year i.e. for the routes outlined in Table 5 above.

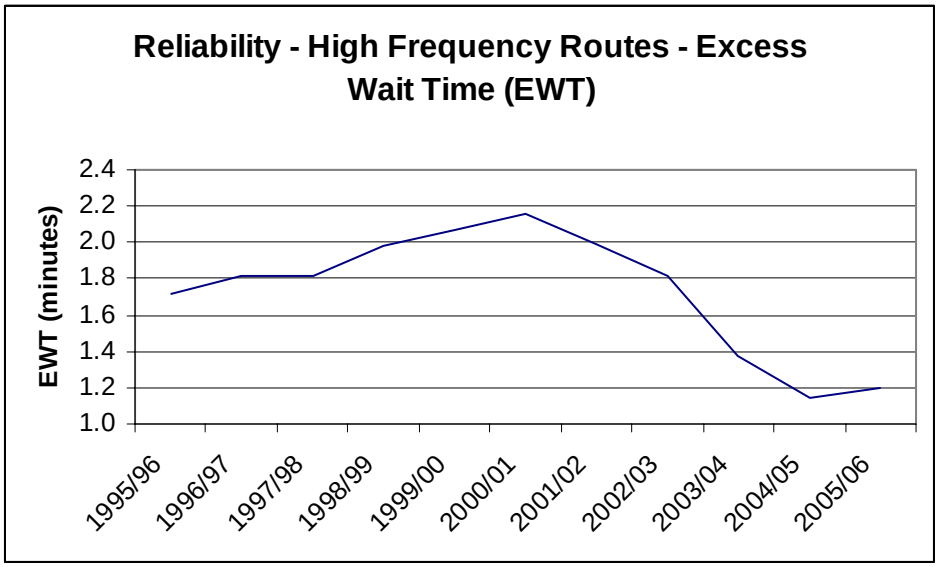
Table 6

Year	2001/2	2002/3	2003/4	2004/5	*Forecast 2005/6*
Total number of applicable contracts	1	111	210	318	*406*
%'age paid in Performance Payments	-2.0%	2.1%	3.9%	5.1%	*5.6%*

8. Are London Buses contemplating amending any aspects of the Quality Incentive Contract regime of deductions and bonuses, such as adding driving standards as recommended by London Assembly Transport Committee after its review of the subject earlier this year?

In developing the Quality Incentive Contract, TfL undertook a very detailed examination of the range of the possible options to be included in the incentive mechanisms. From the extensive and ongoing market research that TFL carries out, journey time factors including reliability are consistently identified as by far the most significant factor in customer satisfaction. In addition, reliability was very poor and deteriorating in the late 1990s as illustrated in Graph 3.

Graph 3.



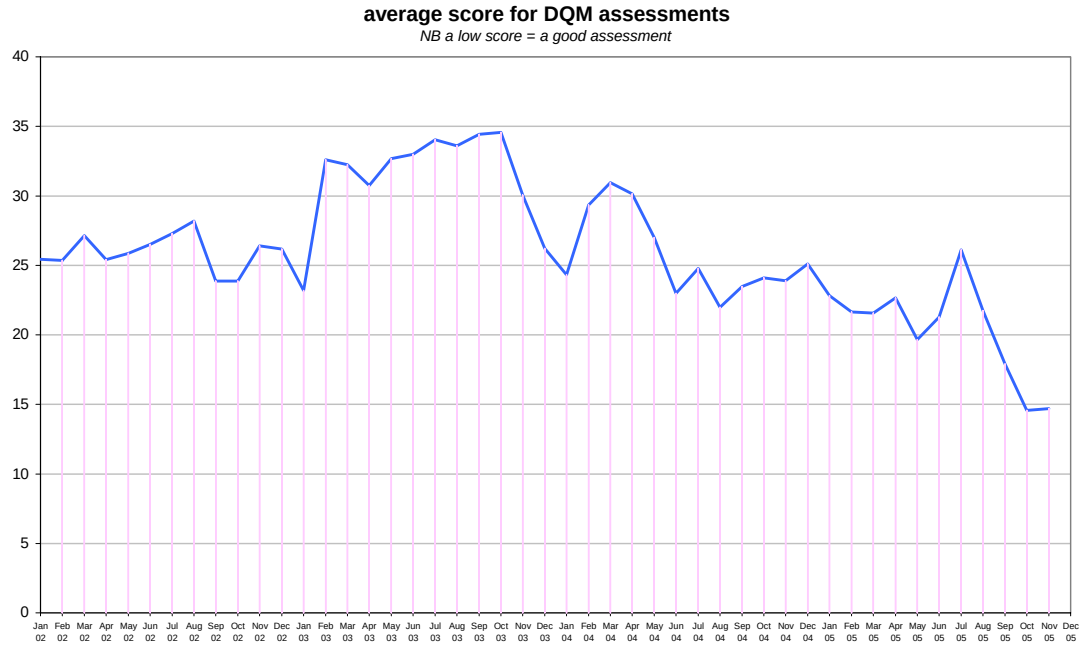
Because of the importance passengers place on reliability relative, it was decided that it should be the aspect used in the bonus/deduction calculations. It was also recognised that a simple mechanism would be most effective.

Recognising however the importance passengers place on the other features of service, a second mechanism is included in the contract; the potential for it to be extended in duration from 5 to 7 years. So in addition to assessing reliability, the contract extension mechanism uses the results of our Mystery Traveller Survey to determine whether a contract extension is offered.

The current Quality Incentive regime is still relatively new, with all routes not yet contracted. However, the incentive mechanisms are and will be kept under review and the aspects of performance may be modified over time. It should be noted, however that if other aspects were to be added to the payment mechanism they would need to be sufficiently robust statistically and as such, could require significant expansion of the current surveys.

It must also be stressed that just because an aspect of performance is not directly incentivised that it is not seriously addressed. The Committee will be aware from our evidence to their scrutiny in July of the steps taken to raise driving standards and customer service through monitoring and training. Graph 4 below updates the evidence presented to the committee on driver quality monitoring and demonstrates the continuing progress being made.

Graph 4



9. How much payment is made to support LLSA routes?

There are currently sixteen routes operating under London Local Service Agreements. No payments are made to support these services, however Operators are reimbursed for the acceptance of TfL Passes and Permits at an agreed rate, based on surveys of passenger usage. The total reimbursement for this year (2005/06) will be approximately £670,000.

10. How was the deduction / bonus payment level decided? Was there an assessment (or link) between user benefits and the level of operator bonus?

The bonus payment level was determined using TfL's established Benefit : Cost framework. At a network level TfL paying 1.5% of contract costs for an improvement of 0.1 minute Excess Wait Time (EWT) or the equivalent "On Time" performance is justified. This would generate 0.6% increase in revenue and a passenger benefit : net cost figure of 2.0 : 1.

For illustrative purposes therefore a route with £1m per annum cost and revenue and an EWT of 0.2 minutes better than the minimum standard would result in;

- An bonus payment of £30,000
- £12,000 of additional revenue, and
- Passenger benefits of £36,000.

Operator rate of return

11. The first QIC's were issued in 2001. How is the operator rate of return performing under the new QIC regime? Is the rate of return declining over the duration of the contracts to the same extent as under previous tendering arrangements?

Generally speaking, it is true to say that historically contract prices have not kept pace with changes in the actual costs of operating the services over the term of a contract.

Prior to QICs, contract prices were adjusted on an annual basis, in line with changes in the Retail Price Index (RPI). The risks associated with fluctuations in costs were largely borne by the operators in the competitive tendering and contracting process. There are obvious disadvantages to this situation, particularly as it often led to significant and disproportionate increases in prices on contract renewal.

As part of the development of QICs a new Contract Price Adjustment (CPA) formula was introduced. The formula is designed to be more representative of the actual movements in the cost base by using a number of indices rather than just RPI. The indices are applied to percentages of the contract price in proportion to the cost structure, thus for example 55% of the contract price is adjusted by the percentage movement in the labour index. This new CPA formula has therefore taken away from operators some but not all of the risk in fluctuations in costs, (e.g. the labour index is a national one rather than an index of bus drivers wages in London). It is also recognised that other costs such as insurance have escalated in recent years in a way that is not addressed by the new CPA formula. The QIC bonus payments that are being earned are being used to mitigate some of these rising costs.

Overall what this should mean is that contracts are not losing money in their latter years, hence the quality of service delivered should be sustained throughout the entire period of the contract, all operators should be more financial stable and there are not step changes in contract prices on renewal. All of these features were seen as deficiencies of the system previously.

12. In 2004, London Buses informed the Assembly that although profits were up in gross terms, the operating margins were largely the same. Is this still the case?

13. Has London Buses done any benchmarking between operator returns in London and elsewhere in the UK?

TfL closely monitors operators' financial performance using a variety of sources of data, to ensure that measures such as operating margins and return on capital are acceptable.

The 2005 version of the *Bus Industry Monitor (UK Passenger Transport Report)* published by TAS Publications and Events, provides analysis of recent and historic profitability both in and outside London. This data shows that aggregate pre-tax profits in 2003/04 (the most recent available year) in London were 8.0% compared with 7.4% for the previous year. Indications are that the equivalent figure for 2004/05 will not be higher that this. These rates

of return are not considered to be unreasonable and compare favourably with areas outside London, where the comparable figures for PTE Areas were 12.3% and 13.8% respectively.

Furthermore, in recent years the bus industry in London has made very significant investments in all aspects of its operation to deliver the expanded levels of service and improvements in the quality, investments particularly in vehicles and premises, that would potentially not be sustained into the future without the companies benefiting from reasonable rates of return on the capital they employ.

A number of poorly performing operators (both operationally and financially) have left the London Bus market in recent years and this will naturally lead to more consistent operating margins and rates of return.

TfL will obviously continue to monitor operators' financial performance and use all necessary and appropriate measures to ensure that they remain reasonable for the quality of service provided and the capital investment required.

Operating Costs

14. The average cost per mile of bus contracts since 2003 appears to have settled around £4.20/£4.30 mark.

See response to question 16 below.

15. Higher wages for drivers and staff had significantly driven up operating costs a few years ago. Does the levelling out of the average cost per mile since 2003 reflect that these personnel costs no longer represent a significant factor in driving up operating costs?

Labour costs represent approximately 55 – 60% of the cost of operating bus services in London. See also response to question 18 below.

16. What projections do London buses have for the cost per mile of services over the duration of the five year investment programme? Are current levels meeting projections?

Table 7 shows the network cost and bus-mileage for 2003/04 and 2004/05 (at 2005/06 prices) and the projected levels from 2005/06 (also at 2005/06 prices) from TfL's 2006/07-2009/10 Business Plan.

Table 7: cost, mileage, patronage – 2003/04, 2004/05 and projections to 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Bus network costs (£m, 2005/06 prices)	1220	1331	1400	1482	1539	1567	1612
Bus-miles (millions)	272	279	285	290	291	293	293
Passenger journeys (millions)	1702	1793	1848	1876	1904	1910	1924
Passenger miles (millions)	3996	4197	4329	4395	4460	4475	4507

(Note: the passenger-miles projections for 2005/06 to 2009/10 are based on an assumption of no change to the average length of a passenger trip).

Hence the average cost per bus-mile, per passenger journey and per passenger-mile in each year (at 2005/06 prices) is as shown in Table 8, including current levels.

Table 8: average cost – 2003/04, 2004/05 and projections to 2009/10

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
average cost per bus-mile (£)	4.49	4.77	4.91	5.11	5.29	5.35	5.50
average cost per passenger jny (£)	0.72	0.74	0.76	0.79	0.81	0.82	0.84
average cost per passenger-mile (£)	0.31	0.32	0.32	0.34	0.35	0.35	0.36

17. On the routes that have had bids accepted for an articulated bus, the average cost per mile is significantly higher, at around £6.30 per mile.
(a) How do London Buses price the added value that articulated services bring to the network.
(b) As articulated services are rolled out across the network, do London Buses anticipate that the average cost per mile of the service will decline? If so when.

(a) There is a rolling programme of service reviews to ensure that the network is continuously developed. This work is directed by the Mayor's Transport Strategy, where the relevant objectives are set out in Chapter 4F. In particular Policy 4F.1 says:

"People's experience of travelling by bus must be transformed: the chronic problems of unreliability and slow journeys will be tackled. Buses must be reliable, quick, convenient, accessible, comfortable, clean, easy and safe to use, and affordable".

All significant bus service change proposals are appraised using a cost benefit approach. Elements which can be taken into account in the analysis include the following:

Costs, including the cost of operation of different vehicle types, the level of service and other associated costs (eg revenue protection or roadside ticket machines)
Revenue, i.e. the change in income due to changes in passenger numbers
Benefits, for example the effects of varying wait times or in-vehicle travel times. The most significant impact from articulated buses is related to their faster boarding and alighting of passengers at busier stops, and their greater capacity.

Account it also taken of physical feasibility and the results from TfL's ongoing stakeholder liaison.

(b) Since labour costs comprise the largest component of cost for all vehicle types, there is no reason to expect a very substantial change in the cost of articulated buses relative to that of other types of vehicle. Articulated buses will remain a relatively small part of the total London fleet and significant economies of scale are not to be expected.

18. Could TfL provide estimates of how much of the increase in operating costs over the last five years is attributable to:
(a) driver wage inflation
(b) supervision of bus services to meet targets (for example additional service controllers)
(c)capital expenditure on new buses.

The average cost per mile is a product of the ongoing process of contract retendering. Bus network cost covers a number of aspects including:

- The cost of operating the current network;
- The additional costs incurred as the contracts which expire each year are retendered (see below);
- The cost of continuing to expand the network in line with requirements to meet demand, to support strategic projects such as the Western Extension of congestion charging, or to provide new services generally.

As discussed in the answer to Question 8, contracts last five years, with an option for the operator to extend by two years subject to performance. Thus the value of contracts coming to the end of their term currently will have lagged the changes in actual operating cost, resulting in a step-increase on tendering. The new contract will contain additional cost to reflect the increase in quality requirements since the previous round of tendering. The main areas are:

Enhancements to the pay and conditions of operational staff. Bus driver earnings fell by around 10% in real terms between 1986 and 1998, coinciding with introduction of tendering and the privatisation of the bus operating companies. The decline in bus drivers earnings relative to average earnings in London was greater as the latter rose in real terms over the same period. Since 2000 the requirement for increased quality of service has been

supported by enhancements to driver earnings. Bus service miles not operated for staff reasons have fallen from 2% in 2000/01 to an all-time low of 0.17%. Since labour costs comprise around 55%-60% of the total operating cost the change is clearly reflected in contract prices.

Improved vehicle specifications. The bus fleet has been comprehensively renewed in the last five years. All TfL services are now equipped with buses designed to modern standards of accessibility, with full CCTV coverage and other features designed to improve safety and comfort. The environmental standards for engine emissions, etc. are consistently improving and in line with the Mayor's environmental policy.

Better service reliability, including more controllers and extra buses and drivers to enable more robust scheduling where necessary.
Enhanced training. TfL and the operators developed accredited training courses specifically designed for operational staff in the London bus industry. These have been rolled out such that all drivers and service controllers with more than one years' service attain the qualification.

Taking these factors as a whole, over the five years from 2000/01 to 2005/06 the real costs of providing a bus service in London to modern standards rose by approximately a third. Around 45% of the total increase was due to the increase in labour costs. Improvements to the specification of services (including both schedule revisions and more supervision) accounted for approximately 30%. Enhanced vehicle requirements were responsible for around 15%. Changes in the costs of consumables such as fuel and tyres account for under 5%. The remainder of the increase was due to other factors such as insurance, training, etc.

The step change in levels of investment needed to overhaul the quality of the bus network has largely been achieved. Hence the cost of the bus network is forecast to increase at a much smaller rate for the business plan period.

The London Bus Market

19. Over the last couple of years, companies such as NCP and National Express have entered the London Bus market. What enticed these companies to enter the market and what effect do such entries have on contract costs for London Buses?

Despite the levels of consolidation that have taken place in the London bus market over the last decade, TfL has actively worked to bring suitable new entrants into the market. The quality standards that are required however mean that the threshold for entry has risen substantially in recent years.

Some of the main attractions that London has had for new entrants are stability, the steady revenue streams that are available (without the fares risk), the growth potential of the expanding market and the attraction of the incentive mechanism in return for delivering quality services.

20. How does the procurement and tendering process work to ensure that London Buses can open up the market to new entrants?

The London bus market is entirely open to potential new entrants and that is how we want it to be. Whilst all of the major UK operators are active in London, TfL proactively seeks potential new entrants, who can deliver to the standards we require, both from within the UK and internationally. We operate under EU procurement legislation and issue details of future tenders in the Official Journal of the European Union (OJEU). The procurement process starts with a prequalification stage, which is the first part of mutual understanding; with the objective of the prospective new company being absolutely clear on what is required to operate bus services in London and TfL understanding and having confidence in the company's ability to deliver.

Where companies seek to enter the market through tendering, rather than by acquisition, they will often start by submitting "dummy" bids for routes that have previously been tendered, before tendering in earnest. The process is as mentioned above, entirely open, all prequalified companies receive "expressions of interest" for all routes to be tendered and they are free to tender for any route or combination of routes that they choose.

Attachment 1

Footnotes to table 2

(1) Contracts/Route Agreements transferred to Arriva London North Limited, a company within the Arriva Group.

(2) Contracts expired and company informed LBSL that no further bids would be submitted by First Beeline would continue to tender as CentreWest London Buses Ltd.

(3) Contracts transferred to First Capital East Limited (a company within the same group).

(4) All Contracts transferred to Metroline Travel Limited. Metroline London Northern no longer operates LBSL routes.

(5) Company acquired by the National Express Group and renamed Travel London Limited.

(6) Connex Bus UK Limited acquired by the National Express Group and renamed Travel London Limited.

(7) Company acquired by the National Express group and renamed Travel London (West) Limited.

(8) Formerly TGM Buses Limited. Renamed after acquisition by the National Express Group.

(9) Company acquired by the TGM Group and renamed Tellings Golden Miller (Middlesex) Limited.

(10) Company acquired by the National Express group and renamed Travel London (Middlesex) Limited.

(11) Formerly Tellings Golden Miller (Middlesex) Limited. Renamed after acquisition by the National Express Group.

(12) Company name changed to National Express Operations Limited.

(13) Contract expired. Company no longer interested in tendering for Bus contracts.

(14) Contracts transferred to Central Parking System of UK Limited when company went into administration.

(15) Contracts transferred from Wimco Group Coaches Limited

(16) Contracts transferred from Hackney Community Transport to CT Plus

(17) Contracts transferred to TGM Buses Limited. Crystals Coaches Ltd no longer trading with LBSL.

(18) Contracts terminated by LBSL after an administrative receiver had been appointed by the operator.

(19) Contracts transferred to Connex Bus UK Ltd. Independent Way went into compulsory liquidation

(20) Company re-structured and a new company Metropolitan Omnibus Co. (London) Ltd was formed.

(21) Contracts transferred to F E Thorpe & Sons. Metropolitan Omnibus Co. (London) Ltd went into voluntary liquidation.

Appendix B – Colin Buchan Research

Colin Buchanan's report has formed the basis of the Committee's findings. Attached is a brief introduction to their work and the methodology they adopted in conducting their research. Also attached are the appendices many of which informed the Committee's finals findings.

For a copy of the whole report, please either e-mail danny.myers@london.gov.uk or call 020 7983 4394.

London Bus Contracts

Review of value for money

London Assembly Transport Committee

January 2005

Project No: 107621
January 2005

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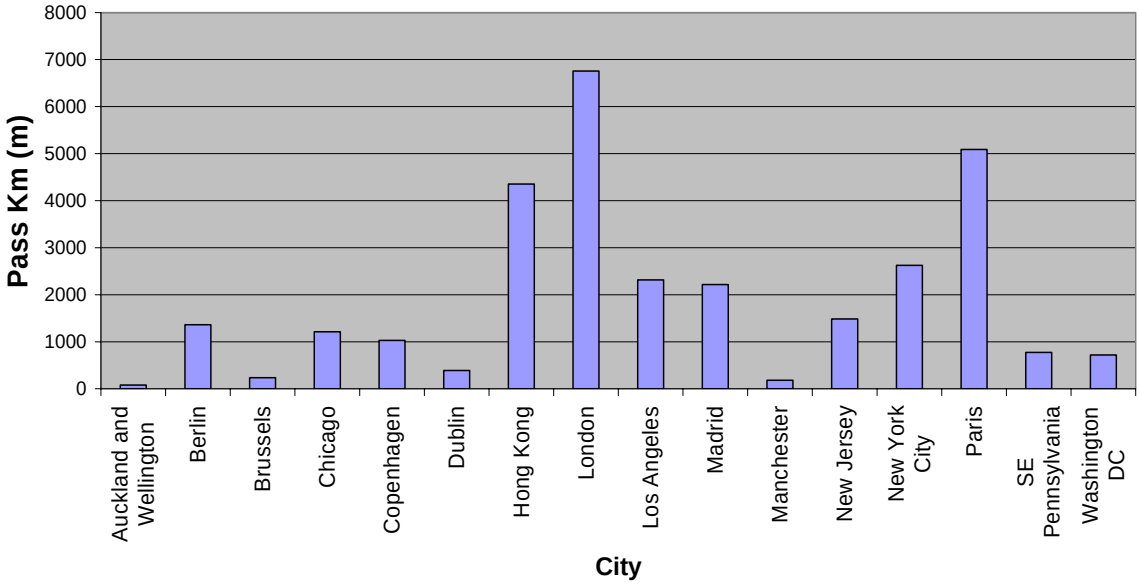
Status: Final Issue no: 1 Date: 13 Jan 06

1. Introduction

1.1 With approximately 7000 buses operating on some 700 routes, London has one of the largest and most comprehensive bus networks in the world, amounting some 6,800 million passenger kilometres per annum. The table below shows usage in terms of bus passenger kilometres for London and some other major cities.

[

FIGURE 10 : ANNUAL BUS USAGE OF SELECTED MAJOR CITIES



Source: various; data from 2002-2005

1.2 The last 5 years have seen significant changes to this network. The introduction of new routes and increased frequencies has seen the number of kilometres operated increase by 25% to 450 million km per year. The bus fleet has been upgraded and is now almost 100% operated with wheelchair-accessible low-floor buses. At the same time, there has been a large improvement in the reliability of bus arrivals at the bus stop, which has been driven largely by the introduction of Quality Incentive Contracts.

1.3 Passengers have noticed these improvements and been attracted back to bus travel in a way which is unprecedented elsewhere in the UK. The number of annual trips has increased from 1.3 billion journeys in 1999/2000 to 1.8 billion in 2004/05. This is the highest recorded ridership since the 1960s.

1.4 However, costs have risen faster than revenues. The TfL subsidy to London Buses has increased from zero in 1997/98 to £555 million in 2004/05. This represents an annual subsidy of almost £200 per household in London.

1.5 The London Buses Strategy Review in 2003 examined the subsidy required for the London network and concluded that it represented value for money. However, in view of the fact that the subsidy has risen since 2003, it has been decided to look in more detail at the mechanism whereby that subsidy is allocated to operators.

This report examines whether operator profits are excessive and whether the money spent on the network is being used effectively to give value for bus passengers and the taxpayer.

2. Overview of report

2.1 In considering the issue of whether the existing bus contracting system provides value for money, we have identified a number of separate criteria. Firstly, there is the proportion of expenditure which makes up operator profit as opposed to that which is spent on operations. Secondly, there is consideration of whether the expenditure is meeting the aims of the Mayor's Transport Strategy and London in general. Thirdly, there is the effectiveness of expenditure in terms of outputs and making comparisons with other cities where appropriate.

2.2 In compiling this report, we have examined data from a large number of sources, including:

- Department for Transport website
- Office for National Statistics website
- Transport for London website
- European Metropolitain Transport Authorities website
- Jane's Urban Transport Systems, Tony Pattison, 2004-2005 edition
- Various websites for individual transport authorities
- Annual accounts for bus operators

2.3 Meetings were held with two large operators (Arriva London and First) and one small operator (CT Plus). In each case, operators were briefed on the nature of the study and asked to comment on competition in the London bus market and whether they felt the contracts were providing value for money for TfL and bus passengers.

2.4 A meeting was held with Rufus Barnes and Adam Kirkup of London Travelwatch to seek an independent view on the performance of the bus network based on their awareness of transport issues and knowledge of passenger appeals.

2.5 A meeting was also held with Clare Kavanagh, Director of Performance at London Buses, who provided addition information about the past and present operation of bus contracts.

Colin Buchanan Appendices

Appendix Bi- Selected London bus operator financial details

(Year ending 31 March 2004 unless otherwise stated)

Operator	Financial year	Turnover	Operating Cost	Pre tax profit	Profit margin
		£000	£000	£000	%
ARRIVA GROUP PLC					
Arriva London North	2003/04	137,550	124,210	8,738	6%
Arriva London South	2003/04	84,533	75,079	8,592	10%
Arriva East Herts and Essex Ltd	2003/04	11,424	10,483	857	8%
Arriva (Kent Thameside) Ltd	2003/04	13,846	11,628	1,996	14%
Arriva (The Shires) Ltd	2003/04	47,472	46,713	-755	-2%
The Original London Sightseeing Tour Ltd	2003/04	8,861	8,128	1,410	16%
GO AHEAD GROUP PLC					
London General / London Central	2003/04	201,228	174,378	25,991	13%
Metrobus Ltd	2003/04	39,684	34,882	6,066	15%
METROLINE PLC					
Metroline London Northern Ltd	2003/04	67,750	61,859	4,653	7%
Metroline Travel Limited	2003/04	87,884	79,792	6,572	7%
FE Thorpe and Sons Ltd	2003/04	10,059	9,630	373	4%
Armchair Passenger Transport Co Ltd	2003/04	14,249	16,291	-2,265	-16%
NATIONAL EXPRESS GROUP PLC					
Travel London Ltd	2003/04	26,414	32,191	-5,951	-23%
Travel London West	2003/04	22,362	20,227	2,020	9%
Travel London Middlesex Ltd	2003/04	2,769	2,558	98	4%
TRANSDEV PLC					
London Sovereign Ltd	2003/04	14,661	15,666	-1,005	-7%
London United Busways Transdev	2003/04	92,920	82,947	9,152	10%
FIRST GROUP PLC					
Centrewest London Buses Limited	2003/04	105,669	92,715	11,934	11%
First Capital East Ltd	2003/04	64,221	61,140	2,751	4%
First Capital North Ltd	2003/04	44,153	39,829	4,324	10%
STAGECOACH GROUP HOLDINGS PLC					
East London Bus and Coach Company	2003/04	109,304	104,580	5,425	5%
South East London & Kent Bus Company	2003/04	64,845	56,568	9,073	14%
OTHERS					
Blue Triangle Buses Ltd	2003/04	-	695,622	361,125	-
HR Richmond Limited	2003/04	-	2,876,539	622,785	-
ECT Bus Limited	2004	1,991	2,075	-868	-4%
Central Parking Systems of UK Ltd	2003	47,254	45,072	2,052	4%
All					**8%**

Source: company accounts

Appendix Bii - Selected UK operator financial details

Selected UK operator financial details
(Year ending 31 March 2004 unless otherwise stated)

Operator	Financial year	Turnover	Operating Cost	Pre tax profit	Profit margin
		£000	£000	£000	%
Arriva North West	2003/04	27,889	29,200	3,195	11%
Glenvale Transport	2003/04	25,033	22,544	1,325	5%
First South Yorkshire Ltd	2003/04	64,560	52,997	11,007	17%
Arriva Yorkshire	2003/04	22,643	23,321	-1,318	-6%
West Midlands Travel	2003/04	202,719	165,235	32,611	16%
Brighton & Hove Bus Company	2003/04	33,568	36,851	4,627	14%
First Bristol / City Line Bristol omnibus	2003/04	37,371	36,190	5,545	15%
First Manchester	2003/04	73,147	64,417	8,261	11%
Arriva Manchester	2003/04	7,999	7,222	777	10%
Arriva Merseyside / Arriva Liverpool Ltd	2003/04	1,273	1,227	43	3%
Stagecoach North West	2003/04	40,189	38,156	3,753	9%
First Eastern Counties Ltd	2003/04	29,837	28,126	1,606	5%
All		**566,228**	**505,486**	**71,432**	**13%**

Source: company accounts

Appendix Biii - Notes of meeting with Arriva London

Held at Arriva London's Wood Green office on 13 December 2005

Present

Mark Yexley (MY)	Managing Director, Arriva London
Christian Hoskins (CH)	Associate Transport Planner, Colin Buchanan

Introduction

Arriva London consists of Arriva London North Limited and Arriva London South Limited. It is one of the larger organisations operating contracts for TfL, operating 110 routes and around 18% of network kilometres.

Discussion

MY explained that the period from 2001 to 2003 was good for Arriva due to the rapid expansion of the bus network at this time. However, the market had now moved into a climate of fierce competition. He believed this was largely due to new operators such as National Express entering the market and competing for market share against established providers.

MY observed that the returns made by operators had risen and fallen on a cyclical basis since private operation of bus services began in London in the 1980s, to some extent driven by political and economic factors.

With regard to the Quality Incentive Contract system, MY explained that concern about potential deductions of up to 10% of the contract price had concentrated minds in the bus industry on providing a quality service. Initially, operators had not realised the extent to which improvements in reliability were possible. In bringing these about, he felt that the QIC scheme had worked "fantastically well" for the public.

Arriva, like other operators, had been obliged to provide significant increases in driver wages. The bonuses earned from QICs had helped fund the increased wage costs.

In order to bring about improved reliability, Arriva London had increased the number of service controllers from around 50 to 200. MY stated that the additional money flowing to the bus industry had also provided other benefits for passengers, such as the use of Autoglym products and foam arches for improved cleaning of buses, and the removal of etching from windows. Such benefits had not been possible when bus contracts were financed on a more restrictive basis.

The issue of 'dead mileage' (where buses are running empty to and from the garage) was discussed. MY gave as an example the introduction of articulated buses on route 29 from January 2006, for which buses will need to travel from their base in Edmonton to the beginning of the route in Wood Green. He explained the pressure to reduce operating costs had brought innovation in minimising unproductive movements of bus and staff.

With regard to the issue of driver quality, MY explained he would be reluctant to see this area brought into the quality contracts system because it was more difficult to measure objectively than reliability monitoring. He believed that the need to reduce insurance costs was already a strong incentive for operators to improve the quality of driving. In conclusion, MY felt that the existing quality contracts system worked well for passengers, bus operators and TfL.

Appendix Biv - Notes of meeting with CT Plus Ltd

Held at Ash Grove Garage on 2 December 2005

Present

Dai Powell (DP)	Chief Executive, CT Plus Ltd
Christian Hoskins (CH)	Associate Transport Planner, Colin Buchanan

Introduction

CT Plus is the trading company of Hackney Community Transport. It operates three routes under contract to TfL, accounting for approximately 50% of business. Unlike most other London operators, it is a not for profit organisation, and operating surpluses are used to fund transport projects in the local community.

In addition to his role at CT Plus, Dai Powell is also Chair of the Community Transport Association, a UK wide organisation representing the interests of people, including local authority officers and organisations involved in a wide variety of voluntary sector and community transport provision. DP is also a member of the Disabled Persons Transport Advisory Committee (DPTAC) Working Group.

Discussion

DP was very positive about the changes in to the London bus network over the last few years, particularly with regard to reliability. He observed that reliability was considerably better in London than other areas in the UK with which he was familiar, such as Manchester, Liverpool and West Yorkshire. It was his view that TfL had also done an enormous amount for social inclusion.

DP expressed the view that all good quality public transport systems require a supply side subsidy. He was not aware of any quality public transport operation in Europe working without a significant subsidy, and therefore it was not surprising that operating costs in London had increased along with improved performance.

With regard to the tendering of quality incentive contracts, he observed that there was a market share battle between the large operators in London and that there was phenomenal competitiveness in the market, much to the benefit of TfL. An indication of this competitiveness was that CT Plus had not been successful in winning any new contracts for some time. He did not feel that the tendency of operators to focus their operations in different parts of London prevented competition.

With regard to the specific operation of contracts, he felt that the existing penalty/bonus system was about right. In terms of improving the system, DP noted that operators observe which routes TfL are monitoring at any particular time and focus their energies to give good performance on those routes. DP felt that there should be additional checks on reliability at times outside of the normal monitoring.

DP was positive about the expenditure on the Transport Operational Command Unit (TOCU) whereby TfL pays for the costs of the enhanced police presence on bus corridors. This had improved passenger security and reduced delays to buses from illegal parking.

Finally, DP noted that 95% of buses in London were low floor as opposed to 54% of buses in the UK as whole. Since London itself represents a large proportion of the UK bus fleet, the figure for the proportion of low floor buses outside London must be only around 33%.

Appendix Bv - Notes of meeting with First Group

Held at First's Paddington office on 9 December 2005

Present

Tony Wilson (TW)	Managing Director, First Group (London)
Christian Hoskins (CH)	Associate Transport Planner, Colin Buchanan

Introduction

First is one of the larger bus companies operating contracts for TfL, with 118 routes providing around 15% of operated kilometres.

Discussion

TW noted that First's financial returns of 2003 and 2004 showed a very positive rate of return from operating TfL contracts. However, he anticipated that the figures for the current year would be significantly reduced. Although there is no longer a problem with driver shortages in London, pay rises are still increasing faster than inflation. First Group bus drivers went on strike in South Yorkshire in 2004, indicating the pressure that operators have faced in trying to minimise pay increases.

With regard to the London market, TW noted that the competition was fierce, although he felt this was largely due to competition between the existing big players rather than new entrants to the market. TW was inclined to think the reassignment of the route 25 contract from First to Stagecoach in June 2004 had initiated a period of more aggressive pricing. Route 25, involving the operation of 42 articulated buses, was a major contract. First had therefore been keen to restore market share by bidding competitively for subsequent contract tenders. TW felt the level of competition was good for TfL but not necessary good for keeping operators interested in the London market.

With regard to quality incentive contracts, TW was very positive. He felt that their introduction had concentrated operators' minds on operating a bus service in the interests of passengers for the first time in many years. Previously, operators had been keen to ensure that buses were on the road but had not necessarily provided a good quality of service.

The level of bonuses being earned by operators meant that they were able to lower their base contract prices when bidding for work. TW was therefore concerned that investigating levels of bonus payments might show a distorted picture about their cost, since a certain proportion of the bonus payment had replaced payment through the basic contract.

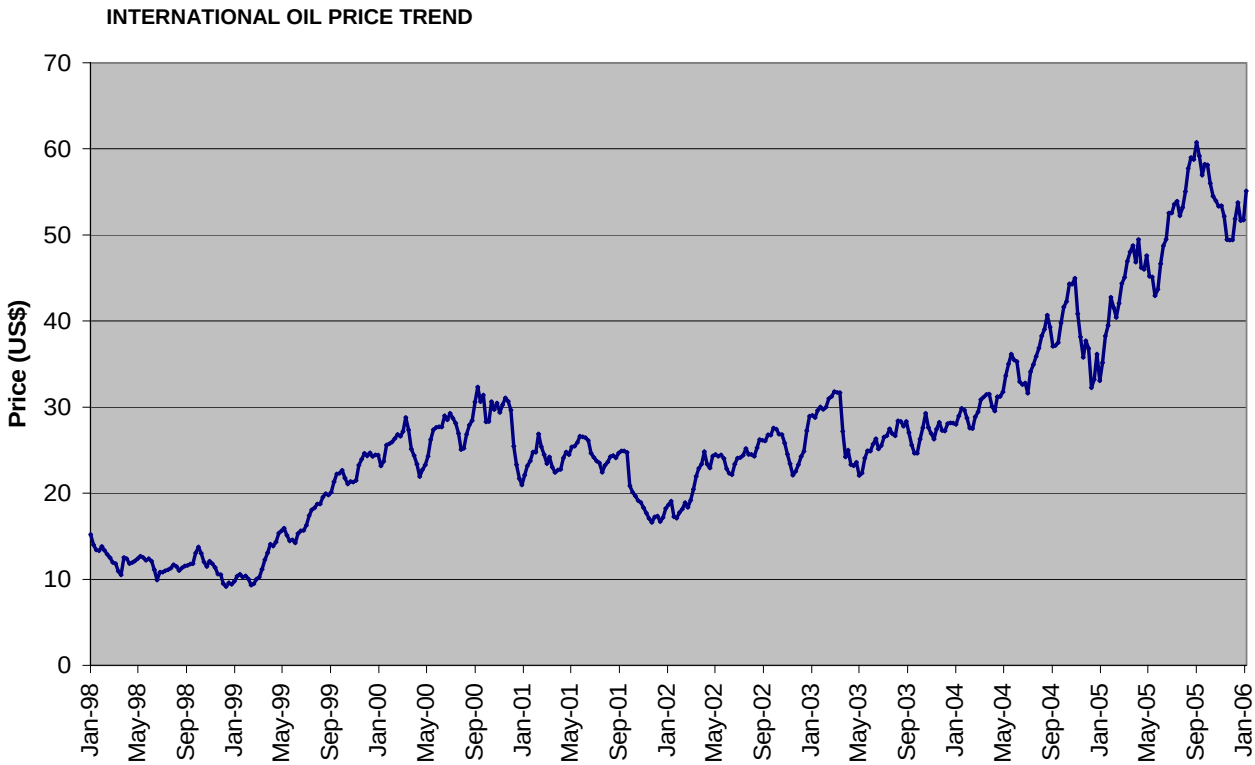
He did not see any need to adjust the percentages of penalty or bonus. He was also concerned that TfL should not unduly tighten reliability targets, as this would lead to unrealistic goals. Instead, he felt operator income should be allowed to come from a combination of bonuses and the basic contract price.

Although the need to improve quality had increased the number of operation staff with supervisory responsibilities, TW felt that this had reached a plateau. Indeed, the introduction of more advance vehicle location equipment might allow a reduction in numbers of operational staff.

TW considered the issue of 'dead mileage' an inevitable part of the tendering system. Most operators tendered for routes in areas of London where their garage presence was high, so he felt that inefficiencies were not excessive.

TW had some comments on the system used by TfL for adjusting contract prices with inflation. Fuel costs were included in the annual inflator used by TfL. However, staff costs derived from a national benchmark rather than a London one, and he felt that it would provide greater predictability if a London wage figure was used. He also felt that the proportion of staff costs should also be revised from 55% to 60% of total operating costs.

Appendix Bvi - International Oil Price Trend



Source: US Department of Energy website

Appendix C - London Assembly Recommendations to London Buses on Bus Consultation

I would like to take this opportunity to thank you for TfL's contribution to our recent work on the consultation process London Buses operate when making changes to their services.

At its last meeting on 1st December 2005, the Committee agreed to submit the following recommendations to London Buses based on the written and oral evidence the Committee had received. I have attached the accompanying Committee report which summarised the Committee's findings.

The Committee recognised that a great deal has been achieved in improving the consultation process and also welcomed the constructive approach taken at the meeting and since in working through our suggestions for further improvement. The recommendations we are making seek to further improve the consultation process and open up, to the public and politicians alike, the criteria and process with which decisions on bus routes are made.

We have also made a recommendation with regard to the provision of bus services in the Thames Gateway for you consideration, which departs somewhat from the largely procedural recommendations previously.

The recommendations that the Transport Committee are making are as follows:

Recommendation 1
London Buses to liaise with local authorities to establish the best local media outlets through which local communities could be informed of the stage 1 consultation process.

Recommendation 2
London Buses should flag up, via its website, all bus routes currently undergoing a stage 1consultation. TfL should provide a facility for people to register to receive information about proposed changes to bus routes in their area.

In addition, London Buses should e-mail documents to local authorities so that they more easily forwarded to relevant stakeholders.

Recommendation 3
London Buses, in liaison with local authorities and the London Assembly, should devise a toolkit for those wishing to lobby London Buses for changes to their local bus services. This toolkit would clearly outline cost benefit ratios (including weightings and thresholds).

Recommendation 4
The Committee asks London Buses to consider adopting a lower cost benefit ratio to new routes planned in the Thames Gateway region, where the need to provide transport infrastructure is vital for the long-term viability of developments, but where as yet a viable business case may not already exist.

We look forward to your response to these recommendations and would be grateful if you could respond to these recommendations by Friday 20th January.

ROGER EVANS
Chairman, London Assembly Transport Committee

cc. Dick Halle, Director of Strategy, Surface Transport
Beverley Hall, Head of Customer Services and Consultation, London Buses

Appendix D – London Buses Response to London Assembly's recommendations

Thank you for your letter, which we received on 28 December 2005.

We too found the scrutiny to be of use, and are grateful for your endorsements of the improvements made to consultation. As requested we have commented on the recommendations below, and look forward to working with the committee in the future.

Recommendation 1
London Buses to liaise with local authorities to establish the best local media outlets through which local communities could be informed of the stage 1 consultation process.

TfL recognises the value of local authorities in consultation, and we will certainly liaise with Boroughs to establish how else consultations can be publicised.

Recommendation 2
London Buses should flag up, via its website, all bus routes currently undergoing a stage 1 consultation. TfL should provide a facility for people to register to receive information about proposed changes to bus routes in their area. In addition, London Buses should e-mail documents to local authorities so that they more easily forwarded to relevant stakeholders.

TfL certainly recognises the value of the internet and other new media as one part of our communications strategy. Indeed, a booklet containing the details of a recent major consultation: 'Proposed changes to bus services in inner west London' is available for download on the TfL website. We will continue to look at how the internet can be developed as a tool for consultations.

We already email consultation documents to local authorities and others where this is a possible means of communication, and will continue to do so.

Recommendation 3
London Buses, in liaison with local authorities and the London Assembly, should devise a tool kit for those wishing to lobby London Buses for changes to their local bus services. This toolkit would clearly outline cost benefit ratios (including weightings and thresholds).

We already provide opportunities to input to bus network development. For example, we give advance notice of routes being studied as part of our tendering programme to local authorities and other stakeholders. Suggestions and comments are also registered continuously through our regular liaison meetings and through customer communications.

Following the scrutiny, we are now considering the best way to further improve the process through provision of additional information. As part of this we would welcome the opportunity to brief the Committee on bus network development.

Recommendation 4
The Committee asks London Buses to consider adopting a lower cost benefit ratio to new routes planned in the Thames Gateway region, where the need to provide transport

infrastructure is vital for the long-term viability of developments, but where as yet a viable business case may not already exist.

The level and pattern of service on the bus network is a response to the strategic objectives set for London Buses. Decisions are made in the context of Transport Strategy, the London Plan and other mayoral strategies. Since funding is always limited, choices are required about the pattern of services which best contribute towards strategic objectives.

A methodology for making the choices is needed, including a process for assessing costs relative to benefits. London Buses uses the standard TfL appraisal framework. This seeks to choose actions which maximise net social benefit within the available funds. The framework permits all relevant factors to be taken into account. It also requires that the level of detail in appraisal should be appropriate to the project being considered.

There may be projects which will meet the normal investment criteria in due course but where it is desirable to implement elements earlier than would normally be the case. For example, this might be done to ensure that services are in place for large sites with long build-out programmes and which are being occupied progressively. The appraisal framework does not prevent this; indeed it facilitates it by identifying worthwhile schemes. The key element is funding, in particular for the period where usage is below the levels expected in due course. One common approach in the circumstances described is for TfL to work with planning authorities to secure funds via Section 106 Planning Agreements. Other sources of funding are also possible, including increased funding overall to TfL from Government.

Any associated infrastructure such as bus priority, busways or terminals can also be assessed in the same way. TfL clearly relies on the London Boroughs as Planning Authorities in progressing such infrastructure - they make crucial detailed choices when working to bring forward planning approvals.

It is not necessary to adopt different appraisal thresholds for different categories of scheme. Doing that would in fact, over time, result in lower net social benefits being achieved from the funding available. The approach described above ensures that funding from whatever source is applied to the schemes that maximise net social benefit. It therefore achieves the aims you seek. The key parameters are the level of funding available to TfL and the detailed workings of the planning system. We will be most grateful for your support as we discuss funding with Government during the forthcoming Comprehensive Spending Review.

I hope this has been useful.

Yours sincerely

Peter Hendy
Managing Director - Surface Transport

Appendix E - Orders and Translations

How To Order

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