

TRANSPORT FOR LONDON

SURFACE TRANSPORT PANEL

SUBJECT: INDEPENDENT REVIEW OF BUS SERVICES

DATE: 10 NOVEMBER 2009

1 PURPOSE AND DECISION REQUIRED

- 1.1 This paper updates the Panel on Surface Transport's initial response and intended work programme in reaction to the recommendations of the Independent Review carried out by KPMG.
- 1.2 The report of the review was considered at the TfL Board meeting on 29 July. The relevant minute reads as follows:

"David Brown introduced the report which had been prepared in response to the Mayor's commitment to commission a review of London's bus service, as approved at the meeting in November 2008. The report has also been considered by the Surface Transport Panel at its meeting held on 3 July 2009 and by the Finance Committee at its meeting held on 15 July 2009.

"The review, carried out by KPMG, looked at bus contracting, network development and value for money. Consideration of how the recommendations will be implemented will be given at a future meeting of the Surface Transport Panel.

"The Mayor congratulated TfL on its achievements in relation to bus services which were reported positively in the Review."

2 BACKGROUND

- 2.1 The report was commissioned from KPMG in December 2008, after a competitive tendering process. The work in progress was reviewed by Daniel Moylan and Steve Norris before the final version was submitted to the aforementioned meetings.
- 2.2 Following the submission to the TfL Board, KPMG offered debriefs to all those interviewed during the Review. They presented the key findings to London Councils' Transport and Environment Committee (TEC) on 15 October 2009.

3 RESPONSE TO THE REVIEW RECOMMENDATIONS

- 3.1 The report lists 34 recommendations, which are summarised in Appendix 1, together with the initial Surface Transport response. They can be grouped into some key headings as follows overleaf:

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|------------------------------|------------------------------|
| The Contracting Process | Recommendations 1-18 |
| The Service Planning Process | Recommendations 19-20; 27-29 |
| Consultation | Recommendations 21-26 |
| Oxford Street | Recommendations 30-32 |
| Orbital and Express Services | Recommendations 33 -34 |

- 3.2 A small number of the above are findings of the report rather than recommendations and hence it is not intended that they are addressed further. In addition, a few refer to actions which are already fully addressed, e.g. Recommendation 12 - the collection of bus performance data through the new iBus system, and again need no additional action.
- 3.3 Work in relation to the substantive recommendations is already underway. This is summarised below.

4 SUBSTANTIVE RECOMMENDATIONS

Consultation

- 4.1 On consultation, which is a major area raised by the boroughs, a detailed proposal has been drawn up by TfL for improving the process. It was presented to London Councils' TEC on 15 October and was well received. The proposals put forward represent a major enhancement to the process, and increase in effort from both TfL and the Boroughs, particularly in those boroughs where regular meetings are not currently held. This ongoing work is being driven through the City Charter.

Oxford Street

- 4.2 The recommendations on Oxford Street complement the work that is already ongoing to reduce the number of buses and improve the overall environment. This is being carried out in partnership with City of Westminster and other stakeholders through the Oxford Street, Regent Street, Bond Street (ORB) project. Details of targets and progress made can be seen in part two of the Managing Director's report considered elsewhere on the agenda.

Orbital and Express services

- 4.3 Major change to the current network development process in relation to Orbital and Express Services were not recommended. The report did not identify benefits from widescale introduction of express services. The continued development of the quality of bus services around suburban town centres remains a priority for TfL and the borough affected and will remain a key theme of the Sub-Regional Planning forums.

Service Planning

- 4.4 The process by which bus services are planned was commended in the report and no recommendations for major change were made. The suggestions for developing the system were mainly around reviewing the modelling parameters. The suggestions raised in the Review will be incorporated into Surface

Transport's regular updating process. The process of improving the evaluation of spending on bus priority, and how it links to service provision is underway with the new Integrated Programme Delivery Directorate within Surface Transport.

Contracting Process

- 4.5 The majority of the recommendations relate to the contracting process and how costs could be reduced. Some major changes have already been made in the 2010/11 Business Plan. The Quality Incentive Contracts 2 (QICs2) incentive scheme is not being taking forward and bus service development budgets have been removed. In addition, some reductions to service levels, have been included. Additional economies of £15 million have also been targeted by 2011/12. Overall, the business plan now identifies a subsidy of £452 million in 2017/18, against a 2009/10 forecast for the year 2009/10 of £574m and a previous Business Plan level for the end of the plan period of £766m.
- 4.6 A review of the contracting process, in line with the recommendations, is currently underway. There are three key areas being considered: ensuring TfL has sufficient market intelligence to reduce risk of operator failure; refreshing the tendering documentation to ensure that best prices are delivered and encouraging operators to contribute cost saving proposals; and reviewing the tender evaluation process to ensure both transparency for bidders and to ensure best prices are achieved. The last major change to the tendering process was the introduction of Quality Incentive Contracts in 2001 and the Review has provided very useful pointers to where the process can be further improved. The tendering process is such that changes can be introduced progressively, or even piloted without much delay. It is planned that changes will be implemented from early 2010.
- 4.7 In addition, work is about to begin between Surface Transport and Corporate Finance to understand whether there are alternative ways in which vehicle finance could be arranged which would reduce costs.
- 4.8 Meanwhile, the market for supply of bus services remains very competitive. With the network contracting slightly and the removal of QICs2, bus operators are under continuous pressure to control costs. Surface Transport will continue to drive the need for efficiency while retaining the high level of service quality which passengers value and which has led to the growth in usage over the past decade.

5 RECOMMENDATION

- 5.1 The Panel is asked to NOTE the report.

6 CONTACT

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APPENDIX 1

INDEPENDENT STRATEGIC REVIEW OF THE PROVISION OF BUS SERVICES IN LONDON

| No. | Recommendation | Response |
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| 1 | <p>The Market and Competition TfL should conduct a periodic competition and market risk analysis. It should consider the current and emerging state of market competition and plan contingencies should any one operator leave the market as well as identifying ways to stimulate new competition, such as actively marketing to new entrants.</p> | Review of market to be carried out on an on-going basis. |
| 2 | Based on findings from the market risk analysis, TfL should consider the current provision stated in the contract that aids transfer of a failing business. This could include the consideration of items such as bond requirements, third party rights over asset transfer, staff and liquidity covenants. | Being considered within review of contracting process. |
| 3 | Closer financial monitoring of contract counterparties would enable earlier warning of financial challenges. TfL should consider strengthening the provisions that require incumbent operators to regularly submit financial information to them. | Being considered within review of contracting process. |
| 4 | TfL should continue to work with the market to explore the development of new depot sites, especially if market dominance becomes a concern. TfL should consider depot ownership, taking fuller control where appropriate. | Additional capacity requirement not envisaged within current TfL Business Plan. Opportunities will continue to be monitored. |
| 5 | <p>London Bus Contracts There is no clear evidence for a wholesale transfer to a “net cost” model based on the current market structure, so no such change is recommended. At this time, we believe the cost and operational risks outweigh the potential benefit. If this option is progressed, we recommend further analysis to validate our initial findings and assess the supporting infrastructure, i.e. systems, before any decision is taken.</p> | No further action required. |

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| 6 | <p>Potential opportunities for cost savings</p> <p>TfL should reaffirm the business case for each of the additional items included in the vehicle specification, considering passenger benefit against additional cost.</p> | <p>Little stakeholder support for reducing environment, comfort or accessibility features of vehicles. Mayoral imperative to improve environmental and design features of buses.</p> |
| 7 | <p>TfL should consider alternative approaches to the funding of buses and the treatment of residual value risk. In the first instance this may focus on vehicles utilising new technology or that are designed to be used solely in London. If successful and cost effective the principles could be extended to all new bus purchases.</p> | <p>Review underway with TfL Corporate Finance and commercial interests.</p> |
| 8 | <p>If whole industry cost reduction becomes a priority we would recommend that TfL conduct a feasibility study, including detailed consultation with the operators, to validate the benefits of a collaborative approach to procurement in some well defined cost categories.</p> | <p>Feasibility study to be carried out.</p> |
| 9 | <p>TfL should reconsider the current restrictions on the volume of on-bus advertising. The benefit of any change in this area may not arise until the general environment for advertising revenues has improved. TfL should also consider the retention of on bus advertising revenues in new contracts.</p> | <p>Being considered within review of contracting process. No change suggested in current market.</p> |
| 10 | <p>Incentive regimes</p> <p>The QICs1 incentive mechanism should be retained. However, if a net cost contracting model is considered, then the costs and benefits of QICs1 and 2 could be incorporated into the overall evaluation of change.</p> | <p>No further action required.</p> |
| 11 | <p>In light of the comments above, the QICs2 pilot should be continued. The business case for QICs2 should be re-evaluated after it has become established to gauge its effectiveness and cost impacts.</p> | <p>QICs2 not to be continued beyond pilot.</p> |

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| 12 | The new iBus system is in its infancy. When it has become established, iBus data should be used to better target future incentive regimes. For example this could be designed on a time of day, day of week, basis. This may drive down excess waiting times in the most efficient way possible and will assist with the evolution of performance incentivisation. | Not additional action required. Already fully addressed within development of iBus. |
| 13 | Indexation risk The indices used on the Contract Price Adjustment (CPA) for new contracts should be reconsidered; in particular a change from “Average Earnings Index” (AEI) to “AEI minus bonuses” may reduce the volatility of the CPA in the future. | Being considered within review of contracting process. Change will be implemented if worthwhile. |
| 14 | The current weightings in the CPA may not reflect the current costs of a particular operator. To determine if a change in this area is valued by the market, bidders could be asked to price an option that varies the CPA weightings, and indeed indices. If the market values this flexibility, TfL should consider relaxing the standard specification to allow bidders to propose their own CPA weightings (and indices) as part of their bid. | Being considered within review of contracting process. Change will be implemented if worthwhile. |
| 15 | How contracts are awarded If financial constraints require lowest cost but higher risk bids to be selected, it may be necessary to monitor the process of route migration between operators’ depots using a more formalised process. | No additional action required. Route transfers already carefully monitored. |
| 16 | TfL should consider developing a detailed process to evaluate the cost of quality in bids, to analyse and justify decisions to select a bid other than the lowest cost bid and ensure a consistent approach to valuing risk and quality across the network and across time. This could include introducing a deliverability test, which excludes a bid that is under-resourced or contains risks that are unacceptable to TfL. Where possible, the tools for analysing the cost of quality should be built using parameters consistent with the current cost benefit framework. | A rigorous process is already undertaken. Tender evaluation process will be reviewed to ensure this is made explicit. |

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| 17 | TfL should consider improving the transparency of bid prices by asking bidders to submit a profit and loss statement for every year of the contract. Bidders could be asked to demonstrate their proposals for continuous improvement in their bids. If a decision is taken by TfL to require bidders to submit a profit and loss statement for every year of the contract then the suitability of the current comparator model should be reviewed. | Being considered within review of contracting process. |
| 18 | TfL could improve their public sector comparator model by market testing the prices in the model periodically. This may also aid TfL's understanding of risk and deliverability. | No additional action required. PSC is reviewed and updated annually. |
| 19 | <p>The service planning process</p> <p>TfL should include a criterion to reduce or minimise journey times within the Service Planning Guidelines (SPG). This recommendation accords with the findings of TfL's market research which identifies journey time as a passenger priority. This could be the foundation of building stronger links between the bus priority and service planning functions and ensuring that potential efficiencies from Bus Priority are realised and translated into cost savings.</p> | Review of how to most effectively 'client' bus priority in light of new LIPs process and Surface Transport organisational changes is underway within the new Integrated Programme Delivery Directorate within Surface Transport. |
| 20 | In the context of increased budgetary pressures, TfL could realign the trade-off between the provision of a simple and easily comprehensible network against the cost of service provision within its planning process. This could lead to a more complex network but at a lower level of subsidy. This approach would not require TfL's planning and appraisal tools to be amended and they could be employed to assess any change. Further encouragement to operators to bid variants would be beneficial and complementary to this recommendation. Recent investment in passenger information provision including iBus and also TfL's continued refinement of its information channels should also mitigate the impact of increased complexity. | Decisions already taken on case-by case basis, to minimise additional cost of peak capacity. Impact of Countdown II will be assessed as part of project. |

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| 21 | <p>Consultation and service planning</p> <p>TfL should maintain its individual relationships with Boroughs but seek and support a minimum commitment from each Borough for biennial bus and highway liaison meetings. This would provide a basic structure to ensure the collective and consistent involvement of TfL stakeholder engagement, network development teams, Borough officers and elected members. This would require the co-operation of the Boroughs and would build upon meetings already being implemented by TfL.</p> | <p>Best practice in borough liaison is being developed in association with London Councils through the City Charter. Initial proposal presented to TEC on 15 October.</p> |
| 22 | <p>In general stakeholder understanding of the engagement process benefits from a simple strategy or charter to explain the approach to and timescales for statutory consultation. We recommend that TfL review and consider refreshing the means that it employs to explain the key responsibilities of each part of the TfL family in respect of consultation.</p> | <p>To be reviewed with rec. 21 above.</p> |
| 23 | <p>We do not support the suggestion that TfL move to a structure that requires those completing network design to lead consultation. Such a change will not make best use of existing or available resources. In addition the stakeholder engagement team has a multi-modal remit and so this suggestion would be impractical and potentially lead to a loss of value from the consultation process as cross modal issues would not be addressed.</p> | <p>No further action required.</p> |
| 24 | <p>TfL should develop a means of updating Boroughs and public on the progress of proposals and requests. The use of the internet for updating the general public and an extranet portal for the Boroughs is recommended.</p> | <p>To be reviewed with rec. 21 above.</p> |

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| 25 | TfL should continue its network development and consultation seminars to complement the process of route-by-route consultation. This could provide a means of closing the perceived gap between stakeholders/consultees and those responsible for network development. It could provide a forum for bringing together strategic policy and detailed proposals, particularly in terms of establishing local priorities. The benefit of this approach will be to provide to the stakeholder/consultee group greater transparency as to TfL's processes and for an explicit consideration of stakeholder priorities. | To be reviewed with rec. 21 above. |
| 26 | LBSL staff participate in TfL's sub-regional planning and strategic transport planning. TfL and LBSL should consider visibility of the way in which bus service issues in sub-regional and strategic transport planning are connected with detailed service planning. | Linked to rec. 24 above. To be reviewed with rec. 21 above. |
| 27 | The appraisal framework TfL should further research and update the parameters and the modelling approach to ensure that contemporary passenger priorities are reflected. | No further action required. Parameters are reviewed annually and as and when additional research is made available. |
| 28 | TfL should consider the role of a cost recovery ratio target of the network within its strategic planning process. In developing any targets, TfL will need to account for future fares policy. | No further action required – already key part of evaluation process. |
| 29 | When TfL forecast incremental revenue using a value of time elasticity it should be weighted by journey purpose. | To be reviewed as part of next annual appraisal parameter update. |
| 30 | Oxford Street Subject to the impacts of other projects within and surrounding Oxford Street, there will be an opportunity to assess the effect of the existing proposed service reductions on bus speeds and reliability and also upon users and stakeholders. We recommend that TfL completes a monitoring exercise to firstly assess the impact of the changes and secondly develop a body of evidence to be employed alongside existing appraisal and network planning tools to inform any future service changes. | Monitoring programme for Oxford Street changes being defined. |

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| 31 | If further revisions to the bus services using Oxford Street were to be required so as to address stakeholder perception such revisions should be considered in parallel to the development of solutions to maintain any improvement in traffic speeds by preventing an increase in the use of Oxford Street by other types of traffic. | Included within Oxford Street, Regent Street and Bond Street (ORB) work. |
| 32 | TfL's current network planning and appraisal process could be employed to develop alternative bus service proposals for Oxford Street. However we would recommend that TfL include within any appraisal an estimate of any change in bus speeds and reliability arising from changes to the bus services. | Included within service planning and ORB work. |
| 33 | <p>Orbital services</p> <p>There is a dense network of services around each centre which provide good opportunities for orbital movement between adjacent centres. The number of direct bus links over longer distances is more limited and interchange is needed. The balance of provision reflects the balance of passenger trips, which are predominantly short. If this balance changes (for example as the result of intensification of suburban centres) then, as part of its' planning process, TfL should consider whether any opportunities exist for more provision of affordable and effective, longer-distance bus links. The potential for express orbital services should be considered by TfL at a strategic, multi-modal level (in line with the aspirations of the Mayor's Statement of Intent).</p> | <p>Outcome of X26 trial and proposal for better access to information on suburban bus services were presented to the Mayor July 2009.</p> <p>Specific opportunities may be identified through sub-regional forums.</p> |
| 34 | <p>Express services</p> <p>The opportunity for significantly reducing cost through express operations appears limited. Where opportunities exist, TfL should consider them as part of its planning process.</p> | No further action required. Specific opportunities may be identified through sub-regional forums. |