THE UK BUS INDUSTRY

SUSTAINABLE GROWTH THROUGH

STAKEHOLDING PARTNERSHIPS

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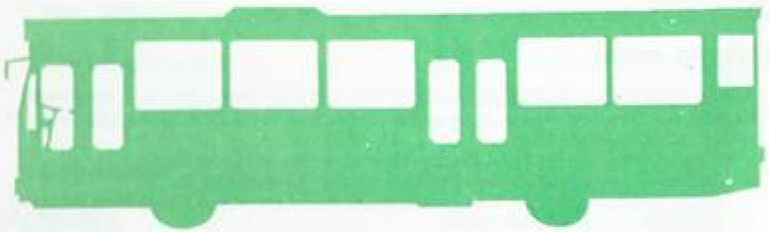

Occasional Paper 10
Scottish Transport Studies Group
Napier TRI, 66 Spylaw Road, Edinburgh, EH10 5BR

December, 1997 Price £ 5.00

SCOTTISH TRANSPORT STUDIES GROUP

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STSG Occasional Paper 10 by David Begg and Colin Smith

The UK Bus Industry : Sustainable Growth Through Stakeholding Partnerships

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The views in this Occasional Paper are those of the Authors. They are presented as a contribution to discussion and should not be taken as being endorsed by STSG.

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FOREWORD

This Occasional Paper is published at a time when the new government is reviewing its policy for the bus industry and for transport regulation. It review the industry since deregulation in 1986 and concludes that deregulation has not been the major factor in the continuing decline of bus usage. Decline has been caused principally by further rises in car ownership, cost/quality perceptions at the time of individual choices between car and bus use and continuing changes in land use patterns which have encouraged car use.

The Paper argues for fundamental review of these issues if the fall in bus use is to be reversed. Nevertheless, in this context re-regulation is seen as capable of having a substantial impact on cost/quality perceptions, on raising consumer satisfaction and encouraging a more motivated and suitably rewarded workforce - applying in practice the concept of 'stakeholding' stressed by Tony Blair before he became Prime Minister.

The Paper then deals with the relative merits of 'franchising' and 'quality partnerhsips' as options for re-regulation. It concludes by emphasising the merits of 'Negotiated Franchises' or 'Long-term Quality Partnerships' as the vest way forward for the bus industry and bus users. It will be interesting to see how far the results of the present consultation on integrated transport policies follow through the conclusions of David Begg and Colin Smith. The status qho has already ceased to be a convincing option yet Begg and Smith also recognise the disadvantages of over-rigid regulation.

Tom Hart, 10 October 1997

SECTION 1

INTRODUCTION

The objective of this paper is to analyse the impact the 1985 Transport Act has had on the bus industry in the UK: specifically how the four stakeholders [passengers, companies, employees and local authorities] have been effected.

The policy options available to the new Labour Government if they are to achieve their objective of reversing the decline in patronage will be examined and recommendations made on legislative change that is required.

THE 1985 TRANSPORT ACT - 12 YEARS ON

The protagonists in the debate over the effectiveness of the 1985 Transport Act remain divided as to whether it has been beneficial or not. In many instances this is seen in terms of the bus industry and only occasionally in the context of the overall allocation of limited national resources, and regrettably still less in the context of a major area of economic and social Policy at the heart of how the country is expected to function.

In economic terms in the 12 years which have elapsed three issues have been identified.

- demand has decreased (as expressed in number of passengers using the service provided)
- supply has increased (as demonstrated by the number of vehicle kilometers available for potential passengers to use)
- the structure of the industry was fragmented and then rapidly consolidated, with this trend still continuing.

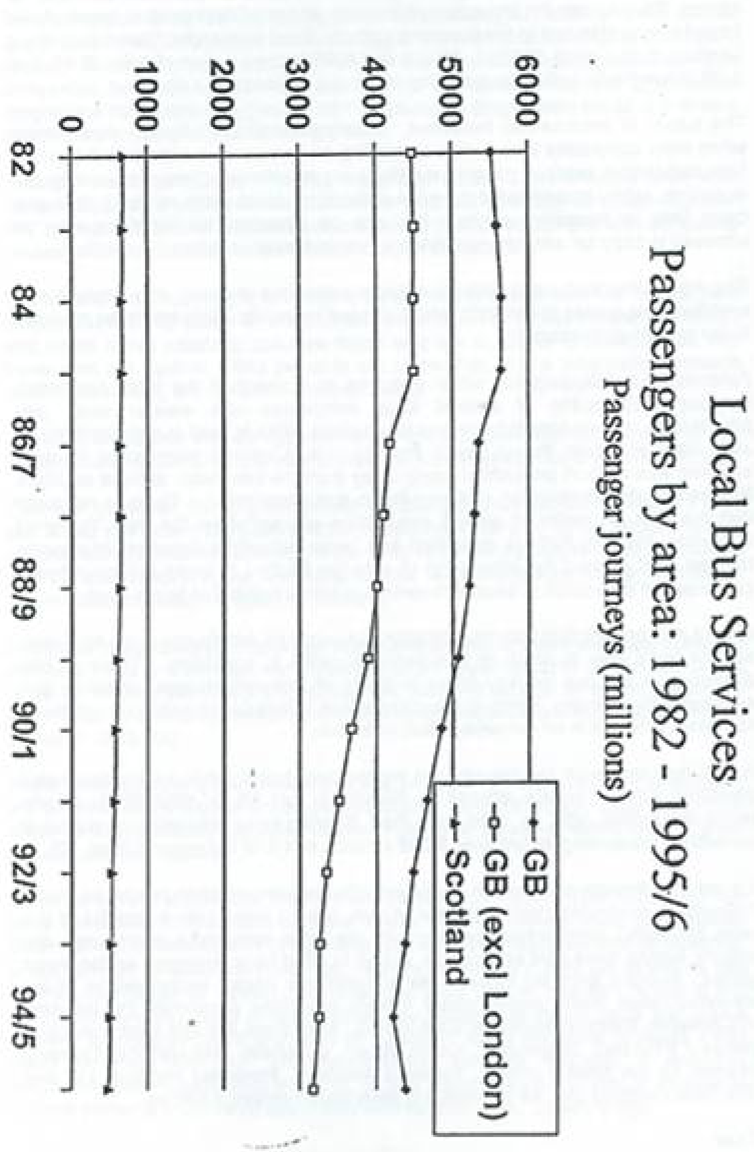
Although demand for bus transport has declined it is still by far the dominant public transport mode. In 1995/96 6.6 billion passenger journeys were made on public transport in the UK, of which over 5 billion were by bus and coach. (see Graph on page 4). The decline in patronage has been less in Scotland [18%] since bus de-regulation was introduced than the UK [23%] or 24% if London is excluded.

It is not within the scope of this paper to explore in detail the reasons for a lower rate of bus decline in Scotland. Part of the explanation seems to be related to lower fares and higher local authority support than in England (see p 6) but lower car ownership (including second cars) in Scotland and the more compact and town centre oriented structure of Scottish towns may also be contributory factors. It is also worth noting that, where bus regulation has been retained as in Ulster, the record for bus patronage remains better than either in Scotland or England outside London.

The rate of decline is 3% per year compound, influenced by factors external to the industry. These include the relentless growth in car ownership, changes in land use patterns such as lower housing densities in suburban residential areas and out of town shopping, structural changes in the labour market, and in urban areas the withdrawal of free concession fare schemes to senior citizens and other groups.

Other factors such as an increase in the level of fares above the RPI, an erosion of customer confidence by the frequent changes to services after deregulation and confusion over publicity and the perception of a lack of stability in service provision as operators came to terms with competition and the deregulated environment also contributed.

The/



The rate of reduction over the period is now back down to "the historical trend" at approx. 3% p.a. now the immediate dislocation effects of deregulation noted above have become standard in the operating system. Total passenger figures (excluding London) for the years 1993/94, 1994/5 and 1995/6 show a drop of 2.8%, 0.5% and 2.3% respectively, indicating a slowing of the rate of passenger decline.

The supply of services has increased, initially immediately following deregulation when most companies took a view to holding on to their own established territory. New competitive services mirrored existing ones so although there was an increase in choice, often accompanied by price reductions, there were relatively few new cross links or innovative services that can be described as "new" services as opposed to copy cat services, which were overwhelmingly minibus operated.

The continuing and rapid rate of change within the industry has undoubtedly contributed to a state of instability and a general insecurity. This has been reflected in the pattern of investment.

Following the disaggregation which occurred as a result of the 1985 Act, which included restructuring of several large companies with smaller units pre-privatisation, a rapid consolidation has taken place. This in itself is not surprising as over time, economic theory shows that there is a natural progression towards optimum size units of production/supply away from the somewhat artificial structure imposed by the combination of deregulation and privatisation. There is no doubt that the idea of continued perfect competition envisaged by the then Transport Secretary, Nicholas Ridley's statement that "each redundant miner would operate his own bus" created the impression of very low barriers to entry and an industry comprised of thousands of small entrepreneurs with a handful of buses each.

It is not perhaps the fact that consolidation has occurred, which was to be expected, but the rapid rate at which is has occurred which is surprising. There is little difference in the bus industry today in terms of ownership/market share to that applying in the Brewing, Banking, Newspaper and TV/Media industries except that it has been achieved in an extremely short timescale.

In less than ten years the industry has moved from being public sector dominated (providing 92% of vehicle mileage in 1985/86 to just 5% in 1995/96) to private sector dominated, with, by 1996, less than 20 companies remaining in municipal ownership, accounting for just over 3,000 vehicles or 4% of the national total. (2)

It is not only through direct public sector sell off's that consolidation has taken place. Following a continuing pattern of second time around sales only a handful of the initial NBC/SBG privatisations remain with the initial successful purchasers, the majority having been sold on over the period to what have emerged as the major groups. In many ways the industry has returned to a private sector version of the pre-deregulation public model, where 4 large groupings dominated the industry, NBC/London Transport/Municipal Sector/SBG. Now there are five front line major groups - First-Bus, Stagecoach, Cowie Group, Go-ahead and National Express, followed by the smaller groups, Yorkshire Traction, Blazefield Holdings Ltd and MTL Trust Holdings Ltd. All the front five have stock exchange listings.

Thus/

Thus ownership as an issue is largely irrelevant as history has already run its course and the free market dictated a pattern of larger units. Indeed the largest groups are already diversifying into railways, where the turnover dwarfs individual bus companies by comparison. For example at the start of the rail privatisation programme the award of two larger rail Franchises to Stagecoach would at that time doubled the entire group turnover. (3)

Taking the bus companies back into the public sector is not a viable short term option as it is not a priority for the Labour Government. The degree of consolidation and appropriate level of competition (both within the bus sector and with competing modes) are more relevant to the development of the industry.

The climate is therefore right to consider an alternative approach to the way forward which does not rely solely on the pros and cons of public versus private ownership, and which is not polarised between those who are in favour of deregulation and those who are against. This paper is not ideological, it is a pragmatic approach aimed at reversing the decline in bus patronage.

The hypothesis that bus deregulation is the main reason why the number of bus journeys has declined by 22% over the last decade does not stand up to scrutiny.

The main cause for the long term decline is increasing car ownership within a land use, fiscal and pricing framework which encourages car use. Once people have a car they are significantly less likely to travel by bus. The high fixed costs associated with car ownership and the low marginal cost encourages high use and makes it very difficult for public transport to compete.

There is a direct correlation between bus journeys and car ownership. Extrapolating the trend there is a forecast car population of 31 million by 2015 (it is currently just under 21 million) this would project bus use falling to around 22 billion passenger kilometers. This is almost a 50% fall on the 43 billion passenger kilometers travelled by bus in 1995. (4)

While investments in bus infrastructure, bus priority lanes and improved information are all crucial if the decline in bus patronage is to be arrested, any fiscal or physical measure which makes car ownership and use less attractive would offer a great boost to the bus industry.

It is imperative that the trend that has been evident over the last 20 years, with bus fares increasing in real terms and the cost of motoring falling, must be reversed. Since 1974 the real increase in bus fares has been 55% while the cost of motoring, which includes all costs like insurance, servicing and repairs, road tax as well as fuel and oil, has fallen by nearly 2%! The real price of fuel and oil - which is the perceived 'marginal' costs of an individual journey once someone owns and runs a car and is therefore more important to decisions about individual journeys - has fallen by nearly 8%. (5) This demonstrates that the real cost of motoring, particularly the marginal cost of petrol, is very much more affordable in relation to the real increase in personal disposable income than it was 20 years ago.

SECTION 2

HOW THE STAKEHOLDERS IN THE BUS INDUSTRY HAVE FARED

As Labour Leader prior to becoming Prime Minister, Tony Blair outlined his vision of a "one nation stakeholder economy". He did so in the knowledge that we will not have a strong economy unless everyone gets the chance to play their part. It would be an economy in which "no group or class is excluded". There are four groups who all have a stake in the UK bus industry: passengers, employees, companies and local authorities. It is the contention in this paper that in a financial sense most companies and local authorities have benefited from the 1985 Transport Act but that passengers in general, and employees in particular, have been losers.

It is in the interest of all stakeholders in the UK bus industry to reverse the decline in patronage that has been evident since the early 1950's and they should all benefit from an expanding, thriving and profitable industry.

2.1 The Employee as Stakeholder

The labour intensive nature of the local bus industry - labour related costs equate to two thirds of operating costs - has meant that, in seeking cost reductions, operators have targeted not only staff numbers but also wage levels. Wage rates prior to the introduction of the 1985 Transport Act were higher in the bus industry than the national average wage for all full time male manual workers. This is no longer the case.

Using data from the new earning survey (The Department of Employment) illustrates the decline in real wages paid to bus and coach drivers and contrasts this with increase in the average weekly earnings for all occupations.

At 1995 prices, weekly earnings between 1985 and 1995 fell by over 9% for drivers whilst increasing by an average of 25% for all occupations. In 1995 the average bus or coach driver was earning £243.20 compared to £336.30 for all occupations. Since the early 1970s bus and coach drivers have consistently had to work approximately 20% more hours than the average for all workers. (6)

In 1986 abolition of the national wages council for the local bus industry has given employers the freedom to negotiate local wages and conditions amidst weakening trade union influence. In addition, and within the framework of diminishing real wages, operators have been able to introduce a structure of differential rates of pay covering 'lesser' jobs e.g. minibus drivers are lower paid than others (e.g. drivers of conventional buses) or new recruits begin on poorer rates. Tighter efficiency measures, e.g. not paying drivers for meal breaks, have also been introduced to reduce costs and have contributed to the diminution of wages.

The effects on non-driving staff have been different. Whereas total employment of driving and platform staff fell marginally by only 0.4% between 1985/86 and 1994/95, maintenance staff fell by 38.1% over the same period. Similarly, administrative and other support staff fell by 36.1%. (7) This reflects the pattern of outsourcing, the closure/rationalisation of facilities, economics of scale in consolidation, simplifying of management structures and the reduction of specialist functions such as personnel and planning towards a more direct line management approach.

In simplistic terms, drivers have become more cost efficient by driving more miles under different conditions of service. Other sections have become more cost-effective by a direct reduction in the numbers employed and the consequent reduction in overhead costs.

One outcome of the post-privatised industry has been the ability of qualifying employees in some companies to realise windfall capital gains as consolidation has occurred. This is not uniform across the industry but largely dependent of the method by which the original company sale was carried out. The effects vary widely. The privatisation of the individual operating units took several forms, with varying degrees of employee participation.

This covers a range including:-

(a) employee co-operatives with all staff on equal equity participation terms. [People's Provincial, Tayside Buses now National Express]

(b) Management/Employee formats involving Employee Share Ownership Plans [ESOP's] where shares are distributed free as part of a profit share scheme [Yorkshire Rider, Busways, Grampian Transport]

(c) Management/Employee formats where employees had the opportunity to buy shares in the new company. [Lowland Omnibuses]

(d) Direct Management Buy Outs, with or without equity participation by financial institutions. [Several ex-National Bus Companies]

(e) Direct sale to an outside third party. [Cumberland Motor Services, Strathtay]

As the industry restructured employees who were also shareholders in the first three categories were the beneficiaries of the increasing value of transport companies as they were resold. The value of the benefits varied. One of the most substantial was Strathclyde buses where an employee receiving 6,000 free shares on privatisation and who had held that holding saw it valued at £35,100 on the subsequent take-over by FirstBus. More recent examples are Tayside Bus (£23,000) and Centre West (£6,000). (8) These payments generally could be taken in cash or by shares in the acquiring company. Employees taking the share alternative have again seen a growth in value as share prices have risen. However, in that instance any realisable valuation is dependent on the movement in price on a day to day basis.

A notable feature has been the ability of employees to separate their role as shareholders from the traditional role within the Trade Union movement, both being followed actively through different mechanisms.

IV/

It is not possible to generalise as to the overall effect of these individual gains due to the diverse spread of circumstance and value which has arisen. It is another example of the 1985 Act producing benefits for some but not for others, even within the same stakeholding group.

2.2 The Local Authority as a Stakeholder

The 1985 Transport Act restricted local authority support to unprofitable 'socially necessary services'. Statistics compiled by the Department of Transport show a decline in the level of support since the mid 1980s. Local authority support for public transport fell by almost 70% in real terms between 1983/84 and 1993/94 but the reduction in support has been much more severe in England than in Scotland. It is not clear to what extent the reduced support has been achieved by savings introduced through the competitive tendering of subsidised routes or by local authority policy or budgetary decisions. (9)

Concessionary fare reimbursement had remained relatively constant in real terms for Great Britain as a whole but has declined in Scotland. After deregulation it increased in Britain by 11% to its peak in 1990/91 before declining to pre-deregulation in levels by 1993/94. (10)

Scottish Office commissioned research 'The Effects of Privatisation of the Scottish Bus Group and Deregulation', reported that all Scottish Regional Councils managed to almost wholly maintain the 1985 level of bus service provision following deregulation by enhancing the commercial network by means of subsidised services procured by competitive tender. (11)

The report adds that further commercial withdrawals are increasing and that there may be a need for councils to prioritise services for support since their budgets will not allow the subsidised networks to grow indefinitely. With tight capping limits being imposed on local authority budgets we can anticipate reduced spending on supported bus services and concessionary travel. They are non statutory services and therefore more susceptible to being cut in times of budget cuts.

It was reported further that 'most regional councils have made substantial savings in both money and real terms in the provision of supported services ..... however, these savings are now being eroded as a result of a more commercial attitude amongst the now privatised SBG companies.'

With regard to concessionary fare schemes in Scotland, only Fife, Dumfries and Galloway and Tayside Regional Council have increased expenditure since deregulation.

In the case of the former local authority bus companies, they operated a low fares policy which is now being met by the fare paying passenger. Moreover, local authority bus companies also carried the costs of children's travel, bus stops, bus shelters and transport co-ordination. Today, these are separate cost centres in local authorities and are not shown against local service budgets.

2.3 The Passenger as Stakeholder

Superficially, in a deregulated environment the passenger should be a substantial gainer as under competition there have been:

- New services;
- Additional frequency of similar/copycat services;
- Price competition

Furthermore, in some areas the threat of competition encouraged operators to develop or improve services to deter potential competitors. Many of these changes were based on minibus networks. Whether they were introduced to achieve lower operating costs per mile, improve accessibility with greater access to housing areas or to provide a more modern image the higher frequency of service brought benefits to the passenger.

Conversely direct copycat competition where buses covered the same route at the same time or just before the existing service brought little benefit except short term price competition. The reputation of the industry was damaged by images of "bus wars" and well publicised cases of congestion such as in Glasgow and Sheffield. Similar instances were reported in local media across the country. Significant damage to the quality of service took place as old vehicles were brought back into service as cheap competition or as a means of the incumbent operator retaining enough vehicles to combat attacks on the network.

Many service developments were accompanied by attempts to create a local identity and be more customer orientated to encourage passenger loyalty. New liveries blossomed as did the "friendly face" of catchy names such as Hoppa, Shopper, Your Bus and other moves away from the formal traditional fleet names. Notably, such embellishments were steadfastly resisted by the market leader at the time Stagecoach, who chose to pursue a uniform recognizable brand image nationwide. In both instances customer service was to order of the day - in theory if not always in practice.

In areas of no competition, the status quo applied. The same operator was the service provider and therefore few changes occurred beyond what could reasonably have been expected. However, the Act did introduce a greater potential for higher fares to maximise profits or cross-subsidise other areas.

In a low patronage/fringe area the passenger was not disadvantaged as the power remained with local authorities to secure, by tender, additional services not provided by the market. Some problems did arise due to the difficulty in providing an additional level of service within an existing commercial network without causing abstraction and hence damage to that network.

However/

However, disadvantages have emerged and although not uniform in magnitude, effect or geographical location these have hampered the promotion of an integrated system as an attractive alternative to private transport. These include:

- Fragmentation of networks caused by individual companies being more commercial and choosing to provide less than a total network, leaving gaps in unprofitable areas or tenders for other operators. This fragmentation is compounded by tactical deregistrations aimed at making replacement difficult and repackaging of work by local authorities to maximise the number of bids per tender.
- Reduction in travel opportunities in non standard areas or time periods (i.e. Sundays, late evening, marginal routes etc). Some authorities take the deregistration of a service as evidence of lack of demand and do not replace it leading to a disbenefit for the small number of existing users. This is becoming more frequent as financial resources are restricted and authorities place less priority on discretionary functions.
- A lack of information except to committed, regular users and a perception of continual change. This had lead to an erosion in the confidence of passengers and potential passengers to rely on bus transport and to doubt the long term stability of the network.
- Despite companies attempts to improve passenger relations and be customer orientated a feeling of lack of consultation and cynicism that financial results are all that matters.

2.4 The Company as Stakeholder

Companies have become much more commercially oriented, particularly in relation to decision making. They have more freedom to organise and operate as they see fit commercially. There is more market evaluation and testing. In addition the power to decide not to run a service is very much overlooked. Even the remaining public sector municipals are stand alone companies and work on commercial principles (although they remain handicapped by not being able to borrow money). There is no doubt that the industry is more flexible, demand responsive and profit oriented than before.

Companies now in the private sector have to meet the needs of shareholders and therefore have a sustained growth and return on capital. They must make reasonable but acceptable profits. Municipal companies also have to meet their shareholders needs, particularly as more enjoy a dividend payment to augment their resources. All companies require sufficient cash generation to replace assets and improve fleet age profiles. The concern for the economy as a whole is that this had been done by very effective rigid cost control, expansion by acquisition and gaining economies of scale, not by generating growth from other forms of transport or by generating more passenger trips.

The/

The owners are generating higher profits than before in terms of both the Ci
the general performance with a chance to enhance this position by ind
commercial business acumen. Companies have a higher status and regard
business world as a service supplier and have successfully avoided the "
costs" of unprofitable routes. This has led to a greater flexibility on fares and
subsidisation.

There is, however, more pressure for success to be achieved in financial
rather than high standards or quality outputs which is seen as the mea
achieving good financial results rather than as end in itself. But, quality is o
the key areas in the whole debate.

As companies have repaid the original purchasing costs and achieved g
profitability, the level of investment in new vehicles has increased significantly
aids setting a climate of quality and changing image. For example low floor ve
are now manufactured as standard and need to be accepted as such. The pre
price premium had reduced markedly as the size of orders has increased.

The intervention into the market by other agencies, such as OFT, MMC, LA
tendering procedures and arising inconsistencies means that one man's comm
initiative is sometimes another's predatory action!! This confusion alone req
resolution and clarity if the aims of a more stable environment are to be achieve

The discussion to date has centred around the need to move away from the pr
position to a more orderly structure. Various ideas including the Role of the
Authorities, Franchises, Network Protection, a larger number of (Passe
Transport Authorities, Area Transport Boards and Quality Partnerships have
put forward but all imply one common objective:- a greater degree of co-oper
between the various stakeholders combined with a greater degree of stability.

There is a consensus emerging that a more co-operative approach is neede
maximise overall benefits to society rather than one group in the stakeh
analysis. For example a key recommendation of the Chartered Institut
Transport is that the role of the bus industry is "to perform as the main altern
mode of local transport, apart from walking and cycling, to the private car".
One of the measures to achieve this was that "Local Authorities and bus oper
should negotiate quality partnerships relating to commercial services" (13)

The debate should therefore be about the mechanisms of achieving this and
far along the deregulation/planned approach lies the point for maximising bene
society as a whole.

SECTION 3

The Way Forward

While it is open to debate whether de-regulation has accentuated the decline in bus patronage, what is beyond dispute is that it has failed in its desired objective of reversing this long-term decline. A number of enlightened local authorities have set ambitious targets to increase public transport's share of the market and reduce dependency on the motor car. This has become a statutory obligation following the passage of the Road Traffic Reduction Act earlier in 1997.

If these targets are to be realised then it is not nearly enough simply to halt the decline in patronage. The demand for travel will continue to grow with economic prosperity and bus patronage must grow with it simply to hold on to market share. If market share is to be increased then there must be nothing less than a renaissance of the UK bus industry. Several changes are required to bring this about.

- Improved Bus Journey Times

Traffic congestion has led to deterioration in bus journey times and has played havoc with timetables and reliability. Bus priority measures such as the "Greenways" system in Edinburgh and "Red Routes" in London giving buses priority and stricter parking controls on the main arterial routes into the city are good examples of how bus journey times can be significantly improved. The Edinburgh "Greenways" scheme should be more effective in achieving a modal switch away from the car because it will be linked up with park and ride on the outskirts of the city and road space will be reallocated away from the motorist towards buses. This will make the journey time by car less attractive than the journey time by bus on radial routes into the city centre.

While the capital costs of introducing bus priority measures are manageable - around £12m in Edinburgh for 4 routes and the new upgraded green road surface (14). It is the ongoing enforcement costs involving extra traffic wardens and cameras on buses which will prove to be a more significant financial hurdle. With local authorities' budgets being increasingly constrained, bus companies will be expected to contribute financially towards the extra costs.

The Government works to the principle that, whoever benefits from new transport investment should pay for it. When new light rapid transit system is build the user benefits should be paid for by the passenger through a premium on fares, while the public sector will pay for the non-user benefits, such as reduction in traffic congestion, pollution and accidents through section 56 payments. With bus priority measures it is impossible under existing legislation to capture the user benefits - improved journey times and reliability - because the 1985 Transport Act stipulates that there must be free competition for buses on the public highway. Why should one enlightened bus operator make a financial contribution towards the cost of bus priority enforcement, when it's competitors make no such contribution and there is no mechanism in place to force them to do so?

- Passenger Information

This has been a major failing of the 1985 Transport Act. The frequent changes to the commercial network have made it impossible for local authorities to keep the public adequately informed. An agreement between local authorities and operators to cover a period of years would provide the stability required.

- Vehicle Quality

When motorists in particular are asked why they don't travel by bus, comfort is listed as a key factor. While there is a marked variation in the quality vehicle run by different bus companies - and by the same bus companies in different parts of the country - the overall standard is poor.

The proponents of a de-regulated bus market failed to take account of the fact that many passengers tend to get on board the first bus that arrives at the stop regardless of the quality of the vehicle. This is a generalisation and there are a number of instances where passengers will wait for the better quality vehicle especially if the journey time is longer. However, this has meant that bus operators, where there is still on the road competition, compete more on frequency and fares, than they do on the quality of the service.

Low floor buses to improve accessibility, air conditioning and more comfortable seating, cleaner diesel engines and gas powered or electric buses for city centre operations in particular are all important improvements that need to be made in vehicle quality. There is insufficient incentive in the current competitive framework for operators to make the investment levels required to achieve the necessary improvements in quality. The present low minimum standards for entry into the industry exacerbate this problem.

- Fares

Fares are too high and act as a disincentive for people to use buses. Over the last decade there has been a 24% increase in real terms in fares. (15) There are a number of factors to explain this:- changes to the fuel duty regulations have effectively doubled the price of fuel since 1993, the absence of competition giving the opportunity for monopoly pricing and excessive provision of seats compared with demand has meant that the passenger has had to pay higher fares to cover the costs for running with empty seats. Competition can be seen as the cause of excess seat provision with this being reduced after mergers.

- Ticketing and Integrated Marketing

The threat of intervention by the Office of Fair Trading on grounds of collusion or anti-competitive practice has prejudiced development of schemes to promote interavailability of ticketing, joint timetabling and better interchange between journey modes. This requires to be rectified possibly by seeking block exemption under EU Competition Law.

The desire of some companies to protect market share and commercial confidentiality has had a similar effect.

With regard to this particular item the increased concentration in the bus industry has helped to achieve this objective as has the winning of rail franchises by bus operators.

SECTION 4

Future Policy Options

As discussed, there are many ways in which bus usage could be increased and made more attractive as an alternative to car use. One important area where change needs to be considered is that concerning travel awareness issues and the ability of local authorities to take full advantage of existing (and potential) powers with respect to land uses, parking, traffic management and pricing. Nevertheless, it is unlikely that such powers could be used to maximum advantage unless changes also take place within the weak regulatory position established by the 1985 Act. The remainder of the discussion in this paper therefore concentrates on the case for modifying the 1985 framework.

Returning the Industry to the Pre 1985 position is not a realistic option. Most of the industry has been privatised with only 18 municipal bus companies remaining. If it is important that the relevant local authorities are allowed to retain these bus companies then they must be allowed to compete on equal terms with private sector competitors. This must mean a relaxation in treasury control which limits these companies to borrowing via local authority capital allocation. They should be allowed to borrow externally if the Board of Directors believe there is a justification for doing so and can generate the additional finance required in normal commercial terms.

This effectively leaves 2 realistic options:

1. Franchising
2. Bus Contracts/Stakeholding Partnerships

1. Franchising

To date the commonest alternative proposal to the status quo has been franchising and in particular as in operation in London. In terms of the stakeholder analysis it is difficult to see this as a viable national solution.

It is true that franchising preserves an established network but it is not market responsive or innovative perpetuating historic movements and not reflecting changes in demand. The system has provided for the retention of Network wide information, through ticketing and travel cards but the level of contract compliance, operational monitoring and revenue allocation between companies is significantly in excess of those outside London, highly beaurocratic and centralised. This requires a substantial staffing element both at the franchising authority side and at the operating company to collate information and respond.

This reduces the resources available at both ends which could be redirected into improved service levels or ensure the same service provision at lower cost. In either case a better allocation of resources would be achieved.

The lower costs of provision have been achieved as cost cutting under the competitive bid structure. This is the only area over which operating companies have direct control. Staff have therefore experienced the same adverse changes in circumstances and conditions as the deregulated area. As the process is cost driven on the supply side there is a risk that quality will also be driven down, especially in relation to staffing. In the longer term, as the economy improves, it will be difficult to compete in the labour market for staff, as contracts will be based on pre-set labour rates.

The cost of improving quality falls directly on the tendering authorities. New vehicles and higher standards are merely reflected in the tender prices as there is no commercial incentive for operators to invest as the service provision is supply led and not demand led by the market. This has the significant effect of quality standards being introduced in the face of capital expenditure limits and as contracts expire rather than on the basis of operational need, traffic volumes or specific policy aims of the authority.

If a franchise is of sufficient length the award of the contract gives a guaranteed predictable income without competition from similar bus services. However, like Competitive Cost Tendering, this stability only lasts for the length of the franchising award and there are periodic major uncertainties, with the potential loss of work which undermines long term planning and development. The major failing of the system is that there is no recognition of, or incentive for, good performance as historically almost all decisions are based on the financial terms of the bids received. The long term effect of this is to undermine overall quality as cost pressures force prices down. A similar situation already prevails in the provision of schools transportation where the use of older vehicles and part time labour is common as the rates achieved do not warrant a high level of investment. A recent example is the failure of a large PTA to attract any bids for 32 school contracts due to a combination of high vehicle specification, low rates of return and vandalism. (16) The dislocation effects of large scale changes in franchise operators may be tolerable where a very large supply model is appropriate, such as London, where there are several rounds of tenders each year. The same argument could be advanced for the largest metropolitan areas but it is not a model which is sustainable on a nation-wide scale. The London experience shows a significant supply of eligible bidders in a close enough geographical proximity to ensure competitive tendering - this is not necessarily the case in other parts of the country where quasi-local monopolies are prevented from excess by the threat of competition.

In addition, the major groups have a truly national coverage and, therefore, they have the scale and ability to tender for new franchises while not being damaged significantly if parts of their existing empire disappear. The advantage of scale referred to earlier will reinforce the ability of the major players to compete effectively. In the debate over the pro's and con's of deregulation it is often overlooked that many areas still have good local networks and efficient services. However, franchising will not protect the existing operator be it over one route, one area or one town as it is simpler for a competitor to put in an attractive low franchise bid than improve market share by on the road competition under the existing legislation.

Furthermore, a realistic case can be made for increasing market share by a low franchise bid rather than paying the present market value to acquire market share by take-over. If franchising is to be adopted on a nation-wide basis the low risk strategy would be for the remaining municipal companies to be sold.

Bus Contracts/Stakeholding Partnerships

The common thread of many of the downsides of the deregulated/competitive environment has been a lack of stability for all stakeholders. This suggests that any positive alternative way forward is dependent on a greater level of stability in order that the stakeholders, for their own particular reasons, can have a greater level of confidence and be sure that their part in the system is not dependent on short-term competitive needs.

In summary each stakeholder group will receive a substantive benefit from a more stable system.

- The Company: a more secure environment in which to plan for the long term viability of the business;
- The Authority: a chance to implement more comprehensive public transport policies and land use strategies;
- The Employees: a greater sense of job security, improved remuneration, and a chance to enhance the professionalism of the industry;
- The Passenger: the knowledge that his enforced or chosen option is likely to remain relatively unchanged with through ticketing, faster journey times and quality improvements which will all make the bus a more attractive option.

At present there appears to be a consensus emerging that, at the very least, the present system needs to be fine tuned to eliminate the "excesses" of competition and the inherent instability of deregulation.

The new partnership between local government, bus operators, bus employees and passengers should be shaped by the local transport plan then specified by a bus contract. We have in operation in Britain at present a rail users consultative committee but there is no such body for bus passengers. Various proposals have been made for Bus User Consultative Committees but, within the spirit of an integrated approach to transport, it would be preferable to contemplate a new range of Local Transport Users Committees able to consider all aspects of local transport and interchange to other services. Season ticket holders could be invited to attend an annual meeting to elect spokespersons and it would also be desirable if the local old age pensioner, disabled and women's associations were represented given the high number of senior citizens that make frequent use of bus services.

It is essential that this is seen as a pro-active and positive body, not representing individual pressure groups. The main function should be to promote aspects of public transport rather than succumb to the temptation to act as a body automatically opposed to change and commercial initiative.

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The four stakeholding groups would try and reach agreement on a local transport plan which would then be specified in a bus contract. Bus contracts would reflect local conditions and it would therefore be healthy if there were variations in different parts of the country.

After consulting the stakeholders the local transport planning authority would specify a bus contract for areas/routes, the length of the bus contract would be determined locally. It may be that it falls into line with seven year rail franchises, but longer contracts would be possible if they are required to achieve higher investment in new vehicles. For example it may be that the local consultation process highlights the importance of low floor buses and more environmentally friendly vehicles (gas powered buses/battery powered buses etc). It should retain the opportunity to respond to changes in demand and change in circumstances.

It may be that the contract involves a mix of commercial and non-commercial services. This will be up to the local decision makers who will determine priorities for their particular area, each of the stakeholders can offer something in return for something else in the bus contract. Local authorities could confirm monopoly rights on an operator/operators for a specified period to protect them from competition and invest a certain amount in bus priority, bus stations, bus stop information etc. In return the bus operator could agree to run some non-commercial services, offer revenue support to contribute towards enforcement of bus priority, meet vehicle specification standards to ensure that quality is higher and satisfy the local authority on frequency levels.

Bus contracts must not necessary be agreed on the lowest cost basis, although they will be expected to represent good value for money. Fares charged would be part of the agreement and would reflect the level of investment that bus operators are expected to make. There would be some flexibility built into the contract for fare increases to reflect unforeseen increases in costs. It is crucial that the bus operators are responsible for revenue generation to encourage innovative marketing measures.

It is vital in this partnership that the passenger is treated as a customer and that their custom is valued. This is where the employees have a crucial role. Employees need to be heavily involved in this partnership, they must benefit from efficiency and productivity gains that result from bus priority in terms of improved conditions of service. It has been mentioned earlier on in this paper how drastic the reductions in real pay have been for bus employees - especially drivers - over the past decade. This trend must be reversed if we are to have a motivated staff who are going to play a significant part in improving the quality of service to the passenger.

What is the passengers' role in this partnership? Their role is to use the bus in ever increasing numbers to increase the revenue flow in the industry for more investment in vehicles and bus priority measures and achieve the high utilisation rate that are necessary to reduce fares.

SECTION 5

CONCLUSIONS

- The hypothesis that bus deregulation, per se, is responsible for the ongoing decline in bus usage cannot be substantiated for many reasons but principally the continued increase in car ownership and use. Equally the effects of the 1985 Act have been unsuccessful in reversing these established trends.
- The different stakeholders have not emerged equally across the period. A recent review stated "Deregulation has produced major savings in operational costs and public expenditure, but significant changes in the quality and image of the bus are needed if it is to fulfill its potential future role" (17).
- The companies and Local Authorities have generally benefited, especially when measured in financial terms. The former have established successful and mainly profitable businesses, the later experienced an aggregate net reduction in expenditure to largely achieve the same networks.
- Employees have generally not seen any benefits, with both a reduction in total staff employed (particularly maintenance and other support staff) and a deterioration in the relative rates of pay to other employment sectors.
- The effects on passengers have been mixed and localised - some areas benefited from competition (if only short term price competition), some saw no change at all. Still others experienced all the side effects of high level on-the-road-competition. Overall, there has been an erosion of customer confidence by the frequent changes to services, confusion of publicity and a perception of a lack of stability in service provision due to the competitive environment.
- The industry has consolidated rapidly to a small number of major groups, returning in structural terms to a private sector version of the pre-privatisation model, where 4 large publicly owned groups dominated. Ownership is not relevant to the needs or requirements to create an operating environment to reverse the continuing decline in bus patronage.
- As companies have repaid the original purchasing costs and achieved greater profitability, the level of investment in new vehicles has increased significantly. This aids setting a climate of quality and changing the image.
- There is a consensus emerging that a more co-operative approach is needed to maximise overall benefits to society rather than one group in the stakeholder analysis and that this is best achieved by some form of partnership between operators and local authorities.

- The requirement is to take the benefits of both a competitive environment and the franchising system forward. This can only be achieved by ceasing to look at the solution as either regulated or deregulated and more in terms of a flexible approach, such as a "Negotiated Franchise", (with other criteria other than merely the lowest tender) or "Long Term Quality Partnership" between operators and local authority where an agreement on quality or performance can be enhanced or achieved by protection from some elements of negative competition.

- The form of words used to describe such a system can be discussed at length but the way forward must include:

1. A degree of discussion/agreement between the authority and operator (or operators) in the given areas

2. A positive combined approach to improve standards / service levels / investment in a more stable environment than pure competition.

3. An agreed mechanism to prevent the abuse of market position by the operator and overt political interference by the authority.

4. The ability of the system itself to be flexible and not prescriptive i.e. it should be capable of being applied by route, by network, by area or, indeed, not applied at all.

By taking such an approach the more serious problems of competition, not those within the industry, but those from the private car, can begin to be challenged.

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BIOGRAPHICAL DETAILS

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Professor David Begg is the First Bus Chair of Transport at The Robert Gordon University. He is an Adviser to the Deputy Prime Minister, John Prescott, and the Minister of Transport, Gavin Strang MP. He is also a Member of the Scottish Office's National Transport Forum. Professor Begg is also a Non-Executive Director of British Railways Board. He is also Secretary of the Scottish Transport Studies Group.

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Colin Smith

Born in Newcastle he moved to Scotland in 1971 after graduating from Nottingham University. An economist with 25 years of experience in the transport industry, he has held a range of posts in both operations and planning.

Initially working in the Local Authority Sector he was a member of the original team which saw the ex-municipal Grampian Transport company through deregulation, privatisation, flotation and merger to its present position. He was the Group Operations Director of GRT Bus Group Plc and the Managing Director of the Midland/SMT/Lowland companies in Central Scotland.

His last post was as an Executive Director of FirstBus plc and Regional Director for that company's subsidiaries in Scotland, leaving in April 1996 to develop long standing interests in academic and policy areas, along with other non-transport related projects.

Among his present roles he is an adviser to the Confederation of Passenger Transport and an Honorary Research Fellow at Aberdeen University.