

# CHESHIRE EAST COUNCIL

## Cabinet

---

<b>Date of Meeting:</b>	15 <sup>th</sup> October 2013
<b>Report of:</b>	Head of Public Protection and Enforcement
<b>Subject/Title:</b>	Devolution of Bus Service Operator Grant (BSOG) for Council Supported Bus Services (Forward Plan Ref: 13/14-46)
<b>Portfolio Holder:</b>	Cllr David Topping, Environment

---

### 1.0 Report Summary

- 1.1 Following a review of the payment of Bus Service Operator Grant (BSOG) the Department for Transport (DfT) has decided to devolve payment of BSOG for Council supported bus services to Transport Authorities with effect from 1 January 2014.
- 1.2 These revisions will lead to monies previously paid directly to transport operators by DfT being devolved to the Council and a reduction in the revenue received by transport operators.
- 1.3 This change , initiated by the DfT to give more local control over public transport funding, is welcomed by Cheshire East Council. It is likely that, over time, this will allow for greater investment in rural bus services as it will give the Council control over a greater pool of funding.
- 1.4 This report seeks Cabinet agreement to increase contract payments to allow for distribution of this funding previously undertaken by DfT along the lines included in their guidance.

### 2.0 Recommendations

That Cabinet:

- 2.1 note the contents of this report and
- 2.2 agree to the revision of contract payments to operators of current Council supported Local Bus services to reflect the change in the BSOG payment mechanism
- 2.3 note that a fully funded Supplementary Revenue Estimate will be approved in accordance with Finance Procedure Rule A.36, once the grant allocation from Government is known

### **3.0 Reasons for Recommendations**

- 3.1 It is recommended that cabinet agree this approach as failure to reimburse operators for the loss of BSOG payment from the DfT could result in wholesale termination of contracts by operators. Retendering of these contracts would not only require a considerable amount of administration time but could also result in higher contract prices.

### **4.0 Wards Affected**

- 4.1 All Wards are affected

### **5.0 Local Ward Members**

- 5.1 All Members are affected

### **6.0 Policy Implications**

- 6.1 None

### **7.0 Financial Implications**

- 7.1 Currently, six transport operators provide 29 local bus contracts, with a gross cost of £2.14m, on behalf of the Council. The operators claim in the region of £320,000 per annum from the DfT for Bus Service Operator Grant (BSOG). The DfT have undertaken to maintain funding at the current level until 2015/16 and therefore the allocation of funding to the Council should fully cover the increased costs that will result from withdrawal of the grant in respect of new contracts, over the next two years.
- 7.2 Funding to local authorities in lieu of BSOG payments will be ring-fenced until April 2017. Twenty of the Council's current Local Bus support contracts will be retendered before this date. After April 2017 the ring-fencing ends and the funding will form part of the general grant from Central Government; therefore the implications will need to be reflected in the budget setting process at that time.
- 7.3 On introduction of the new arrangement in January 2014, a fully funded Supplementary Revenue Estimate will be required to be approved in accordance with Finance Procedure Rule A.36, in respect of the totality of former BSOG-related grant to be distributed by the Council, financed by the new grant from Government.
- 7.4 The full-year implications of the payments to operators and the related grant income to the Council will be reflected in the budget setting process for 2014/15 and future years.

## **8.0 Legal Implications**

- 8.1 Devolution of payment of BSOG to local authorities was announced by the DfT and confirmation of this was received by the Council from the DfT in its letter of 5<sup>th</sup> July 2013. The guidance from the DfT suggests that the local authority make its own arrangements through its existing contracts with the operators to allocate the BSOG. All tendered bus services (i.e.: those that receive council subsidy) will receive devolved BSOG at a rate that must be agreed by each authority.. The Council will make a pro-rata allocation to all of the current operators of local bus contracts, to ensure that the BSOG is allocated in a fair and equitable manner.
- 8.2 Amendments to contract price will be made using the contract change process within the existing contracts with the operators and as advised by the Corporate Legal Team.
- 8.3 Any future tendering process will need to incorporate clear guidance to operators on withdrawal of direct payments and inclusion of any BSOG within the tendered contract price.

## **9.0 Risk Management**

- 9.1 There are no significant risks arising from this report

## **10.0 Background and Options**

- 10.1 The Department for Transport (DfT) currently pay operators of registered local bus service Bus Service Operators Grant (BSOG) to offset the cost of fuel duty paid on fuel used in buses on these services. The objective of this is to maintain viability of bus services and to assist in keeping fares at a reasonable level.
- 10.2 Following a lengthy consultation process the DfT announced that it would be devolving the funding for BSOG on Local Authority supported services to those local authorities. This devolved funding is intended to support localism and give communities more control over local services.

The DfT wishes to give councils greater control over local transport budgets. Cheshire East council welcomes this approach since it accords with the Cabinet's firmly expressed desire to see local people have greater say over local issues

- 10.3 Confirmation of this was received by the Council in a letter from DfT on 5<sup>th</sup> July 2013. A number of changes are to be made with the devolution of BSOG to Local Authorities taking place from 1<sup>st</sup> January 2014. This letter also confirmed that this funding would be ringfenced until April 2017
- 10.4 Bus operator who tender for local bus contracts with the Council make an allowance for the BSOG there are able to claim within their tender price.

Therefore the withdrawal of these payments within the current contract term will lead to a reduction in the operator's income.

- 10.5 Operators are currently paid their contract price at four weekly intervals throughout the year. The proposal to include BSOG payments within current contract payments will therefore lead to no additional processes or payments being made.
- 10.6 It is expected that the DfT will provide details of amounts paid to operators on confirmation of the level of funding being devolved, however this has not been forthcoming as yet. Should the levels not be confirmed by DfT operators would be required to provide a certified declaration of the amounts they have previously claimed and agree to this being audited.
- 10.7 Contracts currently being tendered for commencement after 1 January 2014 will not include any additional payments for the withdrawal of BSOG and operators will be required to include this in their base tender price. All operators have been informed of this as part of the tendering process.
- 10.8 The proposed method of interim payments is that suggested in DfT guidance:

“The Department strongly encourages local authorities to work closely with bus operators in order to avoid potential disruption to the bus market by adjusting contracts to account for the loss of BSOG.”
- 10.9 Alternative methods of administering this funding have been considered and could have been based on mileage, passenger usage, journey purpose or a number of other factors, however with the funding devolved from the DfT only covering the reimbursement cost and not those of administration a more complex scheme would have imposed additional administrative burdens on the Council.
- 10.10 With the proposed method of reimbursement only lasting for the validity of current contracts the level of additional payments will reduce year on year with the funding becoming an integral part of the Public Transport budget in order to fund increased contract prices due to the withdrawal of direct payments to operators.

## **11.0 Access to Information**

The background papers relating to this report can be inspected by contacting the report writer:

Name: Glen Bubb  
Designation: Transport Coordinator  
Tel No: 01270 371487  
Email: [glen.bubb@chesireeast.gov.uk](mailto:glen.bubb@chesireeast.gov.uk)