

# Strengthening local delivery: The draft Local Transport Bill

Volume 4: Regulatory impact assessments



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## Department for Transport

# Strengthening local delivery: The draft Local Transport Bill

## Volume 4: Regulatory impact assessment

Presented to Parliament by the  
Secretary of State for Transport,  
by Command of Her Majesty  
May 2007

Cm 7043-IV

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## 1. Introduction

1.1 This Volume sets out a partial assessment of the regulatory impacts arising from the proposals in the draft Local Transport Bill. A consultation paper, the draft Bill and accompanying Explanatory Notes are published alongside this document as Volumes 1 to 3 respectively.

1.2 Views on the contents of these assessments are invited as part of the overall consultation on the proposals contained in the draft Bill. Chapter 7 of the consultation paper sets out details of how to respond. We would particularly welcome views on the potential effects of the proposals on different socio-economic groups, to inform a fuller assessment of equality-related impacts.

1.3 Given the variety and complexity of proposals contained in the draft Bill, we are publishing four separate regulatory impact assessments within this Volume. They cover our proposals to:

- improve the quality of local bus services (Parts 2 and 3 of the draft Bill);
- facilitate reform of local transport governance arrangements, with particular reference to the major English cities outside London (Part 4);
- reform the existing legislative provisions relating to local road pricing schemes (Part 5); and
- create a new statutory post of senior traffic commissioner (which appears in Part 1).

1.4 As the individual assessments point out, many of the provisions in the draft Bill create or amend powers for local authorities to take certain actions or implement certain types of scheme. These provisions do not, by themselves, have any impact on businesses, individuals, voluntary organisations or others. Any impacts will depend on the extent to which local authorities choose to exercise those powers, and the manner in which they choose to do so.

1.5 It is therefore impossible to quantify the costs and benefits that would arise from the provisions in the draft Bill, but the assessments give an indication of the nature (and where possible the broad potential scale) of costs and benefits that might be expected to arise. Importantly, however, the assessments describe some of the measures that will help to ensure that local authorities exercise their powers in an appropriate and responsible manner. At this stage, we consider it unlikely that the package of proposals in the draft Bill would be associated with substantial net new financial costs for local authorities. We will, however, in consulting on the draft Bill and revising our proposals, assess further whether the package would create new costs for the local authority sector. The Government will ensure that any net additional costs falling on the local authority sector as a result of the Bill are fully funded, as required under its “new burdens” rules.



## 2. Improving local bus services

### Title of proposal

2.1 This partial Regulatory Impact Assessment (RIA) assesses the impact of the bus-related provisions in the draft Local Transport Bill.

### Purpose and intended effect

#### a) Objectives

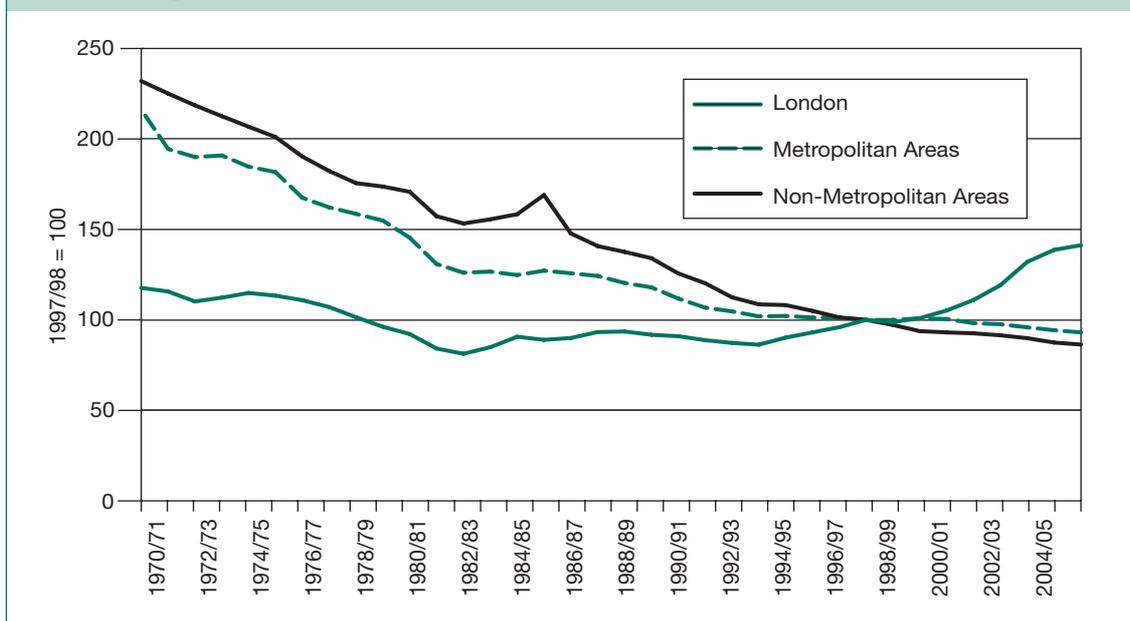
2.2 The key objective for this part of the legislation would be **to improve the standard of local bus services in England and Wales**. Ensuring better-quality bus services is an important part of the Government's strategy to tackle congestion, by providing more people with a realistic, reliable and cost-effective alternative to private car use. Bus services also play a key role in supporting personal mobility, social inclusion and access to essential services.

#### b) Background

2.3 Buses are Britain's most-used form of public transport: over 4 billion journeys, or nearly two thirds of all public transport journeys, are made by bus. The Government provided around £2 billion in 2005/06 helping to fund the operation of bus services around the country. The total spend is expected to have increased to around £2<sup>1</sup>/<sub>2</sub> billion in 2006/07.

2.4 Bus patronage has been on a long-term downward trend since the 1950s, but has shown signs of levelling off in recent years. However, the quality of bus services still varies markedly from place to place and, without significant further steps, we risk bus services in more and more of our communities becoming locked into a vicious cycle of decline. Falling patronage leads to fewer services being commercially viable; in response, operators might reduce service levels or increase fares, inducing further falls in patronage.

**Figure 1: Index of passenger journeys in England by type of authority, 1970/71 to 2005/06**



### *The bus market outside London*

2.5 The Transport Act 1985 (“the 1985 Act”) established the current structure of the bus market in Great Britain (outside London). This is essentially a deregulated structure: any holder of a Public Service Vehicle operator’s licence may operate bus services, having first registered various details (including routes and timetables) with the appropriate traffic commissioner. The traffic commissioners are responsible for enforcing compliance with these registered details, including standards of reliability and punctuality.

2.6 The bus market outside London, although deregulated, has a high level of concentration, with the largest five firms controlling a substantial proportion of the market. For example, these five firms account for 89 per cent of bus mileage within the six Passenger Transport Executive (PTE) areas in England, and a higher proportion of passengers. There is little on-road competition within specific areas, with one operator controlling over half of mileage in four out of the six PTE areas<sup>1</sup>.

2.7 Under this deregulated structure, local transport authorities have no powers to operate bus services themselves, though they do have powers to subsidise services that would not be provided on a commercial basis. Currently about 22 per cent of services outside London are supported by local authority subsidy, generally allocated by competitive tender.

2.8 Since around 1990, a number of individual local authorities have entered into voluntary partnership agreements with bus operators. Typically they involve investment by the local authority in improved facilities for buses, and by the operator in better-quality vehicles and services. Many of these

<sup>1</sup> *The Decline in Bus Services in English PTE Areas: the Quest for a Solution*, NERA, 2006.

schemes have led to significant growth in bus use, though not all have been successful, and the voluntary nature of these agreements means that compliance cannot be enforced.

2.9 The Transport Act 2000 (“the 2000 Act”) provided some additional powers for local authorities outside London, enabling them to put in place two kinds of statutory scheme:

- **quality partnership** schemes, which can involve multiple operators in a single scheme and can be enforced by the traffic commissioners; and
- **quality contracts** schemes, which involve suspending the deregulated market in a specific area for a specific period of time, allowing the local transport authority to let exclusive contracts to operators to run services as specified by the scheme.

2.10 We continue to believe in the basic philosophy behind these provisions in the 2000 Act, supporting partnership working where it can be made to operate effectively, and providing for quality contracts schemes where they are demonstrably in the public interest. However, the detailed implementation of the policy has left a system that has not delivered all that was expected of it.

#### *The bus market in London*

2.11 By contrast to the situation in the rest of Great Britain, bus services in London were not deregulated by the 1985 Act. Since the privatisation of London Buses Ltd, they have been operated under contract to the public authority, currently Transport for London (TfL). TfL lets contracts for around 700 routes through a competitive process, with 20 per cent of routes being re-let each year. Contracts last from five to seven years depending upon performance.

#### *Community transport*

2.12 The community transport (voluntary) sector plays an important role in providing transport to specialised groups or in circumstances which do not support a commercial service. Voluntary bodies can operate minibuses (and in some circumstances larger buses) under two special permit systems under the 1985 Act.

2.13 Section 19 permits allow such bodies to carry specified classes of passenger, e.g. their own members or the client groups they serve. Section 22 permits allow bodies concerned with the social and welfare needs of one or more communities to carry the general public on local bus services (which are registered in the same way as commercial services). All services provided under these permits must be operated without a view to profit. Some larger community transport organisations also hold Public Service Vehicle operators'

licences of the type issued to commercial operators. While use of section 19 permits has expanded over the years, there has been little take-up of section 22 permits. The community transport sector believes it could play a larger role in filling the gaps in commercial public transport provision, if there were relaxations in the rules governing section 22 permits.

### c) Rationale for government intervention

2.14 The principal reasons for reforming the current provisions are:

- **benefits from network optimisation and coordination of services and policies which the deregulated bus market is not always able to deliver.** In many circumstances bus operators are unable to work together and with local authorities to provide well coordinated services, due to the potential interaction with competition law. However, there may be significant passenger benefits from evenly spaced frequencies and the integration of timetables with other bus services and other modes. Similarly there can be benefits from common ticketing, marketing and branding of services. These all appear to have been important factors in increasing patronage in London and to some extent other urban areas such as Brighton, York and Cambridge, but it has not been possible to achieve this cooperation in other areas, particularly larger urban areas, under the current regulatory environment.
- **punctuality remains one of the prime requirements of existing and prospective bus passengers,** particularly those who have access to a private car as an alternative. Many failures to operate to timetable are due to factors within bus operators' control, but local traffic management and congestion can often be a contributing factor. While the traffic commissioners can consider aspects of punctuality in determining whether an operator has failed to run a registered service in accordance with the registration, their powers to do so are limited, due in part to the variable quality and accuracy of data collected by operators. Traffic commissioners have no powers to hold local authorities to account for their contribution to bus punctuality performance.
- the **emerging proposals for demand management schemes, including local road pricing schemes,** currently being developed by local authorities in a number of areas. Where such schemes are adopted, it will be especially important for local authorities to be in a position to guarantee accompanying improvements to public transport and ensure value for money from any associated subsidies.
- the fact that, while a number of voluntary partnership agreements are in existence, **only one quality partnership scheme has so far been made under the statutory powers in the 2000 Act, and no quality**

**contracts schemes have been made.** A number of contributing factors, identified in the light of local authorities' experiences since the 2000 Act, could be addressed by amending the current legislation.

- **the contrasting experiences in London, where bus services are operated under franchise, and many other parts of the country.** Experience from London has shown how increased investment and other measures, within a framework of bus franchising, can help to deliver real improvements: bus patronage has increased by 34 per cent between 2000-01 and 2005-06. In contrast, rising patronage outside London is largely confined to a few towns and cities where conditions are particularly favourable. While some aspects of the bus market in London are unique or not directly applicable elsewhere, the London experience does suggest that a “quality contracts” approach can assist in halting or reversing decline, particularly in major urban areas. To the extent that the overall bus reforms reverse the long-term decline outside London, passengers and bus operators would benefit from a long-term viable, secure and growing market.

## Consultation

2.15 Consultation has been undertaken with a range of stakeholders.

### a) Within government

2.16 Consultation within Government has involved the Office of Fair Trading (OFT); the Department for Environment, Food and Rural Affairs; the Department for Communities and Local Government; the Department for Trade and Industry (including the Small Business Service); HM Treasury; the Department for Constitutional Affairs; the Scottish Executive; and the Welsh Assembly Government.

### b) Public consultation

2.17 When Gillian Merron, Parliamentary Under Secretary of State for Transport, appeared before the Transport Select Committee in June 2006, she agreed to take a “long hard look” at bus services. Following this, Ministers and officials held wide-ranging consultation sessions with key stakeholders. These included:

- the Confederation of Passenger Transport (CPT) and some representative small and medium-sized bus operators;
- major bus operators;
- the Local Government Association (LGA), Association of Transport Co-ordinating Officers (ATCO), the Passenger Transport Executive Group (PTEG) and representatives from a selection of individual Passenger Transport Executives and local authorities;

- the Senior Traffic Commissioner; and
- non-governmental organisations with an interest in transport policy issues, including those representing passengers.

2.18 Following this comprehensive review, the Government's proposals for bus policy were set out in *Putting Passengers First*<sup>2</sup>. An extensive programme of work is being undertaken with local authorities and bus operator representatives through the Bus Partnership Forum, to develop and refine the proposals in a number of areas. This process is being widened to include other stakeholders such as the OFT and the traffic commissioners.

2.19 Publication of the draft Bill, and the accompanying consultation document, provides an opportunity for all interested parties to contribute to the development of our proposals.

## Options

### **Option 1: Do nothing – leave the legislative framework as it is**

2.20 This would mean the legislative framework remains as set out in the 1985 and 2000 Acts.

2.21 Schemes would still be able to be made, but on the basis of experience to date it is likely that few more quality partnership schemes would be set up. The difficulties which have so far prevented quality contracts schemes being a realistic option would persist, regardless of circumstances and the balance of benefits and costs in a particular location.

2.22 Doing nothing would not remove the barriers that have constrained take-up of the existing provisions, and would do nothing to support the Government's objectives of improving the quality of bus services and thereby increasing patronage in order to help reduce congestion and emissions and improve accessibility. Under the status quo it is likely that over the long term after 2010 (once the benefits of free local and national concessionary fares have worked through) bus patronage and bus services outside London would continue to decline. For those authorities contemplating the possibility of demand management schemes (such as local road pricing schemes), doing nothing would also constrain their ability to implement the complementary public transport improvements that are needed to maximise the effectiveness and public acceptance of such schemes.

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<sup>2</sup> *Putting Passengers First: The Government's proposals for a modernised national framework for bus services*, Department for Transport, December 2006, [www.dft.gov.uk](http://www.dft.gov.uk).

## Option 2: Voluntary measures

2.23 Voluntary partnership agreements have been successful in some areas of the country in improving the level and quality of bus services. The Department welcomes any that are made and recognises their value. Besides the voluntary partnership agreements described in paragraph 2.8 above, service stability agreements<sup>3</sup> and punctuality improvement partnerships<sup>4</sup> offer other methods of voluntary partnership working. However, these have had only moderate success, due mostly to slow take-up and negotiation.

2.24 There are limits to what can be achieved under a voluntary partnership agreement. Such agreements are generally bilateral between a local authority and a single operator – voluntary agreements involving more than one operator risk breaching the Competition Act 1998 if they are perceived as involving collusion between operators leading to a distortion of the market. (Quality partnership schemes would address those issues but are limited in other respects, mainly because under current legislation they cannot be used to specify frequencies or timing of services, or fare levels and structures). Awareness of these limitations and the potential for legal challenge has been a deterrent to using the voluntary process to the full.

2.25 The Department is working with stakeholders, including the OFT, to develop guidance which would facilitate the making of agreements with more than one operator while minimising the risk of a breach in competition law and it is possible that, even without legislation, the parties could develop more comprehensive voluntary agreements. However, there is considerable unease, on the part of both local authorities and bus operators, about relying too heavily on guidance in matters where the competition issues and any legal risks are not clear-cut.

2.26 As a result of this work, we have identified potential legislative changes to the competition regime which we believe could help promote these voluntary measures by creating greater certainty.

## Option 3: Change the legislative framework

2.27 Proposals within the scope of this RIA are legislative changes that would:

- promote more effective partnership working between local authorities and bus operators, to deliver services that are better matched to the needs of passengers in their local areas;

<sup>3</sup>Under a service stability agreement, operators in a local authority area agree to make changes to their network or timetables only on pre-agreed dates in the year, and give local authorities more generous notice of changes than is required by the legislation.

<sup>4</sup>Under a punctuality improvement partnership, operators and local authorities agree to work together to remove the barriers to operating a punctual bus service.

- make the implementation of ‘quality contracts’ schemes a realistic option in areas where the local transport authority can demonstrate that it is in the public interest for them to take greater control over bus services;
- provide a new regime to support the delivery of improved punctuality; and
- support further development of the community transport sector, by removing unnecessary restrictions and by streamlining the system for issuing permits to community transport providers.

2.28 These measures would apply in England and, for the most part, in Wales. Provisions relating to community transport would apply additionally in Scotland. Further details of the territorial extent of the proposals are contained in the Explanatory Notes to the draft Bill, and in the accompanying consultation document. The assessment of costs and benefits in this RIA is not, in general, affected by the territorial extent of the measure in question.

## Costs and benefits

### a) Sectors and groups affected

2.29 Sectors and groups affected by the proposals include:

- bus operators;
- bus passengers;
- other road users;
- local authorities, including Passenger Transport Authorities and Metropolitan District Councils; and
- traffic commissioners.

2.30 The sections below outline in broad terms the kinds of benefits and costs that would arise from the package of proposals; subsequent analysis then gives an indication of the potential scale of these benefits and costs that can arise from real-world schemes. But because the legislative framework provides enabling powers for local authorities to design and implement schemes where they consider them to be appropriate for their local areas, aggregate costs and benefits of such schemes will depend crucially on whether, and how, those powers are used.

2.31 The benefits of the proposed legislative changes are assessed against option 1 of continuing with the status quo. The greater emphasis on voluntary measures under option 2, without any legislative changes, is not expected to

have a significant impact on outcomes (and hence on costs or benefits) compared to option 1.

2.32 The Government is aware that authorities in several towns and cities might be interested in making use of reformed quality partnership and quality contracts schemes powers, though we would expect a relatively small number of these schemes in the first instance, but greater usage of voluntary agreements. Subsequent take-up would probably depend on the early progress of these initial schemes.

## **b) Benefits**

2.33 **Bus passengers** would benefit in a number of ways, and these benefits will clearly accrue especially to socio-economic groups that tend to use buses more frequently than average. This would include individuals from lower-income households, older people and disadvantaged groups. The intention is also to develop bus services of sufficient quality that more people with access to a car will be attracted to them. Anticipated benefits would include:

- improved punctuality. Punctuality and reliability are invariably cited as the most important factors in passenger satisfaction surveys. Improvements in punctuality and reliability can deliver substantial benefits and offer good value for money;
- stabilised fares;
- more integrated fare structures allowing through-ticketing or tickets valid on any operator's services in the area; and
- more integrated network planning resulting in a more coherent pattern of routes and more co-ordinated timetabling of services, with particular attention to accessibility planning, i.e. greater opportunity to catch the right service going to the right destination at the right time.

2.34 **Bus operators** would benefit from:

- increased ability to coordinate routes and frequencies across a network and with other modes;
- in the case of quality contracts, greater predictability of future revenue (at least under some tendering arrangements);
- systematic information on punctuality performance, which could help them identify and hence address any problem areas; and
- to the extent that overall reforms reverse the long term decline in bus patronage outside London, bus operators would benefit from a long-term viable and growing market and greater long-term security of their businesses.

2.35 **Private and commercial road users** (and users of other non-bus modes of transport) would benefit from:

- reduced traffic congestion resulting from increased bus patronage; and
- increased viability of alternatives to private car use.

2.36 **Local authorities** would benefit from:

- increased ability to coordinate routes and frequencies across a network to meet the needs of local passengers; and
- more influence over bus services, and hence the ability to have a more integrated transport policy that will have a positive effect on passengers and the local area, enabling them to address regeneration and social inclusion objectives more effectively.

2.37 **Traffic commissioners** would benefit from:

- improved information on punctuality and performance that would facilitate their role in ensuring that bus operators are delivering the services they have registered; and
- greater scope to engage with local traffic authorities to support their work on bus performance management.

2.38 **Environmental benefits** would arise from achieving modal shift from cars to buses, with reductions in emissions of local air quality pollutants and greenhouse gases – particularly if local authorities choose to include air quality and/or greenhouse gas-related objectives in quality contracts or quality partnership schemes.

2.39 These measures are consistent with the Department for Transport's aim to deliver a transport system which balances the needs of the economy, the environment and society.

### **c) Costs**

2.40 There should be no significant cost implications for **bus passengers** and a potential for cost savings through lower fares and better inter-availability of tickets. However, in some areas where quality contracts schemes are introduced, there may be disbenefits from the loss of competing low-cost services. These should be offset by higher quality and greater reliability of services.

2.41 There would be a cost to **bus operators** through:

- reduced commercial freedoms if a quality contracts scheme is introduced by a local authority. However, the draft Bill includes measures to ensure that this can only be done following due process, including formal consultation exercises, the requirement for approval by a new Approvals Board and the right of appeal to the Transport Tribunal<sup>5</sup>. The new criteria which would be inserted by the draft Bill mean that quality contracts schemes would have to be demonstrably in the public interest, taking into account the impact on bus operators.

We are discussing with stakeholders the options for measures to avoid any disproportionate impacts on smaller operators, allowing them to bid for contracts; and

- in cases where punctuality data is not already collected by operators, the requirement to collect that data and make it available for scrutiny. We are working with bus operators to establish how best to minimise these costs, while maximising the benefits of this information to bus operators, local authorities and others.

2.42 There could be a cost to **local authorities** who choose to put in place a quality contracts scheme, in terms of start-up costs and subsequently monitoring contract compliance. The local authorities would need to demonstrate value for money and availability of funding before any proposed quality contracts scheme could go ahead. Local authorities may also face costs in processing punctuality data and providing reports for the traffic commissioners.

2.43 There would be a cost arising for the **traffic commissioners** as a result of:

- the cost of monitoring compliance with an increased number of quality partnership schemes;
- the need to analyse punctuality reports and take appropriate action; and
- the proposed new role in approving quality contracts schemes.

2.44 The costs and benefits are expanded upon below, for the main areas of the buses part of the draft Bill.

#### **d) Quality partnership schemes and voluntary partnership agreements**

2.45 Quality partnership schemes, if successfully promoted through the new legislation, would be expected to show the benefits demonstrated by a number of successful voluntary bus partnership agreements, increasing

<sup>5</sup> In the case of schemes in Wales, approval would continue to be by the Welsh Ministers and the right of appeal to the Transport Tribunal would not apply.

patronage by improving service quality. This generates benefits to society if it involves modal shift away from cars, reducing the external costs car usage imposes (e.g. congestion, accidents, pollution), or improves accessibility. Greater environmental benefits could be secured if these schemes also cover the emission standards of local buses. A greater number of bus trips can also generate wider economic benefits and extra revenue. Further benefits come through time savings, as bus priority measures can reduce bus journey times and improve reliability.

2.46 Studies of existing voluntary partnership agreements broadly agree that, on average, they can increase patronage in the region of 20-22 per cent<sup>6</sup>, although there is a large range of patronage uplift for individual schemes e.g. in Mackie (2000) values range from 5 per cent to 60 per cent<sup>7</sup>. Though there have been successes with voluntary agreements, there have also been a significant number of voluntary agreements which have been less successful and have been discontinued when problems have arisen. The effectiveness of any scheme in raising patronage depends upon the features included in the scheme and the background trends in each area. The ability of the traffic commissioners to enforce quality partnership schemes means that they may yield greater benefits, perhaps for a longer period, than voluntary agreements which rely on continued cooperation between the parties concerned.

2.47 Examples of voluntary partnership agreements include:

- **Nottinghamshire Calverton Connection:** 29 per cent increase in patronage in the first year after introducing a partnership involving bus lanes, new buses, increased service frequency, driver training and route branding<sup>8</sup>.
- **York:** 24.5 per cent increase in bus use since 2000 and 22 per cent increase in park and ride use. Journeys are now four to twelve minutes faster by bus than by car, meaning passengers will also experience time saving benefits. This coincides with strong priority measures including bus lanes, bus gates, traffic congestion management and bus location systems. Service improvements have also been made, e.g. to bus stops and the introduction of “talking signs”. Complementary schemes will have made a contribution to the patronage rise. These include parking charges, concessionary fares and pedestrianisation<sup>9</sup>.
- **Brighton and Hove:** 5 per cent increase in patronage each year and a 10 per cent decrease in town centre traffic over three years, with benefits from reduced congestion and emissions. Enhancements have included bus lanes, automatic vehicle location, prioritised signals and

<sup>6</sup> For example, Mackie (2000) finds 22 per cent, LEK Consulting (2002) find 21 per cent, Knowles (1999) finds 20 per cent and CPT (2002) suggest a higher average figure of 33 per cent.

<sup>7</sup> *The Demand for Public Transport: A Practical Guide*, TRL 2004.

<sup>8</sup> *The Demand for Public Transport: A Practical Guide*, TRL 2004.

<sup>9</sup> *On the move 2006, Passenger, Partnerships and Growth*, CPT 2006.

a major publicity campaign. Services have been improved through new low-floor, environmentally-friendly buses, a flat rate fare and real time information, along with complementary measures including park and ride and parking charges.<sup>10</sup>

2.48 The cost of a voluntary partnership agreement varies greatly with the type of scheme being considered. The costs are mainly for the infrastructure, but also marketing and administration. CPT (2006) gives a rough guide of costs. For example, bus lanes are given an estimate of £300,000 per kilometre<sup>11</sup>.

2.49 Analysis of a recent partnership agreement in a medium-sized, historic city shows that such agreements can provide good value for money. The estimated costs and benefits of this case study are outlined in Table 1. The scheme made improvements to bus stops and introduced higher-quality low-floor buses, as well as providing more bus priority. These costs are spread over an assumed scheme life of twelve years and are discounted to their present value, with a provision for optimism bias. Large benefits are estimated from time savings and reliability, due to bus priority, and quality due to bus improvements.

**Table 1: Estimated costs and benefits of a voluntary partnership agreement in a medium-sized city**

<b>Costs:</b>	
Bus stops and low-floor buses	£17.26m
Bus priority	£2.39m
Total cost	£19.65m
Total present value cost per year	£2.03m
Optimism bias	£0.81m
<b>TOTAL COST per year</b>	<b>£2.85m</b>
<b>Benefits:</b>	
Journey time savings	£3.70m
Reliability	£1.23m
Quality benefits	£1.21m
Reduction in external costs from cars	£0.08m
Increase in GDP	£0.11m
Revenue gain	£0.76m
<b>TOTAL BENEFITS per year</b>	<b>£7.10m</b>
<b>Benefit to cost ratio (BCR)<sup>12</sup></b>	<b>2.49</b>

<sup>10</sup> *On the move 2006, Passenger, Partnerships and Growth*, CPT 2006.

<sup>11</sup> *On the move 2006, Passenger, Partnerships and Growth*, CPT 2006.

<sup>12</sup> This is a resource based benefit cost ratio (BCR) as it is considering a regulation. A BCR based upon the Department's New Approach to Transport Appraisal (NATA) would produce a much higher BCR.

## e) Quality contracts schemes

2.50 The proposed changes to legislation would help to remove some of the existing barriers to introducing quality contracts schemes. However, to proceed there would need to be a strong public interest case for requiring a quality contracts scheme. This would need to be demonstrated against published criteria in making the case, for schemes in England, to the approvals board chaired by a traffic commissioner (normally the senior traffic commissioner). Schemes in Wales would continue as now to be approved by the Welsh Ministers, but potential schemes would be judged against the same published criteria as in England. The proposed criteria are set out in Box 1 below.

### **Box 1: Proposed criteria to be met before a quality contracts scheme could be made**

The proposed new test would state that, before making a quality contracts scheme, the proposing authority must publish a consultation document which:

- a) describes the proposed scheme, including the services to be provided as part of it;
- b) explains how the scheme will:
  - (i) increase<sup>1</sup> the use of local bus services in the local area;
  - (ii) bring benefits to passengers by improving the quality of local bus services. Benefits might include, for example, reduced waiting times, faster journeys or more comfortable vehicles;
  - (iii) contribute to the implementation of the authority's transport policies;
  - (iv) do so in a way that is economic, efficient and effective; and
  - (v) ensure that, if the scheme is likely to have a significant adverse effect on competition, this effect is proportionate to the benefits it is expected to deliver.
- c) describes the local arrangements which the authority will put in place to deliver the scheme;
- d) explains how the authority will meet the costs they expect to incur; and
- e) includes a declaration by the local authority chief finance officer that appropriate financial arrangements can be put in place to meet any costs incurred by the local authority.

<sup>1</sup> For the purposes of the legislation, a reference to increasing the use of local bus services includes a reference to reducing, arresting or reversing decline in the use of bus services.

2.51 There would be a transparent process for local authorities to demonstrate that they had satisfied those criteria, and for those likely to be affected to test their conclusions and methodology, as part of the approval process. This should ensure that quality contracts schemes are introduced only where they will deliver genuine improvements for bus passengers and the local transport system, and are demonstrably in the public interest.

2.52 In addition, local authorities would be discouraged from introducing a quality contracts scheme for the whole of a major urban area at the same time under one contract, but instead encouraged to facilitate bids which involve small as well as large operators and hence also encourage a competitive market for future contracts.

2.53 Quality contracts schemes can potentially offer significant benefits, although this will be highly dependent on the local context, and the scheme design such as bus prioritisation and any other accompanying measures. The benefits could include:

- local authorities would be able to optimise the bus network. This could reduce any needless duplication of bus services and ‘over-busing’ on some corridors, and ensure that bus services frequencies are coordinated and services are integrated with other modes;
- local authorities would also be able to have an input into fare levels, along with integrated ticketing, branding and marketing, which can have a significant impact on patronage;
- local authorities could choose to promote environmental objectives through the design of a quality contracts scheme, for example by specifying low-emission vehicles;
- competitive tendering should ensure that local authorities get value for money and that profits are not excessive (even if patronage growth is achieved); and
- the wider reform package would also provide both the incentives and the structures to bring forward bus priority and demand management measures.

2.54 Costs and benefits would vary significantly depending upon which of these features – and others – formed part of the proposed scheme.

2.55 Quality contracts schemes are not expected to be the favoured or most appropriate approach in many areas. However, where plans do meet the criteria then many of these benefits could be expected. The potential benefits are illustrated below in a hypothetical scenario which assumes that quality contracts schemes are introduced in six major conurbations. It is assumed that fares remain at current levels instead of rising by 5 per cent, frequency is

increased by 10 per cent and quality is raised, resulting in an estimated 7 per cent increase in patronage. The benefits of this are estimated to be approximately £487 million, as outlined in Table 2. This does not include all the possible benefits, although some of these could involve double counting and others depend a great deal on the scheme design.

**Table 2: Estimated benefits of quality contracts schemes in six major conurbations, with a scenario of 7 per cent increase in patronage**

Consumer benefits	£383m
Increase in GDP	£67m
Revenue gain	£26m
Reduction in external costs of cars	£10m
<b>TOTAL BENEFITS per year</b>	<b>£487m</b>

2.56 There are a number of costs that could be associated with quality contracts schemes, such as:

- transitional disruption to the network – there could be a halt to investment, even dis-investment in the lead-up to a quality contracts scheme, and/or transitional turbulence to services should a local authority choose to re-configure the network;
- the loss of innovation, dynamism and enterprise by moving to a planned approach to bus networks and services with the elimination of new entry over the contract period and flexibility by private bus operators. This might be mitigated by the involvement of bus operators to make their own proposals for routes, frequencies and fares, based on the core or minimum requirements of the contracting authority;
- administration costs – additional local authority staff, plus legal and consultancy costs;
- start up costs – local authorities may need to buy depots to allow competition and recover the cost of the depots by leasing them to the contracting operators. There may also be costs of switching staff;
- service quality costs – the costs of infrastructure such as bus lanes and prioritisation to improve quality. If new vehicles or higher-specification vehicles are required as part of a quality contracts scheme this will involve additional costs;
- there could be significant costs for authorities if they wanted to maintain or reduce fares when bus operating costs rose, or if they wanted to introduce new routes or increase services – in particular increasing peak services can be expensive if the extra buses involved are under-utilised for the rest of the day.

2.57 Overall we would expect that where quality contracts schemes are introduced they will offer good value for money and be demonstrably in the public interest (indeed local authorities will be required to demonstrate this to the Approvals Board in England or the Welsh Ministers in order to proceed). It will be important that the cost implications have been considered and can be funded.

2.58 As highlighted above, the net costs and impacts of a scheme will be highly dependent on the design and decisions on fares and quality made by a local authority, as well as the impact on patronage resulting from the scheme and any associated demand management.

#### **f) Punctuality**

2.59 Requiring operators to provide punctuality data should encourage them to improve their service punctuality, as there could be financial or licensing consequences if they perform badly. The power to make regulations requiring operators to provide this information already exists, though discussions are proceeding with stakeholders as to the extent to which it might be used. The proposed measures regarding local traffic authorities will encourage them to take bus priority more seriously and engage more fully with bus operators in removing obstacles to punctual services and, if successful, would lead in turn to improved patronage.

2.60 The benefits of improved punctuality include: the benefits to current passengers of reduced waiting time; the benefits from time savings for the generated trips; and the revenue from the extra trips. The main method of collecting punctuality data on a large scale is likely to be through satellite positioning (e.g. GPS) technology, although small operators or those in areas with better punctuality (e.g. rural areas) may find other methods are appropriate (e.g. onboard surveying). The bus industry is being consulted on data collection methods.

2.61 Use of systems that are automated as far as possible should help to minimise ongoing costs to operators, although smaller bus operators may want to consider the alternative approaches. The costs to operators of collecting this data using GPS would include: capital; installation; data transfer; staff time and consultancy. GPS has been piloted in London and will be rolled out for all London buses. Many bus operators outside of London already have or plan to use GPS systems to collect punctuality data. A recent survey, taken by the Department, showed around 28 per cent of operators outside London were currently using GPS, amounting to 53 per cent of the buses in the sample. This would help to mitigate some of the additional costs of this requirement, although there might still be costs involved in processing the data provided by those operators already using GPS.

2.62 Estimates of the potential costs and benefits of gaining punctuality data show it could be good value for money, as illustrated in Table 3. These estimates are based on collecting data for all local buses in England outside of London that do not currently have GPS and processing the data for all

operators. Costs for large operators (taken to be those with 50 or more buses) are based on installing GPS, where capital costs are spread over an assumed scheme life of seven years.

2.63 However, these costs are assumed to be unrealistic for small operators (taken to be those with fewer than 50 buses). The Department considers that the existing legislation which permits the making of regulations requiring operators to submit punctuality information is sufficiently flexible to enable different requirements to be made of smaller operators and rural operators, for whom congestion may be less of an issue.

2.64 This could take, for example, the form of an agreed continuous programme of off-bus monitoring at terminals and pre-determined points elsewhere; or an agreed structured programme of spot-checks throughout the area, with clear targets of the number of observations to be carried out (say) each month to ensure statistically robust results. For the purpose of this analysis a cost per bus of £1,000 has been assumed. There would also be some costs in central processing of data, assumed to be £10,000 per operator per year, which could be borne by bus operators or an enhanced traffic commissioner, depending upon the final scheme.

2.65 In terms of benefits, it is assumed that the majority of buses meet their punctuality target after the scheme is introduced. London has now surpassed its target, with a real time information system including GPS. Installing GPS could accelerate the provision of real time information (RTI), yielding further positive benefits to passengers. Bus passengers value RTI at bus stops at between four pence and six pence per trip. The value of RTI for car users if they switch to buses is around three times that for bus users. Installing GPS on buses would also provide a management tool for bus operators further to improve punctuality if they invested in the back office equipment and staff. These developments would capture extra benefits to those analysed, but also additional costs.

**Table 3: Estimated costs and benefits for collecting punctuality data on all local buses, currently without GPS, in England outside London and producing punctuality reports for all operators in England outside London**

<b>Costs (per year)</b>	
<i>Costs for operators with 50 or more buses:</i>	
Capital	£450 per bus £5,000 per operator
Data transfer	£46.30 per bus
Back office staff	£25,000 per operator
Consultancy	£6,000 per operator
<i>Cumulative cost to all operators with 50 or more buses</i>	<i>£5.0m</i>
<i>Costs for operators with fewer than 50 buses:</i>	
Total cost of gaining data	£1,000 per bus
<i>Cumulative cost to all operators with fewer than 50 buses</i>	<i>£6.8m</i>
<i>Cost for operators/ regulatory authorities:</i>	
Cost of processing data and reporting	£10,000 per operator
Cumulative cost of central processing of data	£6.5m
<b>TOTAL COST per year</b>	<b>£18.3m</b>
<b>Benefits (per year)</b>	
Reduced waiting time for existing passengers per year	£60.5m
Increased demand per year	£0.4m
Revenue gain	£3.9m
<b>TOTAL BENEFIT per year</b>	<b>£64.8m</b>
<b>Benefit to cost ratio (BCR)<sup>13</sup></b>	<b>3.5</b>

2.66 The Quality Incentive Contract (QIC) Scheme introduced by TfL for London buses has had a major impact in improving reliability and punctuality with a reduction in excess waiting time from over two minutes to just over one minute, in a large part due to reductions in lost vehicle kilometres arising from staff shortages. The London Assembly report<sup>14</sup> concluded that the costs of improving reliability and punctuality via the QIC had delivered good value for money. However, a QIC scheme would only be feasible for other areas under a tendering regime such as a Quality Contracts Scheme.

<sup>13</sup> This is a resource based benefit cost ratio (BCR) as it is considering regulation. A BCR based upon the Department's New Approach to Transport Appraisal (NATA) would produce a much higher BCR.

<sup>14</sup> *Value added? The Transport Committee's assessment of whether the bus contracts issued by London Buses represent value for money*, London Assembly, March 2006.

### g) Community transport

2.67 The proposal to allow drivers of vehicles under section 22 permits to be paid should increase the pool of drivers available to work for community transport bodies and hence increase the number of services provided. Experience suggests that new services are most likely to start in areas where there is a severe shortage of public transport from other sources and strong community support for the initiative.

2.68 The legal requirements that the body concerned must not operate with a view to profit will remain, and will, in the Government's view, safeguard the interests of smaller commercial operators. This should address any concerns of commercial operators over competition from community transport.

2.69 The proposed relaxation of vehicle size limits applying to section 19 and section 22 permits will provide new opportunities to community transport bodies without imposing any new burdens on them. The use of section 19 permits for vehicles with fewer than 8 seats will be limited to the current definition of "public service vehicle" so they can carry passengers only at separate fares, and not in circumstances that a private hire vehicle, or taxi, licence would be required.

2.70 The proposal that all section 19 permits should be issued by traffic commissioners rather than designated bodies (local authorities or national organisations concerned with education, religion, social welfare or recreation) would secure efficiency gains and more consistency in applying the criteria. For some users of permits, this would entail a modest additional burden; for others it would be cost-neutral.

2.71 The above proposals were developed with a view to consultation and the Department will consider carefully the views of stakeholders, both within and outside the voluntary sector in response to the draft Bill.

### h) Miscellaneous provisions

2.72 There are a small number of additional bus-related provisions in the draft Bill, with little (if any) anticipated regulatory impact.

- **Private hire vehicle (PHV) licences** – This measure would enable the holders of PHV licences to obtain a special restricted PSV licence, thus allowing them to use PHVs to provide local bus services. The holders of taxi licences can already apply for such a licence, and this proposal would simply extend the provision to the holders of PHV licences. This is voluntary, so does not directly impose any costs. For those who take up the option there would be the modest cost of the fee for the licence (currently £53 for each 5 year period). However, accessibility and social inclusion benefits may accrue in rural areas where there are marginal services, if the new eligibility is taken up by PHV licence holders.

- **Sale of council-owned bus companies** – Deregulating the sale of council-owned bus companies, so the Secretary of State or Welsh Ministers no longer have to give consent, would provide costs savings to local authorities and the Department. This measure should have no impact on the private or voluntary sectors.
- **Rules for local authorities and the Welsh Ministers subsidising services** – It is proposed that more flexibility would be given to authorities in subsidising services. This is to make clear that authorities may subsidise services to increase the *standard* of service on a particular route (for example in terms of frequency, hours of operation or quality of vehicles), as well as to support the provision of services on a route that would not be provided without subsidy. It means resources may be redistributed in a way that will provide more benefits to passengers. The Welsh Ministers have similar powers to local authorities in subsidising services, and it is proposed that this additional flexibility should apply to them also.
- **Extending the maximum length of bus subsidy contracts** – Longer contracts would give the opportunity for investment to be undertaken that otherwise would not have occurred. Local authorities could gain better value for money from this and supported services could be improved. Extending the length of contracts could be detrimental to competition, as tendering takes place less frequently, although longer contracts might encourage more operators to bid. Local authorities would need to assess carefully the impacts on competition and value for money in designing bus contracts.
- **Procedure for appeals against traffic regulation conditions** – This would be a cost-neutral shift of responsibility within public bodies (from the Secretary of State to the Transport Tribunal). Traffic regulation conditions and appeals against them are both rare, so the impacts are likely to be small. The measure provides the benefit of giving a more independent process.

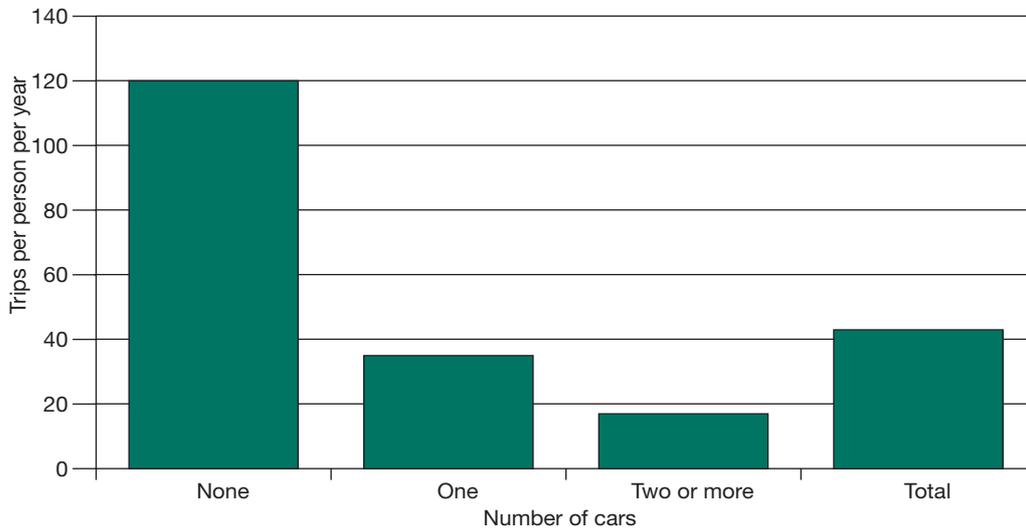
## i) Equality

2.73 Bus services have a key role to play in delivering improved accessibility and social inclusion. Government guidance has required that Accessibility Planning be integrated in the Local Transport Plans for 2006-2011. Local authorities, with other providers and operators in the private, public, voluntary and community sectors, should consider the scope for addressing accessibility problems through improved public transport availability, including through the use of flexible transport services and the design of the bus network.

2.74 Social groups who use buses more than others should benefit disproportionately from the proposed policies. In 2005 bus use in England outside London was characterised as follows:

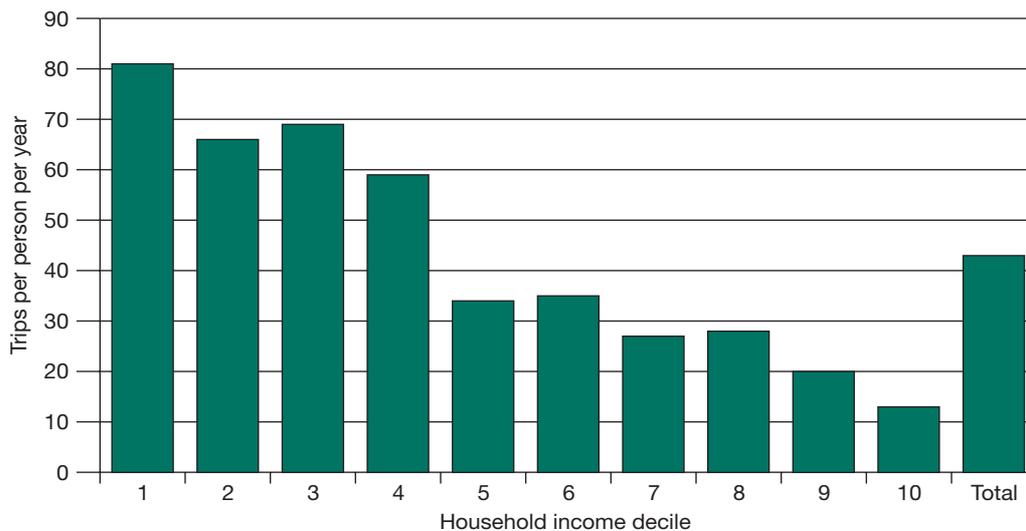
- Bus trips are predominantly made by those without access to a car. People without a car in their household make more than three times as many bus trips per year as those with one car in their household:

**Figure 2: Trips by non-London local bus per person per year by household car availability, England, 2005**



- Individuals in the lowest four income deciles make significantly more bus trips than those in higher income groups:

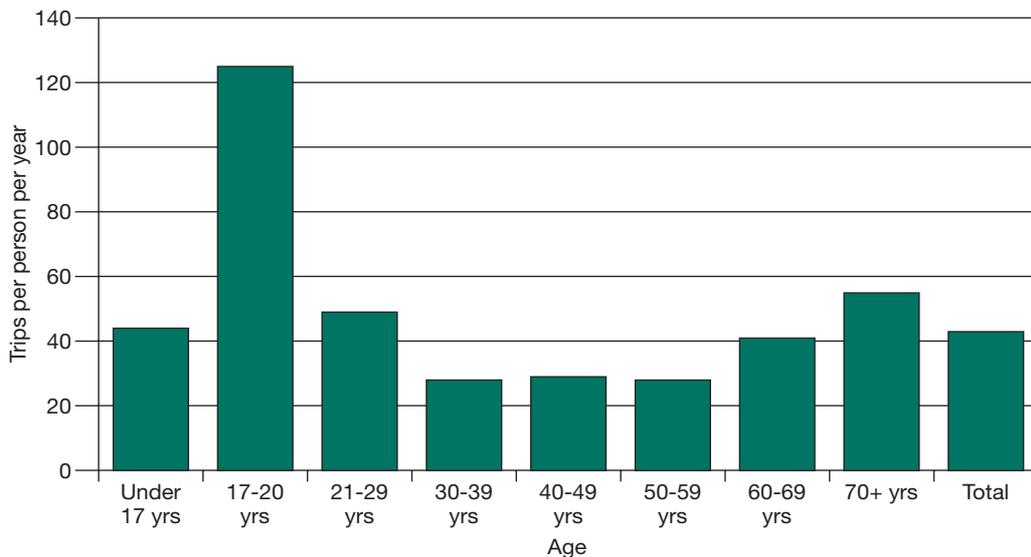
**Figure 3: Trips by non-London local bus per person per year by household income, England, 2005**



- Females tend to use buses significantly more than males. In 2005 females made on average 54 trips per year compared to 39 for males.

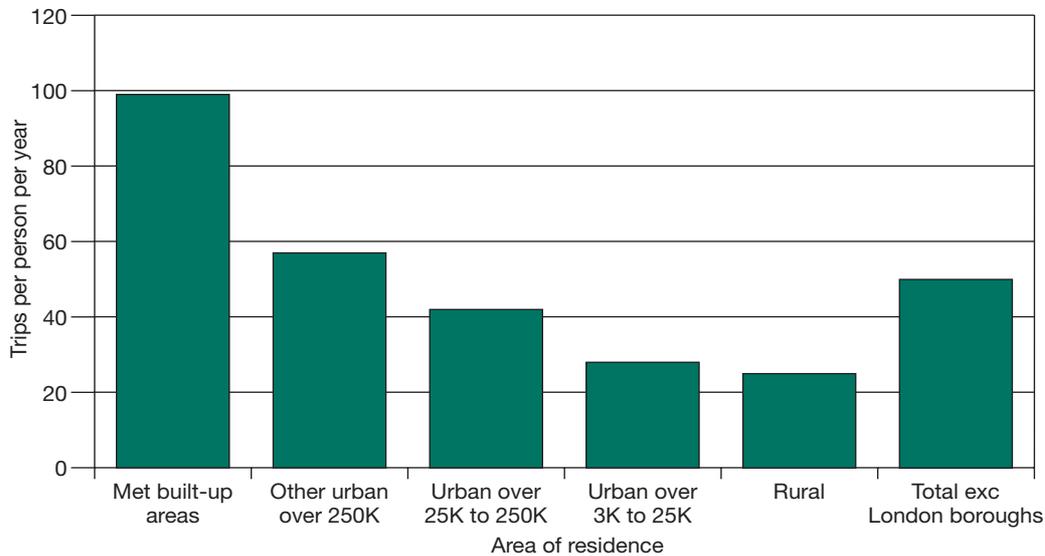
- Young people aged 17-20 make more than twice as many bus trips per year as individuals in other age groups. Individuals over 70 are the next most frequent bus users, with their access to concessionary fares:

**Figure 4: Trips by non-London local bus per person per year by age, England, 2005**



- On average non-white individuals make approximately 9 per cent more trips per person per year than white individuals.
- Non-London bus use by people living in England outside London is considerably higher per person in metropolitan areas than elsewhere. It follows that people living in less populated areas make fewer trips per person per year. Those living in rural areas tend to make approximately 12 per cent fewer trips per person per year than those in the smallest urban areas:

**Figure 5: Trips by non-London local bus per person per year by area of residence, England, 2005**

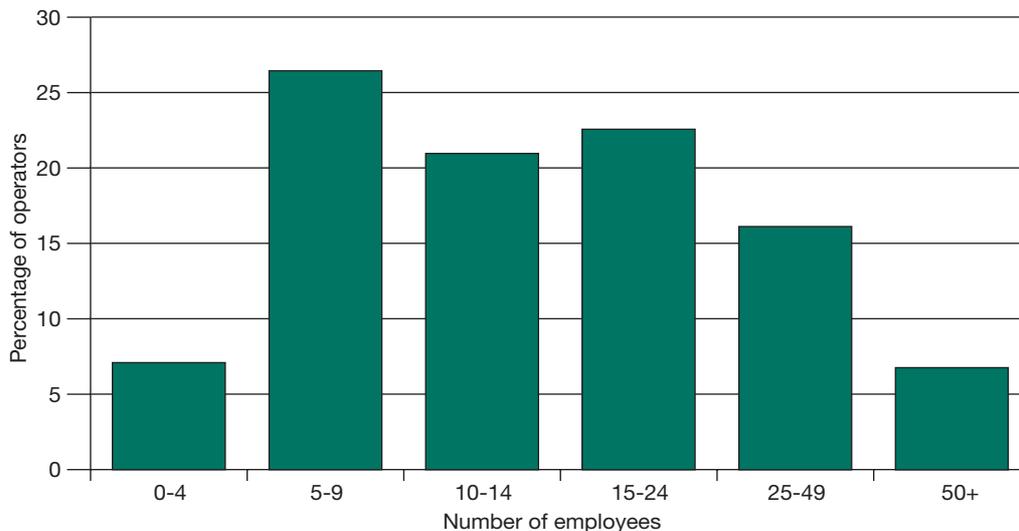


- In Great Britain adults with mobility difficulties, defined as a condition making it difficult to go out on foot or use a local bus, make approximately a third fewer total trips by any mode per person per year than those without mobility difficulties. Despite this, adults with mobility difficulties make on average 14 per cent more local bus trips per person per year than those without mobility difficulties. Disabled people are eligible for concessionary bus travel and increasingly, bus operators are turning to low-floor vehicles compliant with the Public Service Vehicles Accessibility Regulations 2000. Currently over half the full-sized buses used on local services in England are low-floor and wheelchair-accessible.

2.75 Overall given that bus users are disproportionately from low income groups, non-white individuals, female and people with disabilities we would expect the reforms to have a positive impact on equality.

### Small firms impact test

2.76 The bus market contains a number of very large operators and considerably more small operators, giving a total of approximately 650 operators in England excluding London and 900 in Great Britain. Five major companies account for around two thirds of services and an even greater proportion of passenger trips.

**Figure 6: Local bus operators by number of staff**

2.77 Our initial analysis indicates that smaller operators could be particularly affected by:

- Quality contracts schemes.** In this case, the impact will depend heavily on the detailed design of the contracts and we will work with stakeholders to address this issue (including through the issuing of guidance under a new power which would be inserted in the Transport Act 2000). The London model, where individual routes are subject to separate contracts, would maximise the opportunity for smaller operators to compete, but would be likely to involve higher costs for local authorities (by increasing tendering and contract monitoring costs) and to bus operators (in terms of bid costs). Alternatively, tendering larger contracts covering multiple routes may make it harder for small operators to compete.
- Punctuality data requirements.** As outlined above, the fixed costs involved in establishing punctuality reporting systems may raise particular issues for smaller operators. We will explore these issues further through consultation, with a view to ensuring that requirements do not impose disproportionately high costs on smaller operators. One option may be to set different data requirements for smaller operators and services in rural or less congested areas.

2.78 The Department has been consulting with the CPT, whose members include the majority of small operators. Gillian Merron, Parliamentary Under Secretary of State for Transport, also met a delegation of three small or medium-sized operators, as part of the review process described above prior to publication of *Putting Passengers First*. We will be consulting further with small, as well as large, operators as part of the process of consultation on the draft Bill. This will cover the contents of the proposed draft Bill and the

impacts of possible policies, in particular the options for providing punctuality data, and the issues around improvements in punctuality through more effective regulation. We expect this consultation to provide additional evidence on specific impacts on small firms, and to identify opportunities to minimise any adverse impacts.

2.79 The Department has established a working group including bus operator and local authority representatives, to consider the best means of providing information on bus punctuality that will allow appropriate action to be taken where necessary.

### Competition assessment

2.80 We have consulted the Office of Fair Trading, and will continue to liaise with officials as we develop and assess the competition impacts of our proposals.

2.81 There is currently little on-road competition and when it occurs, in many cases, it fails to enhance the quality of service or provide genuine choice. One consequence of the bus industry's consolidation has been that significant on-street competition in the larger urban areas, immediately after de-regulation, has given way to a situation where dominant local companies are often only subjected to episodic on-street competition. It is estimated that only 4 per cent of services are subject to direct competition.<sup>15</sup>

2.82 Option 1 (do nothing) would have no effect, and option 2 (more use of voluntary measures) would have some effect on competition within local bus markets.

2.83 Of the legislative measures covered in Option 3, the changes to quality partnership schemes and voluntary partnership agreements would have fairly limited effect on competition because of the need for schemes to satisfy the relevant competition test in the 2000 Act. The test for quality partnership schemes ensures that if the scheme has, or is likely to have, a significantly adverse effect on competition, that must be justified by the intended benefits, and be proportionate to what is needed to achieve those benefits. Under the test proposed in the draft Bill it would be necessary to demonstrate, in the case of any voluntary partnership agreement which had as its object or effect the prevention, restriction or distortion of competition, that the agreement would contribute to the achievement of specified public interest objectives, that the restriction on competition was necessary to achieve those objectives, and that the effect would not be to eliminate competition in a substantial part of the services in question.

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<sup>15</sup> *Competition in the Bus Market*, Report prepared for Commission for Integrated Transport, The TAS Partnership, 2005.

2.84 It is inherent in the nature of quality contracts schemes that competition is eliminated from a specified set of routes for a defined period of time, once a contract has been let. Of course as contracts are let through a competitive tendering process then quality contracts would introduce ‘competition for the market’ which may be more effective than the existing ‘competition within the market’.

2.85 The impact on competition (and the number of operators in a local area) would be sensitive to the design of the contracts themselves, and in particular the number of separate contracts within the area concerned. Bus operators who failed to secure quality contracts would still be able to compete for contracts to operate school bus services and other specialist services, and would be free to take on private hire work, to operate long-distance services or excursions which are not regulated, all of which could help to preserve a local presence of smaller operators. There might also be scope to develop opportunities for sub-contracting of certain services within a quality contracts scheme.

2.86 Through consultation, we will be exploring options for ensuring that local authorities have due regard to the impact on small firms and competition when designing quality contracts schemes. The draft Bill provides for the Secretary of State and Welsh Ministers to issue guidance to local authorities regarding the performance of their functions in relation to quality contracts schemes, which could cover these issues. Crucially however, a local authority would need to ensure that the contractual process and the size of individual contracts would be designed to protect the interests of passengers, and to maintain effective competition for future contracts.

## **Enforcement, sanctions and monitoring**

### **a) Enforcement to ensure compliance**

2.87 A quality contracts scheme would be enforced contractually by the local transport authority. The traffic commissioners' role in registering services and monitoring compliance would be disappplied to services under quality contracts (as already provided in the 2000 Act). Enforcing compliance with quality partnership schemes would (as now) rest with the traffic commissioners with sanctions similar to those they can apply to operators who fail to operate services in accordance with the registered particulars. This includes compliance with punctuality standards, in which the traffic commissioners would be given an enhanced role through better access to data.

### **b) Sanctions for non-compliance**

2.88 Compliance with a quality contract would be a purely contractual matter. There are sanctions, exercisable by the traffic commissioners, against a person who operates a non-contracted service in an area covered by a quality contracts scheme, and against a person who fails to comply with the terms of a quality partnership scheme. All these are provided for in the 2000 Act and no further sanctions are contemplated.

2.89 In relation to bus punctuality, the Government considers that the penalty powers available to the traffic commissioners are basically fit for purpose, but there is scope to address some practical difficulties that have arisen. A small number of specific proposals are therefore set out in the draft Bill and accompanying consultation document.

### **c) Inspections**

2.90 It will be for the local transport authorities to enforce compliance with quality contracts. VOSA will be authorised to obtain evidence of non-compliance in terms of punctuality and quality partnership schemes and supply it to the traffic commissioners (as is the case now) though the traffic commissioners will be less dependent on their evidence as regards punctuality if the changes proposed are made.

## 3. Local transport governance reform

### Title of proposal

3.1 This partial Regulatory Impact Assessment (RIA) assesses the measures in the draft Local Transport Bill to facilitate reform of local transport governance in England, especially in the major urban areas outside London.

### Purpose and intended effect

#### a) Objectives

3.2 The Government's aim is to strengthen the existing system under which the provision of transport services – public transport and roads – is governed and delivered in England, especially in the main urban areas. The proposed new arrangements would apply in England only, and exclude London, where strengthened arrangements were introduced in 2000 through the setting up of the Greater London Authority and Transport for London. The key objectives are to ensure that:

- such areas have the strong leadership they require to ensure efficient and effective transport services are in place and that the bodies providing this leadership are properly accountable to the people of the area;
- financial resources available for improving transport systems in these areas are put to the most effective use;
- the transport network in these areas makes a more effective contribution to sustainable economic development;
- the existing legislation is updated to reflect changing transport needs and patterns since it was first introduced; and
- that this legislation provides the necessary flexibility to allow the right arrangements to be put in place for each area, and that unnecessary legislative barriers which prevent the effective delivery of transport are removed.

#### b) Background

3.3 At present, responsibility for setting overall strategy for transport services outside London and the English metropolitan areas is the responsibility of the county council (e.g. Hampshire or Lancashire) or – where one exists – the unitary authority (e.g. Brighton or Stoke-on-Trent) for that area. Such authorities are also responsible for:

- procuring local bus and light rail services in their area (although the services themselves are delivered by private-sector operators); and
- management of local roads in their area (including building new roads and carrying out maintenance, road works and determining traffic management measures on existing roads, such as traffic lights, traffic signs and bus lanes).

3.4 These duties are set out across several pieces of existing legislation, most notably the Transport Act 2000 (which places a duty on local authorities to produce Local Transport Plans) and the Highways Act 1980 and Road Traffic Regulation Act 1984 (which cover responsibility for the management of roads and traffic).

3.5 Responsibility for, and traffic management on, the English strategic road network (motorways and trunk roads) remains the responsibility of the Highways Agency.

3.6 In the main urban areas outside London (West Midlands, Greater Manchester, Merseyside, South Yorkshire, West Yorkshire and Tyne & Wear), however, the situation is rather different. Responsibility for the local and strategic road network remains with individual metropolitan district councils (e.g. Manchester City Council or Dudley Metropolitan Borough Council) and the Highways Agency respectively. However, Section 9 of the Transport Act 1968 allowed for Ministers to designate certain parts of England, Scotland and Wales as “passenger transport areas”. The intention behind this was that there were certain areas, most obviously highly-populated urban ones, where it was necessary to ensure that some transport services (such as bus routes) were planned and provided in a strategic and integrated manner across the whole of the urban area, rather than simply leaving all such arrangements to individual councils who would only have responsibility for part of the area. To achieve this, the 1968 Act allowed for Ministers to establish area-wide bodies – Passenger Transport Authorities (PTAs) and Passenger Transport Executives (PTEs).

3.7 PTAs were to be responsible for setting the overall strategy for public transport in that area and for determining policy on the provision of services. Their membership was to comprise several elected councillors from each of the individual local authorities in that area, one of whom would act as Chairman of the PTA. Currently membership varies from 12 in the South Yorkshire PTA to 33 in Greater Manchester.

3.8 PTEs were set up as separate bodies, reporting to the PTAs, and were given responsibility for implementing the public transport policies drawn up by the PTA. So, for instance, when first set up they provided the majority of bus services in their areas, and were able to determine routes and fares. These undertakings were later formed into “arm’s length” companies and subsequently sold to the private sector. PTEs no longer have powers to

operate buses or own bus companies, and their main statutory function relative to buses is to procure from private operators the socially necessary services in their area that are not otherwise provided on a commercial basis.

3.9 Whilst many of the rules governing how PTAs and PTEs operate are covered in the 1968 and later Acts, some of the more detailed arrangements were set out in separate Orders which the Act allowed to be made to establish PTAs in individual areas. Four of these Orders were made in 1969 setting up PTAs and PTEs in what are now Greater Manchester, Merseyside, Tyne & Wear and West Midlands. A further two were set up in South and West Yorkshire in 1973, and in each case the PTA became part of the metropolitan county council for that area (e.g. the West Midlands County Council). Only one PTA/E was set up outside England, the Greater Glasgow Passenger Transport Authority, established in 1972 and later reconstituted as the Strathclyde PTA.

3.10 The provisions in the 1968 Act have been amended several times in the years since then, most significantly through the Local Government Act 1985 and the Transport Act 1985. The first of these abolished the Metropolitan County Councils (such as West Midlands) as a whole, but retained the Passenger Transport Authorities themselves. These later Acts did, however, remove the power for any new PTAs to be created, over and above the existing seven. They also prevented any changes being made to the boundaries of the existing PTAs, for instance to allow a further local authority to be incorporated within a PTA area.

### **c) Rationale for government intervention**

3.11 Much of the existing legislative framework for transport governance – especially in cities – dates back many years and was designed to reflect transport needs as they were seen then. It has become increasingly clear that the existing legislation lacks flexibility and needs to be updated to reflect changing patterns of transport needs and use. To take just one example, the readiness of commuters to live further from their place of work and for people to travel further for leisure purposes means that such journeys increasingly take place across local authority boundaries and involve transport modes which are the responsibility of different bodies. This underlines the need for better co-ordination of transport services.

3.12 Amongst other problems, the existing legislation imposes the following constraints:

- it does not allow sufficient flexibility to allow different arrangements to be put in place in different areas in order to reflect the particular needs of each area;
- it does not allow for changes to be made to the existing distribution between different bodies of responsibility and powers covering different modes of transport, for instance to ensure that decisions on roads and public transport in an area are taken in an integrated manner;

- it does not allow for the establishment of new PTAs where these are seen as desirable; and
- it does not allow for the boundaries of the existing PTAs to be altered.

3.13 A lot of attention has been paid to transport governance in various quarters in recent times, with calls for changes to existing arrangements, including from cities themselves who have argued strongly that an effective transport system is a critical spur to improved economic performance. For example:

- a. the report *Improving Local Transport: How Small Reforms Could Make a Big Difference* – produced for the Local Government Association, and published in May 2006 – highlighted what it saw as the need to improve the delivery of transport services through a range of reforms to existing transport governance arrangements, particularly those for PTAs and PTEs;
- b. the *Eddington Transport Study* – carried out jointly for HM Treasury and the Department for Transport by a team led by Sir Rod Eddington and published in December 2006 – highlighted what it saw as several potential barriers which can flow from governance arrangements, including:
  - “existing boundaries [ which ] often do not reflect recent and likely future economic footprints of growing and congested urban areas and their catchments.”
  - “[ voluntary partnership working which ] create a risk that the chosen option is the one that is most acceptable to everyone round the table, which may not be the same as the one that is most beneficial to the group or area as a whole (pejoratively known as a ‘lowest common denominator’ outcome).”
  - “Transport powers are often split amongst a number of different players at a sub national level.... This means that often a decision-making body does not have levers over the full range of [ transport ] modes which can support the effective functioning of an urban area and its catchment.”
- c. The Commission for Integrated Transport’s recent report – *Moving Forward: Transport for City Regions* – called for better strategic integration of transport in metropolitan areas and identified the need for new primary legislation in order to achieve this.

3.14 In the Local Government White Paper, *Strong and Prosperous Communities*, published in October 2006, the Government undertook to bring forward a package of reforms to enable a more coherent approach to

transport to be taken in our major cities. In particular, it cited reform of PTAs and PTEs. However, the opportunity has also been taken to look more widely at transport governance arrangements outside London. The White Paper also drew attention to the importance of ensuring that our cities can optimise their contribution to sustainable economic growth and the need to co-ordinate activity across local authority boundaries in order to enable cities to compete more effectively in the global economy.

## Consultation

### a) Within Government

3.15 In drawing up the governance elements of the draft Local Transport Bill, DfT worked closely with several other Government Departments, including in particular Communities and Local Government (CLG), and HM Treasury (HMT). Discussions were also held with the Scottish Executive and Welsh Assembly Government given the UK-wide nature of the existing legislation on Passenger Transport Authorities and Executives.

### b) Public consultation

3.16 Officials in DfT, together with colleagues in CLG and HMT, held a series of consultation events with key players – including representatives of PTAs and PTEs, local authorities, transport operators, business and environmental groups – in the six existing English PTA areas during January 2007. The aim of these was to obtain views on how effectively the existing transport governance arrangements in each area helped deliver good transport services, and what were the barriers which prevented them working more effectively: in particular, where those barriers stemmed from existing legislation. These views were taken into account by the Department in determining what governance provisions should be included for consultation in the draft Bill.

3.17 Further consultation will be taking place with bodies in the six existing English PTA areas, together with equivalent organisations in other parts of England, following the publication of the draft Bill. The formal consultation process will provide an opportunity for all interested parties to feed in their views.

## Options

### Option 1: Do nothing

3.18 Under this option the existing legislative regime would remain as it is. Even without new legislation it would be possible in both PTA or non-PTA areas for the main bodies with an interest in transport (such as local authorities and PTAs) to review the existing structures they have in place to ensure effective planning and delivery of transport services, including those

which they consider cannot sensibly be dealt with on an authority by authority basis but require a cross-boundary approach (e.g. commuter bus routes). For instance in South Hampshire the different authorities have formed a Solent Transport Partnership, to improve co-ordination of services, and to put in place voluntary (rather than statutory) working arrangements to improve the transport network.

3.19 It may be that such arrangements would prove effective in many areas without the need for more formal structures to be set up under new legislation. However, this would obviously depend upon how far the bodies involved could work together effectively to a common purpose. There would also be a significant risk that, in some areas, the need to get the agreement of all parties for every measure could result in a lowest common denominator approach in determining strategies and transport needs (see paragraph 3.13b above). Voluntary arrangements can also lack stability where there is no permanent statutory structure in place. As they have no formal legal identity, they would also be unable to receive funding directly from Government in the way that a local authority or PTA would be able to. In all, such arrangements would be less likely to deliver the most effective transport services for an area.

3.20 It would not be possible under this option to set up new PTAs or PTEs, nor would it be possible to change the geographical boundaries of the existing ones.

### **Option 2: introduce new legislation, following the existing model of largely standardised arrangements for different areas**

3.21 If changes were to be made to the existing legislation on transport governance, there is the choice of either:

- (i) broadly following the approach in the existing legislation, where transport structures and the distribution of powers and functions in each area are standardised. For instance, each of the six English PTAs would have broadly the same form and functions; or
- (ii) rather than imposing standard governance arrangements, provide for flexibility in the draft Bill to allow different arrangements to be put in place in each area, which reflect the specific needs of that area.

3.22 Option 2 would follow the first of these approaches. The 1968 and 1985 Transport Acts and the 1985 Local Government Act prescribe many of the arrangements which apply to all of the existing six PTAs. Amongst other things, the following are set out in these Acts:

- which parts of the country would be eligible to have PTAs set up in their area;
- how many members each PTA has and how these are allocated between the different local authorities in each PTA area (e.g. that the

South Yorkshire PTA has twelve members and that Sheffield, Doncaster, Barnsley and Rotherham have five, three, two and two seats respectively);

- what powers PTAs and PTEs have in relation to transport, e.g. to procure bus services on behalf of their area; and
- the exact relationship between the PTA and PTE, for instance which of them has powers to borrow money.

3.23 Equally, the Highways Act 1980, Road Traffic Regulation Act 1984 and Transport Act 2000, amongst others, broadly set out the standard responsibilities of local authorities and the Highways Agency regarding roads and traffic.

3.24 It would be possible to update the existing provisions and address many of the objectives identified in paragraph 3.2 under this option, for instance:

- creation of new area-wide duties covering, for instance, overall strategy or public transport provision;
- changes to the current balance of responsibility of local authorities and PTA/Es for roads and public transport respectively;
- changing the number of members on each PTA and how many seats were held by each local authority; and
- allowing for the creation of new PTAs or changes to be made to the boundaries of existing ones.

3.25 This could be done on the face of the draft Local Transport Bill in such a way as to ensure that the new arrangements applied in all areas or all PTA areas. This would be broadly the top-down approach that applies at present.

3.26 As with the existing legislation, however, once these arrangements are set down in primary legislation in this way there is no flexibility to change them except through a subsequent Act of Parliament. This top-down approach would also limit the ability to design different arrangements for different PTA areas.

3.27 It would also be possible to introduce under the option 2 standardised approach several of the additional proposals listed in paragraph 3.33 below, notably:

- replacement of the duty to produce a Local Transport Plan with one to produce an Integrated Transport Strategy;
- a duty to mitigate climate change; and
- giving PTAs powers of “well-being”.

### **Option 3: introduce new legislation, with greater flexibility to define arrangements for individual areas in secondary legislation**

3.28 Option 3, **which is the option adopted in the draft Bill**, would adopt the approach set out in paragraph 3.21 (ii) above; that is it would involve similar changes to the existing legislative regime as set out for option 2, but would allow greater flexibility for different arrangements in different areas. Proposals within the scope of this RIA are as set out below.

3.29 In order to take advantage of this flexibility, the draft Bill contains a power to allow the Secretary of State to direct an appropriate body (or bodies) in each of the six English metropolitan counties to review the existing governance arrangements in their area. Where, having carried out their review, that body considers that changes are needed to existing arrangements in order to provide the best structure to deliver effective transport services in their area, they could be required to publish a scheme setting out the changes that they propose. This could include, amongst other things, changes to:

- the membership and structure of the PTA;
- the division of responsibilities between the PTA and PTE;
- the respective responsibilities of the PTA and individual local authorities for highways and traffic functions;
- the ability of the PTA to influence the measures individual local authorities implement on their roads; and
- changes to the geographical boundary of the PTA area (e.g. to cover an additional local authority area).

3.30 The scheme might include some changes which would require legislation to enact them and others which could be made without legislation. It would also be open to the body carrying out the review to propose that no changes should be made to existing arrangements. The Secretary of State would be able to issue guidance to which the body would have to have regard in carrying out their review and preparing and publishing their scheme. This might, for instance, cover the procedure for carrying out the review including consultation with other bodies, and the timetable for the process.

3.31 Once an area had published a scheme, the Secretary of State would need to consider it and decide whether to implement those parts of it which required legislation by preparing an order for each scheme (for instance, one for Greater Manchester, another for South Yorkshire etc.) and laying these in Parliament. These orders would be subjected to the affirmative resolution procedure (that is, they would have to be debated in each House of Parliament before they could become law). The draft Bill would enable these orders to amend existing primary (e.g. Acts) or secondary (e.g. regulations or orders) legislation by means of an order so as to bring the proposed changes into force – e.g. to change the membership of a particular PTA.

3.32 As well as existing PTA areas, the draft Bill would also allow for two or more councils in an area where there was not currently a PTA to carry out a review of governance in their area. Where they considered that this would improve the effectiveness and efficiency of transport in that area, they would be able to submit a scheme to the Secretary of State proposing that a new PTA be set up. The Secretary of State would then need to decide whether to introduce the necessary legislation to establish the new PTA. As with changes to existing PTAs, this would be done through an affirmative resolution order.

3.33 As well as allowing some flexibility for each area to identify the best governance structures for their needs, it is proposed to introduce certain changes which would apply more widely, as follows:

- to replace the existing duty for a PTA to prepare – jointly with the Metropolitan District Councils (MDCs) in its area – a Local Transport Plan, with a new duty – on the PTA alone – to prepare (a) an Integrated Transport Strategy (ITS), and (b) an Implementation Plan, showing how it intended to implement the ITS. The existing statutory duty on PTAs to produce a bus strategy would be abolished; instead bus strategies would need to be covered as part of the main ITS. The Secretary of State would be able to issue guidance to PTAs on preparing both their ITS and Implementation Plan, and the PTAs would have a statutory duty to have regard to this guidance in drawing up and publishing both documents;
- a duty on both the PTA and individual councils in a PTA area to have regard to government policies and guidance on climate change, in carrying out their various functions and duties; and
- to extend to PTAs the “well-being” power which local authorities already enjoy under the Local Government Act 2000. This would allow them to do anything they consider could help promote or improve the economic, social and environmental well-being of their area, assuming it is not already expressly forbidden under any other legislation.

3.34 In reviewing their governance arrangements, areas may also wish to consider changes in funding arrangements in their area, in particular to ensure clear accountability and transparency, and to ensure that funding decisions can be made at the appropriate level to encourage flexibility between funding streams and foster value for money decisions across the Travel to Work Area. It is likely that most such changes to funding arrangements could be introduced without the need for new legislation. In advance of the consultation, the draft Bill does not explicitly cover financial matters.

## Costs and benefits

### a) Sectors and groups affected

3.35 The following groups would be directly affected by the proposals:

- Passenger Transport Authorities;
- Passenger Transport Executives; and
- local authorities, primarily MDCs although County Councils and Unitary Authorities may also be affected in certain circumstances.

3.36 As explained in paragraph 3.28 above, the recommended option is option 3. Therefore, this analysis focuses largely on that option. The Bill would place a range of new duties on PTAs and local authorities (whilst also removing certain existing duties on them). Depending upon the details of the schemes submitted by each area, it may also have an impact on the functions, structures and powers of each of the above bodies. The rest of this section sets out the broad impact on these various bodies.

#### *Race equality impact*

3.37 There are no direct Race Equality impacts to any of these proposals. However, we would expect the guidance which the Secretary of State would issue to PTAs on carrying out a review of existing governance arrangements and, in particular, on producing Integrated Transport Strategies and Implementation Plans, to address this issue.

### b) Analysis of costs and benefits

3.38 Paragraph 3.2 of this RIA sets out the broad objectives which we are looking to address through these proposals. Options 2 and 3 comprise a combination of placing new duties and removing other existing duties on the bodies set out in section 5 above. Option 3 would also give a significant amount of freedom to PTAs and local authorities to review the need for changes to existing governance arrangements in order to improve the efficiency and effectiveness of transport in their area. Given that, the costs and benefits of many changes flowing from the governance part of the draft Bill would depend upon the detail of the proposals put forward by individual areas, which means that it is not possible to quantify the respective costs and benefits at this stage. That said, we would expect to use the consultation period on the draft Bill to discuss with them the likely impact of the proposals on those bodies most likely to be affected, such as PTAs and local authorities. This should enable us to present a more detailed assessment of likely impacts in the RIA which would accompany any subsequent versions of the draft Bill. In the interim, the following sections list the likely benefits and costs in broad terms.

## Option 1: Do nothing

### *Benefits*

3.39 As it would involve no changes to the status quo, option 1 would have the benefit of stability for those bodies and persons working in the field of transport at a local and regional level. However, it would otherwise deliver no benefits over and above those available under the existing arrangements.

### *Costs*

3.40 Again, as it would involve no changes to existing arrangements, option 1 would not impose any direct additional costs.

3.41 However, this would not enable the existing challenges which have been highlighted earlier in this RIA, and which have been identified by a wide range of bodies and commentators, to be adequately addressed. These have created barriers to the establishment of the best possible transport network and services, especially in major urban areas. As such, each of the following can impose an indirect cost on those living, working and doing business in the areas in question:

- potentially an absence of the strong leadership needed to ensure efficient and effective transport services are in place and that the bodies providing this leadership are properly accountable to the people of the area;
- funding for improving transport systems not being put to best use;
- the transport network not making the most effective contribution to sustainable economic development; and
- lack of flexibility to allow the best governance structures for *each* area to be set up.

## **Option 2: introduce new legislation, following the existing model of largely standardised arrangements for different areas**

### *Benefits*

3.42 In imposing a standard model which would apply in all areas where a PTA was in place, option 2 would create greater certainty. Firstly, in terms of the likely cost impact of putting the new arrangements in place. And secondly, for those bodies who need to deal with local transport bodies in several parts of the country (eg public transport operators).

3.43 As mentioned in paragraph 3.27 above, it would also be possible to introduce under option 2 several of the additional proposals listed in paragraph 3.33. In that case, the comments in both the “Benefits” and “Costs” section under option 3 below would also apply here.

### Costs

3.44 The main drawback of adopting a standard approach is that the need to design arrangements which were broadly effective in different parts of the country would inevitably mean that these could not be designed with the specific needs of each area in mind. So, they could impose a more rigid bureaucratic structure, and thus potentially additional costs, on some areas where a lighter touch would be sufficient, but not provide the structure to deliver an efficient and effective transport network for other areas.

3.45 However, it is not possible to quantify these costs at this stage as that would depend upon the exact details of the standardised national regime (for instance revised membership and powers of PTAs and PTEs, and where responsibility would lie in future for both public transport services and roads).

### **Option 3: introduce new legislation, with greater flexibility to define arrangements for individual areas in secondary legislation**

#### *Benefits*

3.46 The main benefits which the proposals under this option should deliver include:

- flexibility to allow for governance arrangements to be put in place in different areas which directly reflect the particular needs of each area. The transport challenges which face, say, the Tyne & Wear area are not necessarily the same that face Greater Manchester or South Yorkshire. Given that, different governance structures may also be needed. The draft Bill would provide the flexibility to allow for this. In turn, this should lead to more effective management of transport in the major urban areas. This should help the relevant authorities to deliver a more integrated transport system that suits local needs. It will also help to ensure that authorities in these areas wishing to make use of other powers contained in the draft Bill (relating to buses and local road pricing schemes) are well equipped to secure maximum benefits from those measures. As a result, we would expect transport governance reform to deliver indirect benefits to those who travel within the relevant areas – though by their very nature, these benefits will be very difficult to quantify; and
- extending the well-being powers to PTAs would enable them to carry out measures which would benefit their area, economically, socially or environmentally which they would not previously have been able to do. These powers have already been used by local authorities for transport purposes, for example North Tyneside and Newcastle city councils used the powers to enter a joint Private Finance Initiative to replace and repair street lighting across both of their areas. As PTAs would have the choice of whether to make use of these powers or not, they would not impose any unavoidable extra burden on them.

## Costs

3.47 As explained earlier, the relative costs and benefits of changes to be made in different areas would depend upon exactly what changes individual areas were proposing in the governance schemes which they publish. It is not realistically possible to try and assess these at this stage. However, we would expect that the body publishing the scheme would already have carried out an analysis of the relative costs and benefits of their proposals in drawing up their schemes. Inevitably, they would be looking to deliver proposals in which the benefits outweighed any costs.

3.48 We would expect the new duty on a body to carry out a review of existing arrangements (where directed to do so by the Secretary of State) to impose an additional burden on them. However, we would not expect this to be a significant one, and in drawing up guidance on carrying out reviews and preparing a scheme we would be looking to ensure that the process was not unnecessarily onerous and that any bureaucracy was kept to a minimum.

3.49 It would be for local authorities in non-PTA areas to decide whether they wished to carry out a review and publish a scheme proposing the setting up of a new PTA/E. So, it would be up to those authorities to decide whether to incur any costs involved in carrying out such an exercise.

3.50 The proposals would replace the existing duty on the six PTAs to produce a Local Transport Plan (LTP) with one to produce an Integrated Transport Strategy and Implementation Plan. At this stage it is not possible to assess how far this would represent an increased or decreased burden on PTEs. We would expect to explore this with them during the consultation period and in working up the detail of what ITSs and Implementation Plans would be expected to cover. However, the draft Bill would reduce the burden on the 36 MDCs by removing the existing duty on them to prepare an LTP jointly with the PTA in their areas.

3.51 The current duty on PTAs refers to the need to develop policies for “integrated, efficient and economic transport facilities and services” but omits explicit reference to environmental aims. In practice no PTA in recent years has developed policies or carried out functions in isolation from broader consideration of sustainable development objectives. The proposed duty to have regard to climate change provides an appropriate statutory objective to ensure that transport policies are developed in this context, but is not itself expected to increase the costs of authorities or contractors.

## Small firms impact test

3.52 The governance provisions in the draft Bill would place new duties on several public sector bodies, including PTAs and local traffic authorities. However, they would not have any direct effect on private sector bodies, large or small. DfT is consulting representatives of small business, including smaller

public transport operators, as part of the consultation on the draft Bill, and will reassess the likely impact the proposals may have on small firms in the light of their responses to the consultation.

### **Competition assessment**

3.53 The bodies directly affected by the proposals are all public sector ones – including PTAs and PTEs, and local authorities. Therefore, these should have no direct impact on competition.

### **Enforcement, sanctions and monitoring**

3.54 The governance proposals do not contain any directly applicable measures relating to enforcement and sanctions. They do, however, provide for the Secretary of State to direct bodies to undertake a review and publish the results. Where they fail to comply with this, enforcement would be through the courts. The draft Bill would also allow for the Secretary of State to issue guidance which areas must have regard to in carrying out their review and in publishing any scheme which requests that the Secretary of State introduce secondary legislation to implement legislative changes. Where an area's scheme failed to comply with this guidance, the Secretary of State would expect to take this into account in deciding how far to implement the legislative proposals contained in the scheme.

3.55 The draft Bill also contains provisions which could be applied through an order of the Secretary of State and which would enable a PTA, or a local authority exercising functions formerly those of a PTA, to enforce directions given to a local highways authority or local traffic authority.

3.56 More details will be given on monitoring arrangements in the full RIA accompanying future versions of the Bill.

## 4. Local road pricing schemes

### Title of measure

4.1 This partial Regulatory Impact Assessment (RIA) assesses the impact of local road pricing measures proposed in the draft Local Transport Bill.

### Introduction

4.2 The proposed provisions would revise the existing legal framework for the introduction of road pricing schemes in England and Wales as set out in the Transport Act 2000 and the Greater London Authority Act 1999.

4.3 There are two important general points to be made about regulatory impact at this stage:

- (i) the road pricing proposals in the draft Bill deal mainly with enabling provisions. Regulatory impacts will depend crucially on how those powers are used. Where the draft Bill contains or amends powers to make regulations, those regulations would be subject to separate impact assessments. Where local authorities use powers to introduce local road pricing schemes we are providing detailed guidance on the impact assessments to be undertaken; and
- (ii) the Government has offered significant financial support to local authorities to introduce other measures, especially public transport improvements, alongside local pricing schemes. The impact of the overall package will be very important.

4.4 The road pricing part of the draft Bill would support the Government's aim to tackle congestion by:

- providing a clearer framework within which local authorities can introduce local road pricing schemes. This includes empowering local authorities and giving them greater accountability and control at a local level; and
- ensuring that any local pricing schemes are introduced in a coherent and consistent way so that they are understandable for motorists, especially those that interact with more than one scheme.

4.5 While the existing legislation provides powers for local authorities to introduce local pricing schemes in their areas, it does not provide the powers that would be needed for a national system of road pricing. The draft Bill would not change this aspect of the legislation. We have made clear that it will be important to consider the evidence from local schemes before deciding whether to introduce a national road pricing scheme. If, in the light of that evidence, a decision were taken to introduce such a scheme, further primary legislation would be needed and there would be a full debate.

4.6 Local schemes will help to inform any future decisions on national road pricing. Ten local authorities or areas are currently exploring the potential for road pricing with the support of “pump priming” funding from the Department for Transport, in advance of bids for resources from the Transport Innovation Fund (see paragraphs 4.12 and 4.13). We would expect to receive the first scheme proposals from local authorities later this year, with local schemes possibly going live in four to five years, providing suitable proposals are put forward by local authorities. Analysis suggests that a national road pricing scheme could not be in place before the middle of next decade at the earliest.

### **Purpose and intended effect**

4.7 In developing the proposals, there are two important points that need to be highlighted:

- the Bill will not be creating an entirely new legal framework for road pricing. Rather it will be modifying the existing legal framework as set out in the Transport Act 2000 and the Greater London Authority Act 1999; and
- the nature of this legislation is enabling. It will be for authorities to develop proposals for road pricing schemes to deal with their local congestion problems, if they consider that to be the right approach in their areas. The impacts that flow are therefore dependent on the proposed schemes that are subsequently taken forward. However, evidence from the Road Pricing Feasibility Study, the Eddington report and limited experience from existing schemes shows that the benefits of well-designed road pricing schemes can be substantial.

### **a) Current policy position**

4.8 The Government’s policy is to build additional road capacity where it is justified, taking full account of economic, environmental and social considerations. However, it believes that we cannot build our way out of congestion as it would be unaffordable and environmentally unacceptable.

4.9 Any attempt to move straight to national road pricing would be a complex and unprecedented project. In the first instance, therefore, the Government is working with interested local authorities to bring forward local schemes as local solutions to local problems. We expect any local authority interested in developing a scheme to do so as part of a package of measures, including significant investment in complementary transport measures.

4.10 The Secretary of State made a number of public statements over the course of 2005 and 2006 detailing this strategy, including:

- to use road pricing to tackle congestion in areas where it is already a problem today, or soon will be;

- to do so in a way that it allows us to pilot technology that could be used for a national road pricing scheme in the longer term; and
- to ensure that schemes are consistent and interoperable, and fit within any national framework to make them understandable and easy to use for motorists.

4.11 Sir Rod Eddington's report, *Transport's role in sustaining the UK's productivity and competitiveness: The case for action*, was published on 1 December 2006. The report highlighted road pricing as particularly effective in its potential to deliver economic benefits through reduced congestion and improved reliability. The pre-Budget Report in December 2006 re-iterated the Government's commitment to developing its transport strategy, including on road pricing.

4.12 The Government has announced that up to £200 million per year from 2008/09 to 2014/15 will be available from the Transport Innovation Fund (TIF) to support packages of measures to tackle congestion including road pricing. More may be made available if sufficient high-quality and higher-value schemes emerge. Local authorities will be able to bid for funding for innovative packages of measures including road pricing and complementary transport measures.

4.13 In advance of this, £18 million of 'pump-priming' funding has been made available to help local authorities to investigate the potential for demand management schemes. In total, ten local authorities or areas have received pump priming funds, and this is being used to understand the congestion problem in their area and explore potential solutions, including road pricing.

## **b) Policy objectives**

4.14 The key policy objective to be delivered through the road pricing part of the draft Bill is to facilitate local measures to tackle congestion, and through this to understand more about how road pricing could help tackle congestion more generally.

4.15 Depending on the detailed design of individual schemes and accompanying transport improvements, they can also help to improve local air quality and contribute to other environmental objectives.

4.16 The Transport Act 2000 already contains powers for local authorities to introduce pricing schemes. The 2000 Act was conceived against a background of interest from local authorities in developing local pricing schemes, but before serious consideration was being given to widespread road pricing. The legislation provides for the "appropriate national authority" (Secretary of State in England, or the Welsh Ministers in Wales) to approve scheme proposals, with regulation-making powers to cover areas such as charging, revenues, exemptions, enforcement, examination, and equipment standards.

4.17 The Government's focus now is to positively encourage schemes, for the benefits they will bring to local areas and for the lessons that can be learnt. It is important that road pricing schemes are part of locally developed packages to tackle congestion, that the case is made locally, and that schemes are 'owned' locally.

4.18 For these reasons there is a need to refine the current legislative framework in line with current policy on road pricing. The objectives for the legislation can be grouped under three key headings. These are:

- to better enable those local authorities interested in bringing forward local road pricing schemes to do so;
- to ensure consistency between schemes; and
- to facilitate the operation of schemes.

#### **Better enable those local authorities interested in bringing forward local road pricing schemes to do so**

4.19 The RIA for the Transport Act 2000 suggested that around eleven local authorities had expressed an interest in proposing a charging scheme to deal with a congestion problem. However, the number of schemes that have been implemented under this framework has been much lower. Only three schemes have been established under the existing framework: the London Congestion Charge (under the Greater London Act 1999), the charge at the Dartford-Thurrock river crossing and a scheme in Durham (both under the Transport Act 2000).

4.20 Therefore, the draft Bill proposes a number of measures that will better enable those local authorities interested in bringing forward local road pricing schemes to do so.

#### *Scheme approval process*

4.21 The Road Pricing Feasibility Study (2004) said that central Government could help by providing financial and political support for congestion charging schemes. The Transport Innovation Fund will provide substantial financial support.

4.22 Under current legislation it is more difficult for Government to encourage and support schemes because the Secretary of State has the function of approving schemes, and must exercise that function in a quasi-judicial fashion. This rules out taking a prior position in favour of individual schemes, either explicitly or implicitly.

4.23 By removing the approval role for a scheme by the Secretary of State, Government could offer greater support which will help provide clarity for local debate about scheme proposals, increase the likelihood of sound, locally-supported proposals being put forward, and reduce the uncertainty involved

in an approval process. Government will also be freer to offer practical advice. This approach is also consistent with Government's desire to give greater discretion to local authorities reflecting the position in the recent *Strong and Prosperous Communities* White Paper published by Communities and Local Government.

4.24 The approval role would be replaced by a system of checks and balances to ensure that powers are used appropriately. A crucial element of these checks and balances is the comprehensive guidance produced by the Department to help local authorities develop good quality schemes. The guidance covers areas such as scheme design, impact assessments and operations. The Department will work closely with authorities during the development process. As well as the guidance, regulations will be put in place where appropriate, as explained in chapter 5 of the consultation document.

#### *Role for Passenger Transport Authorities (PTAs) in pricing schemes*

4.25 A further set of measures would allow PTAs to be involved in the proposal and delivery of local road pricing schemes. The current approach under the Transport Act 2000 means that only traffic authorities may make (i.e. promote and run) schemes. PTAs are not traffic authorities and hence are not able to make charging schemes. Instead, the local traffic authorities in a former metropolitan area must group together and promote a scheme together.

4.26 The proposals in the draft Bill would allow PTAs to be party to a local road pricing scheme alongside individual local authorities. This would help to ensure co-ordination of schemes across local authority boundaries. It would also help provide a focus for political leadership. This is viewed as being important in taking forward a local road pricing scheme. According to a report by the Commission for Integrated Transport (CfIT)<sup>1</sup>, “a frequently stated success factor in road pricing schemes ... is the need for an influential champion”. The leader could be a Mayor, as in London, but the report also highlights that transportation departments can also provide leadership sufficient to get a road pricing scheme off the ground – for example, the Trondheim scheme in Norway.

#### **Ensure consistency between schemes**

4.27 The Transport Act 2000 contained provision for the appropriate national authority to make regulations on certain standards, for example on equipment, enforcement, what the revenues can be spent on and the maximum level of charge. If the approvals process is changed so that the Secretary of State no longer approves a scheme in England, then central government will need to have alternative levers to ensure that any schemes implemented by local authorities are consistent and interoperable. Although many of the necessary

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<sup>1</sup> *World Review of Road Pricing Phase 1: Lessons for the UK*, Commission for Integrated Transport.

regulation-making powers are already in place under the Transport Act 2000, some broadening of these existing powers is proposed in the draft Bill. This will be important to help government ensure that any schemes are user-friendly, as well as reducing costs for operators and users in comparison to a series of varying schemes and standards. Subject to complying with any regulations that might be made under these powers, local authorities will retain flexibility to design schemes that take account of local needs and priorities.

4.28 The Government is also exploring the different functions that need to be carried out if local road pricing schemes are to operate successfully, and considering whether these functions should be carried out at the local or national ('common') level. Common components would enable functions to be carried out more efficiently, at the level most suited to the task. Some of these functions could move to the 'common' level if there were sufficient numbers of schemes established and would enable economies of scale to be achieved. It should be stressed that functions carried out at a national level do not necessarily need to be carried out by Government.

### **Facilitate the operation of schemes**

4.29 There are a number of operational road pricing issues that have arisen since the Transport Act 2000.

4.30 The first issue concerns the transfer of information and funds. Schemes in the UK will need to be able to share data and funds between themselves to be interoperable. The Driver and Vehicle Licensing Agency (DVLA) will need to be able to receive funding from schemes in return for providing information from its database. Schemes may need to transfer information and funds between themselves and an existing concessionaire.

4.31 Following the European Directive 2004/52/EC on the interoperability of Electronic Toll Collection Systems we are working with the European Commission and Member States to define the requirements which will ensure that schemes are interoperable across the European Union. Whilst this is work in progress, the transfer of information and funds would be a key component of EU interoperability.

### **c) Background**

#### *The existing legislative framework*

4.32 The existing legal framework for road pricing<sup>2</sup> in local areas is in the Transport Act 2000, the Transport (Scotland) Act 2001 and the Greater London Authority Act 1999.

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<sup>2</sup> Existing legislation and the draft Bill refer to "charging schemes". However, the term "road pricing" is commonly used to describe such schemes in the public debate, and so this chapter adopts a similar approach.

4.33 The **Transport Act 2000** provides local traffic authorities in England and Wales with the power to implement road pricing schemes on local roads, subject to the approval of the appropriate national authority. The power to introduce road pricing schemes on trunk roads is limited to structures such as bridges and tunnels over 600 metres in length, where the Secretary of State is able to propose a scheme, and situations where a local authority requests pricing on a trunk road in connection with a local scheme.

4.34 The **Transport (Scotland) Act 2001** provides local traffic authorities with the power to make road pricing schemes for local roads in Scotland.

4.35 The **Greater London Authority Act 1999** allows Transport for London and the London Boroughs to introduce road pricing schemes within Greater London subject to the approval of, or under direction from, the Mayor. However, the Mayor does require the approval of the Secretary of State for the general plan for spending the net revenues of a charging scheme.

#### *Background to the policy of road pricing*

4.36 Paragraphs 4.8 to 4.18 set out the general policy background. This section considers the issues in more detail.

4.37 Estimates suggest that, without further intervention, congestion will increase by 25 per cent by 2015. (There is a distinction between traffic, i.e. the volume of vehicles on the road, and congestion which is delay arising from increased traffic.) There are many social and economic trends that are driving this increase in congestion, but it is considered to be primarily a product of growing prosperity. The number of cars has increased substantially in recent years: there were nearly 33 million registered vehicles on the road in 2005, an increase of 7 million since 1996.

4.38 There are also social forces involved in the increase in congestion. The Labour Force Survey (2002) indicated that around 70 per cent of people in Great Britain travel to work by car. Car trips are increasing as a proportion of all trips and there is a slow but steady rise in the rate of single occupancy, particularly for commuting and business purposes. We are increasingly living further from our place of work, partly because we are less likely to move if we change jobs. The average length of commuting trips increased by about 16 per cent during the 1990s, to an average length of 8.5 miles in 2002. In addition, over the same period, the average shopping trip length increased by 20 per cent from 3.5 to 4.2 miles.

4.39 In terms of congestion, what matters is less the increase in traffic itself than the fact that too many people want to use certain roads at certain times of day. This is especially true in urban areas where residential, employment and educational centres coincide.

4.40 Road pricing is being considered across the world as a potentially effective solution to the problem of congestion. In the UK the London

congestion charge is well established and has significantly reduced congestion. (For a note on the London and Durham schemes see the appendix). Elsewhere in Europe, the trial congestion scheme in Stockholm, which ran from 3 January to 31 July 2006, saw significant reductions in congestion, of between 20 and 25 per cent<sup>3</sup>. Similar demand management measures in the USA, Singapore and Australia have also proved successful.

4.41 Internationally, demand management is becoming an increasingly important tool for local authorities in their transport strategies to tackle their congestion problems. Economic growth and regeneration is increasing traffic levels in some areas to the point where congestion is in danger of constraining further growth. In the UK, a number of areas are developing proposals for potential local road pricing schemes alongside complementary investment in public transport to help them to achieve their economic, environmental and social objectives.

#### *Road Pricing Feasibility Study (RPFS)*

4.42 The RPFS was undertaken in 2003-04. The study group comprised a number of external stakeholders, with the Department for Transport providing support, especially in the form of analytical capability. The RPFS considered whether it would be feasible to change the way we pay for roads, so as to bring about a more efficient and less congested roads system. Forecasts using the National Transport Model suggest that a well-structured national road pricing scheme has the potential to cut congestion by nearly half with a reduction of 4 per cent in traffic, and achieve £10 billion worth of time savings a year (at 2010 traffic levels) in Great Britain. This figure could rise to as much as £12 billion a year if a value is added for journey time reliability.

4.43 The Study said that the technology for a national scheme on every road, with charges varied according to the congestion on the road, would not be ready until 2014 at the earliest. In the meantime, the study suggested that “pathfinder” schemes, with complementary public transport measures, could help to inform a public debate. These schemes would address existing or emerging congestion problems and help us to improve our knowledge of road pricing.

#### *Eddington Review*

4.44 Recent Departmental work published in the Eddington study updated the results of the RPFS, forecasting over a longer horizon and giving further detail about the sources of the benefits. The benefit of road pricing is forecast to increase over time reflecting the increase in traffic levels between 2015 and the new work’s estimates for 2025.

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<sup>3</sup> <http://www.stockholmsforsoket.se>

4.45 With the additional congestion foreseen by 2025 without intervention, the total time lost to all road users when monetised (including commuters and those travelling for non-work purposes) using relevant DfT appraisal values of time, is estimated to be around £24 billion.<sup>4</sup>

#### *Rationale for government intervention*

4.46 In summary therefore, the rationale for Government intervention, through changes to existing legislation, is to create the conditions for local authorities to develop packages of measures to tackle congestion, including road pricing, while ensuring an appropriate level of consistency between them. This will increase the likelihood of effective pricing schemes to tackle congestion where it is a problem now or soon will be, and offer lessons for future decisions on more widespread road pricing.

## **Consultation**

### **a) Within government**

4.47 Consultation is ongoing with Government Departments, and views have been received from the following government departments:

- Cabinet Office
- Communities and Local Government
- Environment, Food and Rural Affairs
- Health
- Trade and Industry
- Treasury

4.48 Departmental agencies notably the Highways Agency and the DVLA are involved in the Department's work on road pricing.

### **b) Public consultation**

4.49 The Road Pricing Local Liaison Group has been formed to maintain a formal channel of communication between the Department and the officers of those local transport authorities which the Department considers are at the forefront of developing the road pricing agenda. As well as English local authorities, Transport for London, Cardiff Council, the Welsh Assembly and the Scottish Executive are invited to the group.

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<sup>4</sup> <http://www.hm-treasury.gov.uk>

4.50 Consultation is ongoing with a wide range of interested groups, including members of the business and retail sectors, motoring organisations, environmental bodies, privacy groups, and many others, to gain their views and the benefit of their expertise.

4.51 Over the last year we have spoken to a number of different organisations representing the interests of business groups and the retail sector including the Confederation of British Industry, the British Chambers of Commerce, the Institute of Directors, the Federation of Small Businesses, and the John Lewis Partnership. We were also in contact with the RAC Foundation as they finalised their report *Motoring towards 2050 – Shopping and transport policy* which they developed in partnership with the British Retail Consortium, to understand what impact road pricing and other transport policies might have, or need to have, to preserve the economic vibrancy of local areas.

## Options

4.52 The objective of the policy is to tackle congestion. Many studies, most recently the Eddington Report, stress the significant potential of road pricing to address the economic costs that congestion imposes. However, the public are sceptical. Despite this, doing nothing is not an option. In spite of record sustained investment in transport, congestion is predicted to get significantly worse over the coming years, which will lead to costs to the economy and environment.

4.53 Therefore, in the first instance, the Government is working with interested local authorities to bring forward local schemes as local solutions to local problems.

4.54 The question for the Government, in considering how to support any local authority interested in bringing forward such a scheme, is whether this could be done within the existing legislation or whether it needs to be changed. Much of this debate has been rehearsed above but in summary:

### **Option to do nothing – leave the legislative framework as it is**

4.55 This would mean the legislative framework remains as set out in the Transport Act 2000 and the Greater London Act 1999. Under this option schemes could still come forward. However, to date only three schemes have been implemented under these Acts. The Government believes that it needs to be better placed to support local proposals than existing legislation allows, to maximise the scope to achieve congestion benefits. There would also be insufficient scope for government to ensure that different schemes are consistent and interoperable, which would mean higher compliance costs than necessary, particularly for road users who interact with multiple schemes.

### **Option to change the legislative framework**

4.56 The changes described above are designed to address these concerns and should provide an appropriate legal framework for local pricing schemes.

## Sectors and groups affected

4.57 The consultation on the draft Bill invites views on the likely impacts on different sectors and groups, which includes the full range of road users. Proposals for local schemes will require local assessment, and we encourage engagement with sectors and groups at this level, for example, those that have accessibility difficulties. For some groups there are legal requirements to assess impacts. These must of course be respected. The Department will continue to engage at a national level with key stakeholders.

4.58 It should be stressed that the impacts arising directly from the provisions in the draft Bill would be limited, given the nature of the changes being proposed. The key impacts will arise from local charging schemes which could be implemented under current legislation. Nevertheless this section considers those impacts. The impacts on groups and sectors will be dependant on the design of the individual local schemes that are brought forward. The guidance that the Department has produced will encourage local authorities to consider the impact that scheme design will have on specific groups, particularly those such as low-income households. Again, it will be important for local authorities to consider the impacts of the overall package developed – which we would expect to include improvements to public transport alongside any local road pricing scheme.

4.59 The following costs and benefits section further discusses those groups and sectors that are likely to be affected by local schemes, which will of course be dependent on the design of the scheme. In consulting on and developing schemes, local authorities will be expected to consider the potential impacts of different options on different sectors and groups.

## Costs and benefits

4.60 It is not possible at this stage to make quantified estimates of the costs and benefits of the potential proposals. That will depend on the detailed design of individual schemes. However, it is possible to identify the nature of the benefits, and where the costs may arise. We can draw on theoretical evidence from the Road Pricing Feasibility Study, to draw inferences about the likely balance between benefits and costs in any future schemes. We can also consider practical evidence from existing schemes. However, when drawing on experience, it must be remembered that each existing scheme has been developed to deal with local issues, considering factors and variables that are relevant to that particular area.

4.61 The cost to the citizen and private and voluntary sectors would be dependent on the prices set for the roads they use, and the response to those prices and any exemptions and discounts applied. For many there will be alternatives to consider such as car sharing, public transport or changing journey time. The cost would also depend on the number and size of

schemes. The intention, in changing the legislative framework, is that government would be better able to support those authorities that want to come forward. It is not possible to say how many local schemes will be brought forward under the legislation but there are ten local authorities exploring the potential for implementing a local scheme with the support of “pump priming” funds provided by DfT.

4.62 The following paragraphs consider benefits and costs in more detail.

#### **a) Benefits**

4.63 The quantified benefits from road pricing mainly arise from time savings through reduced congestion. Depending on local scheme design, schemes could deliver a variety of secondary benefits, which might include reductions in emissions that contribute to poor local air quality and climate change.

4.64 The RPFS suggested that charging in London and major conurbations alone could cut total traffic congestion across the country by a quarter in 2010 with time savings worth up to £6.4 billion a year.

##### *(i) Business*

4.65 We would expect businesses to benefit from journey time savings and improved reliability, which in many cases can lead to cost savings (see below under freight).

4.66 The Eddington report stated that the increase in time lost due to rising congestion between 2003 and 2025 for business alone (including freight) is estimated to be worth around £10 billion to £12 billion a year by 2025. This is a direct cost to the economy. A well-designed scheme would see the benefits of reduced congestion, plus the benefits arising from the local authority’s application of the revenues to improve local transport, offsetting the cost of the charge itself. It should be possible for businesses to translate time savings into cost savings in many cases. This should help offset the costs of the charge. The extent to which this is the case will depend on the nature of the business.

4.67 Local authorities will be expected to consult with small businesses that could potentially be affected by any pricing scheme.

4.68 **Freight and delivery companies** operating in the area of a local scheme should experience benefits from pricing schemes, particularly where journey times are significantly reduced allowing better vehicle utilisation, lower fuel consumption etc. Greater reliability for delivery and collection times should bring benefits to these companies, and to the businesses they serve. We would expect the greatest benefits to arise where deliveries and collections are time-critical from the customer’s perspective.

4.69 In a similar vein, **businesses and tradespeople providing services to**

**customers in their homes** should benefit from reduced travel time, and hence have a greater proportion of their working day available to meet their customers' needs. Increased journey time reliability should also help to reduce frustration for customers waiting for tradespeople to arrive.

4.70 Similar benefits should be available to public sector workers such as doctors on call and professional carers.

4.71 Depending on the design of complementary transport measures, **retailers** within the area of a local scheme could also benefit from increased footfall resulting from improved access to their areas by public transport, and from a more attractive local environment for shoppers if levels of road traffic are reduced.

*(ii) Safety and pedestrians*

4.72 In London, the provisions for pedestrians were improved as a result of the reduction in congestion. Therefore, there are potential safety benefits for those who chose to walk within a scheme area, given that there is a high probability that a scheme will be in close proximity to shopping and amenity areas. Pricing schemes may also encourage some people to walk or cycle for short journeys, in preference to using their cars, and may therefore deliver associated health benefits.

4.73 A reduction in road traffic accidents is possible and the resulting injuries and deaths where a local scheme is implemented. This could be due to a possible reduction in traffic volume, improved public transport, and increased provision for pedestrians, all of which will be dependent on the individual local scheme design.

*(iii) Public transport*

4.74 A major benefit of a road pricing scheme would come through increasing the reliability of private and public transport. The draft Bill would retain the requirement for revenues from local road pricing schemes to be spent on transport-related purposes. The associated benefits of reducing congestion and increasing the standard of public transport give particular benefit to those who rely on public transport to get around. This can include older people and those with disabilities, those with low incomes and those who do not own motor vehicles (see Chapter 2).

4.75 In London, around £122 million net revenue for the financial year 2005-06 was generated by the scheme (provisional figures). This revenue has been invested to improve the bus network and to fund other transport improvements. One of the results was that excess waiting time for bus users fell by 30 per cent in the first year and 18 per cent in the second year.

4.76 Those schemes that receive Transport Innovation Funding will be developing demand management proposals that include improvements to public transport and road pricing schemes to benefit the local area. Outside of London, people from low-income households and older people are disproportionately high users of public transport.

4.77 In London, after the first year of charging there was an increase of 37 per cent in the number of passengers entering the charging zone by bus during charging hours. Around half of this was assessed to have been as a result of the scheme, and the other half due to a background trend of growth.

*(iv) Social*

4.78 The aim of a road pricing scheme is to produce overall benefits to transport users and the community. But it would inevitably affect different road users in different ways, depending on their travel patterns and the extent to which they are able to modify their behaviour in response to pricing signals. It will be important to ensure that any local scheme design takes fully into account the likely effects on different social groups.

4.79 The RPFSS acknowledged that motorists are not a homogeneous community in terms of behaviour. Social and geographical factors are prime examples. People from lower-income households or those living in more disadvantaged communities are less likely to travel by car on their regular journeys, and also tend to travel shorter distances than those from higher-income households or less deprived areas. Therefore a package of measures that includes public transport improvements alongside a pricing scheme may well benefit low-income households, but this will naturally be dependent on the scheme design. It will be important for local authorities to give full consideration to the effects on all groups and sectors so that the maximum benefits are secured.

4.80 A carefully structured scheme could provide positive benefits for groups that suffer from social exclusion or limited accessibility by a number of means. For public transport users, these could include reducing the costs of finding and travelling to work, and of travelling to health and educational institutions. It would be expected that the better off would experience larger absolute commuting cost increases than would the lower-income groups, because of greater trip lengths and a higher propensity to use private cars.

4.81 Any local schemes developed in urban areas should also take into account the impact on residents of surrounding rural areas. Rural communities are less likely to be served by frequent public transport and as such may be more reliant on the car for means of travel. Guidance already issued to local authorities refers to the need for consultation of neighbouring local authorities, which will be important in considering rural needs.

4.82 Many disabled people are entitled to parking concessions through the blue badge scheme, reflecting the real difficulties that some disabled people have in using public transport. Exemptions and discounts for groups is a sensitive issue and local authorities will need to consider this in developing their schemes. As mentioned, comprehensive guidance is being produced by the Department, and will include exemption and discount issues. Disabled people could benefit from schemes if accessibility to public transport is improved as a result. Local schemes may also include investment to redesign streets, so as to reduce barriers for disabled people.

4.83 Minority groups are more likely to use public transport in urban areas, and will therefore experience the benefits of public transport improvements. The ethnic mixes of communities and their transport needs are sometimes not catered for appropriately by public transport. Cultural and language barriers would need to be considered in changes to public transport, as well as the road pricing scheme as a whole.

#### *(v) Environment*

4.84 Although the principal focus of this legislation is to tackle congestion, the RPFS showed that a secondary benefit of road pricing schemes could be to reduce emissions of carbon dioxide and local air pollutants. This could be by as much as 5 to 10 per cent. Improvements to local air quality in urban areas can particularly benefit lower-income households: evidence published by Defra<sup>5</sup> shows that, in England, the least affluent members of society tend to be exposed to the highest levels of air pollution.

4.85 The experience in London is that the impact of charging on traffic is estimated to have reduced emissions of NO<sub>x</sub> by about 8 per cent within the charging zone, and unchanged on the inner ring road. There has also been a 7 per cent reduction of PM<sub>10</sub> (Particulate Matter – annual average for 2003) within the charging zone. Improvements in vehicle technology have provided further reductions.

4.86 The potential for environmental benefits for individual schemes will depend on their detailed design, including whether authorities choose to vary charges according to vehicle emissions, but are difficult to predict. The Department would expect local authorities to fully assess the impact on health and the environment that local schemes would have.

#### **b) Costs**

4.87 As stated previously it is not possible to be certain about the costs and benefits of future road pricing schemes until real schemes are proposed. However, we are able to draw on the limited experience of schemes already in operation, to build up an idea of the scale and range of the impacts.

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<sup>5</sup> *Further analysis of NO<sub>2</sub> and PM<sub>10</sub> air pollution and social deprivation*, A report produced for Defra, the National Assembly for Wales and the Department of the Environment in Northern Ireland, December 2001. *Air Quality and Social Deprivation in the UK*, AEA Energy and Environment, July 2006, [www.airquality.co.uk](http://www.airquality.co.uk).

4.88 There are different types of costs arising from a road pricing scheme. These include the cost to the road user (who could be a citizen or a private sector business), the cost of setting up the road pricing scheme (for example, the technology) and the cost of running the scheme once in operation. The cost to citizens, businesses and others will be dependent on the scheme design and price set.

4.89 Schemes will be implemented against guidance set out by the Department. Those which come forward with the benefit of Transport Innovation Funding will be appraised against the TIF guidance, against the appropriate value for money and suitability checks.

*(i) Cost to the public sector*

4.90 The cost signal to the citizen is central to changing behaviour and travel patterns, therefore reducing congestion. However, consistency and interoperability between schemes is important in reducing any costs that road users will incur when travelling through more than one scheme.

4.91 The costs to the public sector would also concern the cost of setting up a scheme (technology, equipment) and the cost of running a scheme when in operation. These would also vary enormously depending on the type and number of schemes approved. There is clear potential for private sector involvement, and this will be fully investigated.

4.92 We would also be able to establish common components, for example setting standards for equipment or procuring functions that can be carried out at a national level for a number of schemes. This potentially achieves savings through economies of scale, although this would be dependent on the number of schemes that came forward.

*(ii) Cost to business*

4.93 Any local road pricing scheme brought forward will likely see additional headline costs for local businesses operating within or close by, for making deliveries and running other work related vehicles. These may be offset by the benefits of more efficient journey time and reliability as discussed. This is more likely to be the case for larger companies, for whom benefits may be more readily identifiable. The guidance encourages consultation with businesses, including small businesses, as schemes are developed.

4.94 The extent to which individual businesses will incur increased costs will depend on their existing travel patterns, and the degree of flexibility they have to adjust the times at which they travel. The impact on frequent business travellers will depend on the design of charging schemes (e.g. whether there is a single daily charge, or an event-based charge that could be triggered several times in a single day), and local authorities should consider this as part of their overall scheme design.

4.95 **Freight operators and delivery companies** are likely to incur charges, not least because in many circumstances there is limited flexibility as to the times at which deliveries can be accommodated. However, as noted under ‘benefits’, these businesses are also likely to place a high value on journey time savings and increased reliability.

4.96 **Businesses and tradespeople providing services in customers’ homes** are also likely to incur charges, though in some circumstances there might be scope to adjust working hours to avoid driving in the most congested periods. The scope for this might be greater where schemes involve different charge rates being applied at different times of the day, rather than a single flat rate throughout.

4.97 The main effects on **retailers** are likely to be indirect, through any impacts on their customers, employees and suppliers. This could be positive or negative, depending on the location of the individual business (e.g. inside or outside a charging zone); the extent to which any reduction in custom from motorists affected by the pricing scheme might be offset by new custom from others (e.g. public transport users attracted to better public transport services as part of the package of measures alongside the pricing scheme); and the extent to which deliveries by suppliers are, or can be, made outside of those times when the pricing scheme applies.

4.98 It would be important for local authorities to consider the impact on particular sectors and businesses as part of their overall assessment of the costs and benefits of implementing a pricing scheme in their areas. The Department is encouraging local authorities to work with businesses and discuss these issues during the development and consultation of a scheme.

4.99 An independent review of the economic and business impact from the £5 London Congestion Charge concluded that the impact on the central London economy was broadly neutral. This was despite the introduction of the charge coinciding with an economic slowdown and the London bombings in 2005<sup>6</sup>. Analysis of several different indicators of economic performance, including measures of business population and turnover, profitability and property market trends did not reveal evidence of a significant congestion charging impact. But the analysis also noted that the impact on business would take longer to determine than any impact on traffic and travel patterns.

4.100 The fourth annual review of the London Congestion Charge identified that “it is difficult to separate out a potential ‘congestion charge effect’ from any other influence on the economy” and that there “must exist notable shifts in relative trends around the period of the introduction of the charge in early 2003 in order to say that there is likely to have been an impact of the £5 charge on business activity”<sup>7</sup>.

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<sup>6</sup> *Transport for London Congestion Charging Monitoring Fourth Annual Report*, June 2006.

4.101 The economy in London's boundary case study<sup>8</sup> is "characterised by small businesses" and shows no noticeable impacts to small businesses – "VAT registrations show that the number of businesses operating in the area both inside and outside the charging zone was unaffected by the introduction of charging, and independent data show that there has been steady growth in sales since the introduction of charging". However, factors in any other conurbations that bring forward schemes, such as public transport provision, may be very different from those in London. Local authorities will need to consider this as part of their scheme development.

### **c) Summary**

4.102 This section has discussed the potential costs and benefits of schemes, based on feasibility studies and limited experience from existing schemes. Actual costs and benefits will become apparent once local schemes are developed and brought forward. It will be for local authorities, empowered to develop the schemes appropriate for their area, to assess the impacts and deliver the required benefits, based on the guidance produced by the Department.

### **Small firms impact test**

4.103 Initial conversations have been held with the Small Business Service and key business representative groups with particular small business interest. The consultation on the draft Bill provides the opportunity to gather a wider range of views from the small business community.

4.104 The Transport for London report on the London Congestion Zone concluded that there was no strong evidence that congestion charging has disproportionately affected any particular size of business in the charging zone and that sales revenue for smaller businesses has actually grown faster in the charging zone than elsewhere in London

### **Enforcement, sanctions and monitoring**

4.105 Whilst the main aim of the policy is to empower local authorities and encourage local schemes, it is important that consistency and interoperability between schemes is monitored, and the details of schemes are transparent to the general public and central government. A series of checks and balances will be put into place to ensure that local authorities make appropriate use of the powers given to them, and the schemes remain within the guidelines put in place.

4.106 General guidance has been developed on road pricing, for instance on systems and operations, for local authorities in advance of the submission of business cases for the Transport Innovation Fund, and for the development of

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<sup>7,8</sup> *Transport for London Congestion Charging Monitoring Fourth Annual Report*, June 2006.

schemes. This is important for areas where consistency is necessary but some local flexibility in approaches might be acceptable.

## APPENDIX

### The London Congestion Charge

The London congestion charge is an area scheme using Automatic Number Plate Recognition (ANPR) to detect vehicles within the charging zone. The scheme was extended to part of West London in February 2007.

Since it came into operation in 2003, the London Congestion Charge has continued to meet its principal traffic and transport objectives which are: to reduce congestion; to make radical improvements to bus services; to improve journey time reliability for car users; and to make the distribution of goods and services more efficient.

The London Congestion Charge Fourth Annual Report (2006)<sup>9</sup> stated that reductions in congestion inside the charging zone over the whole period since the introduction of the scheme now average 26 per cent. There has also been an increase in the supply of buses of between 10 and 20 per cent and bus patronage has increased by a third since 2000-01.

### The Durham scheme

The Durham scheme is a cordon charge in the historic city centre designed to maintain the historic environment and improve the city for pedestrians. Since it came into operation in 2002, it has produced a number of benefits to the charging area, including:

- reduction of 85 per cent in vehicular traffic – from over 2,000 to approximately 200 vehicles a day;
- reduced vehicle emissions;
- a 10 per cent increase in pedestrian activity – each day between 13,000 and 19,000 pedestrians use the same stretch of road, which is wide enough for just one vehicle at a time;
- a steady increase in use of the Cathedral Bus service; and
- a limited impact on businesses: the vast majority (83%) have not altered their servicing arrangements following introduction of the charge.

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<sup>9</sup> *Transport for London Congestion Charging Monitoring Fourth Annual Report*, June 2006.

## 5. Senior traffic commissioner

### Title of proposal

5.1 Creation of a new statutory post of senior traffic commissioner, with powers to issue directions and guidance to other traffic commissioners.

### Purpose and intended effect

5.2 This Regulatory Impact Assessment covers the proposal to strengthen the powers of the senior traffic commissioner (“STC”) by creating a statutory post and providing new powers to issue directions and guidance to the other traffic commissioners. We have identified a need to improve consistency among the regionally-based traffic commissioners in the delivery of the proposed measures in the draft Local Transport Bill to improve bus punctuality, the subject of a separate RIA. This proposal should help to meet this need and also lead to better regulation of the bus and road haulage industries generally.

#### a) Objectives

5.3 The key objective for the legislation is to promote greater consistency among the traffic commissioners, which should assist them in undertaking their proposed strengthened role in relation to bus punctuality. Poor punctuality of bus services works against the Government’s objective of promoting bus usage. Improving punctuality will make bus travel more attractive and support the Government’s wider objectives of tackling congestion and improving public transport.

5.4 Inconsistencies in approach between different traffic commissioners are a long-standing concern of the road haulage industry and the proposals will also help to address this concern.

#### b) Background

5.5 Traffic commissioners are responsible for the regulation of the road haulage and passenger transport industries. Their prime function is the licensing of operators of heavy goods vehicles and public service vehicles. The licensing system is regionally based, with one traffic commissioner appointed to each of eight traffic areas. Each commissioner is responsible for licensing operators based in his or her traffic area. The commissioners are appointed by the Secretary of State for Transport but are office holders independent of Government. When conducting public inquiries they act as single-person tribunals under the supervision of the Council on Tribunals. They are supported by administrative staff in the Vehicle and Operator Services Agency (VOSA). Powers are also available to appoint deputy traffic commissioners.

5.6 The Government recognises that the traffic commissioners have been effective at meeting Departmental objectives, primarily road safety, and are regarded favourably by both the industries they regulate and the wider public. Their independence from Government and external influences has created confidence that licensing decisions are fair and impartial. However, we are aware of concerns about inconsistencies between the approaches taken by different commissioners. These concerns relate to both decisions and working procedures. When the regional system was set up 75 years ago, most operators were small and based in one area of the country. Today, the industries are more dominated by large logistics companies and bus operators who expect a national system with consistent standards and procedures.

### **c) Rationale for government intervention**

5.7 A number of administrative changes have been made or are in hand which are designed to streamline the operation of the system and promote consistency. However, the individual commissioners are keen to safeguard their independence and inconsistencies remain. Although it may be possible for aggrieved operators to get an inconsistent decision overturned on appeal this is a time consuming and costly process. Refusal by individual commissioners to adopt common working practices is jeopardising the delivery of VOSA reforms to licensing administration procedures. We have therefore concluded that changes to the system should be made so that the commissioners function more as a collective national body. Addressing these concerns will become more important if the commissioners are to be given a stronger role in relation to bus punctuality performance.

## **Consultation**

### *Within government*

5.8 Consultation within Government has been ongoing involving VOSA, the current STC and the Department for Constitutional Affairs.

### *Public consultation*

5.9 There has been no public consultation so far, but the issues highlighted above have been frequently raised by the haulage and bus sectors. We therefore expect these industries to support the proposals.

5.10 The draft Bill provides the opportunity for full public consultation with interested parties.

## Options

### Option 1: Do nothing – leave the legislative framework as it is

5.11 At present, one of the traffic commissioners is appointed by the Secretary of State as STC. This is an administrative, rather than statutory, appointment and the role of the STC is to act as a co-ordinator for the commissioners in their dealings with Government and other stakeholders. This role extends to promoting good practice and consistency among the commissioners but, as the appointment is only administrative, it carries no formal powers. The STC's ability to deliver change is therefore limited. Progress has to be achieved by negotiation and persuasion, and individual commissioners can and have blocked reforms supported by the majority.

5.12 The current legislation provides a power for the Secretary of State for Transport to issue general directions to traffic commissioners. This has only been used once when the commissioners were first established (in 1931). Directions can only be general in nature. Use of this power could compromise the commissioners' independence from Government. Also, there is a risk that use of this power might cause conflict with Article 6 of the European Convention on Human Rights. We do not therefore propose to make use of this power.

### Option 2: Voluntary measures

5.13 The only available voluntary measure is the one that currently exists with an administrative STC appointment and reliance on the STC's powers of persuasion over the other traffic commissioners. As explained above this has not been effective in delivering desired changes.

### Option 3: Change the legislative framework

5.14 We propose to create a new statutory appointment for the STC. The appointment would be for a fixed period (it is currently four years) with the possibility of, but not a right to, renewal. Proposals in the draft Bill would provide powers for the STC to issue *general directions* to the other commissioners which they would be obliged to follow. This would preserve the commissioners' collective independence from Government but would enable the STC to impose common working procedures. The STC would be required to consult the other commissioners and other stakeholders and interested parties, before making directions. In practice, the existence of the power should make it easier for the STC to progress change by negotiation.

5.15 Because of the traffic commissioners' quasi-judicial status, it would be inappropriate for the STC to issue directions on matters such as the interpretation of the law or sanctions to be applied for non-compliance. At present, traffic commissioners produce what are known as "practice directions" which give guidance on such matters. Because of the need to secure agreement of all commissioners, producing these directions can take a

long time or the directions tend to be limited or vague. We therefore also propose to give the STC power to issue guidance to the other commissioners who would be required to have regard to it in the exercise of their functions. This guidance would be published and a failure to have regard to it would be a ground for appeal to the Transport Tribunal.

5.16 As we do not propose to make use of the existing power for the Secretary of State to issue general directions to the traffic commissioners, we propose to repeal it. However, circumstances may arise where it is considered appropriate for the STC to be given a central steer. The draft Bill would therefore provide a power for the Secretary of State to issue guidance to the STC on the exercise of his or her functions, and would require him or her to have regard to it.

## Costs and benefits

### a) Sectors and groups affected

5.17 Sectors and groups most likely to be affected by the proposals include:

- road haulage industry;
- bus industry;
- bus passengers; and
- traffic commissioners and the Vehicle and Operator Services Agency (VOSA).

### b) Benefits

5.18 The road haulage and bus industries would benefit from a more consistent national regulatory system. Inconsistencies in decision making lead to uncertainty and procedural differences can impose administrative burdens. The potential benefits have not yet been quantified. We will seek industry's views during the consultation process.

5.19 The separate proposals for improving bus performance would benefit bus passengers and measures to promote greater consistency would help to ensure the effective delivery of these proposals.

5.20 The proposals would assist VOSA in the delivery of reforms to the administration of the operator licensing system and lead to reduced administration costs. These have yet to be quantified. They should make it easier and less time consuming for the STC to discharge his or her functions.

### c) Costs

5.21 There should be no significant net cost implications to either the road haulage or bus industries from this particular proposal. We will seek the industries' views on this as part of the consultation although the effects may be very difficult to quantify in advance.

5.22 We do not envisage any significant additional costs for either the STC or the other commissioners from drawing up and implementing directions or guidance. The new powers are intended to speed up the negotiation process for implementing changes and should produce an overall saving. We do not envisage a need for any additional resources to support either the STC or other commissioners as a result of these particular proposals.

### **Small firms impact test**

5.23 We would not expect any adverse impacts on smaller firms and the public consultation on the draft Bill itself will provide the opportunity to confirm this expectation.

### **Competition assessment**

5.24 More consistent application of standards should ensure fairer competition between operators based in different parts of the country.

### **Enforcement, sanctions and monitoring**

5.25 The proposals only place powers and duties on traffic commissioners and the Secretary of State. The question of enforcement against industry or the public does not arise.

5.26 We are assuming that the traffic commissioners, as quasi-judicial officers, will comply with directions and guidance that may be issued by the STC.

5.27 We will monitor the effects of the new powers by obtaining feedback from industry, the traffic commissioners and VOSA.

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