

DEREGULATED DECADE



Ten years of bus deregulation

by Professor John Hibbs OBE and Matthew Bradley

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Adam Smith Institute
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1. Why reform was essential

The unhappy origin of bus regulation

The first motor buses in Britain started to run at the end of the nineteenth century, at about the same time as city councils were busy electrifying the tramways. By 1916 the first area-wide bus companies had emerged, and horse buses had long disappeared from the streets. But it was the decade from 1919 to 1929 that was to see the expansion of the bus industry to cover the whole country, while an equally extensive network of express coach services was established between 1925 and 1930.

This remarkable achievement was possible because regulation was limited, and indeed opposed by municipal councils anxious to protect their investment in tramways — or, in many places, the buses that were replacing them.

Officials at the newly-formed Ministry of Transport looked upon the scene with concern. It was true that safety regulation was unsatisfactory. But equally, the industry was marked by so many small entrepreneurs that it presented an untidy pattern to their view. Following the ending of on-street competition in London in 1924, a parliamentary Bill was drafted to provide for a licensing system giving route monopolies to 'established operators'. This was presented to the Royal Commission on Transport of 1929-1931, where it was tidied up by representatives of the cartels that were now coming to dominate the industry, and then tacked on to a road safety Bill which, with virtually no debate, became the Road Traffic Act 1930.

The licensing system thus established was to remain in force until reformed by the Transport Acts of 1980 and 1985. Its safety provisions were adequate, but on the pretence that competition itself led to danger, it severely inhibited innovation and change. Between 1929 and 1939, the four main-line railway companies invested £6 million in the area-wide companies, taking an interest never greater than 49%, in order to protect their dividends. With this backing, the area-wide companies acquired many of the smaller firms and extended their hegemony over the greater part of the country, while the municipal trams and buses were actively protected from interlopers within their boundaries. The outcome was an uncontested market, in which the favoured players thought they had obtained a good bargain from their agreement to the legislation.

The *quid pro quo* was price control, based upon the supposed virtues of cross-subsidy — a bargain which the railway companies had accepted some fifty years before. Prices were set for broad areas, reflecting the level of fares ruling in the area companies in 1931, though remaining small firms were allowed to keep their lower charges, which reflected their lower costs and near-market efficiencies.

The system was not altered by the nationalisation Act of 1947, but three of the holding companies — Thomas Tilling, Scottish Motor Transport and the Red & White United group — sold their operating subsidiaries to the British Transport Commission; the fourth, British Electric Traction, remaining independent. Schemes for Area Boards (opposed in the North East by Labour-controlled councils jealous

for their trams and buses) were abandoned after 1951, but little else changed.

Over-centralisation after 1968

The period of 'benign neglect' that followed, marked by further consolidation of ownership, came to an end with the Transport Act of 1968.

The 1968 Act, in pursuit of 'integration', gave us the National Bus Company and the Scottish Bus Group, which came to own the operating companies (now including those of BET). More significantly, county councils were given powers to enforce co-ordination between bus and rail services, and were required to appoint Transport Co-ordination Officers for the purpose. It was observed at the time that 'co-ordination' on any rigorous definition should be an outcome of the market process, but since this had been stifled by the Road Traffic Act of 1930 the term was left undefined, giving vague but extensive powers to the local authority officers.

In four areas — Greater Manchester, Merseyside, Tyneside and the West Midlands — Passenger Transport Authorities were set up. Each of these worked through a Passenger Transport Executive (PTE), which automatically acquired all municipal transport undertakings in its area, and had powers of either enforced 'co-ordination' or compulsory purchase with regard to any other bus operators. A further authority was set up for Strathclyde, and then in 1974, under the Local Government Act of the previous year, the new Metropolitan County Councils in England were declared to be Passenger Transport Authorities, with PTEs of their own. The PTEs followed differing policies, some acquiring all businesses in their area (including those owned by the National Bus Company), while others arranged for the companies to act, in effect, as their agent.

This highly politicised arrangement — South Yorkshire's policy aim was to phase out bus fares altogether — remained the situation up to the change of government in 1979. By then, the prosperity of the bus industry had been seriously eroded, with the protected operating companies having made no response. Believing their business to be in the market for providing bus services, instead of providing for people movement, managers had totally failed to react to the growth of car ownership, which reduced their share of the true market from 42% in 1952 to 12% in 1979 (see Figure 1.1).

The grim legacy of licensing

These figures (Figure 1.1) are a drastic criticism of the nationalised bus industry, but what is more significant is the extent to which the failure of the industry was the direct result of the 1930 licensing system. This worked in two ways.

Figure 1.1: Performance of the Bus Industry 1952-1995

(Billion passenger kilometres (**bold**) and percentages)

Year	Buses and Coaches	Vans	Cars and (1)	All Road	Rail households	Car-owning			
1952	92	42	58	27	180	82	39	18	
1957	84	34	92	38	201	83	42	17	22%**
1962	74	25	171	57	264	87	37	12	33%
1967	66	17	267	70	345	91	34	9	47%
1972	60	14	327	76	395	91	35	8	53%
1977	58	13	354	77	425	92	34	7	56%
1982	48	10	406	81	470	93	31	6	59%
1987	47	8	500	83	560	93	40	7	64%
1992	43	6	587	86	640	94	38	6	69%
1993	43	6	585	86	637	94	37	5	69%
1994	43	6	596	87	648	94	35	5	69%
1995*	43	6	594	86	646	94	37	5	n/a

Notes: Omits internal air traffic (less than 1% throughout the period).

(1) total includes also motor and pedal cycles. * Provisional figure. ** 1956 percentage.

Source: *Transport Statistics Great Britain 1996* edition

In the first place, managers appear to have accepted the protectionism of the 1930 Act too literally, as we have seen. The industry became utterly product-driven, and marketing management was foreign to its ethos. One result was that buses increasingly came to be regarded as the mode of transport of last resort, while the massive growth of subsidy, permitted under the 1968 Act, made it a kind of extension of the welfare state.

As if this were not bad enough, the industry in this period crippled itself, as managers followed already discredited costing practices. The *quid pro quo* for protection had been cross-subsidy and price control. Under the 1930 system, the best way to fight off a more efficient firm that applied for a route licence was to demonstrate how much money the incumbent was losing. This was achieved by comparing revenue per bus mile on the threatened route with average revenue for the firm as a whole. But while this served the short-term objective of thwarting competition, it prompted managers to respond to the falling demand, caused by car

usage, by cutting any mileage whose revenue was less than average cost, rather than by cutting fares and pricing themselves back into the market. And since fixed costs contracted much more slowly, the unit cost rose — so in the following year a further round of mileage cuts took place. The strange suicide of the bus industry was offset only by the remaining small entrepreneurs, who, though they might not understand the terminology, were well aware of the realities of traffic costing.

Hesitant steps towards reform

Reform of the system had been urged for years, but vested interest in the *status quo* meant that those who criticised it were generally marginalised. The first move came with the Transport Act of 1980, a cautious measure which still occasioned strong resistance — and resentment, reflecting no doubt a feeling that the government had reneged on the bargain that was supposed to have been struck with its predecessor in 1930.

The main provisions of the 1980 Act were as follows:

- removing price control from all bus and coach services — not a very logical measure in view of the continued restrictions upon contestability;
- removing the need for a route licence for an express coach service;
- modification of the route licensing system for bus services, which shifted the burden of proof from the applicant to the objector in contested licence applications;
- provision for 'trial areas' within which route licensing would no longer be required. Three county councils took up the offer: Devon and Norfolk for purely rural areas, and Hereford & Worcester for the city of Hereford.

Since the greater part of the industry remained in public ownership, there was no outbreak of market pricing but several large urban operators took the opportunity to introduce a form of average pricing, christened the Travelcard. A short-lived attempt by a consortium of coach firms to compete with the state-owned National Express network, failed largely because of the dominant position of National Express in the High Street travel agencies and its control of coach stations. The revisions to route licensing permitted the entry of a few newcomers, greeted with almost hysterical opposition by the establishment of the industry. It was the Hereford trial area that caused the greatest controversy, with strong on-the-road competition, leading to price wars, some violence, and to eventual stabilisation in the survival of the incumbent operator. No general lesson could be learned from such an isolated example, while there were no developments worth speaking of in other trial areas.

The need for further reform

By 1985 the bus industry was predominantly in public ownership. Furthermore, the remaining private firms were chiefly engaged in contract operations for local authorities and private customers, which had escaped the 1930 licensing restrictions. The publicly owned sector depended upon subsidy for 28% of its revenue in 1982/1983, with a further 10% coming from local authorities providing concessionary fares for pensioners and others. Under the provisions of the Transport Act 1968 a number of authorities had entered into contracts with bus companies for the provision of an agreed network of services in return for a global subsidy payment, removing any incentive to better marketing. The general availability of subsidy from public funds meant that much of this support leaked into wages and salaries,

since managers had no incentive to resist the pressures upon them from the employees' representatives.

Not surprisingly, the outcome was gross inefficiency, resource waste, and minimal attention to the customer. (The idea of seeking to attract new customers was rarely mentioned). Revenue support, which stood at £10 million in 1972, rose to £520 million ten years later, while passenger kilometres fell from 60 billion to 48 billion over the same period. At the same time, costs rose by 15 to 30 per cent over the rate of inflation, and fares were increased by more than 30 per cent. So much for the supposed advantages of an integrated and co-ordinated industry, almost all of it in public ownership!

THE 'ANCIEN REGIME'

The licensing system set up in 1930 was marked by a classic example of *regulatory capture*. Holders of the monopolistic Road Service Licences were enabled to object to any applicant for a new licence, or even to an application to vary an existing one, the standard form being that the proposals 'would abstract traffic from services of the objector'. Even quite small firms made use of the system to defend their own patch, while the larger companies were ruthless in objecting, and often obtained the right to operate the proposed new service themselves. In this they had the full support of the Regional Traffic Commissioners, on the argument that they needed to protect their territorial monopolies in order to practice cross-subsidy. The outcome was inevitably a barrier to new entrants to the market, with the consequential lack of development and innovation on the part of the 'established operator' (to use the jargon of the period). New services promising benefits to consumers were opposed by small firms as well as large; but in areas where the larger companies had acquired monopolies, no-one else was left to object, and innovation was still the exception.

2. The Ridley reforms

The impetus for reform

The appointment of Nicholas Ridley as Secretary of State for Transport in October 1983 was followed by a more radical review of policy for the bus industry than had been attempted for two decades. The combination of integrated ownership and high direct subsidy had not stemmed the decline in the industry's share of the market, almost all of it lost to the private car. Symbolic of the product-driven policies of the period had been the government's encouragement, through the 'new bus grant', of greater labour productivity by redesigning buses so as to do away with the need for the conductor. The new and larger buses were able to improve output still further since they could carry more people; the same number of seat-miles could be offered by fewer buses, at lower frequency.

Since there is plenty of evidence that people rate frequency very high in their assessment of quality (and since the drivers were not trained in customer care), it is no wonder that bus use was discouraged still further.

But just as the Beeching reforms of the early 1960s had been driven by the Treasury's concern for the level of public support for a nationalised industry, so the problems of the bus industry twenty years later produced a similar reaction. What is more, the subsidy — which had been expected to support underused services — was going predominantly to the Passenger Transport Executives in the metropolitan counties; areas where demand was highest, and profits should have been most easily obtained. It rapidly became plain in Whitehall that action had to be taken, and, for a time, the Cinderella bus industry became the focus of political concern.

Action overtakes debate

The outcome was a White Paper, with the unadorned title *Buses*, which was presented to Parliament in July 1984. The establishment of the industry expressed alarm and concern at the government's determination to reform it — without the expected opportunity to modify policy first presented in the form of a Green Paper. Mr Ridley was seen as an iconoclast, not least in neglecting to consult the people with experience. Instead, the officials of the Department consulted a number of academics, and incidentally triggered a debate in the pages of the professional journals that has continued ever since.

The urgency of the problem, as well as the force of the industry's opposition, is shown by the conclusion to Chapter 1 of the White Paper — "The Government therefore proposes to introduce legislation at the earliest opportunity. The legislation will make major changes to arrangements for the bus industry, so that it is set free to give a better service to the passenger at less cost to the ratepayer and taxpayer". This was fighting talk indeed !

Figure 2.1 Proposals of the White Paper Buses

- 1** Bus services will be freed from restriction on competition by abolishing road service licensing throughout Great Britain (except for the framework of controls in London which will be retained for the time being).
- 2** Supervision of the quality and safety standards of public service vehicles and operators will be maintained and tightened. Further resources will be provided for this.
- 3** Many essential bus routes are not and never will be viable and local authorities will be able to continue to subsidise services that would cease in the free market. But they will be required to seek competitive tenders for contracts to run bus services which they wish to subsidise.
- 4** Concessionary fare schemes will continue and all operators will be enabled to participate in them on an equitable basis.
- 5** The Government is determined to foster public transport in rural areas. Additional resources will be made available to help with problems in these areas. There will be a special innovation grant and a transitional grant for rural services. Wider use of services run by education, health and social services authorities, the Post Office and others will be explored.
- 6** The structure of the bus industry must be allowed to change to meet market needs. The National Bus Company will be reorganised into smaller free-standing parts which will then be transferred to the private sector. The Government will welcome bids from the employees. Passenger Transport Executives (PTEs) will be required to break down their operations into smaller units, which will become independent companies. Municipal bus operations will be incorporated into companies still owned by their district councils. After a suitable transitional period, both PTE and municipal companies will stand on their own feet. They will compete with other operators for passengers and for contracts to run subsidised services.
- 7** Taxis and licensed hire cars will be allowed to carry passengers at separate fares in certain circumstances. It is also intended to begin a gradual relaxation of the restrictions on numbers of taxis which apply in some areas. The Government will be consulting the parties concerned on each of these proposals.
- 8** In Scotland, as elsewhere, quantity restrictions will be scrapped and quality controls strengthened. Special measures will be taken to improve services in rural areas. Subsidy will be subject to open tender and the structure of the municipal and PTE operations will be changed to improve efficiency and reduce costs.
- 9** The Government intends to bring a Bill before Parliament at the earliest opportunity and, subject to Parliamentary approval, to bring in the proposed changes without further delay.

The proposals of the White Paper are set out in Figure 2.1. Figure 2.2 summarises the benefits that were expected to follow from deregulation. But what is notable, with hindsight, is the extent to which deregulation, rather than privatisation, was seen to be the key to the beneficial reforms. It is as if the subject of ownership had been addressed at a relatively late stage.

The original scheme for bus licensing took some five years and the attentions of a Royal Commission before it appeared, significantly modified, in the Road Traffic Act 1930. The White Paper of 1984 emerged with what seemed to many to be indecent

Figure 2.2 The Government's Summary of the Benefits Expected from the Recommendations of the White Paper Buses

THE NEW MARKET

The free and fair competition in road passenger transport which the Government proposes will bring great benefit to many travellers and to the community at large.

The main network of services will continue and will better meet the needs of the traveller. On many well used services fares will go down. Other services may change to match peoples' requirements more closely. In rural and urban areas alike, there will be potential for new services. Most important of all, the measures proposed by the Government should slow or halt the seemingly inevitable decline in service to the travelling public. The total market for public transport should expand.

Ratepayers and taxpayers will know how much money they are providing for the services they subsidise and will reap the benefit as gains in efficiency reduce the need for subsidy. The managers of bus operations will have more freedom to manage and compete within a clear structure of responsibility.

The purpose of the bus industry is to meet the needs of its passengers. There have been 30 years of decline in bus services. Under these proposals the country can look forward to a future where passengers determine the services they want.

haste as the Transport Act 1985. As the Bill took its course there was strident criticism, not only from politicians of every colour, but from the industry's representative body, the Bus & Coach Council. Public meetings were held, where proponents of the Bill were met with obloquy, with serious debate as to the principles of the Bill being lost among fears expressed from the floor about the future of individual bus services. This myopic opposition to urgently needed reform has continued to mark the state of the public debate right up to the present.

Thus are the Ridley reforms still called 'deregulation', even though the policy of the White Paper and the 1985 Act should properly be called 'regulatory reform and restructuring', since in practice the bus (though not the coach) industry is today more regulated, not less. The taxonomy of regulation provides for *quality*, *quantity* and *price* control, the latter two having the effect of limiting contestability and interfering in the working of the market. Quality control — so long as it is limited to the safety regulations necessary for a fail-dangerous industry like transport — is a constraint upon contestability that must be accepted, though it should not be permitted to encroach too far.

The direction of reform

The leading provisions of the Act set out to achieve the following objectives:

- to *repeal the protectionist legislation of 1930, with a view to exposing a product driven industry to the forces of the market;*
- to *sell the state-owned bus companies in England and Wales as going concerns, and to wind up the National Bus Company;*
- to *require local authorities (including the Passenger Transport Authorities) to set up their bus undertakings as wholly-owned companies, with a view to their sale in due course (and, as a consequence, to obviate deficit financing);*

- to prohibit supply-side ('network',) subsidy, and to rule out cross-subsidisation (in so far as this involved the provision of services at less than marginal cost);
- to provide for a reduced and transparent subsidy by tender for services regarded as socially necessary and for continued consumer-subsidy through the provision of local authority 'travel concession' schemes;
- to erect residual protection of the 'public interest' through the repeal of the industry's exemption from the fair trading laws;
- to limit the contestability of the market, and flag up 'socially necessary' services, by a registration process which required competitors to 'show their hand', and, by default, indicate services they would not undertake to provide; and
- to introduce a form of franchise for bus services in London.

There were also provisions for encouraging taxi operators to provide scheduled services ('taxibuses'), which in the event were rarely exploited; for travel concession schemes to be open for any bus operator to join; and for various 'tidying-up' measures. While deregulation extended to Scotland, resistance by the Scottish Office meant that privatization there was to be delayed. Price control had already been removed by the Transport Act 1980.

The implementation of the Act proceeded step-by-step in so far as regulatory change was concerned, in marked contrast to the privatising clauses. Commercialisation of the local authority undertakings had to be completed by 26 October 1986, which was also the date when the 1930 licensing system expired, but the full impact of regulatory changes was delayed until 26 January 1987. But privatisation was given no specific timetable or terminal date, and indeed it has not yet been completed in so far as the municipal companies are concerned.

The immediate results

The immediate outcome of the 1985 Act was a patchwork of confusion in a few areas and smooth change over the greater part of the country. Unfortunately, the areas of confusion were politically sensitive: Greater Manchester and Merseyside were in the lead, with South Yorkshire being forced to abandon its plan for 'fares-free' public transport, and to increase prices by 750%.

In Strathclyde there was on-street competition between the state-owned bus companies and the newly commercialised business owned by the Passenger Transport Executive. Yet the situation was far less fraught in West Yorkshire, while in the Tyne & Wear and West Midlands areas, commercially-minded chief executives managed the change without serious problems.

WHAT IF ?

Few of those who have taken a hostile attitude to bus deregulation seem to have asked themselves 'what would have happened without it? Recently, however, two respected commentators have given their answer. Brian Cox, Executive Director of Stagecoach Holdings Plc, speaking at an international conference on Competition and Ownership in Land Passenger Transport hosted by Leeds University in May 1997, had the following comment to offer:

"In my view, had Britain continued with its regulated, government-owned bus operations, there would have been an acceleration of the downward spiral of higher fares, fewer passengers, fewer services and larger subsidies. Much of Britain could have lost its public transport entirely, like the United States. Investment would have been curtailed, innovation opportunities lost. The reality is that very few services have been lost, and in many areas services have been significantly improved."

The same question was tackled in a paper called *1986 And All That*, presented to a meeting of the Chartered Institute of Transport in October 1996 (printed in the *Proceedings of the Institute*, Vol. 6, No. 2, June 1997). Gavin Booth, a transport journalist and a respected commentator on the bus industry, came to the following conclusions:

"If deregulation and privatisation had not happened, what state would the bus industry be in today? A pretty desperate one! The mid-1980s recession would have forced some action, and no doubt there would have been staff and vehicles sacrificed in the name of economies, but we really needed the 'fresh start' of the Stagecoaches of this world to bring new thinking to the bus industry."

What but deregulation, then, could have ended the policy of managed decline that had brought the bus industry to such a sad condition, in which it was increasingly becoming part of a welfare state that the nation could no longer afford ?

Peter Bottomley told the Transport Select Committee in 1995 that if pre-deregulation rises in subsidy had continued the bill by then would have been £2 billion (an increase from £500 million before 1985). Instead, the industry in 1994/95 received some £700 million — and the principal bus companies contributed a total of more than £30 million in corporation tax.

The National Bus Company's management training scheme had produced a generation of managers who were mostly well prepared for deregulation, with perhaps a majority of them favouring it in principle. They were able to take advantage of the less stringent licensing system introduced by the 1980 Act to prepare for the more contestable regime that awaited them, so that no drastic changes took place immediately. But in Merseyside and Greater Manchester, resistance to the Bill had been strong, and the general distrust of market principles by the outgoing metropolitan county councils left their managers less prepared to face the world of commercial decision-making. Some local authority businesses faced the same problem: the management tradition of municipal trading, going back more than half a century, had suddenly to be abandoned.

In Greater Manchester and Merseyside it would seem that inadequate costing practices led to the decision not to register a considerable number of services, which were seen as 'loss-making' and thus as a threat to the viability of the business. This was in marked contrast to the decision of the West Midlands company to register more than 90% of its mileage, thereby retaining the *status quo*. The West Midlands also saw very few new firms entering the market, but in Greater Manchester and

Merseyside there was an influx of competitors, both small and large, filling the streets with buses of every livery. The outcome was a period of confusion, made worse by the absence of good information, while an impression of continuous change appalled the traditional managers as much as it challenged the paternalistic attitude of the politicians and officials.

Traditional bus managers, conditioned by the tidiness of the former licensing system, were horrified by the rash of new operators, as were local officials and councillors, and some self-appointed "consumers' representatives". But the new firms offered greater choice to the public, and many of them were set up by former employees of the large companies, who knew their failings and set out to offer a service better matched to public demand. Critics of deregulation to this day show a dislike for the small private business which, after all, is best placed to identify failures of supply on the part of the larger firms.

Conclusion

It should not surprise us that the exposure of the industry to commercial realities had a mixed outcome. The mind-set established over fifty years of licensing, and, in many places, by eighty years of municipal trading, was never well suited for a competitive market, which, in any case, was distrusted by those who had opposed its return. Perhaps the advocates of regulatory reform should have done more to explain that its manifest advantages would not appear in perfection, overnight.

3. How things turned out

The privatisation process

The White Paper *Buses* of 1984 expressed high hopes of the outcome of deregulation, but had little to say about the implications of restructuring. The original intention of simply privatising the National Bus Company, predicated on the successful outcome of the sale of the National Freight Corporation, was modified to provide for the sale of its individual subsidiaries, since it was plain that the first alternative would have set up a privately owned company with substantial market dominance. The interesting question today is how far the process of privatisation introduced distortions in the market which the White Paper had not foreseen.

Mr Ridley's successors, and the civil servants in the Department, were left with a clear framework for deregulation, but with nothing comparable for privatisation. No clear policy emerged, and one is left with the impression that the subject did not attract a great deal of attention. The political and media focus on 'deregulation' effectively swamped any criticism that might have been made about how ministers were handling or mishandling the privatisation process.

These processes were threefold:

- sale of the National Bus Company subsidiaries commenced in November 1985 and was completed in April 1988;
- sale of the Scottish Bus Group subsidiaries commenced in May 1988 (after separate and controversial legislation) and was completed in August 1991; and
- sale of the companies owned by the Passenger Transport Authorities and municipalities followed an erratic and highly controversial course and is not as yet complete.

Some shortcomings

Several difficulties have arisen during the privatisation process, such that no 'level playing field' has been achieved. It is worth reviewing these in turn, to analyse their implications for the establishment of a market order such as had been envisaged by the White Paper.

Valuation problems. The balance sheets of the state-owned companies as at October 1985 offered little indication of the value to be expected in a competitive regime. Early bids were therefore more or less 'blind', and since no-one knew whether the companies would attract buyers, they tended towards caution. Also, the National Bus Company restructured some of its component firms before offering them for sale; some were divided, while in one case a new company was created. Prices were low to start with, one business being sold for little more than

the value of its fleet, but as new bidders entered the field there was a progressive rise which in turn raised the value of the companies sold earlier. Several of those acquired by their managers were then sold on at markedly higher prices.

Property values. A number of companies owned freehold properties in the form of garages, offices and bus stations in extremely useful urban sites, and some early purchases were funded by the sale of these properties. Others, of course, did not offer the same attractions. In later sales, and particularly those of municipal and PTA-owned companies, the process was limited by restrictive covenants and, in some cases, properties were not included in the sale.

Mergers and the development of groups. The new competition that was expected to follow from deregulation turned out to be limited almost everywhere to small firms engaged either in head-to-head operation on single bus routes, or in seeking to establish a profitable niche. Only in Manchester and Oxford was the incumbent faced with serious new competition; in Oxford the newcomer established itself and remains to the present, but in Manchester the PTA-owned company bought the newcomer out after a short period of on-street competition. The outcome was the realisation that the total number of bus companies could be expected to stabilise, so that economies of scope could be pursued, on a national scale. It is to say the least highly doubtful whether this was predicted by the authors of the 1984 White Paper.

Politics and the PTAs. In late 1985 the privatisation of the 'Passenger Transport Companies' appeared to be just a theoretical possibility. While they were now required to be operated profitably, they remained under the ultimate control of local politicians, many of whom were hoping for a change of government that would enable them to return to the subsidy regimes that had ruled since the Transport Act 1968. But as time went on the government came to realise that privatisation of state-owned businesses was a viable and desirable policy, so increasing pressure was brought upon PTAs and municipal councils to put their bus companies up for sale.

The failure of the Transport Act 1985 to provide adequately for the privatisation process, as distinct from deregulation, was most marked in the case of 'arms-length' bus companies owned by the metropolitan district councils. For it was there that the tradition of 'public service' in municipal trading was mixed with political conviction, and it was most difficult for managers to move from an administrative to a commercial process. The success of these companies, when they were eventually privatised, in quickly and effectively improving the quality of service has been remarkable, but it is unfortunate that it took so long to achieve.

An incoherent approach. It is impossible to detect any coherent policy for these final privatisations. Smaller municipal businesses have generally been sold to groups with no local subsidiary, but this has not always been the case. Seventeen companies remain unsold, including Nottingham City Transport, which had itself acquired the business of a local private firm in the early days of deregulation. Widely different arrangements were made with the PTAs. Most were unchanged in structure, but the Greater Manchester company was divided into GM Buses North and GM Buses South, after the Secretary of State said he regretted having sold the West Midlands company as a single concern (after turning down a substantially better offer from the Stagecoach group). The Merseyside company, which had sunk into financial chaos, was transferred to its workforce for a nominal £1, and has since been transformed by new management into a flourishing business with a subsidiary company in London and two rail franchises.

London franchises

The government eventually overcame Scottish Office resistance to privatisation, but where London was concerned it settled finally for privatisation without deregulation. London Regional Transport, a kind of Passenger Transport Authority, had been set up in 1984, and in 1989 its operational undertakings were separated out as London Underground Ltd and London Buses Ltd. London Buses' operations were then allocated to eleven bus companies and one coach firm, all of which have since been sold, with all but two now owned by one or another of the national groups.

But instead of deregulation, London Buses became a franchising authority, of a kind more commonly found in continental Europe. Its duty remains that of ensuring the provision of services designed to its own specifications, on the basis of competitive tender; a very different kind of 'franchise' from that found in retailing and fast foods with which it is often and misleadingly confused. Its former subsidiaries have been joined by a number of newcomers, but the effect is to make bus companies in London 'tenants' of the public authority, leaving virtually no opportunity for innovation in the provision of services. Recent severe criticism of the administration of London Buses Ltd contradicts the view that regards this kind of franchise as superior to competition.

The failure on predation. All in all, 'deregulation' itself has been a success story, though the 1985 Act must be criticised for not providing against predatory activities.

The case for returning the industry to the market included the expectation that some firms would not survive; indeed, it was the *very threat* of failure that was seen to be one of the incentives to greater efficiency. But there is an important distinction to be made between failure arising from weakness and the deliberate use of superior reserves to drive a competitor out of business.

A functioning and contestable market will see firms come and go, and among the smaller fry there has been a substantial turnover. Without any doubt, some of these small competitors have been driven out of business when their routes have been flooded with buses owned by a larger firm. Yet there have also been many occasions where small firms have survived by offering better quality, lower fares or more friendly drivers, or some combination of all these. Moreover, it seems that some of the larger firms are more inclined to use strong-arm tactics than others: there is, after all, a proper distinction between a robust reaction to new competition and the use of merely predatory tactics.

Improved performance after the reforms

Despite such problems, the performance of the industry since 1986 has been a marked improvement over its previous record. Figures 3.1 and 3.2 show how costs have fallen, while the remaining subsidy has been offset by a substantial contribution to the Exchequer through corporate taxation. Case studies in the following chapter will illustrate the ability of some of the front-runners to attract new demand, including demand from passengers who previously travelled by car. And the eventual sale of the PTA companies in Greater Manchester has been hailed locally for its outcome in terms of improved services and higher standards. It should be no surprise to find that the long-term secular fall in traffic that public ownership entirely failed to halt, is now coming to an end.

Figure 3.1 Trends in operating costs
Local bus service operating costs
(pence per mile, 1995 values)

Year	London	Metropolitan counties	Shires	England	Scotland	Wales	GB non London
1985/86	251	174	124	159	130	117	140
1986/87	240	159	111	145	122	106	127
1987/88	237	134	103	130	114	98	113
1988/89	248	132	105	132	114	90	113
1989/90	253	135	108	137	113	93	116
1990/91	269	143	113	145	121	95	122
1991/92	271	146	119	151	114	95	126
1992/93	261	140	121	148	117	93	124
1993/94	242	137	116	143	116	93	121

Notes: Figures for London initially represent the state-owned London Buses Ltd., whose subsidiary companies were privatised in 1992. The Metropolitan Counties appear here as the *ad hoc* Passenger Transport Authorities, whose bus operations were made financially independent in 1985, and privatised at various dates thereafter; the figures include an element of private bus operation, varying from one area to another. Figures for the 'shire counties' in England include privatised bus companies, original 'independents' and the remaining municipally-owned businesses. Figures for Scotland and Wales are a complex of various types of operator. It should be remembered that bus companies in London are franchised by a public authority.

Source: *Bus Industry Monitor*, 1994/5

The finer benefits of the renewed bus industry are difficult to express in figures, but there are no doubts as to the nature of the improvements that have followed from the 1985 Act. One is the reversal of the former trend to larger buses with lower frequencies, reflecting the fact that people do not like waiting at bus stops. The use of minibuses to reduce waiting times had been pioneered under the National Bus Company in the city of Exeter, flying in the face of conventional wisdom with great success; but the growth of minibus operation, and of higher frequencies in general, took place rapidly after 1986. Another area of gain has been the development of entirely new routes, opening up new destinations that previously could only be reached by changing buses (which people dislike). In some cases the realisation dawned that people wanted to go to different places in the evenings and at weekends, so that the actual route pattern needed adjustment, though it is fair to say that this has proceeded rather slowly. What is manifestly true is the trend for buses to operate closer to people's homes than they ever did before.

Figure 3.2 Trends in Local Authority financial support to bus companies £million at 1994/95 prices

Year	Support*	Reimbursement**
1984/85	974	426
1985/86	751	422
1986/87	619	423
1987/88	473	439
1988/89	443	429
1989/90	364	451
1990/91	374	468
1991/92	431	436
1992/93	418	424
1993/94	281	422
1994/95***	279	435

Notes:

* Cost of providing 'socially necessary services' by tender.

** Payments to operators with respect to elderly and/or disabled passengers carried at less than the standard fare, after allowing for 'income generation'.

*** Provisional and subject to revision.

The figures include local authority administrative costs, including the costs of tendering and publicity. Both series were affected by variations in the availability of funds. It should be remembered that by the end of the period the twelve largest companies and groups were contributing some £31million in Corporation Tax.

Source: *Transport Statistics Great Britain 1986*

These and other improvements to the quality of bus services share one remarkable feature: there was no reason why the incumbent operators should not have developed them prior to 1986 (or, for that matter, prior to 1968). The process is not yet complete, but the urban bus has at last freed itself from a heritage of invisible tramlines, so as to offer direct point-to-point travel to more and more passengers. This is perhaps the most significant gain to have come from the Transport Act 1985. Yet there are those who would even now wish to see it reversed, and make people change from bus to train or bus to tram – not the way to encourage people to leave the car at home, and a mightily retrograde step for the bus industry to take now.

More competition needed

The question that must concern us now is the extent to which the industry is really functioning in a competitive environment.

Innovation. On the positive side, the variations in marketing management that exist between different companies, and to some extent between different groups, are much as one would expect from a period of active competition and quite rapid change. Contestability theory has been proved again by the effect of potential

competition which is maintaining standards of price and quality even where a firm has a route to itself. And there has been nothing to support the fears of those who opposed reform on the grounds that operators would concentrate on the 'profitable' routes, to the neglect of the 'thinner' ones. The leading companies have clearly mastered the skills of traffic costing and have introduced discriminatory pricing policies that are, not surprisingly, to everyone's advantage.

Creeping regulation. But these optimistic conclusions have to be set against the debilitating extent to which regulation has expanded since 1985. A manager who can recall the old regime could be forgiven for concluding that the industry is *more* closely regulated today than it was when the Regional Traffic Commissioners applied the 1930s-style route licensing system. Local Authorities have taken every opportunity to make use of their residual powers, imposing serious constraints upon the freedom of managers to seek out and satisfy customers, both new and old.

Two examples will suffice to illustrate the problem. One is the nitpicking enforcement of regulations limiting the length of time a bus can wait at a stop, and penalising early arrival or late departure at a bus station. And then there is the example of a council that will not permit bus operators to advertise their times and fares on bus stop poles, since its officials claim that it is *their* duty to do so. The power of the petty bureaucrat has grown, not diminished, since the supposed deregulation of the industry.

Lingering subsidy. More controversial, but no less serious, is the effect of the continuing public subsidy systems on the management of operations. Concessionary fares for pensioners may be desirable, for example, but when they are coupled to the requirement to offer 'travelcards' of some specified form, sensible pricing policy can be made difficult. Cards offering unlimited travel over a period have the attraction of up-front sales, and may encourage car users to transfer to public transport, but like all average pricing they subsidise the longer-distance rider at the expense of those making shorter trips (who are probably less well off). The development of smart cards, which could enable market-sensitive pricing to replace the average fare, is a potential solution to part of this problem, but only if the politicians can be persuaded to accept it.



THE MINI GROWS UP

In 1984 the Board of the National Bus Company was persuaded to set money aside to support a major innovation in bus transport. Conventional wisdom had it that small buses offered no advantage over big ones, because of the high proportion (about 60%) of costs attributable to staff. Harry Blundred, the manager of the NBC subsidiary Devon General, had other ideas, and he became the originator of the 'minibus revolution'.

Using the modified licensing procedure under the 1980 Act, and in the absence of any objectors, Blundred replaced the double-deckers that had provided infrequent local services in Exeter with a fleet of 16-seater Ford Transit vans fitted with bus bodies, operating at high frequencies throughout the day, including evenings. Since the perceived cost of going by bus includes a high figure for waiting, which was now much reduced, passengers used the buses far more. But the minibus revolution went further than this.

Blundred recruited new staff, mainly younger people, with not a few women, and trained them in customer care. In due course he closed the company's expensive central workshops, contracting out maintenance to the Ford Dealers. Operation was flexible, with minibuses 'leapfrogging' — at high frequencies, timetables no longer signify. And a 'problem city' became something unusual in the bus industry of the day: a success story.

Subsequently the extended deregulation of 1985 encouraged other operators to buy minibuses, and their use spread rapidly. Others rejected them, and by no means all of those who tried running them learned all the lessons of the Exeter experiment.

The minibus is not a piece of technology but an example of practical marketing. It means shaking off cultural barriers, like the need for bus stops — the slogan in Exeter was 'Hail and ride — just like a taxi'. A subsequent attempt to introduce the minibus to London, with franchised drivers, was blocked on a legal technicality by London Transport, and a further attempt by Blundred was squeezed out by the same vested interest. It is sad for passengers that the potential of such an exciting new product has not yet been fully realised.

It is not even clear that public subsidy is needed in order to preserve concessionary fares, given the propensity of the market to provide them anyway. For many years now there have been Senior Railcards, Family Railcards and Student Railcards on offer for a small fee, as a straight marketing exercise, with no public subsidy, and one only has to look at hairdressing or TV rental to find reduced prices on offer for pensioners — and nurses and students as well — in off-peak periods.

The effect of subsidy on the bus market extends also to the provision of 'socially necessary' services, which must be open to tender. Here again we find local government officials seeking to second-guess the market, but the system is open to abuse, for both commercial and political reasons. Bus companies can and do 'work the system', to their perceived advantage, but there are examples of politically motivated authorities behaving equally unscrupulously. Thus it is not unknown for the tender periods for these services to be so short that there is a constant turnover of operators, and the resulting public confusion is blamed on 'deregulation'!

Macro effects. When we turn to quantify the extent of regulation at the macro level, the situation is still unsatisfactory. The 1985 Act removed the previous exemption of the bus industry from the fair trading laws, passing control of its commercial activities from the Traffic Commissioners to the Office of Fair Trading and the Monopolies and Mergers Commission. Since then there have been numerous attempts to deal with mergers and acquisitions that fail on one specific issue: the refusal of the regulator to accept that the market in which a bus company

trades includes the private car.

A case can be made for preserving the patchwork quilt of differently owned companies envisaged by the Department of Transport during the sale of the National Bus Company and the Scottish Bus Group, but there is too much evidence that the OFT is locked into a neoclassical model of the industry that fails to explain the behaviour of bus companies in a contestable market.

A problem of definition here needs to be cleared up if the regulatory framework of the bus industry is to be further reformed. Those who advocate an 'OFBUS' regulator fail to recognise that the industry is not and never has been a natural monopoly, though because it is 'fail-dangerous' and the safety of its equipment cannot be judged by the potential customer, quality control of its vehicles and drivers is essential. Beyond that, there is a need to control predation, and the interference of well-intentioned local authorities in the market cries out for concern. But so far the OFT has failed to achieve a rational and beneficial basis for its bus industry responsibilities.

OPEN ALL HOURS

Competition in Oxford is a noted example of the success of bus deregulation. One of the consequences has been the operation of buses well beyond the traditional times of starting and finishing, which has been justified by the demand that has been found to exist. *Thames Transit*, who also run coaches to London throughout the 24 hours on a hail-and-ride basis (every ten minutes at weekday peak times, every 15-20 minutes throughout the day and at least every hour through the night) have extended some city services to run throughout the night, and the last bus from Oxford to other towns may leave as late as 3.45 am. Here is a sample of what a strongly market-oriented bus company can offer:

Route Number	Name	Daytime Frequency	From	To	First Bus	Last Bus
1	Blackbird Flyer	4-5 mins	Blackbird Leys & Cowley	Oxford	24 Hours	
3	Rose Hill Runner	8-10 mins	Rose Hill & Iffley	Oxford	0620	0000
7/7A	City Cavalier	5 mins	Kidlington Cutteslowe	Oxford & Barton	24 Hours	
10/ 10A City Circle	Carousel	15 mins	John Radcliffe Hospital	Oxford	0620	0000
20		30 mins	Chipping Norton Woodstock	Oxford	0645	2340
27		10-15 min	Bicester	Oxford	0630	0240 Fr-Sat 2300 Su-Th
30/31/32/33		6-10 mins	Abingdon	Oxford	0615	24hrs Fr-Sat 0115 Su-Th
30/31/32		30 mins	Didcot Wantage	Oxford	0625	0345 Fr-Sat 0115 Su-Th
100	Witney Weaver	10-15 mins	Witney Carterton	Oxford	0625	0310 Fr-Sat 0040 Su-Th
	Oxford Tube	10-15mins	London	Oxford	24 Hours	

And remember that the company is in competition with the *Oxford Bus Company*, both locally and to London (and there, with the train operating company competing as well).

4. Strengths and weaknesses

A record of success

The predictions of the prophets of doom have not been born out. The substantial increases in productivity shown in figure 4.1, can be accounted for in several ways, each of them beneficial for the passenger. Smaller buses running more frequently reduce waiting time at stops; new services have been devised that bring buses closer to people's homes, while others provide direct access to places that before could only be reached by changing buses; and striking innovations like all-night bus services have attracted an unsatisfied pent-up demand. Today, at the end of the decade, the pressure for growth in the industry sees companies at the leading edge turning to improvements in marketing management and the final eradication of the product-oriented ethos of the previous fifty years. That there are exceptions we must recognise, but the bus industry has experienced a sharp learning-curve, which shows every sign of continuing.

Between 1972 and 1984, subsidy to the bus industry grew, while output shrank and patronage fell. Since then, subsidy has fallen by 65% — an average fall of 13.6% a year, while output has grown and the fall in patronage has been drastically reduced. The earlier period could be called one of controlled decline, but since 1985 bus users over the greater part of the country have more choice and a better service. This, plainly, is the best way to reverse the former decline, by making the use of buses more attractive.

Meeting the critics

How, then, can critics still claim that deregulation — however it may be defined — has been a failure? Let us begin by examining certain myths that have been put about, and see whether they stand up.

The integrated network, we are told, has been destroyed. Were this to have been true, it would surely have been a real disaster, but as soon as the meaning of the term is teased out, a hidden agenda is displayed, in which the customer is to be given little choice. Those who advocate 'integration' as a policy objective seem to imply that people should be expected to change from bus to bus (or train, or tram) in the course of their journeys, just as they are expected to do in so many continental cities. Since we know that changing and waiting represents a very high perceived cost, and is greatly disliked by passengers, it would be reasonable to conclude that one of the real benefits of deregulation has been the provision of more direct services that obviate the need to change.

The classic example was to be found in the policy behind the construction of the

Figure 4.1: Productivity: bus and coach kilometre and staff rates

<i>Year</i>	<i>Vehicle km per vehicle</i>	<i>Vehicle km per staff employed</i>	<i>Staff employed per vehicle (number)</i>
1970	46.8	14.2	3.3
1975	46.2	15.8	2.9
1976	46.5	16.1	2.9
1977	46.9	16.3	2.9
1978	46.1	16.1	2.9
1979	45.8	16.0	2.9
1980	47.5	16.3	2.9
1981	46.2	16.9	2.7
1982	45.3	17.1	2.7
1983	46.7	17.5	2.7
1984	48.2	18.3	2.6
1985/6	49.0	19.1	2.6
1986/7	49.0	20.5	2.4
1987/8	51.1	22.9	2.2
1988/9	51.9	23.5	2.2
1989/90	52.9	24.3	2.2
1990/1	53.3	24.7	2.2
1991/2	54.3	25.6	2.1
1992/3	53.2	26.1	2.0
1993/4	53.8	27.2	2.0
1994/5	54.5	27.7	2.0

Tyneside Metro in 1976-1980. The Passenger Transport Executive deliberately redesigned bus services so that passengers were obliged to transfer to the trains. When the PTE lost control of the bus companies, the latter re-introduced through services to the city centre, which were an immediate success, with only a moderate proportion of passengers continuing to transfer. The feared 'loss of integration' stood exposed as just a slogan for those who wanted to spare the bus industry from the beneficial pressures of the market.

Bus companies concentrate on profitable routes, it is often said, to the detriment of people living where there is less concentration of demand. There is a misunderstanding here, since it is forgotten that many routes where demand is quite low may still be profitable. In a competitive market, bus firms will look for any route that offers a profit, and the nature of the industry's cost structure enables

remunerative services to be provided where demand is quite small. Those who claim that the bus companies 'are only in it for profit' make a very strange claim, since the profit comes from finding out and seeking to satisfy demand, wherever and whenever it exists.

It was the fear that marginal demand might be neglected that shaped the policy of tendering for the provision of 'socially necessary services'. As we have seen, this power has been used to cast doubts upon deregulation, but it has also to be admitted that some companies have played the system, seeking short-term gains by transferring services to the subsidised sector. (Though the strategy that has very often backfired on them).

On-street competition is naturally to be found on the most popular routes, but, apart from some examples of predation for which a remedy exists, the effect has been wholly desirable, in keeping the larger operators on their toes, and often by expanding the market through greater frequency. And, as the theory of contestable markets would expect, the *potential* of new competition has proved itself a powerful incentive to maintaining and improving standards of service.

Rural bus services are neglected, it is claimed — which is a variant of the previous issue. The provision of tendered services has been widespread in this area, though varying from one local authority to another. Small firms, however, have found it possible to provide commercial services, often in the traditional pattern of interworking them with subsidised school services. While it is likely that 'deep rural' services would still be provided commercially, including the postbus services that operate in many parts, an alternative and more local source of subsidy could be desirable here — funded perhaps by Parish Councils, with their closer knowledge of the residual demand.

The basis of rural society is changing rapidly. For many years, car ownership has been higher in the most remote areas than it has been in industrial towns, since frequent bus services can never be viable where population settlement is very thinly spread: if you live in a village on a main road you can expect a much better bus service than you will get if you live at the back of beyond. And it is this factor of choice that must be reckoned with. There is an increasing trend for middle class people to move into the countryside, so that villages in some parts have become dormitory settlements, without even a local shop or post office. The extent to which this development should attract public subsidy is an issue far wider than the provision of rural bus services. But the conclusion must be that, since deregulation, the inescapable reduction of bus operations in very sparsely populated areas has been far from a disaster.

Giles Fearnley, Chairman of Blazefield Holdings Ltd, with bus interests in Yorkshire and London, coach operations from Cambridge (and a holding in Prism Rail) says that the biggest benefits of privatization and deregulation have been freedom to invest and the development of public awareness. With new Volvo buses and special staff training, his company's *STARBUS* routes are showing growth figures of 7.5%, year on year.

THE ESSENTIAL TRUTH

Probably the most misleading assumption, far too widely held and disseminated, is that bus deregulation has not affected the fall in bus use. While it is true that the reduction in the number of people carried has continued since 1985, it is a grave error to measure this against the carryings at that date. The best measure of the success of bus deregulation must take the longer view, looking at the effect it has had on the longer-term secular trend of decline that had already set in by 1950, with the failure of the industry as it then was to respond to the growth in ownership and use of private cars. The following table analyses the process through five periods, reflecting different organisational structures. The figures surely speak for themselves:

<i>Period</i>	<i>Passengers lost</i>	<i>%age of 1950 figure</i>	<i>Average loss per year</i>	<i>Average %age loss per year</i>
1. 1950-70	7,758,000	47.2%	387,900	2.4%
2. 1970-74	971,000	5.9%	242,750	1.5%
3. 1974-85/6	2,075,000	12.6%	188,636	1.2%
4. 1985/6-1993/4	1,266,000	7.7%	140,667	0.7%
5. 1990/1-1993/4	475,000	2.9%	118,750	0.3%

Source: *Bus Industry Monitor 1995*

PERIOD 1	'Regulated monopoly' under the 1930 Road Traffic Act.
PERIOD 2	Following the introduction of the 1968 Transport Act, with the formation of the National Bus Company, the Scottish Bus Group and the Passenger Transport Executives.
PERIOD 3	Following the introduction of the 1972 Local Act, with the identification of the new Metropolitan County Councils as Passenger Transport Authorities, and the development of 'network subsidy'.
PERIOD 4	The immediate effects of deregulation.
PERIOD 5	Improvements as privatisation and other changes worked through, without the immediate upheaval which in some places followed deregulation.

More bus to the buck

Taken altogether, the supposed weaknesses of the market have turned out to be far smaller than opponents of deregulation might believe. Indeed, it is not at all easy to show how any significant number of people has been made worse off because of it. Where shortcomings exist, they are concentrated in those cities where the former municipal managers had been left quite unprepared for coming to terms with the demands of marketing and competition.

Figure 4.2 Growth of mileage and reduction in public subsidy on local bus services

<i>Year</i>	<i>Vehicle/kilometers (millions)</i>	<i>Financial support £ million *</i>
1984/85	2,125	974
1985/86	2,077	751
1986/87	2,160	619
1987/88	2,342	473
1988/89	2,390	443
1989/90	2,442	364
1990/91	2,448	374
1991/92	2,488	431
1992/93	2,515	418
1993/94	2,585	281
1994/95	2,676	279**

* 1994/95 prices

** Provisional figure

Source: *Transport Statistics Great Britain 1996* (HMSO)

Figure 4.2 shows the decline in subsidy and the comparable increase in mileage. To this must be added the contribution of the industry to the public purse by way of corporation tax. De-layering in the early stages of privatisation was necessary because the industry had been seriously overmanned in the middle-levels of management, contributing to the poor performance of the publicly-owned industry; Figure 4.1 shows a reduction in employees per vehicle of over twenty per cent over the period since 1985. The collapse of national agreements on pay and conditions, traditionally settled between the industry's representatives and the various trade unions concerned, led to plant bargaining and the end of severe distortions in wages between the north and the south. Taken as a whole, the bus industry has become markedly more efficient in production, with enormous increases in the return on its capital — which, after all, had for so long been negative.

But making gains by increased efficiency and growth through merger and economies of scope must have a limit. The real success stories that deregulation and privatisation have made possible come from realigning the product closer to the requirements of the customer, and from effective marketing management at every level of the firm. It is here, that the really impressive achievements are to be found. It is, on the other hand, in places where the traditional methods of production have survived, with little or no effective marketing, that the weaknesses are observed.

But it is the remaining weaknesses of management with something yet to learn that we see; it is not any weakness in the policy of deregulation itself.

GIVING PEOPLE WHAT THEY WANT

Trent Buses, a stand-alone firm operating in the Derby-Nottingham-Ilkeston triangle, has proved that marketing management works in a deregulated environment. Inheriting a range of services between Derby and Nottingham by various routes, the managers repositioned them (in marketing terms), investing in new vehicles, selecting drivers chosen and trained for customer care, introducing a customer's charter, and systematically getting away from the traditional product-driven ethos of the industry; the services were then branded the *Rainbow Routes*.

Encouraged by their success, they looked at the local service into Derby from the village of Spondon, and after market research indicated what residents there wanted, they revised the service, cutting running times from 25 minutes to ten. This time they introduced 'dedicated' vehicles, each carrying the brand name *Spondon Flyer*. Passenger numbers increased by 17% and the gain has been held, while significant numbers of new bus users formerly travelled by car.

The company is still not satisfied with its performance, and is setting itself higher standards yet, with the retail sector as its benchmark.

MAKING THE ASSETS SWEAT

The Lincolnshire Road Car Company was always known to have some of the worst operating territory, and the growth of car ownership in rural areas hit it particularly hard. In 1986/87 it was making a loss of £1 million on a turnover of £4 million. Most observers at that time probably wrote off the chances of privatised management turning it round.

In 1988 the company was bought by Barnsley-based Yorkshire Traction, who subsequently acquired the municipally-owned Lincoln City Transport. Management then got to work to get the best results they could from their vehicles — and with remarkable success. Where nothing could be done, services were handed over to private firms with still lower costs, and depots at Boston and Holbeach were closed. Urban services in Scunthorpe were in trouble because of closures in the steel industry, and demand in the seaside area around Skegness was highly seasonal. But the Lincoln services were rationalised, new acquisitions took the company into more urban territory at Newark, and everything possible was done to boost demand. While vehicle policy has been to make use of surplus buses from the parent company, new buses were bought for the first time in 1991, by which time the business had been turned round; (a profit of £300,000 was recorded in 1994/95).

The policy of the National Bus Company in its latter days was to withdraw from 'deep rural' operation. But fully commercial management will seek profits wherever they can be found, and thus reduce to a minimum the residual services that the local authority finds it necessary to subsidise.

5. The future of the bus industry

The overall success of the radical reform of the bus industry initiated by the Transport Acts of 1980 and 1985 is now clear. While there have been problems, not all of which could have been foreseen, the achievement has been truly remarkable. An industry that had stagnated under half a century of protectionist legislation; whose managers had failed to recognise that they were in competition, with the private car; which had been politicised and almost turned into an arm of welfare policy; this industry has, in a mere ten years, become market-led, quality-minded, and capable of terminating three decades' loss of custom to the car.

Yet the bus industry is still in many people's eyes a sort of Cinderella. Perhaps it is fortunate to have escaped the misty-eyed nostalgia that has accompanied the reform of the railway industry, but the downside of this is the failure of informed opinion to recognise that buses are at least as important as trains. After all, between 1993 and 1995, buses and coaches accounted for 52.3 journeys per person per year, while the comparable figure for British Rail was only 10.2. By the same measure, buses accounted for far more commuting and shopping journeys than any other mode of transport except the private car.

It is true that the growth of car travel initially took away the more 'middle-class' bus users, which may go some way to account for the low status of the bus in the eyes of the public at large. But the fastest growth in car ownership in recent years has been in the C1 and C2 (skilled and semi-skilled manual) groups, so that the car is now becoming a working-class mode of transport. Furthermore, now that 82% of men and 55% of women hold full driving licences, it can no longer be assumed that public transport can depend upon demand from older travellers, who will prefer to continue to use their cars for comfort, convenience and safety on the streets. Taken together, these factors could present a daunting scenario, were it not for the ability of bus companies at the leading edge to attract passengers out of their cars. That they have started to do so is one of the most significant outcomes of the decade since deregulation.

Those who would like to return the industry to administrative control should reflect upon the success of the bus in a lightly regulated environment. Subsidy from public funds has been reduced from £974 million to £279 million per annum in real terms since 1985, and additionally, the industry now pays above £30 million a year in corporation tax. Yet the achievements and the opportunities of this flourishing industry seem only too often to be ignored or misunderstood by politicians, journalists and even the City.

FROM 'BUSMEN' TO BUSINESSMEN

After BET sold its bus operations to the state in 1968, the City lost interest in the industry — two-thirds of whose assets were in public ownership, with the remainder controlled by a multitude of family firms. While the National Bus Company sought to become more 'commercial' in its later years, the bus fleets in most cities and many smaller towns were still managed in the tradition of municipal socialism. Since 1985 the bus industry has grown up remarkably quickly, and while it has attracted managers from outside transport, many others have successfully made the change into the world where comparative advantage rules. (Critics say that this has meant 'putting profits first', but profits can only come from satisfied customers.)

One, remarkable example of this achievement is MTL Trust Holdings Ltd., which over five years has moved from being a public sector bus operator on Merseyside to become a £500 million turnover employee-owned company, operating buses and trains across Britain.

Deregulation, not franchising

Deregulation has produced a reasonably contestable market, in which competition exists in various forms, and innovation is still proceeding. Restructuring, for all the weaknesses of the process, has now settled into a stable pattern, in which the lack of further opportunities for economies of scope is driving managers to seek further growth from increased sales: surely a highly satisfactory situation. But there is little or no pressure from within the industry for a return to some sort of quasi-monopoly; indeed, many managers welcome the present contestability because it keeps them on their toes. There is today no suggestion of returning to the licensing system that was removed by the Acts of 1980 and 1985.

But an argument has been put forward from several quarters for a new framework, designated *franchise*, which is claimed to retain the efficiency of the privatised bus industry while at the same time returning it to local authority control as to its output and marketing. The use of the term 'franchise' here is misleading, for it is very far from the familiar High Street outlet, where the franchisee sells goods or services to a guaranteed standard, paying for the use of the franchisor's reputation and style, in a highly competitive market. On the contrary, the term is being used here to imply that the franchisor — a public authority of some kind — is offering a monopoly over a period of time, for bus services in a defined area. Sometimes called 'competing for the market' (a term that has no meaning in economics), franchise of this kind could only lead to a return to the worst practices of the 1968-1985 period, while it is plain that the pressure of competition to keep operating costs down would be lost.

Under a full local authority franchise, decisions about the services to be run — both routes and frequencies — and the fares to be charged would rest with officials who must, quite properly, be risk-averse. They will be second-guessing the market, with no fear of penalty for guessing wrong. Keen and entrepreneurial managers could be expected to leave the bus industry in droves, for managers enjoy one great non-monetary satisfaction: freedom to back their own judgement, and to *manage*.

Serious problems would also arise from the sequestration of assets where an incumbent firm failed to tender successfully, and from the disposal of rolling stock by a firm that failed to renew a franchise at the end of its term. Rail privatization by franchise did not face the first of these problems, and it avoids the second by

requiring franchisees to lease their rolling stock, but there could be no case for a similar requirement for the bus industry. In any case, the rail franchises are needed because of the element of subsidy, and they are subject to a much lighter regulation than that proposed for the bus industry, with no limits on their freedom to innovate.

The idea of franchise, far from being a halfway house between the market and public ownership, is in fact a deadweight on the ability of the bus industry to seek out and satisfy non-riders, and attract passengers from the use of cars. The Department of Transport identified many of the problems, and the bus industry itself (through its trade association, the Confederation of Passenger Transport UK), has made its opposition plain. The system does exist in London, where conventional wisdom is that it has been a great success. But it is difficult to quantify the supposed benefits of the Greater London regime, and there can be no doubt that the expensive bureaucracy that administers it leaves no room for serious innovation by the franchisees. There is no case for putting the clock back for passengers in the rest of Britain.

Customer care can cut congestion

Yet there is one very interesting difference between buses in London and buses elsewhere. While there are no doubt exceptions, buses in London tend to be patronised by a broader cross-section of the population, at least in the centre of the city. Although the more progressive companies in the provinces have shown that effective marketing can entice people to leave the car at home for some of their journeys, it is sadly true that the years of managed decline before the reforms of 1985 saw the bus become the mode of travel of last resort. To wait at a bus stop and see people passing in cars must reinforce the desire to own your personal transport as soon as you can possibly afford it.

Unfortunately that process builds up ever-greater congestion. What we have here is a 'ratchet effect'. The more people who desert the bus for their cars, the more congestion builds up, and the slower is everyone's journey — including those on the bus. The problem now is that there is no advantage for any single car user to return to using the bus: only if large numbers did so might journey times improve. Those who deplore the prevalence of the private car must face this problem, for which the simplistic slogan 'ban the car' offers no solution. To force people to use what is perceived to be a low-status service is hardly going to be acceptable in a free society.

Yet the environmental gains that would follow a switch from car to bus travel are substantial, and they are readily available. Today's 'hybrid-engined' vehicles, where a light and unpolluting diesel engine drives a generator that provides current for electric motors, are the 'cleanest' form of traction available. The latest generation of buses to reach the market have kerb-level floors, making life

THE PRICE OF FAME

In 1980 a brother and sister living in Scotland took advantage of the deregulation of express coach services by offering a product largely new north of the Border. They succeeded rapidly in tapping a huge unmet demand for good quality services at reasonable fares, starting with two second-hand coaches and quickly developing a fleet of new, high-specification vehicles that opened up a market previously neglected by the state-owned Scottish Bus Group. Without access to large quantities of capital, and facing public sector competitors, Brian Souter and Ann Gloag, doing most of the development work themselves, reached the dawn of deregulation and privatisation, in 1986, with a fleet of about 100 coaches and a turnover of around £3 million. They called their company 'Stagecoach'.

Starting in 1986 Stagecoach moved into bus operation, opening *Magicbus* services in Glasgow with maximum panache, and at the same time buying three of the National Bus Company's subsidiaries in England. In 1989 the express coach business was sold to National Express, so as to concentrate on bus operation (and also through frustration at motorway congestion, which prevented Stagecoach offering a reliable service). In subsequent years a number of other companies were acquired, two in Scotland and two in London coming direct from the state, and others having been sold previously to managers or employees.

Stagecoach has grown to become one of the foremost groups in the market today. It has met competition with a firm response, just like all big companies, though it has attracted more than its fair share of (often ill-informed) criticism. But its achievements far outweigh the carping; it has reduced costs and attracted new demand, invested heavily in new vehicles ahead of the rest of the industry, and pioneered developments like the inter-urban *Stagecoach Express* services. Its new fast commuter services in Greater Glasgow, using motorway connections (and serving orange juice and muffins on early morning trips) have once again outflanked the competition (in this case the private car).

Far from exemplifying all that has been wrong with 'bus deregulation', Stagecoach stands with others as a prime example of its success. Among its achievements has been the development of managers from the former public sector to succeed in a competitive market environment. The Stagecoach philosophy has been summed up in the following terms:

UNDERSTAND YOUR MARKET
DEVELOP YOUR PRODUCT ACCORDINGLY
UNDERSTAND THE NATURE OF THE JOB
DRIVE THE COST BASE DOWN
SELL AT LOW PRICES
INVEST IN MODERN VEHICLES
INVEST IN PRODUCT DEVELOPMENT
DEVELOP AND EMPOWER THE MANAGERS
ACHIEVE PARTNERSHIPS WITH GOVERNMENT.

This is a long way from the philosophy of managed decline that marked the publicly owned monopolies before deregulation.

easier for the physically disabled, and also for the young mother with small children and shopping bags — each of them examples of special needs passengers.

Indeed, it is the neglect of the needs of passengers that now condemns most forcefully the policies of the industry in the years before reform. For far too long the vehicles were designed by engineers, and the operators who bought them saw no need for requiring user-friendly specifications. Ease of maintenance seemed far more important than ease of use. Public ownership bequeathed many firms fleets

of traditional buses whose old-fashioned look must contribute to the poor image of bus travel. Where the latest models have been introduced, evidence already shows that more people are prepared to use them.

Pricing for progress

But the vehicle alone will not suffice fully to achieve the contribution that the bus industry has to offer to the solution of environmental problems and congestion. Without the incentive of profitability, the innovations that only a market structure can elicit will not be obtained.

Pricing is an area where great opportunities await market-aware management, an example being the provision of differential levels of price and quality on the same route by the same company. If the full benefits of the reforms are to be grasped, on no account must bureaucracy be allowed to stifle the freedom of managers to seek out and profit by serving the requirements of customers, both existing and potential. But there is one further reform that is needed; one that is becoming increasingly accepted, and one which would give the bus industry just the opportunity it needs to flourish and to serve the community. That reform is the introduction of electronic road-use pricing in towns and cities throughout the land.

Pricing of the inter-urban motorway and highway system is equally necessary, but probably needs to be seen as a separate problem. By cutting motorway congestion, it would of course enable the express coach industry to perform far more efficiently, promoting innovation and growth, in healthy competition with both the car and the train.

We are not talking here about 'cordon' systems such as have been introduced abroad, but the use of in-vehicle smart-card devices that are activated by travelling on congested routes. The driver is thus made aware of the price of using the stretch of road concerned, and will be encouraged to find an alternative route, time or form of travel.

Given the rational policy of setting the price so as to leave a reasonably free flow of traffic, it has been estimated that bus companies would save between 20% and 25% of both operating and capital costs, since fewer vehicles and drivers would be needed to provide the existing level of service. When one thinks of what entrepreneurial managers could then do to foster growth and increase turnover, the link between road pricing and a fully commercial bus industry becomes a primary concern for policy. Indeed, it is surely beyond question that in this way the industry can most quickly lose its image as a last-choice form of travel, and achieve recognition alongside the alternatives of the train and the car.

Local authorities must change too

One great challenge that faces the industry today is how to attract middle-class

WHY WASN'T IT DONE BEFORE ?

Hinckley, in Leicestershire, with a population around 55,000, is a fairly typical English provincial town. Before 1985 it had no more than a vestigial local bus service. Unless you lived on the route of the 15-minute Coventry-Leicester service through the town you would be lucky to have one bus an hour, and this applied to the large housing estates, with none after six in the evening or on Sundays. Today the *Fox Cub* minibuses offer fifteen or thirty minute frequencies over the whole town, and the county council subsidises some evening and Sunday services. This not untypical pattern is the more surprising because the local company had a protected monopoly from long before 1985, and could have developed a local bus service at any time as the town grew. Similar examples could be found up and down the country, where improvement came with freedom for bus company managers to pursue profitability.

customers without losing the image of the bus as 'the people's carriage'. It is here that marketing can find the solution, through segmentation and price differentials, as a number of companies have already found out. But this is likely to be seen, at first as politically unacceptable by some local authorities: a constructive relationship between the bus companies and their local councils is a key to increasing prosperity and customer satisfaction. This relationship at present varies from the creative development of 'quality partnerships', to downright discouragement.

Two stories which appeared recently in the same number of a respected trade newspaper illustrate this dichotomy. On the positive side, the Birmingham and Walsall councils, with the local Passenger Transport Executive, have a quality partnership with the local bus company, Travel West Midlands. On one bus route, now branded as *Line 33*, the company has introduced new easy-access vehicles, customer-care trained drivers, and an increased frequency. The local authorities have provided specially designed kerbs at branded bus stops, and bus-only sections of streets along the route. The outcome has been an increase of more than thirty per cent in passengers — and that in a 'car-crazy' city like Birmingham. The company is now aiming for a three per cent year on year growth in its business — in the words of the chief executive, they looking at the growth of the retail sector, and seeking to learn from it.

But if one council can help achieve success like that, another seems to have a low opinion of the importance of bus users or the need to make life comfortable for them. Thus Sunderland proposes to replace its central bus station with an enlarged shopping centre. There will be a multi-story car park alongside, but the bus terminals will be removed to a site some 400 metres away. The bus company chiefly concerned, Busways Travel, has been unable to elicit any sympathy from the council, despite the support of 85% of passengers for its objectives.

The contrast in attitudes could hardly be more marked. While some authorities are keen to help bus companies serve the hidden demand that they have discovered, others have made little attempt. In some places the current fashion for pedestrianisation has meant that the buses have been banished to inconvenient terminals, leaving their passengers to walk to the town centre. Not surprisingly, this has meant a reduction in bus travel, and less incentive for people to leave their

cars at home.

ATTITUDE PROBLEMS

The commonplace attitude to public transport is 'Well, it's a public service, isn't it?' Probably most people still think that buses and trains should be provided at public expense (and 'integrated', whatever that means). But even better-informed people seem to assume that public transport is a utility, exempt in some way from the normal working of the market.

The bus industry is in no way a natural monopoly, though managers, both commercial and municipal, have sought over the years to have their investment protected from competition. Opposition to deregulation, however apparently high-minded, disclosed a good deal of entrenched belief in the virtues of central planning. And throughout continental Europe the British programme of deregulation is too often mistrusted, the preference being for franchise so as to reduce public spending by harnessing the efficiency of private enterprise.

The key element of success in Britain has been that 'busmen' have now become businessmen. Franchise, in the sense it is used here, makes bus companies no more than contractors, and assumes that local authority planners know best what is needed on the streets. (Most university transport departments seem to share this belief, but few of them are to be found in Business Schools.)

A decade of bus deregulation has seen the positive benefit of an open market in reversing the 'managed decline' of a great industry, and redirecting the attention of its managers to the requirements of the customer in the street.

Buses on a roll

Today, after ten years of adjustment and development, the bus industry is on a roll. It has a sound future as a profitable contributor to the economy, and to improving the environment. Marketing skills are being used to attain growth through customer care, there is a steady level of investment, and innovation is the name of the game. Given some form of point-of-use road pricing, with charges set to reduce street congestion, the industry could provide an even more marked contribution, and achieve still higher levels of customer satisfaction.

Today, as the future of the industry is under debate once more, the attitude of government, both central and local, is going to be the key to future success. It is blind prejudice to repeat the old slogan that 'bus deregulation has been a disaster', since the evidence now shows plainly that it has in fact reversed the systematic decline of services over the three decades that preceded it. To make it work, though, government must be in partnership with the industry — especially local government, with its highway and land-use planning responsibilities. But partnerships of this kind must never be allowed to prevent new firms from entering the market; for ultimately it is the threat of such new competition that is the key to the industry's continued growth and success.

The undoubted successes of deregulation, which far outweigh any of the problems that have been thrown up here and there, have disproved the established idea that public transport is some kind of public good. A contestable market has been shown to function to the benefit of consumers and producers alike, as had been foreseen by various commentators since the 1950s. But the threat to that market is still present.

Despite all attempts on the part of government to reduce the use of cars, demand for them will not go away, and to subject the bus industry to some kind of franchise, such as is to be found on mainland Europe, will not solve the equation. For the bus to make the contribution that it offers to the movement of people, its managers must be free to pursue their market objectives in a competitive spirit — not be returned to the product-driven regime of yesteryear.