

LIGHT TOUCH REGULATION FOR THE PRIVATISED BUS INDUSTRY

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INTRODUCTION

Ten years after the return of the UK bus industry to commercial priorities, doubts remain about its ability to contribute fully to wider transport and environmental policy objectives. Amongst areas of concern which may require regulatory amendments are:

- * ensuring the provision of adequate services (in terms of both level and quality) where demand is insufficient to sustain fully commercial operation;
- * entry standards are not sufficiently strong to deter low quality and highly speculative companies from destabilising established service patterns;
- * the lack of ability to intervene and enforce early remedies where predatory actions or abuse of monopoly power act against the public interest or result in unfair competition;
- * service changes occur far more frequently than in other transport modes, reducing public confidence;
- * information is often insufficient to promote public understanding of the networks of service available;
- * much competitive activity is wasteful of resource and causes obstruction and uncertainty for both bus users and other members of the public.

Many of the problems identified do not require substantial regulatory change, and there is strong consensus that the way forward is through "Quality Partnerships" between local authorities and operators, backed by suitable levels of public investment in infrastructure, traffic management and resources. To be fully effective, such partnerships will need some legislative protection but these are seen to require only amendment rather than radical review of the current framework.

This paper will explore the changes that might be made, building on examples of innovation and service development in the past two decades.

BUSES: BACKBONE OF UK PUBLIC TRANSPORT

Buses and coaches are the most used mode of public transport in the UK, accounting for 6% of total passenger kilometres and around 10% of total passenger journeys in 1995. (Statistics in this section come from analysis of the DoT's Transport Statistics Great Britain 1995/96 and National Travel Survey 1993/95). Within the public transport sector, the dominance of local buses is seen by the 79% of all public transport trips made by this mode.

Whilst the use of local bus services has been falling for many years, there is virtually complete consensus amongst all political parties, with substantial support from the general

public and many representative groups - including the main motoring organisations - that bus use needs to be increased. Government policies for transport (eg PPGs 6 and 13) advocates the improvement of bus services by provision of priority measures, improved infrastructure and information and sympathetic planning policies that encourage the siting of new development to facilitate public transport access.

Before looking at measures to increase bus patronage it is worth analysing in more detail recent trends as the debate has tended to polarise between those who argue that deregulation has increased passenger losses and those who believe that the market share for buses has held up better than would otherwise have been the case because of increased supply of services.

Between 1982 and 1995/96, the number of bus passenger journeys in Great Britain fell by 21%, but in the PTA areas the decline was 35%, in London there was an increase of 16% and in the shire areas the fall was 24%. The key statistics are shown in the Table 1:

Table 1: Local Bus Patronage in Great Britain 1975 to 1995/96

Bus Patronage (Millions of Passenger Journeys)					
Year (1)	Whole of Great Britain	Metropolitan Areas	London	Rest of GB	Mean annual Change in Period (GB)
1975	7,535				-2.7%
1980	6,224				-3.5%
1982	5,518	1,981	1,041	2,496	-5.7%)
1985/86	5,641	2,068	1,152	2,421	+0.7%) -1.9%
1990/91	4,850	1,547	1,178	2,367	-2.8%
1995/96	4,383	1,292	1,205	1,886	-1.9%
Mean Annual Change since deregulation (2)	-2.2%	-3.8%	+0.5%	-2.2%	

Notes: From Bus and Coach Statistics Great Britain 1995/96 tables 2.1 and 11.1
(Supplemented by data for 1982)

(1) Disaggregated figures not available prior to 1982

(2) 1985/86 is used as the last complete year prior to deregulation

It can be seen that the general picture over the twenty year period from 1975 to 1995/96 is a loss of over 40% of total bus patronage at an average rate of 2.1% per annum. Analysing the figures more closely reveals the following:

- *a higher rate of loss in the 1970s*
- *recovery in the mid 1980s driven by strong performance in the metropolitan areas and London*
- *relatively stronger performance since deregulation in the non-metropolitan areas, with virtually continuous patronage growth in London*
- *very significant patronage losses in the metropolitan areas since deregulation.*

The reasons for this combination of results are complex, but the following factors are worth noting:

- the consistently strong performance of London buses, now privately owned but under a route tendering system administered by London Transport Buses. Similar results have been reported from Northern Ireland where the Government is now pursuing a policy of integration but with the operators following strong commercial principles within that framework.
- the very good performance of the metropolitan areas in the early 1980s. During this period the Transport Act 1983 introduced the requirement for a financial plan balancing expenditure on services and subsidies to contain fare levels. This was assessed using Cost Benefit analysis ("the Glaister model") and consistently showed for all PTAs and London Transport that there were positive community benefits from the policies then being pursued in the metropolitan areas
- the impact of private sector management disciplines in containing costs and expanding service levels, particularly outside the metropolitan areas. Comparison of the most successful of these areas with London and with the experience in the metropolitan areas prior to 1985/86 reveals many common strands including good provision of information, network ticketing (available on the services of more than one operator and trains as well in many cases), service reliability, customer care and local authority highway and planning policies that support efficient provision of bus services.

Table 2 compares service levels over the 1975 to 1995/96 period and reveals the following:

- increases in vehicle kilometres since deregulation have restored this measure of bus service supply to its 1975 levels. The distribution and types of services are, however, likely to be very different; for example, including far more services supplied by mini and midi buses or high frequencies on routes subject to competition on the road.
- the increases have been greatest in London and non-metropolitan areas, reversing the policies of greater cuts in these areas generally in the 1970s and early 1980s, whereas the metropolitan PTAs adopted policies of matching supply more closely to need at an earlier date giving them relatively better levels of provision at deregulation.

Table 2: Local Bus Service Supply in Great Britain 1975 to 1995/96

Million Vehicle Kilometres					
Year	Whole of Great Britain	Metropolitan Areas (1)	London	Rest of GB (1)	Mean annual change in period (GB)
1975	2,447		284	2,163	-1.3%
1980	2,263		279	1,984	-1.5%
1982	2,111	585	265	1,261	-3.4%)
1985/86	2,077	574	273	1,230	-0.5%) -1.6%
1990/91	2,448	650	304	1,494	+3.6%
1995/96	2,623	695	353	1,575	+1.4%
Mean annual change since deregulation	+2.6%	+2.1%	+2.9%	+2.8%	

Notes: From Bus and Coach Statistics Great Britain 1995/96 tables 1.1 and 11.1 (Supplemented by data for 1982)

(1) Metropolitan areas included in rest of Great Britain prior to 1982

Unfortunately, the changes in service provision are not yet reflected in increases in the national patronage statistics outside London. A problem of interpretation is that local statistics are not available, either because they are not collected at all or because it is commercially confidential. There are several areas where investment in bus services has repaid itself in terms of patronage levels (and, presumably, financial results for operators) both in non-metropolitan and metropolitan areas. In each case these follow the principles of good information, ticketing and customer care identified in the final point under the discussion of patronage. They are also in areas where there is either a dominant operating group or a de facto understanding amongst major operators which creates an oligopoly. Where there has been sustained on-the-road competition this has not usually resulted either in significant patronage increases or improved service quality, with the possible exception of Oxford. In all cases, the local authorities have pursued transport policies, including both traffic management and parking, supportive of efficient and effective bus service provision.

One important aspect of the local bus contribution to overall transport policy is pricing in relation to the private transport alternative. Local bus service fares indices expressed in real terms have risen as follows (Table 3):

Table 3: Changes in Bus Fares Indices 1985/86 to 1995/96

	<u>Change 1985/86 to 1995/96</u>
<i>Metropolitan Areas</i>	+53%
<i>London</i>	+35%
<u><i>English shire counties, Scotland, Wales</i></u>	+10%
<i>Great Britain</i>	+23%

Notes: Derived from Bus and Coach Statistics Great Britain 1995/96 table 3.1

In the same period motoring costs have fallen by 2% in real terms, demonstrating a major loss of competitive position for bus services. As noted above, parking charges are an important lever that can be used by local authorities to help to restore the competitive position of bus services. The increase in fares in the metropolitan areas is particularly worrying as the Glaister model showed that the 1985/86 levels struck an appropriate balance with the objective of maintaining patronage levels.

Table 4: Changes in Local Bus Operating Costs - 1985/86 to 1995/96

	Operating Costs Including Depreciation	
	per Vehicle Kilometre	per Passenger Mile
Metropolitan Areas	-49%	-1%
London	-47%	-36%
English shire counties, Scotland, Wales	-40%	-2%
Great Britain	-43%	-9%

Notes: Derived from Bus and Coach Statistics Great Britain 1995/96 table 6.2

There have undoubtedly been very substantial operating cost reductions achieved by imposing the management disciplines of the private sector, rather than the change in regulatory structure. In real terms, operating costs have fallen as shown in Table 4 which confirms the relative efficiency, in terms of passengers carried, of the metropolitan area operators compared to other parts of the country prior to deregulation, although (as elsewhere) there have been considerable productivity improvements, partly resulting from investment in new vehicles in recent years.

Revenue for the local bus industry is still highly dependent on public sector sources. Around 16% of all mileage operated on local bus services outside London is secured through tendering by local authorities. Almost 20% of all passenger receipts (£439m per annum) comes from reimbursement for concessionary travel.

Quality is an important factor in retaining patronage and winning back passengers lost to private cars. Although there is not a direct correlation between vehicle age and quality it is of major concern that 36% of the total bus and coach fleet is 12 or more years old, but only 21% less than 4 years old. Despite the emphasis on customer care and personal service, employment in the bus and coach industry has fallen by almost 30,000 since deregulation to 146,000. Weekly earnings of bus and coach drivers are around 14% lower in real terms in 1995/96 than they were in 1985/86 compared to the peer group of manual workers whose real earnings increased by 22% over the same period.

A CLIMATE OF MARKET OPPORTUNITY

Potentially there should be a large and growing market for bus travel as environmental awareness grows and measures to choose more sustainable transport modes advocated by the Royal Commission on Environmental Pollution and the UK Round Table on Sustainable Development become more widely accepted both by governments and by the public. The 1993/95 National Travel Survey shows that the average person makes 62 journeys by bus out of a total of 742 in a year, the figure for car or van driver or passenger being 472. *A modal shift of just 5% from car to bus would therefore increase bus patronage by almost 60% and better use of existing capacity in the industry could absorb virtually all of an increase of this magnitude. In financial terms, expenditure on bus and coach fares for the typical household was £1.33 per week in 1994/95 out of total expenditure on transport of £42.81, £36.17 on motoring. Diversion of 5% of this expenditure would substantially increase the resources available to the bus industry for product improvement as well as returns to investors.*

The challenge to government and the bus industry is to find a regulatory and financial support framework that will achieve the shift from private cars to public transport required to achieve wider environmental and social goals whilst retaining the innovation brought about in both private and public sectors in the 1980s. The situation is not dissimilar to land use planning where, within a framework of strategic plans and local requirements, the private sector is free to offer competitive services to meet retail and housing requirements for example.

LIGHT TOUCH REGULATION

In practice, the industry (and local government) are not in a state to handle further radical change - the public would certainly not benefit from this - public resources are very limited, considerable benefits are being seen from the availability of private capital and decentralisation of management and the opportunity for substantial legislation does not exist. It is seen that the

way forward is through "quality partnerships" between operators and authorities, a concept developed by the Chartered Institute of Transport in its reports "Bus Routes to Success" (1993) and "Omnibus for All" (1996). It is believed that relatively few amendments need to be made to the existing legislation to achieve the desired results as demonstrated in the following discussion.

The Registration System

Registration under Section 6 of the Transport Act 1985 (TA1985) is an automatic process. Registrations can only be not accepted by the Traffic Commissioners (TCs) if the operator does not hold the necessary licence or if the application is deficient in terms of the information it provides. Most comprehensive information on services in an area is provided by local authorities (LAs) and derived from registration information which is supposed to be sent to them at the same time as it is sent to the TCs. In practice this requirement is not always met.

Where it is necessary to:

- prevent danger to road users
- reduce severe traffic congestion

TCs may impose Traffic Regulation Conditions (TRCs) covering an area which apply to all designated services in that area.

Regulations covering registration conditions may be made under S6 of the TA1985. A relatively simple set of changes might be made to enshrine the principle of quality partnerships and eliminate timetable matching through registration conditions by making acceptance of a registration conditional on the operator certifying that the service proposed:

- complies with any TRCs and meets any quality standards set out in the LA's transport plans for the area (discussed below) and has been copied to them;
- complies with regulations (effectively a Code of Practice for Bus Operators) designed to reduce, as far as possible, disruptive competition. These might include requiring that additional services in a corridor should normally split existing headways and that fares will be realistic in relation to the cost of providing the service (to outlaw free or loss leading services).

This introduces a public interest test and will be hotly contested as potentially destructive of deregulation. However, the Code of Practice will be predicated on restricting competition only where absolutely necessary, and should specifically support non predatory competitive activity as being generally in the public interest.

The purposes for which regulations can be made should then include:

- environmental*
- traffic*
- transport policy objectives of LAs*
- accessibility of public transport services,*

which might all be conveniently dealt with by requiring LAs to set out their objectives, targets and standards within their Transport Policies and Programmes (TPPs) which are currently the basis for allocation of transport resources from Central to Local Government in the UK.

The changes to registration will assist by allowing much predatory action to be eliminated before it occurs. The powers of cancellation of a registration could be expanded to give Commissioners the "cease and desist" powers by inclusion of the possibility of suspension of a registration (possibly for a maximum period after which it must either be reinstated or cancelled). There is already a satisfactory appeal mechanism through the Transport Tribunal.

To restrict excessively frequent service changes, existing regulations might be modified to:

- (a) encourage changes only on key dates agreed with the tendering authority (for example, in the light of school terms);
- (b) require a minimum period of operation, perhaps with longer notice required for total withdrawal than for variations;
- (c) remove the current 5 minute rule provision for variation of services without notification.

Local Authorities and Competition

At present, Local Authorities are required "to conduct themselves so as not to inhibit competition between persons providing or seeking to provide public transport services in their area". Quality partnerships clearly risk infringing this, so modification is necessary perhaps in terms:

"not to inhibit competition . . . except insofar as it may be necessary in order to:

- (i) meet the transport needs of an area in the most efficient and effective way, including the promotion of co-ordination between services;
- (ii) carry out the Authority's policies in respect of:
 - the environment*
 - traffic conditions*
 - accessibility to public transport services*
 - availability of public transport services*
 - inter-available and area-wide ticketing schemes."*

In the longer term, changes to the general competition law proposed by the Department of Trade and Industry (1996) could create the possibility of exclusion classes covering Quality Partnerships.

The changes proposed for registration conditions and local authority duties should allow LAs that wish to introduce or further develop both co-ordinated information and joint ticketing schemes and these can be specifically provided for in regulations.

Improving Entry Standards

Frequent calls, supported on all sides, have been made for entry standards to be improved. Submission of a Business Plan would assist this and each applicant for an Operator's Licence should be required to deposit with the Traffic Commissioner for the Area in which a licence is required a Business Plan showing:

Sources and Availability of Funds
Details of Operating Base

Intended business activities
Business Forecasts.

Before granting a licence Commissioner should be satisfied that the Plan is capable of achievement having regard to the activities proposed by the applicant. Business Plans could extend beyond financial resources to include environmental matters like off road operating bases, staffing and customer care policies and other matters relating to quality. In terms of the financial and business planning requirements, these provisions would be no more onerous than required by commercial banks prior to granting of loan facilities.

Highway and other provisions

It will also be necessary to improve the operation of buses in traffic. LAs should therefore be given the powers to enforce all traffic offences which result in obstruction or illegal use of a bus lane or other traffic management measure in a quality corridor either by requiring the Police to devote resources to that end (which must then be paid for as part of the costs of that scheme) or by having the powers of enforcement for relevant moving traffic offences for themselves or contractors on their behalf.

Consideration should be given to making TPPs 5 year programmes including revenue as well as capital and to finding a way of ensuring Treasury commitment to at least 3 years of the programme. It will be noted that tendered bus service contracts and rail franchises are already long term and that stability of LA funding is a major problem. Efforts should continue to attract private sector resources and put in place mechanisms for joint funding of services like information and inter-available ticketing.

CONCLUSION: FORWARD BY CONSENSUS?

The measures for "Light Touch" regulation outlined above are proposed to give regulatory backing to the already well accepted principles of quality partnerships and the need to improve standards generally. They must be seen as continuing the process of combining the respective strengths of private and public sectors, and in the context that the bus industry is an essential part of the integrated transport strategies seen as necessary to overcome traffic and environmental problems.

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