"VENI, VIDI, VENDI"

Mark Thomas, Chief Executive
MK Metro Limited
United Kingdom

INTRODUCTION

1. This paper reviews the changes to the legislative and commercial environment in which bus services in the United Kingdom have operated since 1980 and their practical consequences from the viewpoint of a fairly typical provincial bus operator.

LEGISLATIVE LANDMARKS

2. After a long period of regulatory stability, since 1980 legislation has triggered profound structural change in the UK bus market. The various measures have been extensively reported and may be summarised:

3. The 1980 Transport Act, which liberalised the restrictive control of fares and made it easier for new services to be introduced. Coach services (long distance express, tours and day excursions) were also freed from quantity control and effectively deregulated.

4. The 1985 Transport Act, which was the major piece of legislation and deregulated the provision of bus services (except in London and Northern Ireland). It removed quantity controls, amended quality controls, made the bus industry subject to the competition and anti-monopoly bodies regulating the majority of other industries, reduced barriers to entry and privatised the state-owned National Bus Company through the individual sale of it's subsidiaries.

5. Subsequent Acts have concentrated on furthering the privatisation process - the Scottish Bus Group and London Buses have since been sold on a piecemeal basis using the National Bus model.

6. Although the regime in London was gradually changed to one of compulsory route tendering, in the absence of any compelling commercial or market-led reasoning it can only be assumed that the exclusion of London and Northern Ireland from full deregulation is politically motivated.

STRUCTURAL SHIFTS

7. In addition to their direct result, these Acts promoted substantial structural change in the nature of the market - as they were intended to. Several phases of development may be identified:

8. Pre-1980: Most bus services were provided by agencies of national government (National Bus, Scottish Bus and Ulsterbus) and local government (around 50 council transport departments) or by regional public transport planning authorities (eight Passenger Transport Executives and London Transport). Licenses to operate services and permission to change fares had to be sought from the quasi-judicial Traffic Commissioners. Competition was effectively debarred. There was in most areas a substantial local authority influence over bus service provision through the use of support payments to operators for running uneconomic services - often on the basis of network cross-subsidy. Outside London, support payments grew steadily over the period up to 1980 as declining profitability conflicted with the desire of local authorities to retain socially necessary services (or in some cases hold down fares)

9. 1980-86: Ownership was largely unchanged, but a growing commercial awareness developed in the publicly owned companies through the removal of fare controls and with the prospect of more radical liberalisation. A more relaxed licensing regime initiated some competition, but new entrants were few. The first significant innovations in the industry for many years occurred with the introduction of minibuses on high frequency urban services and the breaking up of large regional bus companies. The latter move was begun by National Bus as a cost-control measure but was soon seen to yield benefits also in speed of response to commercial imperatives. The policy of substantial public subsidy for bus services often on a network basis was sustained up to deregulation. Total public subsidy (excluding London) in 1984/5 was £446m. - 22% of local bus turnover

10. 1987-90: Full deregulation. There was immediate and substantial competition in some urban areas both between established companies and also from new-entrants - many areas were free of competition, however, especially those where the "incumbent" was felt to have a strong commercial operation. Competition for local authority contracts strengthened with time, driving down prices - and often quality. New large privately owned companies were established from National Bus sales through MBOs, ESOPs and third-party purchases. New entrants multiplied - mostly operating clones of existing routes. The first two years saw continued extensive minibus conversions and a limited re-introduction of two-man buses. After a slow start there was growing intervention from the competition regulatory bodies both in investigation of mergers and of alleged unfair competitive practices. Where this had not already been done prior to deregulation, staff wages and conditions were driven down and trade union power was eclipsed. The growing downturn in the national economy produced severe financial pressure on weaker companies - often exacerbated by increased competition as their weaknesses were exposed.

11. 1990-95: A gradual growth of very large (2000+ buses) publicly-quoted groups through the progressive purchase of ex-NBC and ex-SBG MBOs and ESOPs and London Buses companies. Aggressive commercial pressure from major private operators on the remaining local-authority owned companies, resulting in some failures. There was continued above-average intervention from competition regulators and a reduction in competition between largest operators. Economic recovery, the availability of cheaper money through flotation and economies of scale lead to improving profit margins for the largest companies and widened the scope for investment. Since deregulation, bus kilometres increased by 24%, but patronage fell by 27%.

TABLE 1: SUPPLY & DEMAND CHANGES SINCE DEREGULATION[1]

Area	% Passenger Trips	% Bus kms.
London	-35.5	+20.6
England	-20.2	+24.5
Wales	-20.2	+33.7
Scotland	-21.6	+26.7
Deregulated Av.	**-27.4**	**+24.0**
London	-3.0	+24.0
Northern Ireland	-6.7	+22.9

FINANCIAL FACTS

12. Both sources and availability of funding for the industry and the revenue mix have changed and have influenced it:

13. Under state control, investment was limited to government sources and subject to external priorities. During the privatisations of National Bus, Scottish Bus and London Buses, it was virtually non-existent. Fleet ages increased as a result. Local authorities had a better investment record but were curbed by caps on the authorities' general expenditure.

14. Post-privatisation, many, but not all, companies were burdened by large, sometimes unrealistic, purchase debts secured against their assets and this limited investment in vehicles and competitive activity. An older and in some cases less reliable fleet led to increases in maintenance spending or a reduction in maintenance standards as defensive cost-cutting impacted on the maintenance function. This was particularly true of companies bought towards the end of the National Bus sales and of the Scottish bus sell-offs where prices were proportionately higher. Some sales created employee-owned companies (ESOPs) with complicated financial structures and management lacking in authority. Internal "restructuring" and external competition tended to further weaken already weak operators.

15. The flotation of the largest companies from 1993 onwards freed them to fund their acquisition and investment plans in a flexible fashion and triggered the accelerating consolidation of the industry into half a dozen or so national groupings, a few middle ranking mini-groups or regional operators and many small local companies. The increasing competition to buy bus companies led to large increases in the prices paid for them and effectively eliminated the ability of the smaller groups to expand by acquisition. Fleet replacement programmes also accelerated as the larger operators became more confident of their long term profitable future, as groups became large enough to see substantial economies of scale from fleet standardisation and "whole- garage" replacement programmes became feasible. Bus companies out-performed the UK stock Market in 1994.

TABLE 2: UK BUS GROUP MARKET DOMINANCE 1995[2]

Company	Turnover - £m.	% Market Share
Large Groups:		
Stagecoach	499.46	21.08
First Bus	320.62	13.53
British Bus	262.82	11.09
National Express	197.11	8.32
Go Ahead	128.30	5.41
Cowie	102.93	4.34
MTL Group	91.24	3.85
Large Groups	**1602.48**	**67.72**
M'gement Owned	433.69	18.33
Council Owned	89.04	7.99
Smaller Groups	110.26	4.66
Employee Owned	32.89	1.39

MARKET MUSINGS

16. Fundamental changes in the market mix for public transport have clearly occurred and give some pointers to the future:

17. Public funding has reduced dramatically - by 55% between 1986 and 1994. Whilst operating costs have fallen by an average 30% in real terms between 1986 and 1994 the market has continued a gradual overall decline, although arrested in some areas during the late 1980's boom - to a level 27% below that before deregulation. Overall, therefore, the cost per passenger has remained largely unchanged despite huge productivity increases by the industry. Profit margins have doubled from 4% to 8% since deregulation, however.

18. Despite a burgeoning environmental movement and growing political awareness of the environmental benefits of buses, this has yet to translate into substantial

growth in most areas. Indications are there that government is beginning to recognise the political attraction of a pro-public transport policy when compared with the cost of the alternatives. Currently, however, because of government cash constraints most local authorities' public transport policy consists of contracting out socially necessary but uneconomic services to the lowest bidder, with quality or community-wide environmental benefits a very poor second. Publicly subsidised services only account for around 16% of the UK total (outside London).

19. Deregulation has provided a test-bed for every conceivable combination of competitive price/frequency/quality mix. Unfortunately, customers do not seem to invariably exhibit consistent preference for quality, or cheapness or high frequency. Each local market is unique - some show high elasticity to fare changes and some none at all, for instance. Some demonstrate strong, if irrational, loyalty to an established local operator in the face of a "better" product offered by an entrant new to the market.

20. In terms of ownership, the UK bus market appears to be polarising into two classes of provider. The large national investor-owned bus groups, with access to city capital, capable of sustaining investment in an adequate fleet replacement programme, of investing in the long-term potential of the local networks which they operate and having sufficient financial momentum to deter competition from other groups. These companies tend to have "grey-suited" hierarchical organisations, relatively complex systems, professional management and the full panoply of publicly-quoted companies. The entrepreneurial element evident in the early days of deregulation is virtually extinct there. It remains present in the other type of service provider - the small (under £1m turnover) operator: often a one-man-band or family business. Capable of competing with a network operator because he has no "historic" territory to protect, has very low costs and - if he's smart - can find a safe niche from which to make a living. Because of the financial clout of the national groups, the scope for growth is limited. Presently there are still many regional or single town companies (the latter mostly council owned) that fall between these two types of provider. Two years ago this group, which still has about 30% of the national market, was by far the dominant provider. Their numbers will continue to dwindle. Council ownership is becoming more unattractive - especially as bus company prices have spiralled upwards since the summer of 1993. Similarly, the medium sized groups which had ambitions to buy have seen those ambitions thwarted as purchase prices rose beyond their ability to pay. Their owners, and those of private regional (ex-NBC and SBG) companies which had no such growth ambitions, will find it hard to resist the temptation to realise the fortunes that they now have tied up in these businesses. Especially so as many of them have been under-investing in their fleets since buying them in the privatisation process.

21. Competition seems to be unwelcome to the travelling public, who appear to prefer stability. It's alleged "excesses" - although usually perfectly permissible under competition law and hardly unsurprising in a highly contestable deregulated market - have garnered a sizeable lobby promoting some form of

re-regulation. Irrespective of the colour of the government after the next election, this may well result in the establishing of a specific bus competition regulator (the so-called "OfBus"), limited or total franchising of local networks from some type of public body, tougher quality standards and higher barriers to entry to the industry. A cynic might allow himself the thought that whatever change is promoted by government, it will not involve any greater financial commitment to public transport than is presently the case.

SIMPLE SUMMARY

22. Over 15 years, the provincial bus industry in Great Britain has been transformed from being a supply-led, publicly-owned, council-orientated monopoly sector with a service culture where prices were a function of cost, into a sector which is generally customer-led and privately owned with minimal barriers to entry and innovation and with a commercial culture where cost is a function of the price the market will bear. Public ownership of substantial national groupings of bus companies has been replaced by private ownership of national groups. For political, and not commercial, reasons London and Northern Ireland have been excluded from the deregulation experiment. The perception by politicians that competition is both unpopular with the customer and open to abuse by dominant operators may force a partial re- regulation of some sort over the next three years.

[1] HMSO, Bus & Coach Statistics, Great Britain 1993/94
[2] The Sunday Times