

Subsidy Advice Unit Report on the Network Support Grant scheme

Referred by Transport Scotland

28 March 2024

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. Introduction

- 1.1 This report is an evaluation prepared by the Subsidy Advice Unit (SAU), part of the Competition and Markets Authority, under section 59 of the Subsidy Control Act 2022 (the Act).
- 1.2 The SAU has evaluated Transport Scotland's assessment of compliance of the Network Support Grant (NSG) scheme, with the requirements of Chapters 1 and 2 of Part 2 of the Act (the Assessment).¹
- 1.3 This report is based on the information provided to the SAU by Transport Scotland in its Assessment and evidence submitted relevant to that Assessment.
- 1.4 This report is provided as non-binding advice to Transport Scotland. The purpose of the SAU's report is not to make a recommendation on whether the scheme should be implemented, or directly assess whether it complies with the subsidy control requirements. Transport Scotland is ultimately responsible for making the scheme, based on its own assessment, having the benefit of the SAU's evaluation.
- 1.5 A summary of our observations is set out at section 2 of this report.

The referred scheme²

- 1.6 The NSG is a Transport Scotland subsidy scheme, with the objective 'to support bus operators running local bus services in Scotland to keep fares lower and the bus network more extensive than would otherwise be the case'. As well as contributing to the maintenance of bus networks across Scotland, Transport Scotland explained that the NSG also supports operators of Community Transport services, allowing people who cannot make use of conventional bus services to access local services.
- 1.7 Transport Scotland explained that this makes public transport 'more accessible and affordable to a broader population leading to positive social outcomes, including improved connectivity, enhanced mobility and reduced social isolation for residents, particularly in under-served and remote urban and rural communities, having positive impacts on social equity and accessibility'.
- 1.8 The NSG scheme has been in place since 1 April 2022 and to date has been awarded on a rolling annual basis. This referral relates to operation of the NSG from 1 April 2024 over a five-year period ending on 31 March 2029. Under the

¹ Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

² [Referral of the proposed Network Support Grant by Transport Scotland - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/referrals/proposed-network-support-grant-by-transport-scotland).

NSG, subsidies are provided to approximately 300 bus operators across Scotland. The NSG is paid as a subsidy of pence per kilometre per bus operated (currently 14.4 pence per kilometre).

- 1.9 Transport Scotland estimates that the total funding package over the five-year duration of the scheme is expected to be around £250 million (about £50 million per year).
- 1.10 The NSG is a discretionary grant paid under section 38 of the Transport (Scotland) Act 2001 by Transport Scotland on behalf of Scottish Ministers. The grant is payable only on a local bus service³ or a Community Transport service.⁴
- 1.11 Transport Scotland explained that bus operators in Scotland have an extensive history of receiving similar grants. Devolved responsibility for payment of the predecessor to the NSG scheme, the Bus Service Operators Grant (BSOG),⁵ was transferred to Transport Scotland in 2010 and the BSOG continued to be paid to operators until the development of the NSG scheme in 2022.⁶

SAU referral process

- 1.12 On 9 February 2024, Transport Scotland requested a report from the SAU in relation to the NSG scheme.
- 1.13 Transport Scotland explained⁷ that the NSG scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.⁸ In particular, Transport Scotland explained that at least one enterprise is expected to receive more than £10 million over the duration of the scheme.
- 1.14 The SAU notified Transport Scotland on 15 February 2024 that it would prepare and publish a report within 30 working days (ie on or before 28 March 2024).⁹ The SAU published details of the referral on 15 February 2024.¹⁰

³ [Section 2](#) of the Transport Act 1985.

⁴ Department of Transport Guidance, [Section 19 and 22 permits and obligations: not for profit passenger transport](#), 30 December 2020.

⁵ See in particular: <https://www.transport.gov.scot/public-transport/buses/bus-services-operators-grant/>.

⁶ BSOG was suspended during the coronavirus (COVID-19) pandemic and was replaced by emergency Covid Support Grant funding.

⁷ In the information provided under [section 52\(2\)](#) of the Act.

⁸ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.

⁹ [Sections 53\(1\) and 53\(2\)](#) of the Act.

¹⁰ [Referral of the proposed Network Support Grant by Transport Scotland - GOV.UK \(www.gov.uk\)](#).

2. Summary of the SAU's observations

- 2.1 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 2.2 As an overarching observation, we refer throughout this report to explanations in the Assessment which are unsupported by relevant evidence or where only limited evidence is provided in support. Transport Scotland acknowledges in the Assessment that it has 'limited data and supporting evidence related to the provision of bus services', and explains that it intends to issue a call for evidence in 2024-25 to 'address weaknesses and identify appropriate metrics for on-going monitoring and evaluation that are proportionate in relation to the objectives of scheme'. Transport Scotland also explained that one reason why the evidence it could provide is limited relates to the fact that bus services operate 'in a deregulated market, with detailed information on service provision being considered commercially sensitive and held by individual operators' and with 'central government having no involvement in bus service provision, it has not been appropriate to request commercially sensitive information from bus operators'.
- 2.3 In our view, the Assessment suffers generally from a lack of references to credible supporting evidence. In addition, the fact that certain information might be considered commercially sensitive should not prevent a public authority from requesting the information it needs from third parties.
- 2.4 In addition to this overarching observation, in our view:
- (a) In Step 2, the Assessment could be strengthened by the provision of further evidence, both quantitative and qualitative, from a broader range of stakeholders, to support the counterfactual identified in the Assessment. In relation to the additionality provided by the NSG, the Assessment might have considered the extent to which funding is being provided to cover day-to-day costs on routes that would otherwise be profitable (absent the NSG), and whether such funding could be justified by demonstrating that it is clearly linked to the policy objective in line with the Statutory Guidance.
 - (b) In Step 3, while we consider that the Assessment contains an appropriate consideration of the proportionality of the NSG, it could have been improved by the provision of further analysis relevant to the Assessment. In our view, the Assessment places too much reliance on the longstanding nature of subsidies to the bus industry in order to demonstrate how the NSG minimises distortion of competition and investment. Instead, we consider that the Assessment could be improved by carrying out a proportionate competitive

analysis, which would include identifying the key beneficiaries of the NSG scheme, the overall market structure and how the level of concentration in the industry impacts competition.

- (c) In Step 4, the Assessment could be improved by explaining how, in carrying out the balancing test, all of the claimed benefits of the subsidy are linked to the policy objective. The balancing test could also be improved if a proportionate competition analysis had been carried out under Step 3, and then applied to the balancing test under Step 4.

2.5 Our report is advisory only and does not directly assess whether the NSG scheme complies with the subsidy control requirements. The report does not constitute a recommendation on whether the scheme should be implemented by Transport Scotland. We have not considered it necessary to provide any advice about how the proposed scheme may be modified to ensure compliance with the subsidy control requirements.¹¹

¹¹ [Section 59\(3\)\(b\)](#) of the Act.

3. The SAU's Evaluation

3.1 This section sets out our evaluation of the Assessment, following the four-step structure used by Transport Scotland.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

3.2 The first step involves an evaluation of the Assessment against:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to (a) remedy an identified market failure or (b) address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.¹²

Policy objective

3.3 The Assessment identifies the policy objective of the NSG as 'to support bus services at a national level to keep the bus network more extensive and fares lower than they would otherwise be, ensuring that affordable and accessible services are available to the entire population regardless of location or economic status'.

3.4 We consider that the policy objective is clearly set out.

Market failure and equity objective

3.5 The Statutory Guidance sets out that:

- (a) market failure occurs where market forces alone do not produce an efficient outcome;¹³
- (b) equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.¹⁴

¹² Further information about Principles A and E can be found in the [Statutory Guidance](#), paragraphs 3.32 to 3.56 and the [SAU Guidance](#), paragraphs 4.7 to 4.11.

¹³ [Statutory Guidance](#), paragraphs 3.35 to 3.48.

¹⁴ [Statutory Guidance](#), paragraphs 3.49 to 3.53.

Market failure

- 3.6 The Assessment explains that the NSG has been in place for many years and that without the NSG, the bus market in Scotland would face the challenge of smaller operators potentially leaving the market resulting in increased ‘instances of market failure’ which would have a direct detrimental impact to the public. The Assessment identifies three key impacts that would result from the loss of the NSG:
- (a) large amounts of service reductions;
 - (b) fare rises; and
 - (c) some smaller operators going out of business.
- 3.7 The evidence that a project or activity would not go ahead in the absence of subsidies (in this case leading to service reductions, fare rises and operators going out of business) does not in itself constitute a market failure.
- 3.8 However, in line with the Statutory Guidance,¹⁵ the benefits such as a reduction of emissions and other health benefits, benefits to the economy, and the reduction of congestion discussed in the Assessment are all positive externalities which could lead to an identified market failure. That is, the providers of bus services may not fully take account of the benefits of addressing these when considering the costs of running commercial services.
- 3.9 In our view, the Assessment details plausible market failures, but could be strengthened by focusing on the particular causes of market failure rather than outcomes, such as service reductions.

Equity objectives

- 3.10 The Assessment states that ‘the policy seeks to reduce inequalities by addressing disparities between different groups in society and geographic locations’. It discusses the increased need for public transport in rural areas, for individuals with lower incomes and for younger people and states that the NSG scheme will reduce the disparity felt by these groups by ‘supporting all services at a national level to increase availability and affordability’.
- 3.11 The Assessment refers in particular to evidence from the *2020 Scottish Household Survey*¹⁶ to demonstrate that individuals with lower incomes are likely to be more reliant on public transport services. The Assessment also notes the fact that Scotland has a relatively low population density compared to England, with a

¹⁵ [Statutory Guidance](#), paragraphs 3.22 to 3.26.

¹⁶ [Scottish Household Survey 2020](#).

higher proportion of people living in rural areas, and it refers to ‘anecdotal evidence’ that ‘rural and remote areas have seen higher fare increases and reductions in service levels over 2023 than elsewhere, with service reductions estimated to be as high as 35% in some areas’.

3.12 In our view, the Assessment sets out clear equity objectives.

Consideration of alternative policy options and why the NSG scheme is the most appropriate and least distortive instrument

3.13 In order to comply with Principle E, public authorities should consider why the decision to give a subsidy is the most appropriate instrument for addressing the identified policy objective, and why other means are not appropriate for achieving the identified policy objective.¹⁷

3.14 Transport Scotland notes that, prior to the NSG, bus operators received a different form of subsidy support, BSOG, which it considers to be a similar type of grant. Citing research on the benefits of BSOG, the Assessment explains that the NSG scheme is therefore appropriate and effective.

3.15 The Assessment sets out that the bus industry is a deregulated market in Scotland, with most powers to influence bus provision devolved to local authorities by the Transport Act 1985.¹⁸ The Assessment explains, therefore, that the alternative instrument of introducing regulations to achieve the policy objective is not currently possible and would require a significant shift in legislation and policy direction away from the current approach. In addition, even if such regulations were to be introduced, Transport Scotland stated that higher levels of funding would still be required.

3.16 The Assessment also considers the use of public service contracts, as well as an approach of providing funding directly to local authorities. These options were rejected as they would involve transferring risk to central government, which Transport Scotland concludes would ultimately result in a higher financial cost. Loans are also considered an inappropriate instrument for the NSG scheme.

3.17 Finally, the Assessment considers the appropriateness of the NSG scheme against other measures to support alternative forms of public transport (such as rail). However, for a variety of reasons such as size of the network and cost, it concludes that the NSG scheme is the most appropriate option to achieve the policy objective.

¹⁷ [Statutory Guidance](#), paragraphs 3.54 to 3.56.

¹⁸ [The Transport \(Scotland\) Act 2019](#) will come into force later in 2024, and will grant Scottish local authorities additional powers such as franchising options.

3.18 In our view, the approach taken is appropriate, and the reasoning is clear as to why the alternative options considered were not suitable. However, the Assessment might be improved if the conclusions reached were supported by relevant supporting evidence.

Step 2: Ensuring that the scheme is designed to create the right incentives for the beneficiary and bring about a change

3.19 The second step involves an evaluation of the assessment against:

- (a) Principle C: First, subsidies should be designed to bring about a change of economic behaviour of the beneficiary. Second, that change, in relation to a subsidy, should be conducive to achieving its specific policy objective, and something that would not happen without the subsidy; and
- (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.¹⁹

Counterfactual assessment

3.20 In assessing the counterfactual, the Statutory Guidance explains that public authorities should assess any change against a baseline of what would happen in the absence of the subsidy (the 'do nothing' scenario).²⁰ This baseline would not necessarily be the current 'as is' situation (the 'status quo') but what would likely happen in the future – over both the long and short term – if no subsidy were awarded.

3.21 The Assessment explains that subsidies in the form of the NSG scheme, and before it the BSOG, have been built into bus operating models for over ten years, and without such funding, many bus services would be commercially unviable resulting in higher fares, service cancellations and smaller operators going out of business. It notes that the secondary impacts of the NSG scheme ending would be job losses and a reduced ability to invest in service improvements or in zero emission buses.

3.22 Further, the Assessment notes that a small number of operators (eight out of approximately 300 beneficiary operators) were invited by Transport Scotland to give their views on how a cessation of the NSG would impact their businesses. The five bus operators that responded told Transport Scotland that, while they would seek to maintain current service levels, they would expect an increase in fares as well as cuts to marginal or loss-making services in the absence of the

¹⁹ Further information about the Principles C and D can be found in the [Statutory Guidance](#), paragraphs 3.57 to 3.71 and the [SAU Guidance](#), paragraphs 4.12 to 4.14.

²⁰ [Statutory Guidance](#), paragraphs 3.60 to 3.62.

NSG. The Assessment explains that marginal or loss-making services include rural or evening and weekend services which would disproportionately impact communities reliant on these services for work, further education, health and other essential services.

- 3.23 In addition, the Assessment explains that, based on the evidence gathered from these bus operators, tender costs of Local Transport Authorities are likely to increase significantly, by up to 100%, in the absence of the NSG, which would be unaffordable for a majority of local authorities resulting in further cuts to services.
- 3.24 The Assessment also refers to the example of the fare increases and service reductions that occurred following the removal of the additional funding provided to the transport industry to recover from the Covid-19 pandemic as evidence of the likely counterfactual.
- 3.25 In our view, the Assessment clearly explains the counterfactual which is supported by some (mostly qualitative) evidence. We consider that the Assessment could be improved by the provision of more qualitative and quantitative evidence from a wider range of bus operators, local authorities and other interested stakeholders.

Changes in economic behaviour of the beneficiary

- 3.26 The Statutory Guidance sets out that subsidies must bring about something that would not have occurred without the subsidy.²¹ In demonstrating this, public authorities should consider the likely change or additional net benefit.
- 3.27 The Assessment, whilst noting a limitation in monitoring and impact-related evidence, sets out that the NSG incentivises bus operators through its design to run more services and increase accessibility.
- 3.28 The Assessment explains that the NSG rewards efficiency gains by operators, with the payment rate applicable only for certified kilometres operated. The Assessment states that the NSG promotes streamlining of costs of running routes, improved scheduling, and cost efficiencies in service delivery.
- 3.29 We consider that the Assessment clearly sets out the expected change in economic behaviour of the bus operators as a result of the NSG but in our view there is a lack of substantive evidence to support the explanation. We consider that the Assessment could be strengthened by the provision of further quantitative evidence regarding the change in economic behaviour of the bus operators.

²¹ [Statutory Guidance](#), paragraph 3.64.

Additionality assessment

- 3.30 According to the Statutory Guidance, ‘additionality’ means that subsidies should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy.²² For schemes, public authorities should also, where possible and reasonable, ensure the scheme’s design can identify in advance and exclude those beneficiaries for which it can be reasonably determined that there is unlikely to be additionality.²³
- 3.31 The Assessment explains that the NSG contributes to bus operators’ operating costs associated with running routes that would otherwise be unprofitable and are ‘unlikely’ to have been funded in the absence of the scheme. Instead, without the NSG, bus operators would likely reduce service levels or increase bus fares to compensate for the shortfall.
- 3.32 Having regard to the fact that NSG funding is available to operators of all routes, whether profitable or unprofitable, the Assessment could be strengthened by explaining what, if any, consideration was given to designing the parameters of the scheme to minimise the possibility of subsidising profitable routes and why Transport Scotland concluded that the funding of operating costs for profitable routes was, in its view, consistent with additionality. To the extent that a proportion of the subsidy is used by bus operators to fund day-to-day expenditure on routes that would otherwise be profitable, the Assessment could have considered, in line with the Statutory Guidance, whether such funding is justified by demonstrating that it is directly linked to the NSG’s policy objective (specifically including lower fares across the whole network).²⁴

Step 3: Considering the distortive impacts that the scheme may have and keeping them as low as possible

- 3.33 The third step involves an evaluation of the assessment against:
- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and
 - (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.²⁵

²² [Statutory Guidance](#), paragraphs 3.63 to 3.67.

²³ [Statutory Guidance](#), paragraph 3.69.

²⁴ [Statutory Guidance](#), paragraph 3.67.

²⁵ Further information about Principles B and F can be found in the [Statutory Guidance](#), paragraphs 3.72 to 3.108 and the [SAU Guidance](#), paragraphs 4.15 to 4.19.

Proportionality

- 3.34 The Assessment considers proportionality with respect to the policy objective and notes that the subsidies paid under the NSG scheme are only payable on 'live' kilometres operated (those where passengers are carried). The Assessment states that the subsidy only represents a small proportion of operating costs, equating to 6% of average operator costs per kilometre in 2021-22, which minimises the risk of over-compensating operators and ensuring that subsidies paid under the NSG scheme are proportionate to the level of service provided. It also notes that in 2021-22 the Scottish Government provided £51 million in support to bus operators in Scotland, and that total revenues were £594 million (with £265 million of that being from commercial fee-paying passengers).
- 3.35 The Assessment states that the scheme directly impacts fares and commercial viability for all services and complements commercial incentives to increase the scale and efficiency of services and maintain commercial viability. It further notes that service levels have been reduced and fares increased since 2022 when inflationary pressures increased operating costs.
- 3.36 The Assessment notes that only data on annual kilometres are currently collected and, while other data are held by local government, they are unavailable to Transport Scotland due to confidentiality agreements. It further notes that Transport Scotland had asked a limited number of small and large operators for some basic information on how the subsidy impacts fares and service levels (as described in paragraph 3.22).
- 3.37 We consider that the approach to Principle B is appropriate, in particular the explicit consideration against the policy objective. However, in our view, the Assessment could be improved by giving further details of any additional analysis undertaken (noting, in particular, the different basis on which subsidies are provided to the bus industry in other UK nations) and how this might impact proportionality.
- 3.38 We also note under consideration of Principles C and D that the removal of additional funding provided to operators during the pandemic led to increased fares and potential reductions in kilometres operated. The Assessment would be improved by considering whether this evidence as well as the fall in real terms support over a longer period, could help inform the assessment of proportionality.
- 3.39 Further, the date provided for the end of the subsidy is when Transport Scotland expects to have in place wider policy interventions to support patronage growth and mitigate the need for ongoing subsidy. In considering the proportionality of the subsidy, the Assessment could take account of the potential risks to delivery of these interventions.

Design of subsidy to minimise negative effects on competition and investment

- 3.40 The Assessment sets out the aspects of the subsidy design which safeguard against negative effects (the nature of the instrument, the beneficiaries, the timespan of the subsidy, the nature of costs covered, and performance criteria). The Assessment notes that the subsidy previously given to bus operators in Scotland was changed from a fuel duty subsidy to a per kilometre subsidy when Transport Scotland took over devolved responsibility for payment of the ongoing scheme from 2010.
- 3.41 The Assessment states that all operators need to meet the same eligibility requirements to obtain the subsidy, allowing it to be available to a large number of operators nationwide which minimises potential market distortion. The Assessment also considers alternative ways of making the payment, for example based on bus size, and concludes that paying the subsidy on a flat rate per kilometre is likely to be non-distortive and strike a balance between supporting the commercial market and achieving Transport Scotland's policy objectives.
- 3.42 In our view, the approach to Principle B is appropriate, but could be strengthened by providing analysis of different subsidy designs (perhaps informed by the change from a fuel duty subsidy to a per kilometre subsidy) and considering how they may alter competition impacts.

Assessment of effects on competition or investment

- 3.43 The Assessment notes that the subsidy is currently awarded to 294 bus operators, and that in 2021-22 those operators received £51 million from the equivalent BSOG subsidy. The subsidy rate has remained static at 14.4 pence per kilometre since 2012 (against average operating costs of 266 pence per kilometre). In 2021-22 bus operators also received £55 million for operating subsidised services, £223 million for carrying concessionary passengers and £265 million from commercial fare-paying passengers. The Assessment notes (under consideration of Principles C and D) that 90% of the subsidised kilometres were delivered by six operators.
- 3.44 The Assessment notes (under consideration of Principle E) that buses operate in a deregulated market, and that local authorities may subsidise socially necessary services. It states that a large proportion of smaller operators primarily run these services and may go out of business if there are cuts to those services. The Assessment also states that maintaining subsidies increases competition in the market.
- 3.45 The Assessment states that it is difficult to determine the competitive impact of the NSG scheme on other modes of transport such as trains, light rail and taxis as the market has adapted to the current level of grant awarded. It suggests this means

the continuation of the subsidy has a neutral impact on competition (and investment).

- 3.46 The Assessment notes (under consideration of Principles C and D) that support for bus provision is common across the UK and that removing the NSG scheme in Scotland would put Scottish bus operators at a disadvantage, creating negative effects on competition and investment within the UK.
- 3.47 In our view, the long history of subsidies in various forms to the bus industry does not mean that the NSG scheme has no market distortionary impact relative to the counterfactual – for instance, the Assessment indicates that it helps to keep smaller operators in business. Accordingly, the Assessment would be improved by identifying the key beneficiaries of the NSG scheme, the overall market structure and how the level of concentration impacts competition.²⁶ The Assessment could also have been improved by considering the impacts on other transport modes in more detail. This could have been informed by transport modelling or some other commensurate analytical approach.

Step 4: Carrying out the balancing exercise

- 3.48 The fourth step involves an evaluation of the assessment against subsidy control Principle G: subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on: (a) competition or investment within the United Kingdom; (b) international trade or investment.²⁷
- 3.49 The Assessment states that the NSG scheme supports 'bus services in areas where they might not otherwise be commercially viable and so contributes to more extensive network coverage, making public transport more accessible to a broader population'. It also states that bus services have 'positive impacts on connectivity' and that without the NSG, there is information from a number of bus operators to suggest that 'marginal or loss-making services' would be most at risk. The Assessment refers to the 'NSG's focus on fare affordability' which 'allows operators to maintain reasonable ticket prices, benefiting passengers who rely on public transport as their primary mode of travel'. It also refers to the environmental benefits of buses and the fact that a number of operators have noted that without the NSG there would be a 'reduced ability to invest in service improvements or zero emission buses, which would impact our ability to meet Climate Change obligations'.
- 3.50 In relation to potential negative effects, the Assessment explains that a 'potential distortion to competition and investment would only arise if the grant funding were

²⁶ For both commercial and tendered services.

²⁷ See [Statutory Guidance](#), paragraphs 3.109 to 3.117 and [SAU Guidance](#), paragraphs 4.20 to 4.22 for further detail.

to end' on the basis that the industry has been subsidised in various forms since the 1960s and that smaller operators would go out of business without the subsidy. The Assessment also refers to the fact that the 'short-term nature and annual funding approach' of the NSG scheme may not provide the stability and predictability to incentivise long-term investments; that it may create a risk of 'overreliance or dependency' on public funding which may reduce incentives for operators to 'seek alternative revenue streams or alternative cost-saving measures'; and the NSG scheme does not fully address underlying viability issues which means that complementary policies are needed to ensure long-term viability.

- 3.51 The Assessment states that the NSG scheme would not have any international impact given that it cannot be used for international travel.
- 3.52 Having set out both benefits and potential negative effects of the NSG scheme, the Assessment concludes that its benefits outweigh the negative effects.
- 3.53 In our view, the Assessment explains how the positive effects of the NSG scheme, in terms of supporting an extensive network, are linked to the policy objective of the NSG. However, it is not clear how all the claimed benefits of the NSG scheme are linked to its policy objective. For example, the Assessment does not, in our view, explain how either the positive impact on 'connectivity' or the stated environmental benefits, are linked to the policy objective. Moreover, while it may be relevant to the policy objective of the NSG scheme, in our view, it is not explained what is meant by the NSG's focus on 'fare affordability' or how this would be achieved.
- 3.54 In our view, the Assessment does not explain fully its conclusion that competition and investment would only be distorted if the NSG scheme were to end. The Assessment does not set out whether Transport Scotland has given consideration to the potential negative effects arising from the NSG scheme; for example, whether it gives rise to a risk of keeping inefficient operators in the industry or any effects that might arise from funding operating costs in relation to routes that would otherwise be profitable.

Other Requirements of the Act

- 3.55 This step in the evaluation relates to the requirements and prohibitions set out in Chapter 2 of Part 2 of the Act, where these are applicable.²⁸
- 3.56 Transport Scotland confirmed that it has not found any of the requirements of Chapter 2 to be relevant to its Assessment.

²⁸ [Statutory Guidance](#), chapter 5.

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