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"Deregulate: Who Dares?- The London Experience"

by

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DEREGULATE: WHO DARES? - THE LONDON EXPERIENCE

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## 1. Introduction

In this paper the advantages and disadvantages of post-1984 form of bus service regulation in London are investigated and contrasted with both the former near-monopoly position of London Transport and with the experience of bus service deregulation in the rest of the United Kingdom since 1986.

The form which control over London's bus services should take in the future is then discussed in the light of these investigations.

## 2. Historical Perspective: Ownership and Control of London's Bus Services Since 1984

For over fifty years, from 1933 until 1984, London Transport (LT) was the sole arbiter over the provision of bus services in Britain's capital city. The only way another organisation could operate a local bus service within the area controlled by LT was to negotiate a London Bus Agreement with LT. Such agreements were normally only obtainable in respect of occasional and minor services; those which LT had no wish to operate itself. Although after 1980, applicants had the right of appeal to the Secretary of State for Transport, this option was little used. The case of the principal appellant, Associated Minibus Operators (AMOS), was substantially flawed and was rejected (Cole, 1983; Hamer, 1983; White, 1983).

A combination of political and economic circumstances in the 1960s and 1970s sowed the seeds of change, which eventually led to the introduction of the present regulatory regime in 1984. In the mid 1960s, London Transport's buses began incurring regular deficits; in 1970, control of LT was transferred from central government to the Greater London Council (GLC); and, most significantly, in the 1970s the GLC responded to the oil crisis-induced inflation by requiring LT to hold its fares down and paying it compensatory grants.

Revenue support grants became a permanent and growing contributor to LT's revenue, averaging £137 million per annum at 1987/8 prices between 1977 and 1983 (Department of Transport, 1988a). Conflict surfaced between the Labour controlled GLC and Conservative policies, which favoured lower subsidies facilitated by higher fares and greater operational efficiency. In 1982 this resulted in the GLC's 32% "Fares Fair" fare reduction of 1981 being outlawed (albeit as the result of a very dubious ruling by the Law Lords).

Of more lasting significance, the Conservative government's frustration with the powerful GLC led firstly to the removal of its powers over public transport and eventually to its abolition. In 1983 the government suggested in a White Paper that the organisation of London's public transport services needed major change and proposed that:

"control of the London Transport Executive should be transferred as soon as possible from the GLC to the Secretary of State for Transport. It will then be reconstituted on the pattern of a small holding company, with its bus and Underground operations established as separate subsidiaries."

(HMSO, 1983, para. 16)

Even at this early stage, the government's aims for the nascent London Regional Transport had been closely formulated. The White Paper stated that LRT would have four initial tasks:

"- to improve bus and Underground services for London within the resources available and make the services more attractive to the public;

- to reduce costs and the call on taxpayers' money and generally secure better value;

- to involve the private sector in the provision of services and to make better use of publicly-owned assets;

- to promote better management through smaller and more efficient units, with clear goals and measurable objectives."

(HMSO, op cit, Para. 18)

The nationalised London Regional Transport duly took over from the GLC controlled London Transport Executive in June 1984. The four initial tasks for LRT were confirmed in a letter from the Secretary of State for Transport to the Chairman of London Regional Transport in July 1984 (Ridley, Nicholas, 20 July 1984). The London Regional Transport Act 1984 required LRT to establish subsidiary companies to run its bus and underground rail services (Section 4) and these were formed the following year.

An obligation to invite tenders "in the case of such activities carried on by them as they may determine to be appropriate" was enshrined in the legislation (LRT Act 1984, Section 6). The Secretary of State's letter made it clear that he had already decided that bus services were an 'appropriate activity' for procurement by competitive tender:

"In the case of the bus subsidiary, the organisation will need to allow your Board to set clear objectives.....for carrying forward vigorously a plan to bring in other operators, both public and private, to compete for the provision of services."

(Ridley, N, op cit, 1984)

The gradual process of transferring the operation of London's bus services from direct operation by LRT-owned companies to fixed term tenders awarded on a competitive basis commenced almost immediately, with the invitation of the first batch of route tenders in October 1984 and commencement of tendered service operation the following summer (July/August 1985). Progress with bus service tendering is discussed in the next section of the paper.

When LRT was created, the power previously enjoyed by London Transport over the supply of bus services for London was reduced by the extension of Road Service Licensing to London, as an alternative to applying for a London Bus Agreement (LRT Act 1984, section 44).

Until late 1988, most applications had related to specialised services, such as sightseeing tours and inter-urban commuter services. In December 1988, however, Transit Holdings Ltd, a major operator in Oxford and South Devon and specialist in minibus services, applied for licences for a network of seven minibus routes in the expanding London Docklands redevelopment area, the first substantial application for the operation of general purpose bus services. If the licences are granted, the services should have commenced operation by the time this paper is presented.

Opinions are divided over the 'Docklands Transit' application. Whilst some observers predict a spectacular failure, others foresee serious consequences for the future of co-ordinated services and fares in London if a group of services operating outside the LRT/British Rail Travelcard system is

successful.

### 3. LRT Bus Service Tendering, 1984 to 1989

The selection of services to be put out to tender is made by LRT, according to its own choice of criteria. It is under no obligation to ascertain whether the service in question is profitable or loses money, nor whether it is one which the incumbent operator (usually LRT's own subsidiary, London Buses Limited [LBL]) would voluntarily chance losing to a competitor.

A cautious start was made, recognising that LRT had no previous experience of bus service contracting. Nor had most private sector bus and coach operators in the London area experience of scheduled local bus operations. The first tenders, for a dozen short, outer-suburban routes, were invited in October 1984, the selection of routes reflecting the desire for simplicity at this early stage, the scale of resources required to operate the routes and the location of operators research (Higginson, 1986) had indicated were likely to bid.

As part of LRT's learning process about tendering, firms bidding for the first round of contracts were required to submit a dossier of financial and operational information to LRT. In order to assist operators at the pre-qualification stage, a presentation was held in November 1984 at which the tendering process was described. Formal bids were then invited early in 1985, contracts awarded in April 1985 and the first tendered operations began in July/August 1985.

The protracted nature of the first tenders was reduced in subsequent rounds by abolishing the pre-qualification process. Nevertheless, some seven to eight months normally elapses between seeking bids and the commencement of services under the new contract. This allows approximately two months for bid preparation, three months for LRT to evaluate responses and three months for the operator to prepare to begin operating. In the case of a change of operator, this period may be required for staff recruitment, obtaining vehicles and operational premises and preparations including route training.

By the end of 1988, a quarter of LRT bus mileage had been put out to contract, some 40 million vehicle miles out of a total of over 160 million operated annually throughout London. London Buses retained the right to operate just over half of the 130 routes tendered to date, the remainder being shared between then subsidiaries of the National Bus Company (now privatised), independent companies and a municipal undertaking. The financial saving from tendering has been £13 million (17.5%) on base costs of £74 million per annum at the time of tendering, with cost reductions on individual groups of routes varying between 22% and 3%. The reduction in unit costs of operation has been higher than this, since vehicle mileage increased by an average of 6% on tendering (mainly as a result of the introduction of high frequency midibus routes).

Twelve batches of routes had been tendered by LRT up to the end of 1988. These comprise five tranches of individual, unrelated routes and seven area networks. The individual routes include many smaller, outer suburban routes; cross-boundary routes continuing outside Greater London; a selection of routes that suffered from particular problems on unreliability or poor financial performance; and a small number of routes in inner and central London. The area networks have to date been in outer suburban locations where tendering has accompanied a comprehensive service reorganisation, usually including the introduction of midibuses on selected existing and new routes.

Area service reorganisation and tendering is about to be extended to inner London. This will leave routes serving central London as the category least affected by tendering. These routes include all the remaining two person crew operated bus routes in London which, regrettably, LRT has not been willing to put out to contract.

In the following sections of the paper, the operation and control of London's bus services under the London Regional Transport Act 1984 is compared firstly with the system it replaced and then with Transport Act 1985 deregulation in the rest of Britain.

#### 4. Comparison Between LRT Act 1984 Regulation and the Former London Transport Monopoly

##### 4.1 Gains

##### Lower Operating Costs

After increases exceeding the rate of inflation for many years, the unit costs of running London's buses stabilised in the early 1980s and fell for the first time following the introduction of the new regulatory regime in 1984. By 1987-8, operating cost per bus mile was below that of a decade earlier, having risen to 17% above its 1977-8 level in the early 1980s. Cost per passenger mile was 10% below that of 1977-8 (Department of Transport, 1988).

Wage costs, in particular, have been contained, principally by means of changes in working practices. Resumed conversion of routes from two-person to one-person crewed buses, which had been halted by the Greater London Council on combined employment and service quality grounds in the early 1980s, enabled cuts to be made in numbers of road staff. Wage costs have also been reduced at some locations by the negotiation of local wages and conditions in conjunction with area service re-organisations, including lower rates of pay for mini- and midibus drivers.

Maintenance organisation and practices have been streamlined, with more work undertaken at garages and central workshop facilities severely curtailed. Managerial and administrative overheads have also been reduced, with the devolution of former head office tasks to local offices run with smaller numbers of staff. The incorporation of the eleven area organisations as 'Companies Act' subsidiary companies of London Buses Limited on 1 April 1989 represents the completion, for the time being, of the process of restructuring.

In 1988, LBL employed 73% of the number of staff involved in running London's buses in 1983, to operate a vehicle fleet 94% of its former size and carrying 5% more passenger miles (LRT, 1988). Despite problems of comparability between the two years' data, a significant improvement in productivity, albeit from a low base compared with most other UK bus operators (Higginson, 1988) is evident.

##### Lower Levels of Financial Support Needed

London Buses Limited's 1987-8 operating loss was under half that of London Transport buses in 1983, £96 million compared with £199 million including depreciation and renewals, at constant 1987-8 prices. Although the major part of this reduction was due to lower operating costs, down 23% over the same period, the substantial reduction in capital expenditure, down by two thirds from £60m to £20m, is also significant.

Although part of the cut in capital spending is attributable to the withdrawal without replacement of older buses as services were lost to competitors under the tendering process, making economies through increasing the average age of the fleet may also be cited as a short term financial benefit only. No new 'big buses' have been delivered to LBL for two years and none are on order, only midibuses and second-hand big buses having been acquired during this period.

#### Improved Operational Reliability

The process of giving local bus managers greater responsibility had begun as long ago as 1979 with the creation of eight (later reduced to six) operating Districts, each with its own General Manager. Retained when London Buses Ltd was set up as a subsidiary of LRT in 1985, the Districts were replaced by eleven operating units in November 1988. The units became separate subsidiary companies of LBL in April 1989.

At the same time as the overall reorganisation, separate local operating units have been created in in outer areas of London in association with area tendering schemes; Roundabout, which operates midibuses in Orpington (outer south London), Harrow Buses (north west) and Bexleybus (south east), for example. These units have separate, lower cost wages and conditions of employment from the rest of LBL, without which LBL would most likely not have been awarded the contracts.

The ability to pay lower wages in outer London than are commanded in inner and central London has been instrumental in the cost reductions associated with competitive tendering, irrespective of which operator has gained each contract. Unit costs are also reduced by means of productivity improvements; more flexible working agreements including longer basic hours, job flexibility, abolition of restrictive practices and the consolidation of bonuses and overtime payments, for example.

Bus service tendering has resulted in the formation of dedicated teams of staff, at all levels, responsible for the efficient operation of particular routes or groups of routes. This is most clearly seen where an outside operator wins contract and may have to set up a new operating base, or where a new LBL local identity is created. Even when an existing LBL garage operates a contracted service alongside its portfolio of non-tendered routes, the service benefits from additional management effort and attention.

#### Penalties for Unsatisfactory Performance

A common criticism of cost contracts such as those of LRT is that they afford insufficient incentive to good performance. To counter this possible disadvantage, LRT contracts include financial penalties for non performance in respect of mileage operated, adherence to schedule and revenue collected. Performance according to contract is verified by inspection (checks by LRT inspectors) and the submission of returns by the contract operators (tachograph discs, ticket machine modules).

LRT also operates a system of formal warnings in respect of poor performance, with the ultimate sanction of revocation of the contract. Several contracts have been revoked as a result of accumulating an excess of warnings.

The improvement of operational efficiency by means of competitive tendering thus functions in two modes, the carrot of satisfaction in doing a good job which will be suitably rewarded and the stick of penalties and possible revocation if the work is not performed satisfactorily.

### Improved Image

LRT does not require contract operators to paint their vehicles in its own livery, identification as LRT services being limited to the exterior and interior stickers and notices. As a result, many tendered services have assumed eye-catching identities in the form of the contractors' own liveries; London Buslines' yellow, Cityrama's blue and Eastern National's green and yellow, for example. Similarly, the local units of LBL have their own liveries and brand images; blue and cream for Bexleybus, maroon and cream for Orpington's Roundabout midibuses and red and cream for Harrow Buses, for example.

Staff uniforms, likewise, reflect the identity of the operator. A measure of the success of the local identities is that the contract operators receive many of the telephone enquiries about their services, which in the normal course of events would be handled by LRT's central enquiry bureau.

### Innovation in Choice of Vehicles

An important side-effect of the proliferation of operators of London bus services has been the opportunities presented for innovation in the selection of vehicles. Non-LBL contract operators currently operate Leyland Lynx single deckers, Scania K92 single deckers with Belgian Jonckheere bodies and computer-aided gearshift and Volvo B10M double deckers with Alexander bodies, none of which types of bus is operated by LBL. Several varieties of midibus, including the Optare City Pacer and Star Rider were first introduced to London on contract operations.

The importance of London as a shop window for new products is keenly observed by manufacturers. Inroads by overseas manufacturers are of particular note, London's buses traditionally having been exclusively of British manufacture. If contract specifications continue to pay greater attention to vehicle age and quality, resulting in operators choosing to purchase new vehicles for LRT contract operation, an increase in such opportunities can be foreseen.

### Exertion of Competitive Pressure on London Buses Limited

As a means of securing reduced costs in running London's bus services, one of the objectives of the tendering process was the exertion of competitive pressure on London Buses Ltd to improve its efficiency. A prerequisite for this was that there should be sufficient competitive bids for each service put out to tender.

Up to the end of 1988 there had been an average of 3.75 bids per route. With at least two bids for every route, no contract had been awarded non-competitively. The desire to secure contracts has led LBL to streamline its management and administrative structure, assisted management in renegotiating operating practices and induced a strengthening of costing techniques. These improvements have enabled LBL to set up the local bus units with which it has successfully competed in Kingston, Sutton, Harrow and Bexleyheath as well as enabling it to mount successful bids for networks in Surrey Docks (south east London) and Walthamstow (north east), for example, which are operated as part of the general network of services.

### Involvement of the Private Sector

Success has also been achieved by the tendering programme in this politically motivated objective. The private sector has become involved by two contrasting processes. Firstly, contracts were won by subsidiaries of the government owned



National Bus Company, which has now been sold. With the sale of the relevant companies (each of which was sold separately), involvement of the private sector was thus achieved. Some thirty LRT services are operated by former NBC subsidiaries.

The alternative method of involving private sector operators is by the direct award of contracts. Since, as a result of the former London Transport monopoly in the provision of bus services, few independent operators in the London area had either experience of running scheduled local bus services, or the human and physical resources with which to commence operations, it is not surprising that the large number of firms have produced a comparatively small crop of bids (Higginson, 1986). Nevertheless, over twenty services are now run by companies in this sector, including London Buslines, which has amalgamated with a former NBC company and Grey Green, a large operator which has substantially re-oriented its work from coaching to London bus services.

Two further forms of private sector involvement have yet to take place. A small number of contracts have been won by a municipal undertaking, Maidstone Boro'Line. Since it is the government's intention that municipal undertakings should be sold - the process has already begun - it may be assumed that these services will eventually transfer to the private sector.

The principal development for the longer term future is the sale of London Buses Ltd itself, which, if past experience is repeated, will take the form of selling each of LBL's eleven subsidiary companies separately. The prospects for this sale, which would complete the privatisation of bus operation in London, are closely linked to the debate over London bus deregulation. In any case, no sale would be expected to take place until the 1990s.

#### Service Planning and Coordination

The London Regional Transport Act 1984 brought the planning of public transport in London within the sphere of influence of central government, by removing the layer of local authority control which had given rise to intermittent central:local political conflict throughout its fourteen year existence (Garbutt, 1985). Moreover, the coordination of public transport policy for London was strengthened by the establishment of a high-powered British Rail-LRT liaison committee (Chairman-Minister level).

Thus, not only did LRT retain control over the planning and coordination of fares on its own services, but the way was also opened to greater coordination with British Rail (BR). The government all but took credit for the successful LRT Travelcard network-wide ticketing system, which had been introduced at the behest of London Transport's former political master, the Greater London Council. Even more ironically, the government encouraged the coordination of BR and LRT fares, which took place in stages between 1985 and 1989, when Travelcards for use on LRT buses, Underground trains and BR trains at the same price was introduced. Governmental veto of just such a proposal by the GLC in 1981 had been a significant factor in the decision to remove London Transport from GLC control.

One relaxation of the previously comprehensive coordination of public transport in London was introduced by the 1984 legislation. Henceforth, it was open to an operator to apply to the Traffic Commissioner for the Metropolitan Area for a Road Service Licence to run a bus service, as an alternative to obtaining a London Bus Agreement from LRT (Section 2 of the paper refers).

## 4.2 Losses

### Adverse Effects on Staff

Staff may be adversely affected in any of three different ways by the changed organisational and regulatory environment of London bus operation. Principal among these is an actual or potential reduction in earnings resulting from restructured wages and conditions. This may be seen as a lesser evil than failure on cost grounds to win a contract, which might cause a reduction in numbers of staff employed, or at best necessitate longer journeys to work as redundant staff are redeployed at other depots. Alternatively, staff no longer required by one operator (usually LBL) may find work with the new contractor, which may be less well paid.

Job security is reduced for LBL staff operating on contract services and for the staff of other contract operators is limited to the length of the contract (usually three years). Opportunities for promotion through the ranks may be reduced. Uncertainty over job security, in particular at LBL garages threatened with closure as a result of route losses through failure to win contracts, results in a loss of morale among the workforce.

### Loss of Service Quality

Many of the LBL services lost to other operators on tendering had been operated by modern, second generation rear-engined double deck vehicles. The contract buses which replaced them have often been much older, first generation vehicles, either from the new operators' existing fleets or purchased specifically for LRT contract work. Price competition, without any stipulations as to maximum age of vehicles to be used, together with the short contract period, necessitated the deployment of low cost buses.

Although adhering to minimum legal requirements and to LRT specifications regarding step heights, number of doors, etc. (the buses were often ex LBL vehicles), the standards of comfort and image created were inferior to the buses they replaced. Mechanically unreliable, operators' efforts were concentrated on keeping the vehicles on the road, to the detriment of dispensable aspects such as quality and cleanliness of interior decor, upholstery and exterior paintwork.

Supervision of services has reduced, as LRT inspectors have no 'traffic' responsibilities towards tendered services. The employment of road inspectors to supervise a small fleet of contract buses may not be cost effective for the services' new operators. The buses of contract operators are not linked to LBL's radio control system. Some are not radio connected at all, as their operators have not considered the expense of two way radio worthwhile.

### Dilution of Corporate Identity

The proliferation of vehicle types and liveries on tendered services has resulted in a severe dilution of the former corporate identity of the red London Transport bus. Vehicles in contractors' own liveries are only identified externally as LRT services by the presence of LRT roundel stickers of varying sizes, which may from time to time not be in place. Confusion is particularly strong at locations where buses belonging to a contract operator operate both on LRT contract services and on the undertaking's own services, on which LRT fares and conditions may not apply.

A similar confusion occurs with information to passengers. Inspectors employed by LBL may be unable or unwilling to assist passengers with regard to LRT

contract services provided by other operators.

#### Inability to Sustain Cost Reductions

Some 10% of LRT bus service contracts have failed to run their full three year term, either because the operating company found the costs of operation to be higher than anticipated, or because it was unable to keep up with the rigours of operating the service. Although a further reduction in tender prices was experienced when six services were retendered in 1987, an 8% increase in prices resulted from the most recent batch in October 1988.

A combination of factors, including the increasing cost of labour in London, re-appraisal of unrealistically low cost estimates by operators, the withdrawal from LRT bus operations of companies which have failed to appreciate the true costs of London bus operation and higher standards (such as maximum age of vehicle) required by LRT, are indicative that cost reductions achieved in earlier rounds of tendering may not be sustainable. This factor may be particularly applicable as further tendering takes place in inner London, where labour costs are higher and working conditions more onerous than in the outer areas, in which most tendering has taken place in previous years.

#### Loss of Relationship Between Public Transport and Local Authority Policies

Since the removal of London's public transport from the control of the Greater London Council and the GLC's subsequent (1986) abolition, there has been no local democratic control over public transport in the capital. The requirement for LRT to consult with the 33 London Boroughs regarding service changes is ineffective, since LRT is not obliged to pay heed to their opinions. The lack of effective ability to influence the quantity, deployment and price of public transport is particularly deprecated by the inner London boroughs.

The absence of local authority powers also discourages the coordination of developmental, highway and public transport planning. This applies both at local and London-wide strategic level. Locally, for example consultation between LRT/LBL and the borough with regard to road construction and maintenance and aspects of town planning such as residential, industrial and commercial developments may not take place. At the strategic level, the development of bus priority corridors and standardisation of policies between boroughs is impeded.

### 5. Comparison Between London Regulation and Deregulation in the Rest of Britain

#### 5.1 Advantages of the London Regulatory System

##### Facilitates Continued Network and Fare Coordination

Bus and rail fares of LRT's subsidiaries and of contract bus operators are controlled by LRT. A coordinated zonal system applies throughout Greater London, including coordination with British Rail in respect of network season tickets (Travelcards) and of the timing of fare changes.

Operators of contract buses accept all types of LRT ticket and issue LRT

tickets on micro-processor controlled machines supplied by LRT. Under the cost contract scheme, all revenue collected on bus is remitted to LRT and a statistical counter on the ticket machine used to log passengers with season tickets, free passes, etc. The complication of apportioning revenue on a system with extensive off vehicle fare collection is avoided.

Similarly, the network of services is planned by LRT and includes extensive bus-Underground, bus-bus and bus-British Rail coordination; buses feeding rail interchanges and interworking of bus timings between routes to regularise service intervals, for example.

#### Integration of Commercial with Subsidised Services

A feature of LRT service planning is that no distinction is made between services which run profitably and those that incur losses. This permits the operation of a single, completely integrated network of bus services, in contrast to the separate commercial (planned by the bus operators) and subsidised (planned by local authorities) services which are an inconvenient feature of British bus deregulation.

The full network of services in London is planned with regard to achieving an appropriate balance between commercial and social considerations, whereas in the rest of Britain the separate commercial and social networks are each designed according to separate (and possibly conflicting) criteria.

#### Coordination of Investment Planning

In addition to network coordination, the London regulatory system also facilitates the coordination of investment planning, both with regard to competing priorities for investment in bus operation and to competing demands for bus and rail investment. Under deregulation, each investment proposal is considered separately on its own merits, without regard to wider considerations of transport planning or social benefit. The provision of separate commercial and social bus services may require more resources, but afford an inferior service, than a single, coordinated operation.

#### Stability of Service Provision

The coordinated approach to public transport provision is more conducive to stability in the provision than that of the free market. In London, changes to bus services are planned following the collection and analysis of data, including evaluation of the effects of any changes on other transport services. In many cases, complete local networks are redesigned as a result of large scale passenger and household surveys.

The process of change in service patterns is therefore both gradual and planned. Once implemented, a revised network may be expected to remain substantially unchanged for a considerable time. The resulting passenger familiarity with the pattern of services is an important element in attracting custom to buses.

In comparison, a deregulated bus network is unstable, with changes permitted, under British law, at only six weeks notice. Planning ahead, with any degree of confidence, is therefore impossible. Nor is there any requirement for the dates of service changes to be coordinated, with the result that a network may alter almost continuously. This feature is particularly apparent where operators are in competition; a change by one company will immediately precipitate a revised service proposal by its competitors. With low entry costs to the industry and, consequently, a ready supply of new, perhaps inexperienced operators wishing to compete in a deregulated market, there can

be no guarantee of a period of stability after market equilibrium has been reached.

#### Retention of Corporate Identity

Although somewhat diluted from the former 'red London bus' image, the retention of service and fares control by LRT facilitates the retention of a corporate identity for public transport by road and rail in London. The buses of contract operators and local LBL operating units and subsidiary companies are clearly marked with the well-known LRT roundel and carry prominent notices that LRT fares and conditions apply.

The same bus stops, of uniform LRT style, are served by all LRT bus services. Publicity and marketing are handled on a network-wide basis by LRT. For example, timetables for contract bus services are printed in the same format as for an LBL service, the only distinction being the annotation "operated by XYZ Bus Company for London Regional Transport".

Although loss of the traditional red London bus from some routes takes a little getting used to, this is merely a cosmetic corporate identity. The important identity is that of coordinated service pattern with inter-available tickets, irrespective of which company provides the bus and in what livery. In this respect, the extension and successful marketing of Travelcards and area bus passes by LRT represents a strengthening of the true corporate identity of London's public transport.

#### Retention of Control Over Service, Vehicle and Operator Quality

Through the process of inviting tenders and awarding contracts, LRT has control over which operators it admits as providers of LRT bus services, what vehicles they use for the services and the quality of service offered. Initially by means of the pre-qualification process and subsequently as part of the process of evaluating bids, LRT is able to ensure that only operators which meet the necessary standards are awarded contracts.

Whilst it may not have exercised its powers stringently enough in this respect, LRT is also able to control the quality and type of vehicles operating its contract services. Stipulations regarding numbers of doors and step heights, for example, have precluded the operation of coaches on LRT bus services. For the prestigious central London route 24, a maximum vehicle age was stipulated and a number of contracts have expressly indicated that a service is to be run with small vehicles. Under deregulation, any licensed public service vehicle operator may register a commercial service using whatever type of public service vehicle he chooses; it is up to the market to decide whether it is acceptable.

LRT bus service contracts incorporate clauses relating to monitoring by LRT, including revenue collection, adherence to schedules, reliability of operation and vehicle condition. The LRT Tendered Bus Unit has the expertise and staff to ensure that these aspects of quality are adhered to. There is no equivalent form of control over commercial services provided in a deregulated environment, the regional Traffic Commissioners' offices having insufficient resources to perform the same function adequately.

#### Retention of Link Between Government Policy and Public Transport

Finally, the role of the government-sponsored LRT as organiser of local public transport for London ensures the retention of a link between government and public transport policy and provision in Britain's capital city.

## 5.2 Disadvantages of the London Regulatory System Compared with Deregulation

### Slow Rate of Tendering

At the deregulation of bus services, the complete change from quantity licensing to registered commercial and subsidised services was accomplished within one year. In London, no schedule for the tendering of bus services was laid down by the legislators. As a consequence of this absence of pressure on LRT, the introduction of bus service tendering has proceeded at a slower pace. Despite the claimed financial advantages of competitive tendering, it has taken four years for a quarter of LRT bus services to be tendered.

LRT's justification for this slow rate of progress is that the receipt of competing bids for each contract is of overriding importance and that this would be jeopardised by increasing the rate at which tendering was introduced. LRT fears that cost savings would be reduced, or would disappear altogether, if a substantial number of contracts were to be awarded non-competitively. Given its now fairly extensive experience with tendering, including a good knowledge of the price levels at which contracts have been awarded, this fear no longer seems justified.

In some instances, tendering has been delayed awaiting the outcome of long term proposals to reorganise services. The immediate benefits of tendering have thus been lost, for example, because of slow progress elsewhere with the analysis of survey data and design of new networks.

Tendering has made very little impact on central London bus services, because no two person crew-operated routes have been put out to tender and only a very limited sample of trunk bus services. Other operators have thus been denied the opportunity to compete for some of the busiest and potentially most lucrative London bus routes; and London Buses Ltd has been under no competitive pressure to improve the standards or reduce the costs of operation on these services.

### Slower Innovation in Service Provision

Innovation in the supply of bus services for London has proceeded more slowly in London than elsewhere. The requirement to register commercial networks at the commencement of deregulation caused bus operators outside London to re-examine their entire networks. In London such a requirement has only come about piecemeal, as dictated by the slow spread of tendering and area service reorganisation. Much of the network has yet to experience these pressures for change.

As well as changes in the shape of networks, deregulation has also encouraged innovation in types of service and of vehicle. Numerous minibus services have been introduced in many provincial cities of Britain, often extending into new areas or creating links previously not served by buses. In London, evidence of the potential for mini or midibuses may be seen in the limited number of areas that have experienced service reorganisations. In most of the remaining parts of the capital, no small bus services have been introduced. Deregulation would have permitted the benefits of such innovation to be obtained more rapidly and more comprehensively.

The form of tendering adopted by LRT does not stimulate innovation by bidders. Although operators bidding for services are invited to suggest alterations or innovations (in routing, frequency or vehicle type, for example), the effects of this feature have been fairly marginal. Under deregulation, operators design their own commercial services (which constitute 85% of services nationally). This 'clean sheet' approach is conducive to more widespread

innovation in route planning than has been experienced in London. The market-based approach also means that the earliest and the most extensive service improvements have taken place in the areas of highest demand, the converse of the London situation.

#### The Disadvantageous Position of LBL

In the provinces, deregulation permits bus operators to select the network and services they wish to provide and register them as commercial services. In London, LBL has no control over which services LRT chooses to put out to tender. These may include profitable services, the continued operation of which LBL would not normally wish to put at risk by offering up for tendering.

The loss of a profitable service to a competitor puts LBL at a double disadvantage. In the short term, it loses the turnover and profits formerly earned by the service. In the longer term and with an eye to the proposed deregulation of London bus services, LBL loses its strong competitive position as the incumbent operator. This situation is sometimes referred to as the 'jewels in the crown' argument, the loss of an operator's most profitable routes being likened to losing the jewels from the crown.

#### The Untenable Position of LRT as Both Tendering Authority and Owner of LBL

The task of a tendering authority is to adjudicate between competing bids and award contracts on a transparently fair basis. The Tendered Bus Unit (TBU) at London Regional Transport operates the London tendering system, receiving bids from both LBL and external companies. Whilst initially fearing that the system would be 'fixed' to operate in LBL's favour, outside operators have come to appreciate the Tendered Bus Unit's unbiased handling of bids.

LBL may also be disadvantaged by the obligation placed upon it to cost its bids fully. An outside bidder, on the other hand, may take a calculated risk concerning, for example, the allocation of overhead costs to contract prices, in order to increase his chances of obtaining a niche in the London bus market.

Thus the relationship between LRT and LBL raises questions concerning the operation of the tendering system. As well as being fair, the tendering system must be seen to be fair, which is not entirely the case when the major incumbent operator and bidder for all contracts is owned by the tendering authority. Aspects of concern have included the treatment of long term avoidable costs, the timing of contract announcements and, since November 1988, the appointment of LBL's Chairman and Managing Director to the additional post of Chief Executive of LRT.

The same lack of transparency has also applied in the metropolitan conurbations where, since deregulation, the tendering authority (Passenger Transport Executive) has had the same local authority parentage as the Passenger Transport Company (erstwhile PTE bus undertaking). This difficulty is now in the process of resolution through the sale to the private sector of the PTCs, which will separate the ownership of the tendering and bus operating bodies. The privatisation of LBL and its subsidiaries, or reconstitution of LRT as an independent authority with no operator links, would resolve the potential conflict of interest in the London case.

#### Shortage of External Finance

As a nationalised industry accountable to the Secretary of State for Transport, LRT and its subsidiaries do not have recourse to outside sources of capital. Capital spending must satisfy government payback criteria, which

excludes investment in risky projects. As a consequence of this constraint, service developments may be more restricted than would apply to a private company. This may result, for example, in failure to allow for growth in patronage when services are converted to midibus operation, whereas an operator unconstrained by LRT's expenditure limits would be free to indulge in commercial speculation. The speculative Docklands Transit network clearly illustrates this point.

## 6. Future Policy Options

### 6.1 Proposed Deregulation for London

The British government still maintains its intention to deregulate London's bus services in the early 1990s. As stated in the Department of Transport's report *Transport in London* (Department of Transport, 1989):

"The Secretary of State's aim is that full deregulation should take place in the early 1990's. Deregulation will extend to Londoners the benefits that the policy has brought to the rest of the country, ie a more thriving industry with more operators, more competition, more innovation and services more closely related to passengers' needs, while at the same time producing substantial savings in revenue support for subsidised services. It will allow the consumer to decide what services are required. But introducing an element of healthy competition does not have to wait until deregulation."

The Department of Transport's text goes on to illustrate innovations in service and vehicle type that have taken place in London since 1984. It does not point out, however, the other important developments which have occurred in London, without the 'benefit' of deregulation. Revenue support for London's bus services has been more than halved, exceeding the government's own target for LRT, and 10% more passenger miles were carried in 1987-88 than in 1984-85. Despite fare increases at least in line with inflation, the average fare paid per LRT bus passenger fell by 11% over the same period, reflecting the wider use of travelcards and area bus passes (LRT, 1988).

This pattern contrasts with a fall of about 12.5% in passenger journeys, a 10% reduction in subsidy payments (Tyson, 1989) and some reduction in the availability of network and inter-operator tickets in the provincial conurbations, which have experienced deregulation. Whereas in London, the (admittedly patchy) service innovations and enhancements have been carefully planned and have become permanent features of the bus network, the other metropolitan conurbations have experienced a variety of unstable service changes, including quite extensive operations which have come and gone within the space of two years.

Whilst the experience of deregulation has perhaps been better in other parts of Britain (Transport and Road Research Laboratory, 1988) and it may be argued that Labour-controlled councils in the former metropolitan counties willed deregulation to fail and that steep fare rises caused much of the decline in ridership, there are nevertheless lessons which should be learned, before extending deregulation to London.

### 6.2 Issues to be Resolved Before Deregulating London's Bus Services

#### Coordinated Fares and Ticketing

The future of the LRT/British Rail 'Travelcard' system of coordinated network and period tickets is probably the most important issue to be resolved. The system has almost universal political support, having been introduced by a



Labour GLC and extended with the active encouragement of Conservative governments. Indeed, both before and after 1984, it would seem that politicians have shown stronger support for Travelcards than have public transport operators.

Outside London, the availability of network ticketing systems has declined following deregulation and its revival is under threat from the Office of Fair Trading's investigation of anti-competitive practices by bus operators. In London after deregulation, LBL might wish to concentrate on the sale of Bus Passes, rather than intermodal Travelcards, which would only continue to be supported if a commercial need for them was perceived.

Despite the commercial logic of such a policy from the bus operator's point of view, as a means of maximising his own revenue, wider political, transport and traffic grounds might indicate otherwise. Politicians would risk considerable public disrespect if they were seen as instigators of the abolition of Travelcards. Public transport overall would lose from the loss of ticket interavailability, as passengers sought to avoid making short, linking trips at high marginal prices. Road traffic speeds would suffer as a result of increased bus boarding times if the trend towards pre-payment were reversed.

Although clearly contrary to the ethic of free competition, any form of deregulation adopted for London should require operators to accept LRT Travelcards. There are precedents in the present LRT tendering system and, throughout the country, in the acceptance of scholars' and pensioners' concessionary travel. The implications for revenue support levels if no limit were placed on the quantity of service to be provided suggest that a form of franchising might continue to offer the preferred solution.

#### Control of Infrastructure and Publicity

In London, difficulties have arisen regarding access to LBL facilities by other operators of LRT contract bus services. Outside London, the ownership of bus stops and responsibilities for passenger information have caused problems in some areas.

Each of these matters can be resolved by placing responsibility for infrastructure and passenger information in the hands of the organising and tendering authority, rather than with operators, as is already the case with passenger information in London. This has the advantage of removing the discussion of operators' rights and duties in these areas from the public domain. The allocation and rationing of bus station departure bays, charging policies for using bus stations and costs of publicity, for example, then become matters solely for negotiation between operators and organising authorities.

#### The Provision of Unremunerative Services

At present in London, commercial and loss-making bus services are planned together. There is no separation between the two types of service, as occurs under deregulation in the rest of Britain and the problems associated with separating commercial and non-commercial elements of formerly unified services are avoided.

Whilst it is useful for organisers and operators of bus services to know which routes and journeys are profitable and which lose money, such a distinction may be difficult to make in practice. The division between 'commercial' and 'non-commercial' cross subsidy is frequently so fuzzy as to be effectively undefinable. In such circumstances, the separation of a bus service into separate commercial and subsidised contract portions, especially if different

fares and conditions apply, affords the public no advantage.

Any revised regulatory system for London should ensure that, however commercial and loss-making bus services are separated for administrative purposes, a unified network of services continues to be offered at common fare levels.

#### Bus-Rail Service Coordination and Interchange

In London more than in any other British city the public transport network functions as a unified system, in which intermodal transfer between bus, London Underground and British Rail services is widespread and is encouraged by extensive and growing through ticketing. The need for inter-available ticketing will increase if the recommendations of the Central London Rail Study (Department of Transport et al, 1989) for additional cross-London rail links are acted upon.

Whilst coercion to change between modes can be taken too far, as in the case of the Gateshead Tyne and Wear Metro Interchange (bus services terminated south of the River Tyne, necessitating interchange to a deep level metro for a very short onward trip to Newcastle city centre), improved interchange facilities should generally be encouraged. Legislation which encouraged newly assertive bus companies actively to discourage intermodal interchange, in order to capture a larger share of trunk travel, would be counter-productive in total transport terms.

#### Ownership of London Underground

The difficult situation of LRT as owner of LBL as well as 'independent' tendering authority has been referred to above. A similar situation affects London Underground Limited (LUL), whose competitive position as a nationalised industry owned by the organising authority could be weakened as LBL and the other bus operators in London become commercially stronger. This will occur as the bus companies compete for business, become more independent through privatisation, break their ties with LRT and are subjected to less regulation.

The prospect of these developments reinforces the case for LRT to be reconstituted as a planning, organising and tendering body entirely separate from any public transport operating companies. For London Underground to be able to compete on equal terms with London bus operators (even within a coordinated framework), it may be necessary for its ownership to be taken out of the public sector.

### 7. Future Policies for Bus Services in London

#### 7.1 Issues for the 1990s

The impact of bus deregulation in Britain's provincial cities, none of which is more than a fraction of London's size, has been patchy. It has also been blurred by the parallel effects of loss of municipal ownership and control of bus companies, including privatisation, government enforced cuts in subsidies and the consequent rises in fares. As a result, the government is able to proclaim deregulation as a success, whilst its critics can cite its failure.

In London, the current debate on public transport regulation polarises on different lines. Although some diehards may seek a return to the pre-1984 position, the 1984 legislative structure is now commonly perceived as the established orthodoxy. Debate therefore focuses on the choice between the

present structure and full deregulation. Overshadowing any consideration of regulatory changes, however, public debate over transport congestion and overcrowding has become a major issue over the past year.

In the Department of Transport's Transport in London report (Department of Transport, 1989), the Secretary of State's Foreword concentrates on coping with increased demand, without creating a new strategic policy overlord. Buses are not even mentioned in the Foreword, but are relegated to seven column inches and three small photographs in a section unglamorously titled "The Other Road Users", towards the end of the report. The challenge of outlining what additional gains are to be expected from deregulation, given the success of the 1984 legislation, is not faced.

So what will London's bus services be like in the 1990s? Firstly, the key question is still whether, rather than when, deregulation takes place. Fears of worsening road congestion, uncertainty over fares and ticketing, the problem of unstable bus services and doubts over the quality and safety of some deregulated bus services outside London may result in, at most, a watered down form of deregulation compared with that in force in the rest of the country, or possibly no change at all from the present status quo.

Whichever scenario emerges, competition in the supply of bus services for London is expected to increase, perhaps dramatically. The eleven LBL subsidiary companies began to demonstrate their independence even before their formal incorporation (East London's response to competition in Docklands; Bus Business, Issue 70, 8 February 1989). Formation of the companies will give rise to a significant increase in competitive bidding for LRT contracts, for which LBL has hitherto bid as a single entity.

Whilst it has generally been assumed that deregulation would precede the sale of the eleven companies to the private sector, deferment of deregulation may result in pressure for privatisation to come first. This would raise the impetus for competition and could also lead to the ownership of some London bus companies by major provincial bus operating groups.

Privatisation would also open the way to mergers and takeovers involving the present eleven LBL subsidiary companies, which might reform into a smaller number of larger concerns. The evidence of deregulation and privatisation in other parts of the British bus industry, as well as in United States aviation, suggests that this would occur. The experience of recent mergers within the British bus industry suggests that the government would not act to prevent such regroupings, at least until the creation of a potential private monopoly operator threatened to upset the competitive balance.

The longer deregulation is deferred, the more LRT bus services will be placed on a tendered footing. It may be envisaged that the LBL subsidiaries will seek to influence the selection of services to be tendered, in order to prevent the loss of profitable routes to competitors. Revised arrangements would be required to ensure that the cost of running such commercial services was met entirely by the operating company and that any residual non-commercial parts of commercial routes continued to be served satisfactorily. Arrangements for funding capital expenditure on fleet replacement would require revision following the privatisation of LBL and any change in the structure of bus service tendering.

## 7.2 Partial Deregulation

If deregulation is extended to London, it is expected that it will take a somewhat different form from that which applies in the rest of Britain. The government may seek a face-saving solution; something which can be branded as

deregulation, whilst at the same time retaining stronger controls than those under the Transport Act 1985. A form of franchising, more comprehensive and more competitive than the present LRT tendering, but retaining coordinated fares and, to some extent, network planning, may be the preferred solution.

As examples of elements of a possible London deregulation system, all operators might be given the right (or even the obligation) to join the LRT fares system. All services deemed necessary by the tendering authority might be put out to tender, with operators required to bid for the full service. This would avoid the problem of companies wishing to operate services at certain times or on certain parts of routes only as 'commercial', leaving miscellaneous part routes, part day and weekend services to be tendered separately. Operators might be permitted to register additional services, without the power of veto by the tendering authority, so long as no financial support was called for.

It is assumed that a reconstituted LRT, independent of all public transport operators, would continue to be the tendering and organising authority. The principal alternative, that of the Metropolitan Traffic Commissioner, is not recommended, in view of the Traffic Commissioners' quasi-judicial role and their lack of experience in public transport planning and procurement.

### 7.3 Full Deregulation

If full deregulation were to take place in London on the 1985 pattern, what would be its impact? For the most part, it is likely that the status quo at the time of deregulation would remain. By circa 1993, assuming deregulation to take place shortly after the next British General Election, this may be represented by, say, four to eight enlarged ex-LBL groupings, between them running of the order of two thirds to three quarters of London's bus services. The remaining services might be in the hands of smaller and non London-based companies. The pattern of services will have become more fully localised by this date, with area networks connected by a smaller number of trunk routes than exists at the present time. All or most services will have been tendered, or be operated under an equivalent costing formula.

Deregulation would be expected to increase the pace of company mergers and takeovers, leading eventually, if not constrained by competition legislation, perhaps to only two main bus operators in London, eg north and south of the River Thames. Smaller companies would intermittently come and go, either by withdrawing unsuccessful ventures, or by being taken over by larger concerns. The most successful networks run by smaller companies will be in the outer suburbs, centred on major suburban centres such as Bromley, Kingston and Romford.

Competition closer in to London will be constrained by two principal factors. Firstly, with radial travel still predominant, most journeys to work in central London will be by train. The competitiveness of rail is expected to be increasing, as some of the improvements resulting from the recommendations of the Central London Rail Study (Department of Transport et al, 1989), Docklands Public Transport Strategic Plan (Discussion Document, London Regional Transport et al, October 1988), East London Rail Study (announced January 1989) and selected light rail schemes could begin to bear fruit about this time.

Secondly, in the absence of any substantial reorientation of the use of road space to favour buses, bus travel to, from and within inner and central London will continue to be constrained by traffic congestion and consequently low average speeds. This will deter both users of deregulated bus services and those who might wish to provide them. Operators not already established in

inner London will also be deterred by shortages of suitable sites from which to run buses and of staff of the right calibre at an affordable price.

However, some operators may succeed in establishing themselves in niche markets in inner and central London, including perhaps limited stop luxury services using small, high quality vehicles and charging higher fares than general purpose bus services. With road pricing and substantially improved bus priority measures, services of this nature might stand to gain most, due to the increase in demand for public transport from former car users. Clearer road conditions for buses would also encourage the expansion of longer distance trunk bus services.

#### 7.4 Conclusion

If deregulation is extended to London, it is most likely to take a more restrained form than that adopted in 1986 outside London and to be introduced within a year or two of the next General Election in Britain (and then only assuming another Conservative victory). Full deregulation for London would only be expected if introduced by a particularly head-strong, free-market Secretary of State or Transport Minister very soon after his appointment - ie before he had had time to learn sufficient about the implications of deregulation to temper ideology with practicability. Under less doctrinaire leadership, a new Conservative administration might abandon proposals for deregulation in London altogether.

Neither of the two centre parties, if elected, would wish to tamper substantially with the LRT Act 1984. A Labour government might wish to reintroduce revenue support and some form of local democratic involvement in bus service planning, which could affect both London and the rest of Britain. Even a Labour government would probably not seek the complete return to a regulated, publicly owned bus industry.

London Transport, in the form in which it existed as a body which both planned and operated London's public transport from 1933 to 1984, will not return. The model of separate roles for planning and operating the services will stay, irrespective of which party is in government. LRT or an analogous body will continue to organise public transport for London irrespective of whether it is responsible to central or local government authority. Although its powers could be diluted by bus service deregulation, there will continue to be a need for a planning authority for public transport in London. The privatisation and deregulation of public transport operations is feasible, but public transport planning for London has to remain the responsibility of a single authority.

There is no need for the London bus and rail operating companies to retain their present structure. Governments may permit, or encourage, them to split into smaller units, to regroup and to move between the public and private sectors. LRT's task of procuring services will therefore become more onerous. More tendered services will be in operation, involving a greater number of contractors. The need to ensure comparable quality of services provided by different contractors and to arrange for smooth transition between contractors will assume increasing importance.

Officially, and justifiably, the reason given for not deregulating in London in 1986 was that London's public transport had only just been reorganised under the London Regional Transport Act 1984. In 1989, the same conclusion is reached by a different route. After a slow and, with particular respect to London Underground, difficult start, London Regional Transport and its subsidiaries now have tangible aims, towards which they are making visible progress. LBL has undergone a wholesale restructuring, culminating in the formation of eleven commercially oriented subsidiary operating companies. At

LUL, the combined effects of managerial reorganisation, the overhauling of attitudes following the recommendations of the Fennell report (Department of Transport, 1988b) into the King's Cross fire and a long-overdue increase in capital expenditure are just beginning to show results. It would be regrettable to risk losing these hard-earned gains by changing the regulatory and competitive environment again before they have had the opportunity to repay the investment in them.

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Responsibility for the content of this paper and the opinions expressed in it is entirely my own.

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