

**Title:** Bus Service Improvement Plan – Bus Fare Cap  
**Report of:** Heather Jones, Head of enhanced Partnerships  
**Portfolio:** Transport

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## Report Summary

At the October 2024 budget, the Government announced that the national bus fare cap would increase from £2 to £3 from the 1 January 2025. The fare increase has the potential to put a strain on finances for many in the region, so agreements with bus operators are in place to use additional Bus Service Improvement Plan funding to cap single fares at £2.50. The purpose of this report is to request a delegated decision to enable the Chief Executive to approve and publish the updated Capped Fare Scheme.

At the extraordinary North East Combined Authority (North East CA) Cabinet meeting on 10 December 2024, Cabinet authorised the allocation of BSIP funding to introduce a £2.50 cap for adult single bus fares for the duration of 2025. This approval included the delegation ‘In consultation with the Mayor, Monitoring Officer and Chief Finance Officer to enter into associated reimbursement arrangements with bus operators for implementation of this fare cap.

## Recommendations

The Chief Executive is recommended to:

To approve and publish the updated Capped Fare Scheme.

### A. Summary of Investment Proposal (Context)

#### 1. Background

- 1.1 In January 2023, a fare cap was introduced, funded by central Government, limiting the cost of single journey bus tickets in England to a maximum price of £2. At the Chancellor’s budget in 2024, it was announced that this fares cap will increase on the 1 January 2025 to £3, and that this new cap will be in place until 31 December 2025. Government have indicated no plans to continue capping bus fares after this date.
- 1.2 In the North East CA region, the £2 price cap has existed alongside a series of locally implemented and funded fares introduced through a mechanism known as a Capped Fares Scheme. The Capped Fares Scheme is a statutory arrangement allowing a maximum fare to be implemented and reimbursement agreements entered into with the bus operators. Participation in the scheme is voluntary and reimbursement is on the principle of “no better, no worse”, allowing operators to receive compensation for the “shadow fare” they would have charged if the scheme was not in place.
- 1.3 The existing products covered in the Capped Fares Scheme are the following:

Ticket Name	Price	Scope
21 & under Single	£1	Single capped at £1 for customers 21 & under
21 & under Day	£3	Unlimited multi-operator, multimodal day tickets capped at £3 for customers 21 & under
Durham Day Rover	£4	Unlimited multi-operator day tickets capped at £4 for adults in County Durham

Northumberland Day Rover	£5	Unlimited multi-operator day tickets capped at £5 for adults in Northumberland
Tyne & Wear Day Rover	£6	Unlimited multi-operator, multi-modal day tickets capped at £6 for adults in Tyne & Wear
TNE Day Saver	£6.80	Unlimited multi-operator, multi-modal day tickets capped at £6.80 for adults regionwide

- 1.4 The region has funding to develop bus initiatives from the Bus Service Improvement Plan (BSIP) funding. A total of £44.7m revenue will be available in the 2025-2026 financial year, and this is made up of an estimated BSIP revenue not used during 2024-25 carried into 2025-26 of £21.1m, and £23.6m allocation from the Chancellor's Autumn budget for 2025-26.
- 1.5. At the extraordinary North East Combined Authority (North East CA) Cabinet meeting on 10 December 2024, Cabinet authorised the allocation of BSIP funding to introduce a £2.50 cap for adult single bus fares. This initiative is to start on 1 January 2025 and be in place for the duration of 2025.
- 1.6 Following cabinet approval of this allocation of funding, the North East CA needs to adjust the Capped Fares Scheme to set out the reimbursement arrangements for the adult single £2.50 cap.

## **B. Impact on North East Combined Authority Objectives**

This proposal aligns with the North East CA objectives, BSIP objectives and draft transport plan objectives by:

- Making bus services accessible and appealing to those living, working and learning in the North East, helping to close the health and life expectancy gap within the region.
- Keeping bus fares low to enable those living, working and learning in the North East to have the best possible access to opportunity to build the social, economic and digital infrastructure of the region.
- Providing a more affordable and integrated bus network to reduce social polarisation across the region, including transport social exclusion, through improved access to social and economic opportunities, such as employment, education and leisure. This will enable people to thrive with new skills and aspirational jobs to improve quality of life. Improved bus provisions will contribute to an increased modal share of sustainable options, which in turn will reduce car dependency creating a greener North East.

## **C. Key risks**

At this stage, agreement has been reached with bus operators in principle, however the exact terms and conditions of the bus operators participating in the scheme have yet to be fully agreed, which presents a risk that operators may not agree to enter the capped fares scheme. Officers are continuing to conclude these discussions satisfactorily.

There is a risk that bus fares may have to increase substantially from 1 January 2026 as there is no confirmed funding to reimburse operators for a Capped Fare Scheme from that date. Mitigation of this risk will be partly contingent on the trajectory of bus funding following the Comprehensive Spending Review. We will actively monitor the risks and potential mitigations of this and keep Cabinet informed through the course of the proposed funding period.

A further risk exists because the forecasts of costs presented in this paper are based on modelled data. Passengers, and therefore bus ticket products, may act or perform differently to the modelling assumptions. Also circumstances beyond the control of North East CA and bus operators may either

positively or negatively impact passenger numbers. This is mitigated by applying “worse case” assumptions within modelling to allow reasonable contingency. i.e. 100% increase in sales of some BSIP day tickets.

An additional risk occurs as the introduction of the £2.50 fare cap is likely to utilise a greater proportion of BSIP funding that previously planned. This means that there will be limited contingency funding is available in the event of operators seeking funding to maintain the commercial network if rising operational costs cause routes to become unviable. Through the continued monitoring of the cash flow of the scheme and frequent dialogue with bus operators, Nexus, Durham and Northumberland County Council officers, we will manage any use of this limited contingency if required.

A final delivery risk is that timescales are tight to implement a solution by 1st January 2025 and small-to medium-size operators may not be able to implement this solution in time. Customers using these services would experience a staggered approach to the cap being applied. It is proposed discussions with the smaller operators would be undertaken as quickly as possible to mitigate this.

These risks should be considered against the backdrop of a “do nothing” scenario which will have implications on the amount of BSIP funding required through significant movement over to our BSIP products. A “do nothing” scenario will also likely have a detrimental impact on our objectives of growing bus patronage, as increased fares will stretch budgets of passengers in the current cost of living crisis. This is expected to undo some of the good progress made in increasing bus ridership since the Covid-19 pandemic.

#### **D. Financial and other resources implications**

Funding of the £2.50 cap from BSIP funding is dependent upon Cabinet’s approval in January of the adjustment of other BSIP fares. In the event that approval is not forthcoming, the cap would be funded through alternative sources: most likely accrued interest; or contingency or strategic reserves.

The Department for Transport (DfT) have indicated, that if a Combined Authority uses BSIP funding to intervene to mitigate the impact of the increase in the national cap to adult single bus fares, they will be required to take over the management of the reimbursement process for the £3 Bus Fare Cap Grant within their geographical area. This is subject to confirmation but has the potential implication to increase the number of reimbursement payments associated with fares that would have been priced commercially above £3. In this instance, it is expected the amount of funding required by the operators and the associated payment process would be agreed and therefore would not necessitate further commercial discussions between the Combined Authority and the operators. There is no financial risk to the North East CA for taking on this task and the additional administrative work can be absorbed by the current capacity within the team.

The cost to cap fares that would have been commercially priced between £2.51-£2.99 is estimated at £6.146m per year, while the national £3 cap is in place. Without the £3 cap in place, from January 2026, we anticipate this cost would be £13.8m per year.

#### **E. Legal implications**

The Monitoring Officer has been consulted on this report.

The adjustment of the Capped Fares Scheme is required to account for a £2.50 single cap, which has been drafted by external legal support DLA Piper.

The Capped Fare Scheme includes a dispute resolution procedure which will apply to any matter arising from the Capped Fare Scheme which cannot be resolved by agreement between the relevant parties representatives within 5 working days of the dispute arising. The North East CA have a contract in place with a supplier to undertake this dispute resolution if required.

#### **F. Equalities Implications**

While everyone will benefit from increased availability of cheaper, reliable and more attractive bus services we know that this proposal will have a larger beneficial impact on certain groups. This includes older people, women, ethnic minority groups and disabled people, all of whom have higher rates of bus use than the national average. BSIP initiatives, such as cheaper fares with more reliable and frequent services will give greater freedom to many people to access jobs, education, healthcare and social support

## **G. Consultation and engagement**

Proposals for this fares intervention have been developed following discussion and communication with Transport Advisory Board, Local Authority Representatives, bus operators, and discussion between the Mayor and Cabinet.

## **H. Appendices**

North East Mayoral Combined Authority Capped Fares Scheme

## **I. Background papers**

The BSIP is available on the North East Combined Authority website [Bus Service Improvement Plan Schemes \(northeast-ca.gov.uk\)](https://www.northeast-ca.gov.uk/bus-service-improvement-plan-schemes)

National Bus Strategy [bus-service-improvement-plans-guidance-to-local-authorities-and-bus-operators-2024.pdf \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/115444/bus-service-improvement-plans-guidance-to-local-authorities-and-bus-operators-2024.pdf)

## **J. Contact officers**

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## **K. Glossary**

BSIP – Bus Service Improvement Plan  
DfT – Department for Transport  
LTA – Local Transport Authority  
North East CA – North East Combined Authority

## **L. Sign-off**

1) Cabinet Member: Yes	2) Director/Head of Service: Yes	3) Director of Finance and Investment: Yes	4) Monitoring Officer: Yes
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