

Agenda Item	11
Report No	ECI/08/26

The Highland Council

Committee: **Economy and Infrastructure**

Date: **12 February 2026**

Report Title: **Highland Council – In-house Bus Service**

Report By: **Assistant Chief Executive - Place**

1 Purpose/Executive Summary

- 1.1 This report presents an update on progress and development made with Highland Council in house bus service since it commenced in January 2023, as well as an overview of further growth over the period.
- 1.2 Producing this report gives an overview of the growth and benefit to Highland communities of having an in-house bus team that can develop as well as act and respond to network challenges.
- 1.3 There are 3 main elements to the current in house bus model:-
 1. **School Contracts** – The in-house bus team provides several homes to school transport contracts at a costing model that is sufficiently better value than equivalent private sector costs.
 2. **Public Transport Services** – The in-house bus team provide several local bus services in the highlands that allow communities to be connected. This supports inclusion, healthcare appointments and local employment.
 3. **School Contracts (Hires)** – The in-house bus team provide schools with support in terms of transport provision to school trips, sports and other education outings at a low cost which is supporting Education budgets whilst allowing schools to support outings.

2 Recommendations

- 2.1 Members are asked to:-
 - i. **Note** the progress of the in-house bus service; and
 - ii. **Agree** the work to develop a new operating model for Highland Council Bus and Coach services with a report to be brought to the Council meeting May 2026.

3 Implications

- 3.1 **Resource** – Additional people resource has been recruited to support growth in the current in house bus service.
- 3.2 **Legal** – Highland Council currently operate from Section 22 permits. Section 22 permits are issued to bodies concerned for the social and welfare needs of one or more communities. They operate vehicles without a view to profit and use those vehicles to provide a community bus service. Section 22 permit vehicles, community bus services are 'local bus services' and can carry the public. Local bus services are defined as services using public service vehicles for the carriage of passengers by road at separate fares on which passengers may travel for less than 15 miles. This is restrictive in terms of the type of work Highland Council Bus Service can currently operate and does not allow for private hire type work.
- 3.3 **Risk** - This report highlights the risk associated with not having an in-house model that can react and respond to challenges in the public transport network that could leave communities without a bus service.
- 3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** – No implications are highlighted for this report.
- 3.5 **Gaelic** - No implications are highlighted for this report.

4 Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is an update report and therefore an impact assessment is not required.

5 Introduction

- 5.1 The Highland Council in-house bus team commenced in January 2023 with 10 vehicles. As Members will recall, this was set up to support rising costs in school contracts and allow Highland Council to have in house provision to manage costs.
- 5.2 Since January 2023 there has been steady growth in the in-house bus team and currently there are now 22 vehicles in the fleet, providing school contract services, public transport services and supporting education hires.

5.3 Whilst this report presents the progress of the in-house bus team, the below outlines the cost benefits of having such service to support home to school transport:-

Best Tendered Price of Contracts taken in-house in Jan 23		
MOL - Millburn Academy	1400/1	£801,669
Nairn Town & Cawdor PS	251	£384,609
Whitebridge - Inverness	301	£483,672
Foyers - Inverness	302	£264,630
Ft Augustus - GUHS	312 & 308	£227,248
Culbokie - Dingwall	404	£221,858
Previous contract price of additional contracts taken in-house		
Resolis PS & Cromarty - Dingwall	405	£249,710
Resolis PS	408	£380,000
Wick - Berriedale	918	£394,660
Ferness - Nairn - Auldearn	2500/1	£549,000
Coignafearn	300	£234,749
Torness - IRA	1300/10	N/A
Cabrich - Inverness	311	N/A
	Total	£4,191,805

The current running cost per annum of the above through our in-house bus team is £2,400,000, demonstrating clearly the substantial cost avoidance that has been achieved.

5.4 Highland Council in-house bus teams operate several public bus services throughout the Inverness area. The below figure sets out the number of passengers that have used these services:-

- Jan – Dec 2023 – 73,727;
- Jan – Dec 2024 – 85,465; and
- Jan – Dec 2025 – 135,839

The above passenger figures outline the growth in services, passenger numbers carried and how important the Highland Council in house bus team is to keep urban and rural communities connected.

6 Future Operating Model – Highland Bus

6.1 An Internal Audit was undertaken on the Highland Council in house Bus Service, which was reported to the Audit Committee on 7 May 2024. One of the recommendations of this audit report was that “a clear strategy (business and financial) for the in-house bus service should be developed to ensure it can benchmark the cost avoidance model and deliver the intended performance and outcomes.”

Whilst the figures above clearly demonstrate the financial benefits in terms of cost avoidance, the business strategy (and subsequent growth) of the service has been largely reactive to circumstances where contracts have been given up by private sector operators (such for example in Caithness and Inverness). Ongoing development work has been undertaken under the current structure of Highland Council in house bus. Funding has been secured through ScotZeb 2 funding to secure two fully electric buses and charging infrastructure. Delivery is expected early 2027 which is supported by recent introduction through ScotZeb 1 funding of 3 fully electric double deckers and an open top double deck within D&E Coaches.

- 6.2 This internal audit report was completed before the acquisition of D&E Coaches, which is detailed below. Whilst there has been positive feedback of the in-house operation from both customers and Members, the need for a long-term strategy (given the changed circumstances in respect of the purchase of D&E) remains and the proposed way forward is set out below.
- 6.3 As reported to Full Council on 12 December 2024, the Council were approached by privately owned Highland based bus company D&E Coaches with the opportunity to acquire. Members were advised that the acquisition of the company offered a more strategic opportunity for expanding and complementing the in-house service, whilst reducing costs and reducing the Council's vulnerability to further price increases. It was also seen as offering potential to maximise incidental business to public passenger transport services (including private hire) in a way which aligned with the Council's Local Transport Strategy. Following Council agreement, the purchase was concluded in February 2025.
- 6.4 Since the purchase, D&E Coaches has been trading as a separate commercial business to Highland Council, with two of the Assistant Chief Executives acting as directors. In the past 11 months D&E operating model and growth has been positive and has met the objectives of the Council's Business Case.
- 6.5 As indicated above, there remains an urgent a need to review and agree the future operating model for Highland Bus Operation, including potentially through the establishment of an Arm's Length External Organisation (ALEO). The work to develop this model is under development. Benchmarking activity, for example with other organisations such as Lothian Buses, is informing the process. A cross-service Officer Group has been established, with the intention of reporting to Council in May 2026.
- 6.6 Highland Council are reviewing other opportunities across the Highlands in terms of public transport services, and it is intended that progress on these will also be reported to the Council meeting in May 2026.

Designation: Assistant Chief Executive - Place

Date: 5 January 23026

Author: Paul Reid, Chief Officer Facilities & Fleet Management

Background Papers: None

Appendices: None