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## The Case For Publicly Owned Buses In Scotland

Prepared for
**Scottish Trades Union Congress**

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# EXECUTIVE SUMMARY

Private bus operators across Scotland are not commercially viable without substantial public subsidy. **In fact, the level of that public subsidy paid to operators has increased substantially since the pandemic.** Despite this, operators are free to decide which bus services to run; the routes to serve; the frequency of service provided and the fares to charge. Many have also been able to maintain healthy profit levels for their shareholders, even in the current challenging times.

In 2023-24, Government provided 58% (£439 million) of all operators' revenue in subsidy. 46.5% (£352 million) of operators' total revenue came from reimbursement for concessionary passengers, such as free travel for young people. 11.5% of revenue (£87 million) came to operators through the Network Support Grant (which subsidises fuel costs) or from local transport authorities directly contracting socially necessary bus services. Passenger fares only contributed 42% of operators' revenue.

By comparison, in the year before the pandemic (2018-19), central and local government support amounted to less than half (46% or £370 million at 2023-23 prices) of operator's revenue and non-concessionary passenger fares made up just over half (54% or £442 million at 2022-23 prices).

In real terms (adjusting for the effects of inflation), funding from central and local government in 2023-24 was 19% higher than it was five years previously and overall passenger revenue was 28% less than it was 5 years previously.

**This is despite:**

- removal of enhanced levels of subsidy given to operators to maintain a basic network during the pandemic
- a return to more long-term levels of Network Support Grant
- a reduction in the level of local authority contracted services and
- a much lower level of older persons ridership that require compensation due to reduced levels of bus use amongst older people since the pandemic.

The introduction of free travel for under 22-year-olds across Scotland has proved to be successful for operators as well as passengers and has resulted in a substantial increase in public funding for the bus sector. Industry stakeholders report that this is a significant new revenue stream and is greatly aiding operators' profits. The level of compensation for this scheme is more beneficial than that provided for similar free travel schemes for older and disabled persons and without adjustment this, over time, will lead to increased profits for operators.

However, despite substantial levels of public subsidy supporting bus operators, there has not been an improvement in the availability or use of buses even back to pre-pandemic levels. In fact, there has been a significant reduction in bus networks served by privately owned bus operators as well as a reduction in bus frequencies operating along those routes that remain.

**Whilst there was stability in the bus kilometres operated over the last couple of years, the Scottish bus network has seen a 16% reduction in the kilometres travelled by buses serving passenger compared to 2018/2019.** This means that total operating costs for operators were £712 million for the 272 million kilometres operated. Admittedly, there has been significant changes in travel patterns post pandemic, with increased levels of working from home and people in workplaces for fewer days a week. However, the reduction in vehicle kilometres can be seen as a cost saving exercise, particularly by the major commercial operators.

This reduction in service to the travelling public has, however, not been at the expense of profits for private bus companies. **Operators made a gross profit of £45 million or 6% gross profit margin in 2023-24**. This is despite a slow return to pre-pandemic passenger levels and significantly increased operating costs. **The private bus industry, over the last 20 years, has produced an average gross profit margin of just over 10%.** This report highlights that there are significant profits leaking from major private operators that could be reinvested in the industry. For example, **£25m was taken out by First Glasgow (No 1) Ltd in the form of a dividend to its parent company and their shareholders in 2022-23.** The major privately owned bus operators in Scotland generated profits of over £27 million in 2022.

Whilst there have been substantial changes over this period, not least due to the increasing amount of working from home post pandemic and the continuing reduction of older people not using the bus, overall passenger numbers have returned to more than 90% of pre-pandemic levels. This means that there has been a disproportionate fall in bus km compared to the reduction in passenger numbers. **This loss of bus kilometres to maintain gross profit levels appears, therefore, to be at the expense of communities and users dependent on buses to able to access employment, education, health and leisure activities**

All major operators are at least investing in decarbonising their fleets. However, the rate at which electric and alternative vehicles are being introduced and the level of investment being committed from major commercial operators appears insufficient to meet climate targets. The Scottish Government have spent at least £130 million in recent years incentivising private operators to improve the environmental impact of their fleet, without which level of activity towards decarbonisation would be even lower.

The Scottish bus industry responding to climate change could create jobs. **2,900 jobs could be created in bus manufacturing across Scotland from a transition to an electric bus fleet, but the existing slow rate of transition puts the creation of these jobs at risk.** There is a need to support innovation, technology and partnership development across bus manufacturing and electrification for Scotland to benefit from the jobs dividend of a green bus industry.

The only surviving publicly owned bus operator in Scotland is Lothian Buses. In contrast to the overall picture, over the last 5 years, Lothian Buses has reinvested the surpluses they have made into improved vehicles, enhanced pay and working conditions and greater in-house managerial and technical capacity.

Lothian Buses has been able to return a dividend of £36 million to its local authority shareholders over the last 10 years. In addition, £4.1 million was reinvested in 2023 to cross-subsidise less profitable routes and services.

Lothian Buses has a considerably faster rate of fleet improvement, beating all other operators to having a fully ultra-low emission fleet by 2022 and making significant progress towards having a full electric fleet by 2035.

**It is possible to create more Lothian Buses across Scotland.** Through the passing of Transport Act in 2019, there is significant opportunity for publicly owned bus operators to be created that could retain substantial levels of profits to reinvest in the expansion and improvement of local bus services.

In many rural areas, local bus services are often completely dependent on contracts from the local authority for their existence. However, these areas are often not attractive to major operators and there are a dwindling number of small operators being awarded contracts, which can leave some areas unable to find operators to deliver such socially necessary bus services. **Several local transport authorities are taking active steps to develop publicly-owned operators as in-house parts of the council.** Legislation allows contracts to be directly awarded to these in-house operations.

**Bus services in many towns and cities, however, are operated by privately owned companies that operate a local monopoly.** Establishing publicly-owned operators in such a context would place public money at risk against major operators who may have considerable financial resources to overcome such direct competition. There is a need for bus market reform through franchising.

However, the implementation of franchising schemes without the development of publicly-owned bus companies to deliver the public control and ownership that has so long been necessary in the Scottish and

UK bus market risks locking in some of the worst elements of the current system and creating new opportunities for private gain. **Greater public control through franchising and the widespread re-establishment of public-ownership of bus operations must go hand in hand to maximise the benefits of the opportunity for bus market reform in Scotland.**

Several local and regional transport authorities are currently considering establishing franchising schemes to reform the local bus market. It is well accepted that the establishment of franchising schemes should involve the public ownership of vehicles and depots. The cost of establishing a publicly-owned bus operator is likely to be additional to that cost. It is in the context of these planned reforms that publicly-owned operators could then be created to either compete for contracts to operate services in a local area under a franchise or, more attractively, be awarded contracts directly under a franchising scheme.

Local transport authorities and Regional Transport Partnerships, have the following options to support publicly owned buses:

**OPTION 1:** Establish a pilot of a single small publicly owned arms-length bus operator that could be awarded contracts directly covering, perhaps a rural area or a small town within a wider Franchise Scheme up to the de minimis threshold of £1.75 million annually allowable for a small or medium operator.

**OPTION 2:** Establish a pilot setting up multiple small publicly owned arms-length bus operators across a Franchise Scheme area, such as Strathclyde and direct awarding contracts to each one of them up to the de minimis thresholds set out for small and medium sized operators for each operator. One possible approach is that each local authority within a regional partnership could establish such an operation.

**OPTION 3:** Establish an in-house bus operator and direct award franchising contracts as long as you can demonstrate a degree of freedom and operational risk to the way that the in-house operation performs as required by the legislation.

**OPTION 4:** Establish an arms-length publicly-owned bus company that seeks to competitively win contracts. Work for Transport for West Midlands[1] highlight that establishment of such a 'shadow' company would provide the greatest insight into the actual costs and revenues associated with service operation. It is argued that this would help to keep profit margins lower as the information could be used to challenge greater margins as part of tender negotiations. It also offers the chance that if the profit margins of privately-owned bidders were too high then their bid would not be competitive against the publicly-owned bus company. It also provides the option that the publicly-owned operator could be used as an 'operator of last resort' to provide service in cases where the privately-owned operator withdraws from a contract for commercial or other reason. This would enable passenger service quality and connectivity to be maintained regardless of commercial success.

It is estimated that the cost of operating a publicly owned bus service range from £17.5 million per year for a city the size of Dundee to £44 million per year for the whole of Strathclyde.

Reinvesting the significant level of profit leaking from privately owned bus operation through public ownership of bus operators would make a noticeable contribution to extra funding needed for expanding the network.

This study highlights that whilst exploring the use road pricing may provide a sustainable funding stream and disincentivise continued high-levels of car use as proposed elsewhere, it may have significant equity issues, especially for those low-income workers who have few options but to travel by car.

Specific local taxes, such as tourism taxes, could also make a useful contribution.

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The opinions expressed in the report are those of the author and do not necessarily represent the views of STUC affiliated unions.

# INTRODUCTION

**The deregulation of bus services across the UK, outside London, introduced by the Thatcher government in 1986, is an experiment in privatisation that has failed, even in its own terms**. It failed to increase passenger numbers, which have continued their decline from the 1970s, except in London where the bus network remained under public control through a franchise model. It failed to reduce the costs of operation. While deregulated bus services initially reduced costs, partly through reducing workers' wages and conditions, operator costs eventually rose[2]. It failed to reduce passenger fares as it promised[3]. It even failed to increase competition as operators in many areas created localised, private monopolies[4]. There also remains a small number of towns and cities where local bus services are provided by publicly-owned bus companies, of which Edinburgh is one.

Margaret Thatcher's experiment has not been repeated anywhere across Europe. Most of Europe has instead followed the path of promoting competition for the market, through competitive tendering processes (like London's franchise system) to provide local bus services for the whole or parts of a local bus network. Many places have ensured that incumbent publicly-owned operators have been retained through such tendering processes and by direct award. Some, such as France, have also seen a re-establishment of municipal bus operators.

The Transport (Scotland) Act 2019 sought, amongst other things to enable local transport authorities to improve local buses through introducing concepts such as Bus Service Improvement Partnerships and Local Services Franchises, like the powers in England's Bus Service Act 2017, as well as clarifying the law regarding the provision of bus services by local transport authorities.

**The Act provides more robust legal provision for local transport authorities, to bring back local bus services under public control by establishing local service franchises that would allow local transport authorities to determine the routes, frequencies, fares and operating standards for their local bus network.** In effect allowing competition between privately-owned operators 'within the market' to be replaced with competition 'for the market'.

The Act also enabled local transport authorities to provide local bus services under a bus operator's licence if they are satisfied that the provision of such a service will contribute to the implementation of the local authority's policies. This repealed restrictions in the 1985 Transport Act, that initially prevented Scottish local transport authorities from establishing publicly-owned bus companies. Whilst the Government's initial intention was to restrict this opportunity for publicly owned bus operations to non-commercial routes, campaigners and trade unions were successful in ensuring that the 2019 Act removed any restriction on the type of operations municipal operators could undertake.

As a result, several Scottish local transport authorities are examining options around provisions in the Transport (Scotland) Act 2019. These include Tier 1 Regional Transport Partnerships (RTP) who are responsible for bringing together local authorities in the region to consider strategic planning on such issues, such as Southeast Scotland (SESTRAN) and Tier 3 RTPs which have a responsibility for delivering some transport services already, such as Strathclyde RTP. Public ownership is one of the options being considered for reform to bus operations in their regions.

Furthermore, some rural local transport authorities are increasing publicly-owned bus operations. Stirling and Highland Councils have already begun operating their own services for the public, for example. In such areas, the local authority is financially supporting small networks of socially-necessary local bus services available for the public as well as much bigger networks of Home to School Transport. In addition, such authorities have also retained significant fleets of passenger transport vehicles they use to provide mobility in support of social and education services especially for older and disabled people and which can be easily adapted to rural bus services that have fewer passengers and narrower roads.

# METHODOLOGY AND OBJECTIVES

This report is based on secondary data from Transport Scotland, as well as financial data from Companies House that provide a picture of the Scottish bus sector. This data does provide a detailed historic picture of the bus sector. However, as the sector is still recovering from the effects of the COVID Pandemic, this secondary data does lag behind the changing situation. The study also draws on interviews and discussion with a small number of industry stakeholders to provide information on the current situation and a range of perspectives.

**The report seeks to explore the degree to which:**

- local bus services are funded by Scottish Government and local authority funding
- profit is generated by private sector operators and leaks out of the system to shareholders
- private sector operators are delivering a quality travelling and working environment for workers and passengers
- the bus industry is responding to the climate emergency and the barriers that need to be overcome

**The report also explores:**

- the differences that bus services under public ownership could bring
- the implementation pathways and funding models that need to be put in place to allow public ownership to be the overwhelming model for local bus services across Scotland.

# PUBLIC SUBSIDY TO BUS OPERATORS IN SCOTLAND

**Bus operators in Scotland made £757 million in total revenue in 2023-24, an increase of 2% on the previous year.** Over the last 5 years, operators have seen total revenue increase by 12%, but adjusting for the effects of inflation, which has risen faster than this increase, operators' total revenue in real terms was 7% less than 2017-18.

However, the commercial viability of private bus operators is very dependent on public subsidy. Across Scotland, operators receive a range of public subsidies for different types of bus service operations.

**The three main forms of support are:**

- the Network Support Grant which is provided for every km of public bus service delivered by a registered bus operator as well as community and public bodies meeting certain criteria.
- reimbursement for providing free fares for older people, disabled people and young people under 22.
- Contracts from local transport authorities for services deemed not commercially viable but socially necessary.

In 2023-24, £439 million in Scottish Government support was provided to operators.

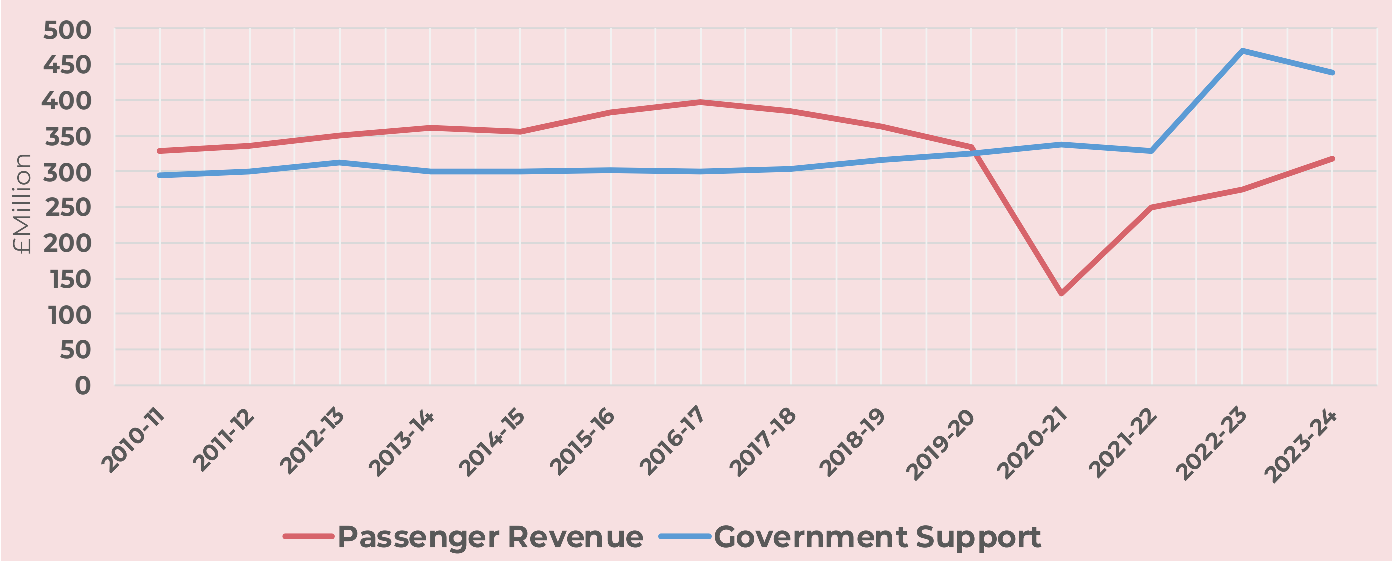
**This was made up of:**

- £352 million from reimbursement for concessionary passengers.
- £31 million from the central government's Network Support Grant.
- £56 million from local authority contracts for socially necessary services.

In total, in 2023-24, these three sources of public subsidy amounted to **58% of operators' revenue.** Only 42% of their revenue (£319 million) came from passengers paying full fares.

In addition to this support, there was also £55 million spent by Scottish local authorities on contracted school transport in 2023/24. This provides for transport services for eligible children from home to school. Whilst this is not part of the financial support for buses used by the general public and is not considered further in this report, the contracts awarded do offer a reliable source of revenue and can play a significant role in maintaining the financial viability of smaller private operators, especially in rural locations. **In rural areas, the opportunity to bring school transport services under public-ownership with possible cost savings as a result, along with already supported socially necessary services may provide an incentive for the establishment of a publicly owned operator.**

*Fig 1: Passenger Revenue and Government Support for Scottish Local Bus Services over time*



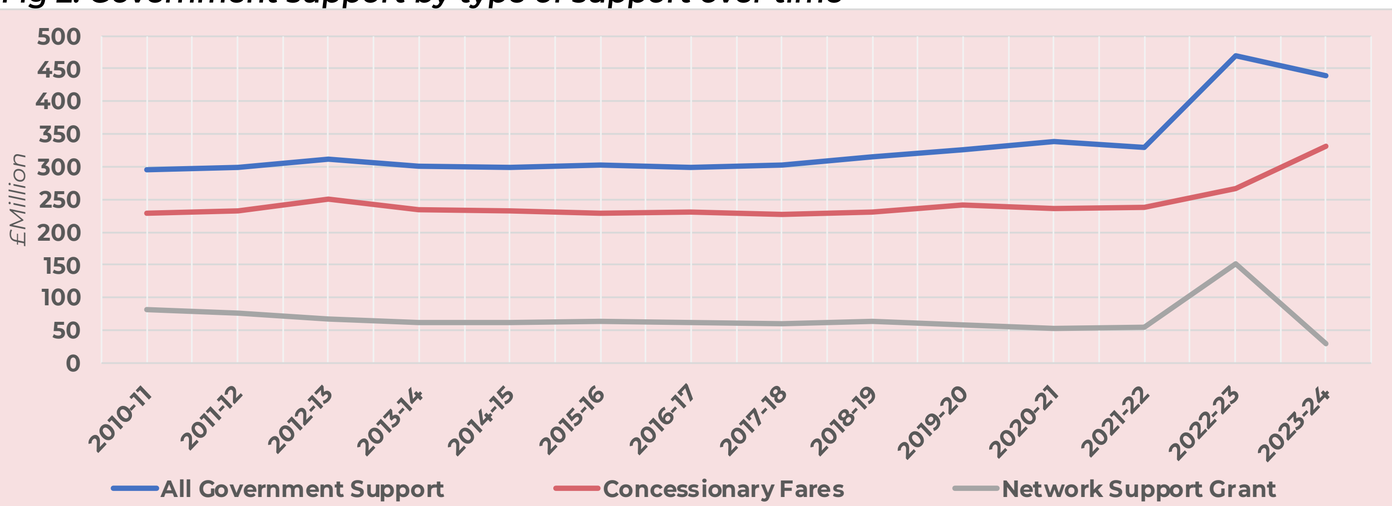

***Source: Scottish Transport Statistics 2024***

**As can be seen from Figure 1, the gap between commercial revenue and public funded support has substantially widened because of the pandemic.** However, even before the pandemic, private bus operators were very dependent on public support. In the year before the pandemic (2018-19), government support amounted to 46% of operators total revenue (£370 million at 2023-23 prices) and non-concessionary passenger fares made up 54% (£442 million at 2022-23 prices) of operators' revenue.

In real terms (adjusting for the effects of inflation), funding from local and national government is now 19% higher than five years ago and overall passenger revenue is 28% less than it was 5 years ago.

Passenger revenue over the last five years has not increased due to a 11% decrease in passenger numbers and a 7% real terms decrease in fares over the same period. Much of the latter may be due to a reluctance from operators to increase fares in light of increased government support during the pandemic, though this may vary significantly from location to location.

*Fig 2: Government support by type of support over time*




***Source: Scottish Transport Statistics 2024***

Since the COVID pandemic there have also been changes in the level of Scottish Government support to operators for concessionary fares. A key factor has been the extension of concessionary fares to young people. In January 2022, the Scottish Government introduced free travel for under 22-year-olds. This was added to the existing free travel schemes provided for older people and disabled people. Support is provided on the basis that participating in such national concessionary fare schemes leaves operators "no-better and no worse off".

Such concessionary fare schemes are designed on the basis that operators are reimbursed less, for each person who is eligible to travel for free, than if the passenger had paid full fare. However, as it is assumed that more people will travel now the journey is free for the user, the operators should still receive the same total amount of revenue. The assumptions about how many extra passengers will be carried and the proportion of the full fare that operators receive are different for different types of passengers and influence how lucrative they are for operators. There is also the potential of unintended incentives for operators to increase single fares to higher than necessary to capture more reimbursement from the concessionary fare schemes. This is particularly the case where such concessionary fare passengers may make up a significant proportion of total passengers.

**The current rates of reimbursement within the Scottish concessionary fares schemes are that operators will receive:**

- **55.9% of a full fare for the older persons and disabled people scheme**
- **43.6% of a full fare for journeys for young people under 16 passengers**
- **81.2% of a full fare for young people between 16 and 21[5].**

The under 22s free travel scheme has been more successful than expected. It has been suggested that the proportion of all bus passengers using concessionary fares has jumped sharply in Scotland to almost 50% with the introduction of the under 22s scheme[6].

**The qualitative evaluation undertaken for Transport Scotland of the first year of the under 22s scheme reported similar impacts, with one representative body reporting:**

> *"The policy has been successful in terms of take up and has filled a large drop in concessionary journeys by the elderly and disabled post-Covid. As such, it has been critical in terms of revenue for many bus routes."*

This success has led to a jump in the number of passengers, whose fares are supported by public funds. The considerably more generous compensation paid to operators for young people between 16 and 22 means a significant increase in the amount of public funds received by operators. As a result, operators received £352 million in concessionary fare support in 2023-24 which was a 32% increase on the previous year and a 74% increase on the amount received in 2018-19.

There has also been a significant amount of public funds provided to operators to support decarbonisation of the bus fleet. This includes nearly £130 million spent by the Scottish Government between 2021 and 2023 incentivising private operators to invest in reducing the emissions of existing buses and encourage them to move to electric bus fleets.

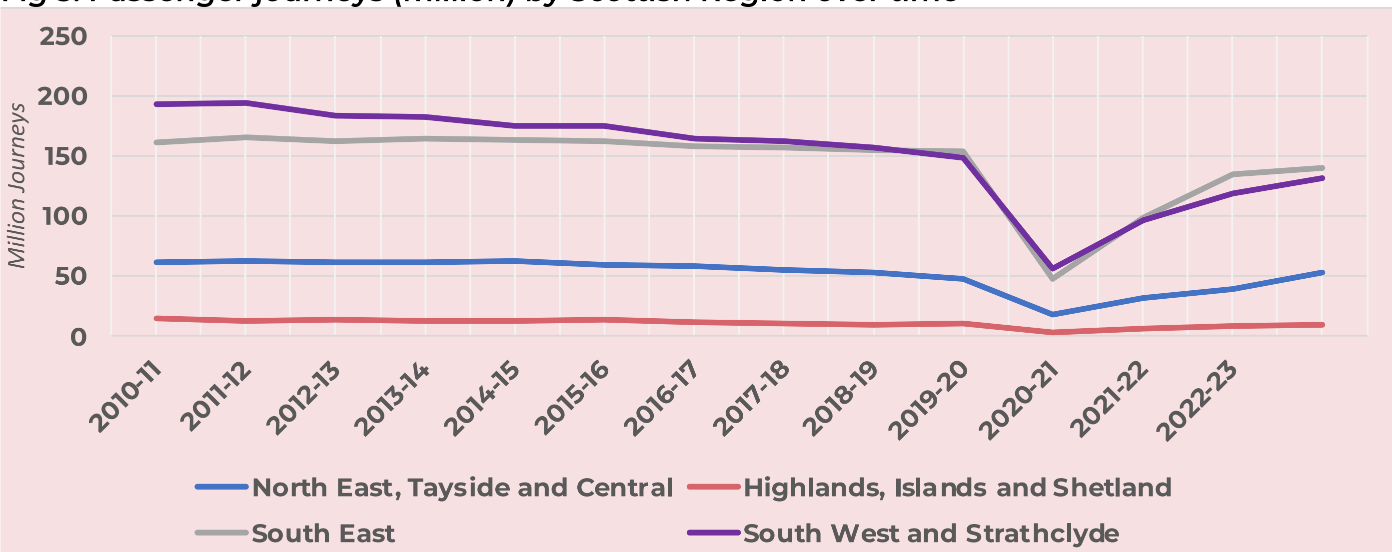
What is clear from this data is that, overall, bus operators across Scotland are very dependent on Scottish Government subsidy for their viability. This dependency may increase further with the planned introduction of a pilot £2 fare cap in one RTP and the extension of the concessionary scheme to include asylum seekers.

# LOCAL BUS SERVICE USE AND PROVISION

**What is also clear is that Scottish bus network is shrinking, not only in terms of the number of passengers using the bus but also in terms of the extent and frequency of the services provided.**

**334 million passenger journeys were made by bus in Scotland in 2023-24.** This is an increase of 13% on 2022-23 as bus use recovered from the pandemic, but a 11% fall from the levels seen 5 years earlier in a pre-pandemic period. A similar fall in numbers was also seen across the whole of Great Britain. Journeys under the National Concessionary Travel Scheme make up over this figure (53%)[7]. The effect of the COVID pandemic are still being felt to some degree across the sector. For example, in March 2024, it was seen that concessionary bus travel patronage amongst older and disabled people was down 23% on the equivalent week in 2020, pre-pandemic. By contrast, the initial evaluation of the Young Persons Free Bus Travel Scheme reported that just over 62 million journeys were made between Jan 2022 and April 2023 by young people which was just under half of the 146 million concessionary fare journeys that were made in the same period[8].

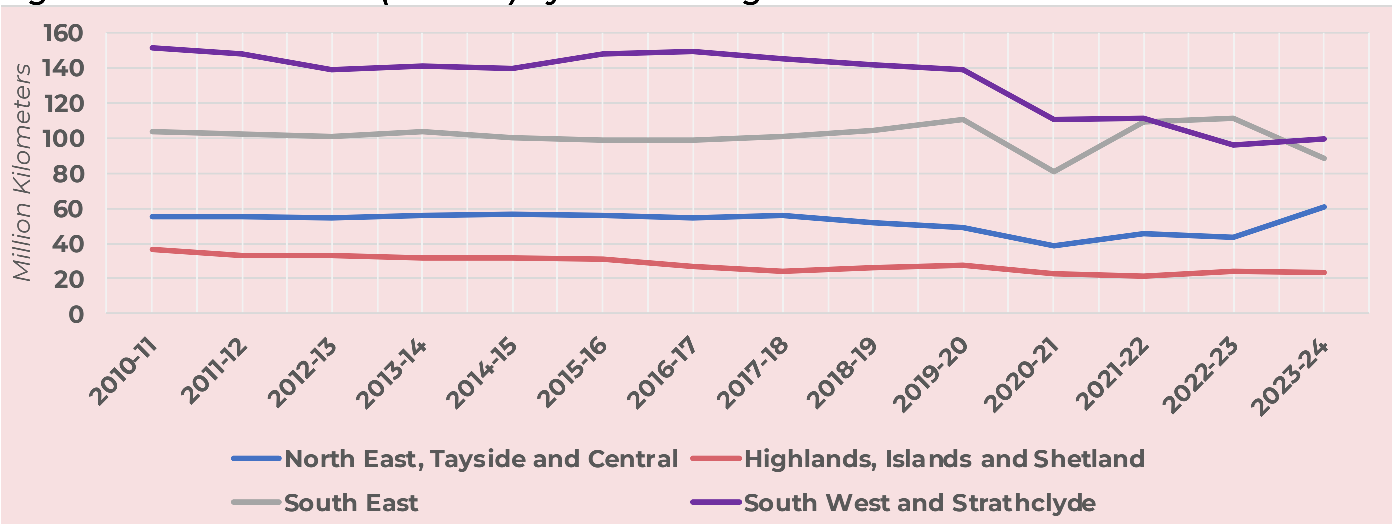
***Fig 3: Passenger journeys (million) by Scottish Region over time***




***Source: Scottish Transport Statistics 2024***

The size of the bus network that passengers can travel on is also shrinking. The extent of the bus network and the frequency of services on existing routes is represented by the distance covered by local bus services (expressed in terms of 'vehicle kilometres'). Whilst this has stabilised in the last year, total bus kilometres have fallen by 16% over the last five years[9].

*Fig 4: Vehicle kilometres (millions) by Scottish Region over time*




***Source: Scottish Transport Statistics 2024***

The most substantial decrease in bus vehicle kilometres is in South West Scotland and Strathclyde with a 30% in bus kilometres serving passengers in the last 5 years. In Strathclyde there are three main privately-owned operators operating over 80% of all bus mileage[10].

It must be acknowledged since the COVID pandemic, travel patterns have changed. Interviews with Lothian Buses suggest that they were implementing measures to respond to these changing behaviour patterns. Strathclyde Regional Bus Strategy Options Appraisal, for example, highlights that ScotRail have been reporting increased demand at weekends and introducing initiatives with additional trains services to support growth on Sundays. To date, however, the Options Appraisal reported having observed no similar initiatives associated with local bus services in the Strathclyde[11].

# COSTS AND PROFITS OF BUS OPERATION

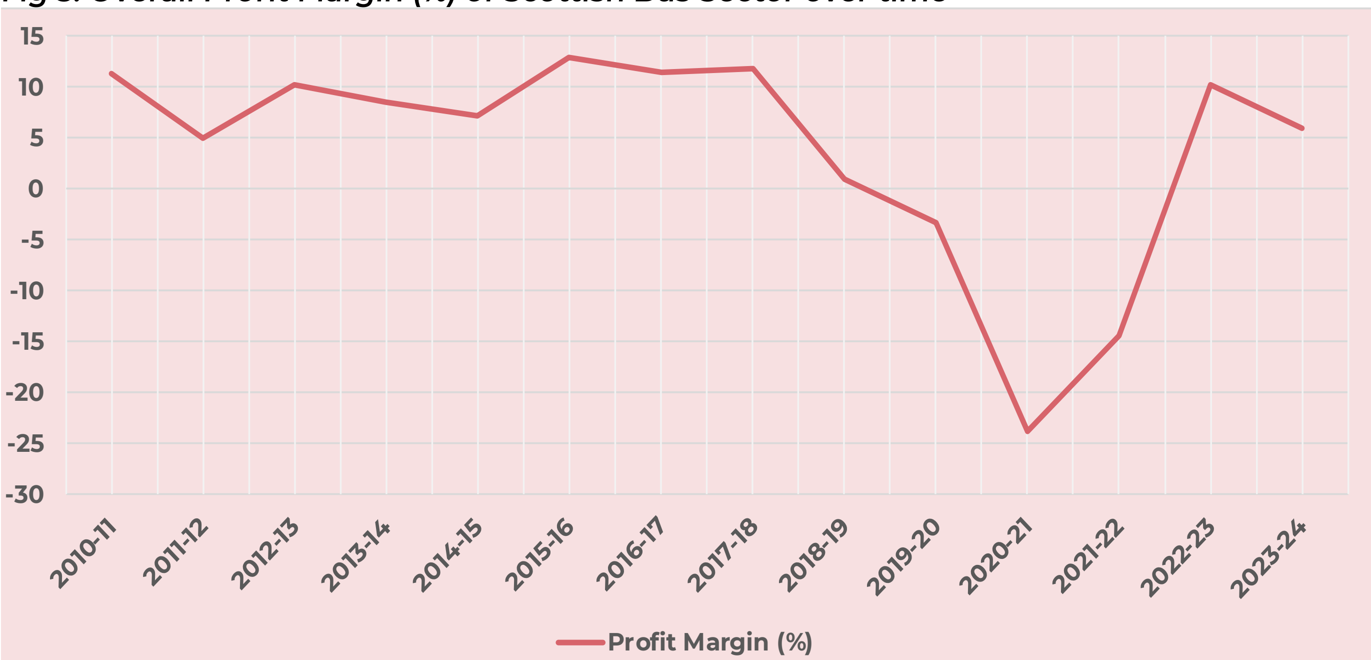
**In 2023-24, an overwhelmingly privately-owned bus sector in Scotland, made £757 million in total revenue.** £319 million of this came from passenger fares and £439 million came from central and local government. The costs of running bus services were estimated at £2.46 per vehicle km. This means that total operating costs were just over £712 million for the 275 million kilometres operated. Operators therefore made a gross profit of £45 million or 6% gross profit margin[12].

This is in the context of:

- Passenger levels (especially of older concessionary fare passengers) being below pre-pandemic levels.
- Fares decreasing in real terms by 12% over the last 5 years.
- Significantly increased operating costs due to inflation and chronic driver shortages.
- Non-concessionary passenger revenue having fallen by 39% in the last 5 years. Central and local government support increasing in real terms by 33% over the same period.

Historically, the Scottish Bus Sector has delivered healthy surpluses over operating costs for a number of years for the overwhelmingly privately owned sector. As **Figure 5** shows, a gross profit margin calculated as a percentage of the surplus generated from revenue once operating costs have been removed show, on average, the sector operating with a profit margin of 10.4%.

***Fig 5: Overall Profit Margin (%) of Scottish Bus Sector over time***




***Source: Authors calculation from Scottish Bus Statistics 2024***

However, to achieve such healthy surpluses as seen in 2023-24, which was a very challenging year, it is likely that surpluses are being maintained through cost cutting measures such as significant reductions in the bus kilometres (kms) being operated. There has been a 16% reduction of bus kms operated in the last 5 years. This, as can be seen in **Figure 6**, is not a uniform picture across Scotland. **Strathclyde has seen a 30% reduction in bus kms operated in the last 5 years.**

***Fig 6: Percentage change in vehicle kilometres over last 5 years by region***


***Source: Scottish Transport Statistics 2024***

The Scotland-wide reduction in vehicle kilometres manifests itself in different ways including a reduction in geographical coverage of bus services, the frequency of services and/or the hours across which bus services run (for example no Sunday services or early-morning/late evening services.

Whilst there have been substantial changes over this period, not least due to the COVID pandemic, the increasing amount of working from home post pandemic and the continuing reduction of older people not using the bus, **overall passenger numbers across the UK have returned to more than 90% of pre-pandemic levels**. This means that there has been a disproportionate fall in bus kilometres compared to the reduction in passenger numbers. This loss of bus kilometres to maintain gross profit levels appears, therefore, to be at the expense of communities and users dependent on buses to able to access employment, education, health and leisure activities.

## MAJOR BUS OPERATORS PROFITS

**In-depth investigation of filed accounts for all the major operators across Scotland, through Companies House, again, presents a picture of maintaining profit levels across several years despite the effect of the pandemic and passenger levels that have not returned to 'normal'.** However, the picture has significant variations.

First Glasgow (No 1) company, for example, made roughly 10% gross profit during Financial Year 2023-24. **It also returned an exceptional dividend to its parent company of £25million in 2022 on revenues of £99 million.**

By contrast, the publicly-owned Lothian Buses made a gross profit of £16.7 million (9.1% gross profit margin) on revenue of £183 million and returned £3.2 million in dividend to its local authority shareholders. Lothian Buses has been able to return a dividend of £36 million to its Local Authority shareholders to the local authority shareholders over the last 10 years.

*Table 1: Major Scottish Bus Operator profits for recent financial years*

| Company | Accounts to year end | Operating Revenue (£million) | Operating Profit EBIT (£million) | Gross Operating Profit Margin |
|---|---|---|---|---|
| First Aberdeen | 30/03/24 | 30 | 6.6 | 22% |
| First Glasgow No. 1 | 30/03/24 | 108.3 | 11.1[13] | 10.25% |
| First Glasgow No. 2 | 30/03/24 | 46.1 | 4.3 | 9.3% |
| Lothian Buses | 31/12/23 | 183.51 | 16.7 | 9.1% |
| McGill's | 01/01/23 | 57.56 | 1.04 | 1.8% |
| Highland Stagecoach | 29/04/23 | 21.43 | 1.83 | 8.54% |
| Bluebird McGill's | 27/04/24 | 33.7 | -1.3 | -3.8% |
| Fife Stagecoach | 29/04/23 | 74.92 | 5.17 | 6.9% |
| Western Stagecoach | 29/04/23 | 50.96 | 1.79[14] | 3.5% |
| Craig of Campbeltown | 30/04/24 | 31.67 | 3.47 | 11% |
| All companies' (minus losses) | | 638.15 | 50.7 | 7.94% |
| All private companies' (minus losses) | | 454.64 | 34 | 7.48% |

***Source: Companies House Filings of the latest Full Accounts***

***Note 1:*** *Amount we would be better off if Scottish operators ran profit margins like those found in the London franchising scheme of 3.8% profit margin (EBIT)*[15] *- **£16.72 Million***

***Note 2:*** *More recent accounts particularly for Stagecoach operations have been combined into group accounts and hence it is not possible to determine profitability of individual operations*

***Note 3:*** *This table draws on the reporting style of Tables 5.1 and 5.3 from Building a World-class Bus System for Britain https://transportforqualityoflife.com/wp-content/uploads/2023/11/160120-building-a-world-class-bus-system-for-britain.pdf*

As part of the work for Options Appraisal in Strathclyde, consultants found assessed profit margins for operators across in Strathclyde region. They estimated that prior to the COVID pandemic, bus operators in Strathclyde had an operating margin of 12%. The data in **Table 1,** highlights that at least 2 of the major operators in Strathclyde, First Glasgow and McGill's, are in a profitable situation post-pandemic, with First Glasgow at least operating close to pre-pandemic operating profit margins, despite evidence to suggest that passenger levels have not fully returned, and vehicle kms having reduced noticeably.

If one looks in detail at the performance of the largest operator in the Strathclyde market, First Glasgow No 1 Ltd (who together with First Glasgow No 2 Ltd provide 41% of the vehicle mileage across the region), then a more profitable picture emerges.

**Table 2** shows that despite the substantial changes in the operating environment around the pandemic, First Glasgow (No 1) has been able to maintain a very healthy profit margin for its parent company and shareholders, despite frequent public rhetoric to the contrary.

*Table 2: Turnover, operating profit and profit margin of First Glasgow No.1 Limited*

| Period up to | Turnover (£ million) | Operating Profit (£ million) | Profit Margin |
|---|---|---|---|
| March 2015 | 85.1 | 7.4 | 8.7% |
| March 2016 | 84.9 | 6.1 | 7% |
| March 2017 | 88.2 | 2 | 2.3% |
| March 2018 | 88 | 4.2 | 4.8% |
| March 2019 | 94.1 | 10.8 | 11.5% |
| March 2020 | 98 | 14.5 | 14.8% |
| March 2021 | 73 | 3.9 | 5.3% |
| March 2022 | 82.7 | 4.3 | 5.2% |
| March 2023 | 95.6 | 10[16] | 10.5% |
| March 2024 | 108.3 | 11.1 | 10.25 |
| AVERAGE PROFIT MARGIN | | | 8.04% |
| TOTAL TURNOVER | | | £897.9 million |
| Total profit that could be reinvested in last 10 years | | | £74.3 million |

*Source: Full account filings with Companies House*

**Most large bus operators operate in specific areas as an effective private monopoly.** This has been an acknowledged feature of the deregulated bus sector outside of London for some time. Analysis by the UK Competition & Markets Authority (CMA) in 2011[17] found that local bus markets are geographically separate from each other and dominated by a major bus operator, with competition between major operators in the same area a very uncommon occurrence.

What this means for individual bus users can be seen in detailed analysis undertaken for the Strathclyde Partnership for Transport Case for Change which calculated that **63% of bus stops across the region are only served by a single operator[18] presenting users with little or no choice,** despite the aim of bus deregulation being to provide customers with choice from competition. Furthermore, the CMA also estimated that there was, at the time, a cost of between £115million and £305million a year in excess profit to consumers across the UK from the behaviour of the major bus operators in not actually competing on a commercial basis.

# TREATMENT AND SATISFACTION OF WORKERS

There are substantial differences in the terms and conditions between those working in Scotland's one major publicly owned bus operator and those working for privately-owned operators, primarily relating to working time. Lothian Buses are relatively unique across the industry by offering a 7 hours 48 minutes maximum working day before overtime is paid and a 5-day working week rota. This is compared with working days of 10-12 hours being normal across many private operators. In discussion with representatives of member unions, it was clear that there are better industrial relations with Lothian Buses than with other private operators. This goes beyond the fact that there is an employee representative on the Lothian Buses board into a much more collaborative and transparent approach to industrial relations.

Union interviews also reported that frontline bus workers were experiencing an increased level of anti-social behaviour, from users of the under 22 schemes and in particular neighbourhoods. This reflects a wider trend of a substantial increase in the levels of abuse being suffered by bus drivers. **A recent survey by the trade union Unite, reported that 84% of bus drivers said the number of instances of abuse at work increased in the last 12 months and that 51% said they do not feel safe at work while 85% said they believed that such abuse was now 'just part of the job'**[19]. Lothian Buses have established several initiatives to tackle such challenges including directly financing additional police resources with which to collaborate and aid coordination of any necessary responses.

# TREATMENT AND SATISFACTION OF PASSENGERS

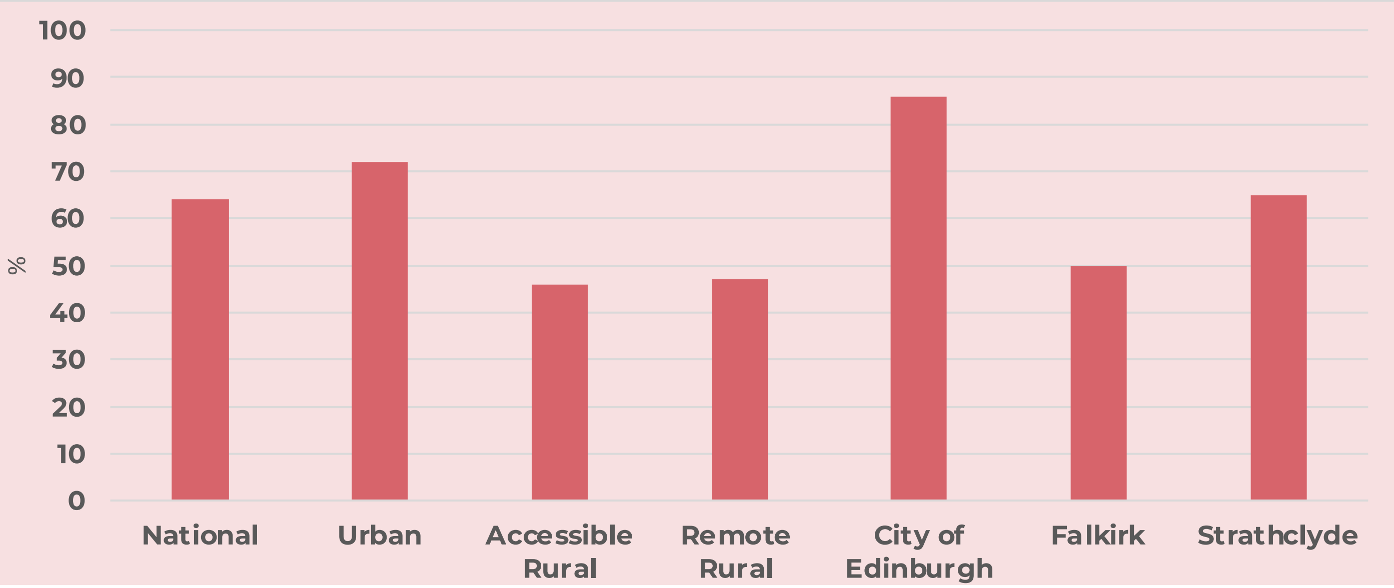
Across Scotland, in 2023, 64% of people were satisfied with most aspects of bus services that the Scottish Household Survey asked them about[20] This represented a 4% reduction in satisfaction compared to the 68% level of satisfaction found in 2019.

The 2023 Scottish Household Survey also reported that at least 67% of respondents were satisfied with the extent to which buses ran to timetable; their cleanliness; the degree to which bus services were stable and not frequently changing their schedules or frequency; the ease with which respondents were able to find route and timetable information; the degree to which they felt safe/secure on bus during day; and the simplicity with which they were able to decide which ticket they needed. Additionally, there was a noticeable difference in those who felt safe on the bus during the day and in the evening. 95% of respondents agreed that they felt safe using the bus during the day compared to 70% in the evening.

As **Figure 7** shows there is significant regional variation in the percentage of those who report being 'very satisfied' or 'fairly satisfied'. This ranges from around 86% in Edinburgh where most services are provided by a publicly-owned bus company, to 65% in Strathclyde and to less than 50% in Falkirk.

Satisfaction with public transport is lowest in rural areas. Satisfaction rates for those living in remote rural and accessible rural areas (47% and 46% respectively) contrasted with a satisfaction rate of 72% for those living in large urban areas.

***Fig 7: Percentage of Scottish Residents 'Very' or 'Fairly' Satisfied with Bus Services***




***Source: Scottish Household Survey 2023***

Strathclyde Regional Bus Strategy and the equivalent for South East Scotland also highlights the varying levels of access to bus services both geographically and at different times of the day or week. The Strathclyde Strategy Case for Change[21] notes that access to evening and Sunday services is "extremely patchy". **12% of households in Strathclyde were found to have no bus service after 7pm with 19% of households in South Lanarkshire without a service. Similar levels of households were found without a Sunday services, with areas such as North Ayrshire reporting 20% of households with no Sunday service at all.**

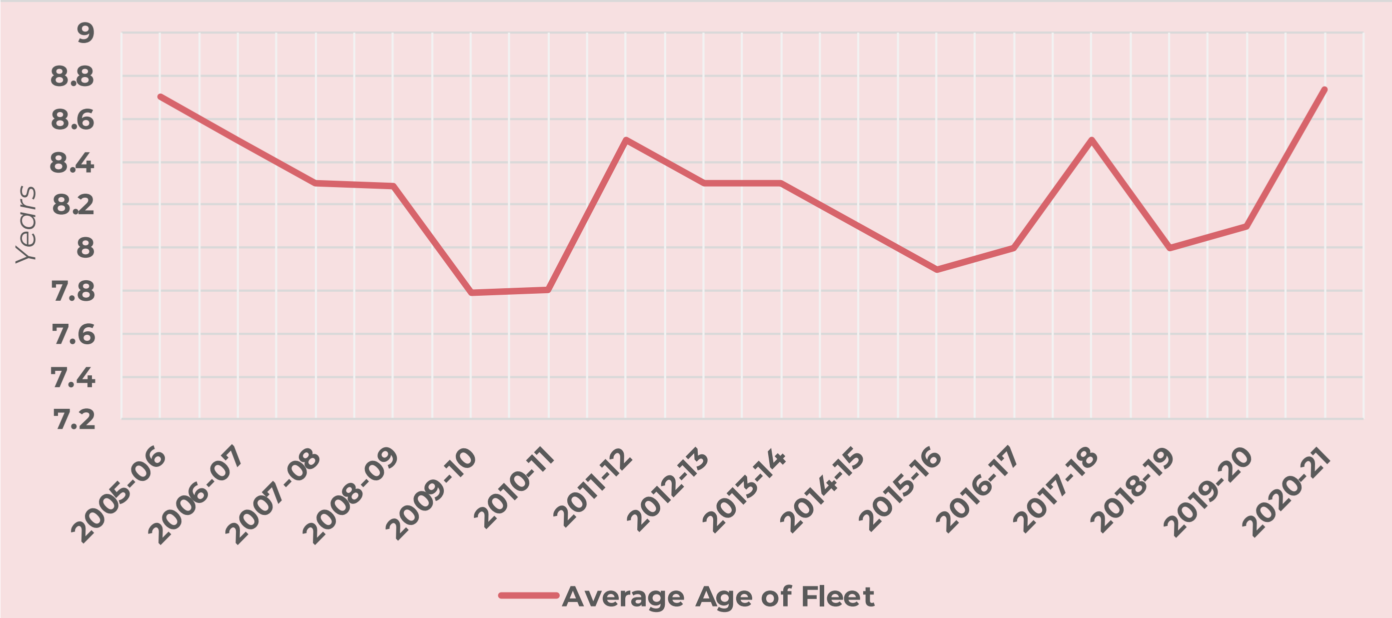
A similar picture is painted in South East Scotland where a Bus Strategy Case for Change[22] highlighted that whilst most households in Edinburgh and Fife have access to evening bus services, areas such as the Scottish Borders have very limited services in the evening and on Sunday. Across the whole region 18% of all households have no access to bus services after 10pm and 10% of households don't have a Sunday service, increasing to 20% in areas such as Falkirk, West Lothian and the Scottish Borders

# DECARBONISATION

The transport sector is a significant contributor to climate change and all major bus operators in Scotland are investing in decarbonising their fleets. Hybrid diesel/battery buses have been a well-established technology for some time and fully electric buses are now widely available, albeit more expensive than conventionally powered ones. However, the rate at which electric and alternative-fuelled vehicles are being introduced and the level of investment being committed from major commercial operators appears insufficient to meet 2030 climate targets[23]. The maintenance of high profit levels by commercial operators works against the need for substantial reinvestment in bus fleets that is needed to reach decarbonisation targets. **Furthermore, when it comes to the major private operators, much of this investment appears to be happening only with the substantial financial support of Scottish Government.**

This low level of investment in fleet renewal can first be seen in the increasing age of the Scottish Bus Fleet. There are just over 3,200 buses across Scotland with an average age of 8.7 years old (**See figure 8**). The average age has been slowly increasing over the period from 2010 to 2020, though there are no more recent figures from Transport Scotland.

***Fig 8: Average age of Scottish bus fleet in years over time***




***Source: Scottish Transport Statistics 2023***

The renewal of the fleet towards decarbonisation is not evenly spread across Scotland. For example, bus operators in the Strathclyde region operate around 1,350 buses. Of this fleet, a growing, but still small, proportion are zero emissions battery electric buses while approximately 50% comply with the latest Euro 6 emissions standards[24]. **All Lothian Bus vehicles, by contrast, are powered by 'ultra' low-emission diesel engines or are hybrid diesel/battery powered, which is an achievement not shared by other major operators across Scotland.** The company are working towards a fleet of zero emission vehicles by 2035, funded from internal resources. Whilst Scotland is faring better than some parts of the UK, as by 2023/24 14% of the Scottish licensed bus fleet were electric, compared to 4.5% of the fleet in English Metropolitan Areas outside of London, London itself has reached 16.7% of the bus fleet being electric powered.

**Major operators are not investing at sufficient levels to rapidly decarbonise the bus fleet. What investment is made is also not benefiting Scottish bus manufacturing.**

One of the effects of national and global targets for decarbonisation is the possible green dividend from the production of decarbonised public transport and the skills and jobs that will result in that. This is significant as Scotland has a significant level of bus manufacturing. However, the realisation of this green dividend is not currently materialising.

The amount of Scottish local content in the electric vehicle technology and associated supply chains appears to be very limited, hugely reducing the benefit that could accrue to the Scottish economy and jobs market. As of 2023, electric buses manufactured by Alexander Dennis Limited only made up 1% of all the electric buses licensed across the UK. Overall, UK manufactured electric buses only made up 31% of the UK-wide electric bus fleet[25].

**Furthermore, the substantial support given by the Scottish Government to the decarbonisation of bus transport, has been done in a manner that fails to incentivise the procurement of locally manufactured low-emission buses or the maintenance of local supply chains to support such net zero manufacturing.**

Several Scottish Government funding schemes have been implemented to subsidise the capital investment required by private sector operators to purchase more environmentally friendly buses. The Scottish Government subsidised operators by providing just over £24 million in funding to support the costs of retrofitting of over 1,100 buses and coaches to Euro 6 engine standard (from 2018 to 2023) required to operate in Scotland's Low Emissions Zones.

In addition, there has also been substantial Scottish Government investment in electric buses. Under the ScotZEB scheme, £120 million has been spent subsidising the purchase of electric buses by selected bus operators. The subsidy scheme is designed to overcome the additional price premium for electric buses that operators face compared to the price for conventional diesel-powered vehicles by meeting the extra cost of an electric bus. **The subsidy is in place to overcome the reluctance of private operators to make such investments on anything other than purely commercial grounds.**

There has also been public capital funding allocated to infrastructure measures to promote bus use, including things such as bus priority measures and improved bus stations and information systems. The Scottish government allocated £500 million as part of the Bus Partnership Fund in 2020, though it was paused in the beginning of the 2024 financial year with only £26.9 million having been spent. It is due to be replaced by a Bus Infrastructure Fund which has £164.8 million allocated for 2025/26 which includes elements for promoting improved bus travel in rural areas under the Community Bus Fund.

**These subsidy programmes, especially for the ScotZEB scheme, have largely gone to the major private bus companies.** For example, in Phase 1 of the scheme, First Bus were awarded £18.6million to deliver 74 new electric vehicles across Glasgow and Aberdeen, Stagecoach received £18.3 million to subsidise the purchase of 84 electric buses across its different companies and McGill's were awarded £9 million for 41 vehicles. A total of £45.9 million in Phase 1 to three companies for just under 200 new vehicles.

Operators themselves are indeed making investments both in the fleet and in their depot infrastructure, albeit an insufficiently high rate to meet the needs of Climate commitments. McGill's, for example, were awarded £15million under ScotZEB towards 83 buses and this was added to their own investments to bring the total number of electric buses in the McGill's fleet to 160 across their many different locations[26]. In addition, they have been investing in charging infrastructure at some of their depots[27].

As can be seen, however, there is still a gap in getting to a fully low or zero emission Scottish Bus Fleet. There is a question of whether such investment levels by both private sector operators and Scottish Government are sufficient to meet current public transport needs, let alone the significant increases in public transport demand and supply that a response to the current climate emergency would require[28]. **The TUC estimate that around 617,000 (589,000–645,000) direct/indirect jobs would be created, across the UK through bus manufacture and construction of bus priority measures over 12 years[29].** Scotland hosts one of the major UK bus manufacturers, currently employing around 600 people. STUC research estimated the jobs impact of increasing the availability of local bus services by 50%, to reduce car use as well as ensuring the entire bus fleet is zero carbon by 2030. **The research estimated that 2,900 jobs could be created directly and indirectly in bus manufacturing across Scotland and 5,900 jobs created in the operation of an expanded bus network.**

However, unions have highlighted several challenges that face bus manufacturing's response to decarbonisation in Scotland. A large percentage of the battery technologies required for decarbonisation are reliant on global supply chains, especially from China. This limits the direct and indirect employment benefits of any green dividend from moving the Scottish Bus Fleet to electric. It also puts Scottish manufacturing and the opportunity to create unionised, well-paid, skilled jobs from the transition to a green economy in a weak position relative to their global chains, especially given the size of Scottish and UK bus manufacturing. Producing an affordable, quality product that will deliver comfortable, reliable electrified public transport within the context of the global supply chains is also a challenge for Scottish manufacturing. **A desire for global competitiveness may lead to a move away from a focus on quality, with efforts to reduce labour costs through outsourcing and an erosion of workers terms and conditions.**

The role of public subsidy for either manufacturers or bus operators in incentivising purchasing Scottish manufactured electric buses also needs to be considered.

The latest round of the ScotZEB scheme, funding, has been awarded to a consortium that features a private sector vehicle leasing business model that is similar to Rolling Stock Companies (ROSCOs) used in UK railway companies. Whilst publicly-funded support for this model may seek to address perceived barriers to increased capital investment by the major private sector operators, lessons from the railway sector could be drawn.  Research for the RMT union has highlighted that the three rolling stock companies (which own and lease the trains across the UK rail system) paid out nearly £1bn in dividends in 2020/21 at taxpayers' expense[30]. Creating privately owned leasing companies for the bus sector may develop yet another avenue for profit leakage from bus operations in Scotland, as it has in the UK rail sector.

UK Subsidy Control regulations are also cited as a constraint on public bodies subsidising the purchase of Scottish manufactured vehicles by public bodies. Furthermore, Scottish manufacturers cite Scottish Government's application of procurement regulations related to Fair Work First principles to the use of ScotZEB money if it is used to purchasing vehicles from Scottish or UK manufacturers but not if these same vehicles are purchased overseas[31] potentially providing unintended incentives for operators to purchase from manufacturers in lower-wage, lower working condition economies.

The nature and application of public subsidy in Scotland needs to be examined to enable greater use of public funding to support the bus sector transition more rapidly to a decarbonised future whilst also ensuring that this transition delivers benefits for Scottish bus manufacturing.

**A transition in Scottish bus manufacturing to a fully decarbonised public transport future will require innovation in production business models, and processes including:**

- development of more localised supply chains for the technologies associated with electrification.
- greater product research and innovation, especially around, electrification and battery technologies that can draw on Scotland's world class universities
- innovations in partnership and collaboration especially between renewable energy and bus manufacturing sectors
- innovations in bus manufacturing business models more akin to the 'power by the hour' models found in aerospace.
- increased diversity in bus and coach types manufactured
- increased focus on the development of an appropriately skilled and renumerated workforce

# IMPLEMENTATION PATHWAYS AND FUNDING APPROACHES

**This report shows that publicly-owned buses provide a better service, better terms and conditions and less profit extraction than privately owned bus services**. However, there are several challenges to local and regional transport authorities' establishing publicly owned buses and the following sections set out pathways to overcome them.

## REGULATORY CHALLENGES AND IMPLEMENTATION PATHWAYS

**The legislation in Scotland allows a local transport authority to establish a publicly-owned bus company.** This would require the authority to acquire a Public Service Vehicle Operators Licence, establish an operating depot, purchase appropriate vehicles and recruit drivers.

In many rural areas, local bus services are often completely dependent on contracts from the local authority for their existence. However, these areas are often not attractive to major operators and there are a dwindling number of small operators to be awarded contracts, which can leave some areas unable to find operators to deliver such socially necessary bus services. **Several local transport authorities (e.g. Highland, Stirling) are taking active steps to develop publicly-owned operators as an in-house part of the council. Legislation allows contracts to be directly awarded to these in-house operations.**

However, the local bus market in towns and cities across the country is characterised by local private monopolies where a major operator provides the overwhelming majority of services. Any new entrants would need significant time and financial resources to overcome these monopolies. Without some form of reform to the bus market at a local level away from 'in the market' or 'on the road' competition to competition 'for the market' through franchising or licensing, such a publicly-owned operations (and the associated taxpayer funded investment) would be at risk from aggressive commercial practices of well-resourced existing major operators.

An investigation undertaken by the Competition Commission in 2011[32], clearly highlighted the failures present in 'on-the-road' competition and instances where former publicly owned operators were not able to compete 'on-the-road' with large private sector organisations and where a level playing field in being able to establish market share and market position was often lacking.

**The establishment of publicly-owned bus services without the reform of bus market regulation does re-open the possibility that large private operators would be able to maintain their existing market dominance in a local geographical area through access to considerable financial resources and other aggressive competitive practices. This would be at the expense of the publicly-owned bus companies and the taxpayers' money that created and supported them.**

It is widely regarded that there is a need to reform the bus market across the UK outside of London. Many transport authorities across England and Wales are actively assessing and implementing franchises of which Greater Manchester is the most notable. There have been detailed assessments undertaken in Strathclyde and South East Scotland Regional Transport Partnerships around the options for bus market afforded by the Transport (Scotland) Act 2019. Strathclyde Partnership for Transport took the decision in March 2024 to pursue both franchising and a small public operator with implementation to follow.

However, reforming a local bus market through franchising alone, is not without its problems. **Unions have expressed concern regarding bus workers employment conditions under a franchise system.** Experience from the London operation of franchise operations indicates that there is a regular turnover of different bus operators, as individual contracts for specific routes or areas are re-tendered. Whilst existing staff are transferred under long-established TUPE regulations, there is often limited protection for long-serving staff to maintain condition related to years of service and seniority, potentially including pensions. The implementation of franchising schemes without the development of publicly-owned bus companies to deliver the public control and ownership that has so long been necessary in the Scottish and UK bus market risks locking in some of the worst elements of the current system and creating new opportunities for private gain. Greater public control through franchising and the widespread re-establishment of public-ownership of bus operations must go hand in hand to maximise the benefits of bus market reform in Scotland. The decision by Strathclyde Regional Transport Partnership in March 2024 to both implement a franchising scheme and establish a small publicly-owned bus company is an indication of the integrated approach that can be pursued. Efforts however need to be much more comprehensive.

Using the Transport (Scotland) Act 2019 to establish publicly-owned bus companies within a framework of franchising, provides the opportunity to overcome these problems. This is further strengthened by the fact that the UK's **Competition and Markets Authority view the public ownership of bus depots and vehicles as a key requirement** in the design of bus franchising schemes to ensure fair competition for new entrants and reduce the power of the incumbent privately-owned operators. This would mean that key set up costs for a publicly-owned operators may be reduced if franchising is already being implemented.

Work for Strathclyde Regional Transport Partnership[33], has been considering the legal basis for setting up a publicly-owned bus company following on from the establishment of a franchise model of bus market regulation.
This work identifies that:

- whilst the general principle behind franchising is one of allocating contracts through a competitive tendering process;
- within a franchising scheme, a contract can be given by the Transport Authority to a publicly-owned bus operator through a Direct Award;
- a Public Service Obligation would need to be set up for the area which would set out the services to be delivered and the standards and practices, including working standards, that any operator must adhere to; and
- this process would be governed by regulations set out in a UK Parliament Statutory Instrument (SI)1369[34].

However, this work suggests that this regulation (SI 1369) would limit the scale of any such Direct Award contract to:

- less than £875,000 per year … or
- less than 300,000 kilometres of public passenger transport services

In terms of a franchising scheme covering Strathclyde, these amounts would represent very small franchise contracts.

Alternatively, if the public-controlled bus company was classed as a small and medium sized operator of a maximum size of no more than 23 road vehicles then larger direct awards contract could be established as long as they were:

- less than £1.75 million annually or
- covered less than 600,000 kilometres annually of public passenger transport services.

SI1369 does allow for direct awards to internal, publicly owned operators that are operated similarly to a department of a public authority, not necessarily an arms-length organisation. This is allowed under the regulations as long as there is a degree of freedom and risk for operating the directly awarded contract.
This could be demonstrated through:

- having some flexibility for the operator to go above and beyond the conditions (e.g. providing better passenger service than the minimum specified) of the directly awarded contract, and
- facing a risk from agreeing a contract for less money than the cost necessary to run a service.

These restrictions limit the initial size of a public-owned operation but may allow for several options for establishing an initial pilot scheme to be set up. These options could include:

**OPTION 1:** Establish a pilot of a single small publicly owned arms-length bus operator that could be awarded contracts directly covering a rural area or a small town within a wider Franchise Scheme, up to the threshold of £1.75 million annually allowable for a small or medium operator.

**OPTION 2:** Establish multiple small publicly owned arms-length bus operators across a Franchise Scheme area, such as Strathclyde and direct awards given to them up to the de minimis thresholds set out for small and medium sized operators.

**OPTION 3:** Establish an in-house bus operator and direct award franchising contracts as long as you can demonstrate a degree of freedom and operational risk to the way that in-house operation can perform.

**OPTION 4:** Establish an arms-length publicly-owned bus company that seeks to competitively win at least some contracts. Work for Transport for West Midlands[35] highlight establishment of such a 'shadow' company would provide TfWM with the greatest insight into the actual costs and revenues associated with service operation. It is argued that this would help to keep profit margins lower as the information could be used to challenge greater margins as part of tender negotiations. It also offers the chance that if the profit margins of privately-owned bidders were too high then their bid would not be competitive against the publicly-owned bus company. This may, however, precipitate a 'race to the bottom' for the public operator leaving little space for expanding services or improving quality.

It is also suggested that, as has been applied in the UK rail industry, the publicly owned bus company could act as an operator of last resort, so should an issue be experienced with the provision of service from a commercial bus company, such as insolvency or contract breach, then they could be replaced in the short to medium term by the publicly-owned bus company whilst a new franchising tender was prepared and let. This may derisk the issue of service provision for customers.

The lack of clarity in some of the regulation may mean that it is advisable to seek a legal opinion on different options to fully understand the scope of each option. The lack of clarity may also mean that privately owned operators may cause delays in implementation due to legal challenges.

## COST TO ESTABLISH PUBLICLY OWNED BUS OPERATIONS

Whilst the cost of establishing publicly-owned bus operations will vary across different local transport authorities in Scotland, it is important to get a sense of the scale of funding that may be needed to establish new publicly-owned bus operations. The Scottish Parliament Information Centre (SPICe) briefings produced in 2018 about the 2019 Transport Act highlight the costs that the establishment of a publicly-owned bus operation would entail.

This involves:

- **Capital for set-up costs, including establishing or acquiring depots, vehicles, supporting buildings, equipment and services.**
- **Ongoing, revenue funding for running costs, including fleet maintenance and replacement, staff costs, fuel, insurance, tax and MOTs, risk and contingency**

It should be noted that many of these capital start-up costs are already being incorporated into the cost of establishing franchising schemes in many English cities. In fact, given the Competition and Markets Authority position is that public ownership of fleets and depots is an essential component for competition under franchising, the public investment in depots and vehicles may already be factored which will reduce the additional capital set up costs of a public operator.

The SPICe briefing provides an example of indicative costs of establishing a hypothetical publicly-owned bus operator. **The cost estimate is based on the idea that the publicly-owned bus company:**

- **is situated in a town the size of Dundee with a population of 140,000-150,000;**
- **needs to purchase all bus depots,**

infrastructure and vehicles (which may not be necessary, as already mentioned above, if established as part of a franchising scheme);

- has a fleet size of 112 vehicles, mainly double-deckers;
- runs a typical urban 24 hour, seven days a week all-year service with a 10-minute peak time service; and
- establishes a bigger network than is currently run in the town.

The briefing estimates that the one-off capital set up costs would be £34.4 million (which may not be necessary) and annual operational costs of £17.5m to subsidise the expanded network[36].

A more detailed analysis, undertaken as part of the development of options for change for Strathclyde Partnership for Transport[37], estimates that for the establishment of franchising, in Strathclyde region there would need to be:

- £300 million of capital expenditure, that includes purchase of depots and related infrastructure and purchase of electric vehicles (which again may already be covered in the establishment of the franchising scheme; and
- £44 million annual revenue expenditure to subsidise the operations which would include reduction of fares and expansion of network and service frequencies. This would involve a cost of £58 million per year which would be offset by reinvesting the £14 million surplus that the analysis estimates would be generated.

These studies give indicative costs for bus franchising that could be used to indicate costs for establishing and running a publicly controlled bus network a region of the size of Strathclyde and delivering substantial improvements in the accessibility, frequency and affordability delivered by the network.

Research undertaken for the TUC[38] set out measures including significant fare reductions and substantial expansions to the bus networks, especially in rural areas, that would need be implemented across England and Wales to achieve the major shift to public transport from car that meeting the climate change emergency warrants. This research estimated that operating costs would need to rise to roughly 190% greater than current operating costs to deliver this step change.

If similar a similar step change was to be achieved for Scotland, annual operating costs for the bus network across Scotland could be estimated at £2,065 million, requiring an additional £1,626 million a year in Government Support above the amount of support provided in 2023-24 (which was £439 million).

# FUNDING OPTIONS

The move to publicly-owned bus ownership will require additional funding from the Scottish Government to enable progress in this area. It will require both additional capital (either for depots and vehicles procured as part of a franchising scheme or for a stand along public operator) and revenue expenditure. However, there are clear imperatives driving the need for further government support not least the need to meet climate obligations, address economic growth and social inclusion objectives. There is thus a need to identify viable and sustainable funding mechanisms to move to publicly-owned bus ownership. The following sections highlight some possible options to explore further.

## REINVESTING SURPLUS

Once capital costs have been accounted for in setting up the bus depots and vehicles for a publicly-owned bus operation, the Scottish Bus Network in 2023-24 is profitable and will allow for a small expansion in the network or reduction of fares if the current £45 million surplus was reinvested. However, this would not be enough to deliver climate or other objectives.

## ROAD PRICING

TUC research highlights the option of the introduction of road pricing. It argues that this a mechanism that would enable sustainable funding for public transport, provide a disincentive to existing car users hence increase the attractiveness of an enhanced public transport. This echoes the Transport Scotland policy objectives of reducing vehicle kilometrage by 20% by 2030[39]. The Scottish Climate Assembly found that 63% of its members supported a recommendation to 'phase in increased road taxes for private car use and use the revenue to subsidise public transport'. The implementation of road user charging uses existing powers for Scottish local transport authorities, contained in the 2001 Transport Act. Research by Centre for Cities focused on Glasgow estimate that between £58 million and £65 million a year (gross revenue) could be raised with a £5 congestion charge in central Glasgow[40]. Many unions, including the main union for bus workers, Unite, do not have policy on road pricing. Road pricing may have significant equity issues to consider, in terms of affordability for low-paid workers, especially where public transport is not providing an alternative due to remote or peripheral employment or residence locations or anti-social working hours where car travel is the only viable option. As a result, there is a need for more sophisticated consideration of such a policy and significant effort required to ensure that such a funding option can be designed in a progressive and equitable manner.

## TOURIST TAXES

A funding stream worth investigating further is through the recently approved Visitor Levy (Scotland) Act. This provides for local councils to place a levy on tourists staying overnight in hotel and holiday accommodation with schemes in Edinburgh and the Highlands proposing a levy of 5% of accommodation cost. It is estimated that this levy will raise around £50 million a year in Edinburgh alone. This amount could support a substantial expansion of the existing publicly-owned bus services in Edinburgh and surrounding areas. This amount is similar to the annual subsidy required to support franchised operations in Strathclyde. Whilst Edinburgh is a tourist destination of global importance, similar schemes in local areas across Scotland could provide an important source of funding.

## LOCAL COUNCIL AND WEALTH TAXES

A further approach for consideration is the use of the local council tax system. The 2024-25 freeze in Council tax reduced the possible revenue to local councils by roughly £144 million a year (equivalent to a 5% increase in tax had councils been able to levy it).

We are now seeing several local councils posting double digit council tax rises. A 5% increase in local council tax for local, publicly-owned bus services could raise £144 million, which together with a reinvestment of current surpluses (£129 million in 2022-23) would enable an expansion local bus networks across Scotland by roughly 45% which could would mean the resulting £273 million could translate to, network expansions in terms of frequency, hours of operations and routes as well as fare reductions.

However, given inequities with the council tax system, it may be preferable to replace the council tax with a property tax, which research for the STUC suggests could raise more than £783 million[41].

The Scottish Government also has the power to introduce a tax on wealth, provided this is implemented as part of the local tax system rather than a national tax. Research suggests that an annual wealth tax of between 0.5 and 2% a year above £1 million, would raise £1.4 billion per annum[42].

Finally, consideration should also be given to the wider economic benefits that expansion of local bus services and the creation of publicly-owned bus operations would generate. Consideration would need to be given, using conventional cost-benefit analysis, as used by the Scottish Government, to see the benefits that will accrue from increased bus use, increased capital investment in depots and vehicles, benefits from reduced local air pollution and global greenhouse gases as well as the benefits of jobs and employment.

# CONCLUSIONS

**This report has sought to:**

- explore the degree to which local bus services are already funded by Scottish Government and local authority funding;
- asses the degree of profit that is generated by private sector operators and that leaks out of the system to shareholders;
- examine the degree to which private sector operators are delivering a quality travelling and working environment for workers and passengers;
- examine the degree to which the bus industry can respond to the climate emergency and the barriers that need to be overcome;
- explore the differences for bus services that publicly-owned ownership could bring; and
- explore the implementation pathways and funding models that need to be put in place to allow public ownership to be the overwhelming ownership model for local bus services across Scotland.

**The report concludes that:**
Private bus operators across Scotland are not commercially viable without substantial public subsidy. In fact, the level of that public subsidy paid to operators has increased substantially since the pandemic. Despite this, operators are free to decide which bus services to run; the routes to serve; the frequency of service provided and the fares to charge. Many have also been able to maintain healthy profit levels for their shareholders, even in the current challenging times.

**In 2023-24, Government provided 58% (£439 million) of all operators' revenue in subsidy. 46.5% (£352 million) of operators' total revenue came from reimbursement for concessionary passengers, such as free travel for young people. 11.5% of revenue (£87 million) came to operators through the Network Support Grant (which subsidises fuel costs) or from local transport authorities directly contracting socially necessary bus services. Passenger fares only contributed 42% of operators' revenue.**

By comparison, in the year before the pandemic (2018-19), central and local government support amounted to less than half (46% or £370 million at 2023-23 prices) of operator's revenue and non-concessionary passenger fares made up just over half (54% or £442 million at 2022-23 prices).

**In real terms (adjusting for the effects of inflation), funding from central and local government in 2023-4 was 19% higher than it was five years previously and overall passenger revenue was 28% less than it was 5 years previously.**

**This is despite:**

- removal of enhanced levels of subsidy given to operators to maintain a basic network during the pandemic,
- a return to more long-term levels of Network Support Grant,
- a reduction in the level of local authority contracted services and
- a much lower level of older persons ridership that require compensation due to reduced levels of bus use amongst older people since the pandemic.

The introduction of free travel for under 22-year-olds across Scotland has proved to be successful for operators as well as passengers and has resulted in a substantial increase in public funding for the bus sector. Industry stakeholders report that this is a significant new revenue stream and is greatly aiding operators' profits. The level of compensation for this scheme is more beneficial than that provided for similar free travel schemes for older and disabled persons and without adjustment this, over time, will lead to increased profits for operators.

However, despite substantial levels of public subsidy supporting bus operators, there has not been an improvement in the availability or use of buses even back to pre-pandemic levels. In fact, there has been a significant reduction in bus networks served by privately owned bus operators as well as a reduction in bus frequencies operating along those routes that remain.

**Whilst there was stability in the bus kilometres operated over the last couple of years, the Scottish bus network has seen a 16% reduction in the kilometres travelled by buses serving passenger compared to 2018/2019. This means that total operating costs for operators were £712 million for the 272 million kilometres operated. Admittedly, there has been significant changes in travel patterns post pandemic, with increased levels of working from home and people in workplaces for fewer days a week. However, the reduction in vehicle kms can be seen as a cost saving exercise, particularly by the major commercial operators.**

**This reduction in service to the travelling public has, however, not been at the expense of profits for private bus companies. Operators made a gross profit of £45 million or 6% gross profit margin in 2023-24. This is despite a slow return to pre-pandemic passenger levels and significantly increased operating costs. The private bus industry, over the last 20 years, has produced an average gross profit margin of just over 10%. This report highlights that there are significant profits leaking from major private operators that could be reinvested in the industry. For example, £25m was taken out by First Glasgow (No 1) Ltd in the form of a dividend to its parent company and their shareholders in 2022-23. The major privately owned bus operators in Scotland generated profits of over £27 million in 2022.**

Whilst there have been substantial changes over this period, not least due to the increasing amount of working from home post pandemic and the continuing reduction of older people not using the bus, overall passenger numbers have returned to more than 90% of pre-pandemic levels. This means that there has been a disproportionate fall in bus km compared to the reduction in passenger numbers. This loss of bus kilometres to maintain gross profit levels appears, therefore, to be at the expense of communities and users dependent on buses to able to access employment, education, health and leisure activities

All major operators are at least investing in decarbonising their fleets. However, the rate at which electric and alternative vehicles are being introduced and the level of investment being committed from major commercial operators appears insufficient to meet climate targets. The Scottish Government have spent at least £130 million in recent years incentivising private operators to improve the environmental impact of their fleet, without which level of activity towards decarbonisation would be even lower.

The Scottish bus industry responding to climate change could create jobs. 2,900 jobs could be created in bus manufacturing across Scotland from a transition to an electric bus fleet, but the existing slow rate of transition puts the creation of these jobs at risk. There is a need to support innovation, technology and partnership development across bus manufacturing and electrification for Scotland to benefit from the jobs dividend of a green bus industry.

**The only surviving publicly owned bus operator in Scotland is Lothian Buses. In contrast to the overall picture, over the last 5 years, Lothian Buses has reinvested the surpluses they have made into improved vehicles, enhanced pay and working conditions and greater in-house managerial and technical capacity.**

**Lothian Buses has been able to return a dividend of £36 million to its local authority shareholders over the last 10 years. In addition, £4.1 million was reinvested in 2023 to cross-subsidise less profitable routes and services.**

**Lothian Buses has a considerably faster rate of fleet improvement, beating all other operators to having a fully ultra-low emission fleet by 2022 and making significant progress towards having a full electric fleet by 2035.**

It is possible to create more Lothian Buses across Scotland. Through the passing of Transport Act in 2019, there is significant opportunity for publicly owned bus operators to be created that could retain substantial levels of profits to reinvest in the expansion and improvement of local bus services.

In many rural areas, local bus services are often completely dependent on contracts from the local authority for their existence. However, these areas are often not attractive to major operators and there are a dwindling number of small operators being awarded contracts, which can leave some areas unable to find operators to deliver such socially necessary bus services. Several local transport authorities are taking active steps to develop publicly-owned operators as in-house parts of the council. Legislation allows contracts to be directly awarded to these in-house operations.

Bus services in many towns and cities, however, are operated by privately owned companies that operate a local monopoly. Establishing publicly-owned operators in such a context would place public money at risk against major operators who may have considerable financial resources to overcome such direct competition. There is a need for bus market reform through franchising.

However, the implementation of franchising schemes without the development of publicly-owned bus companies to deliver the public control and ownership that has so long been necessary in the Scottish and UK bus market risks locking in some of the worst elements of the current system and creating new opportunities for private gain. Greater public control through franchising and the widespread re-establishment of public-ownership of bus operations must go hand in hand to maximise the benefits of the opportunity for bus market reform in Scotland.

Several local and regional transport authorities are currently considering establishing franchising schemes to reform the local bus market. It is well accepted that the establishment of franchising schemes should involve the public ownership of vehicles and depots. The cost of establishing a publicly-owned bus operator is likely to be additional to that cost. It is in the context of these planned reforms that publicly-owned operators could then be created to either compete for contracts to operate services in a local area under a franchise or, more attractively, be awarded contracts directly under a franchising scheme.

**Local transport authorities and Regional Transport Partnerships, have the following options to support publicly owned buses:**

- **OPTION 1:** Establish a pilot of a single small publicly owned arms-length bus operator that could be awarded contracts directly covering, perhaps a rural area or a small town within a wider Franchise Scheme up to the de minimis threshold of £1.75 million annually allowable for a small or medium operator.
- **OPTION 2:** Establish a pilot setting up multiple small publicly owned arms-length bus operators across a Franchise Scheme area, such as Strathclyde and direct awarding contracts to each one of them up to the de minimis thresholds set out for small and medium sized operators for each operator. One possible approach is that each local authority within a regional partnership could establish such an operation.
- **OPTION 3**: Establish an in-house bus operator and direct award franchising contracts as long as you can demonstrate a degree of freedom and operational risk to the way that the in-house operation performs as required by the legislation.
- **OPTION 4:** Establish an arms-length publicly-owned bus company that seeks to competitively win contracts. Work for Transport for West Midlands[43] highlight that establishment of such a 'shadow' company would provide the greatest insight into the actual costs and revenues associated with service operation. It is argued that this would help to keep profit margins lower as the information could be used to challenge greater margins as part of tender negotiations. It also offers the chance that if the profit margins of privately-owned bidders were too high then their bid would not be competitive against the publicly-owned bus company. It also provides the option that the publicly-owned operator could be used as an 'operator of last resort' to provide service in cases where the privately-owned operator withdraws from a contract for commercial or other reason. This would enable passenger service quality and connectivity to be maintained regardless of commercial success.

It is estimated that the cost of operating a publicly owned bus service range from £17.5 million per year for a city the size of Dundee to £44 million per year for the whole of Strathclyde.

Reinvesting the significant level of profit leaking from privately owned bus operation through public ownership of bus operators would make a noticeable contribution to extra funding needed for expanding the network.

This study highlights that whilst exploring the use road pricing may provide a sustainable funding stream and disincentivise continued high-levels of car use as proposed elsewhere, it may have significant equity issues, especially for those low-income workers who have few options but to travel by car.

Specific local taxes, such as tourism taxes, could also make a useful contribution.

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# THE NEXT STOP

## The Case For Publicly Owned Buses In Scotland

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