

# STATES OF JERSEY



## **BUS FARES 2015: REVIEW (P.35/2015) – COMMENTS**

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**Presented to the States on 8th May 2015  
by the Minister for Transport and Technical Services**

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**STATES GREFFE**

## COMMENTS

Deputy G.P. Southern of St. Helier has lodged a proposition *“to request the Minister for Transport and Technical Services to –*

- (a) review his policy on fare pricing for 2015; and*
- (b) renegotiate the terms of the agreement between the Minister and CT Plus Jersey; and*
- (c) bring to the States for agreement a revised policy which conforms to the States’ anti-inflation policy”.*

In his Report, Deputy Southern puts forward a contention that the Minister has agreed to fare rises that amount to a stealth tax on bus users. He maintains that this not only ignores the States’ anti-inflation policy, but breaches the Minister’s duties defined in Article 14(2)(a) of the Motor Traffic (Jersey) Law 1935 –

*“to protect and further both the short-term and long-term interests of the users of omnibus services”.*

Furthermore, he maintains that a *“majority of users rely”* on cash and assumes that this proportion will remain constant.

The Proposition neglects States’ manpower implications and maintains that the cost of this renegotiation of the 2013 Bus Operator’s Contract should not exceed the Deputy’s estimate of £400,000-worth of foregone revenue.

None of this is accepted.

LibertyBus, the operator, has commercial risk and freedom, and is incentivised to increase passenger numbers to meet KPIs and generate profit for re-investment. This formula has proven to be successful, with a remarkable total passenger growth of 18.2% since the start of the Contract just over 2 years ago, while at the same time providing £1.4 million-worth of additional services at no cost or risk to the taxpayer.

LibertyBus is free to propose a fare structure and pricing policy to the Minister at any time. The Minister does not set LibertyBus’ fare structure or pricing policy. However, the Minister can influence LibertyBus’ proposals by ‘agreement’. Failure to reach agreement can result in the determination of the Contract and or claims for damages.

Taking cash fares can slow down bus loading and can cause services to become unreliable. Pre-paid smartcard ticketing reduces boarding times per passenger, assisting with the punctuality of bus routes. The Minister accepts the benefit of smartcard payments and that making them cheaper will encourage change away from cash payment, as demonstrated in London, with the Oyster Card, where cash is no longer used.

However, he is mindful that some users will need time to adjust. In this instance, by agreement, the Minister prevailed upon LibertyBus to adopt a more incremental approach to increasing cash fares and discounting card fares than was originally proposed.

In his report on the previous 2003 Bus Operator's Contract, the former Comptroller and Auditor General (CAG) concluded: *"there was insufficient risk associated with the contracts from the contractor's perspective. There was insufficient benefit for the contractor to justify investing in improved performance and, as a result, there has been little incentive for improvement"*. Due to this, he found operational change largely stagnated between 2003 and 2012.

This lesson was taken on board in the 2013 Bus Operator's Contract, it was recognised that TTS needed to shift the risk profile and provide the real incentives that would allow a bus operator the freedom to apply their commercial acumen to grow patronage at no burden to the taxpayer, and allowing TTS to concentrate on regulation.

The responses to Deputy Southern's specific points are –

- (a) Under the 2013 Bus Operating Contract, the fare policy is not that of the Minister. Bus fares ceased to be a "States charge" on the expiry of the 2002 bus contract, in December 2012.
- (b) To transfer the revenue risk back to the States would be a retrograde step, expensive, contrary to the advice of CAG and would impede service development.
- (c) The revised fare structure is not intended to be inflationary; indeed, LibertyBus estimated that the price reductions offered on pre-paid travel products would offset the increases to on-bus cash fares and the fare structure would be revenue-neutral.

#### Summary of history of bus fares

<b>Single cash fares</b>							
<b>On-bus, cash</b>	<b>pre-2010</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Band A	£1.00	£1.10	£1.10	£1.20	£1.20	£1.30	£1.50
Band B	£1.50	£1.60	£1.70	£1.70	£1.70	£1.80	£2.00
Child	£0.50	£0.60	£0.60	£0.70	£0.70	£0.80	£1.00
<b>Avanocard Pay-as-you-go rates, 2014 to 2015</b>							
<b>Pay-as-you-go</b>	<b>pre-2010</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Zone A	-	-	-	-	£1.20	£1.20	£1.30
Zone B	-	-	-	-	£1.70	£1.70	£1.60
Child	-	-	-	-	£0.70	£0.70	£0.75
<b>Unlimited travel rates, 2013 to 2015</b>							
<b>Unlimited</b>	<b>pre-2010</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
Weekly	-	-	-	-	£20.00	£19.50	£15.00
Monthly	£47.25*	£50.40*	£50.40*	£50.40*	£52.00	£49.00	£45.00
Annual	£496.00	£537.35	£537.35	£537.35	£537.35	£537.35	£495.00
* Nearest equivalent = Connex commuter pass allowing two journeys per day							

It should also be noted, the partial quotation of Article 14(2)(a) in Deputy Southern's report actually relates to promoting commercial competition and should read –

*“... In furtherance of that duty, the Minister shall perform his or her functions under this Part in a manner that is best calculated –*

*(a) to protect and further both the short and long-term interests of the users of omnibus services, and to do so, wherever the Minister considers it appropriate, by promoting competition among the providers of those services;...”*

This was demonstrably achieved through the commercial tender for the 2013 Bus Operator's Contract, which LibertyBus, a charitable Social Enterprise, won.

The Proposition states that a “majority of users rely” on cash and assumes that this proportion will remain constant. The world is changing and is moving away from reliance on cash payments. The desire is to gradually reduce the level of on-bus cash payment.

The Transport and Technical Services Department's estimates of cost for renegotiating the terms of the Contract differ and assuming fare risk differs from Deputy Southern's Proposition.

The annual cost of the proposed Contract bus fare review is estimated at £450k per annum for lost revenue with overheads, plus legal fees in the first year.

In addition, the unavoidable cost of assuming the revenue risk for service improvements since 2013 would be a minimum of an additional £650k per annum.

Thus, the total cost to the States of Jersey would be £1.1 million per year or a minimum reduction of 25% in services.

Most importantly, the impetus for innovation for passenger further growth within the Contract would be removed.

Notwithstanding any of the above, LibertyBus is a not-for-profit charitable Social Enterprise, should additional revenues be inadvertently raised through the fare changes. The Contract provides for 50% of the additional revenue generated to be re-invested into the Island in the form of community transport services, and 50% to be provided to TTS to reduce the public subsidy required, offsetting reductions in budget which would otherwise result in service reductions. Of course, if the fare changes result in a deficit, the loss will be at LibertyBus' commercial risk.

**Accordingly, the Minister for Transport and Technical Services urges States Members to reject this proposition.**