UNIVERSITY OF
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ENGLISH for ENGINEERS

This is an example of an engineering essay. The student had been asked to:

Suppose that you have been commissioned to review the organisation of public transport in Great Britain.

For EITHER local bus services OR passenger rail services, make detailed recommendations on the appropriate levels of regulation and on the appropriate forms of competition and ownership. Ensure that your recommendations are fully justified with reference to theoretical and/or practical evidence, both from Great Britain and elsewhere.

A REVIEW OF THE DEREGULATION OF LOCAL BUS SERVICE IN GREAT BRITAIN

Introduction

Proposals of the deregulation of local bus services in Britain, outside London, were published in the 1984 buses White Paper. And then they were brought into effect by Part I of the Transport Act 1985. Department for Transport (2006) suggests that there are three distinct changes after bus deregulation: removal of the quantity controls established by the Road Traffic Act of 1930; privatisation; and subsidy decline. At approximately the same time, buses in London were governed by the London Regional Transport Act 1984, in which responsibility for the bus system of the Great London Council was transferred to London Regional Transport. London Transport was required to set up operating subsidiary companies to run bus and underground services and as a result London Buses Ltd was formed as a wholly-owned subsidiary in 1985. This essay will make a review of bus deregulation on approximate forms of regulation including fare regulation, quantity regulation and safety regulation which are often mixed together; as well as on genres of competition and ownership. In addition, the case of London is also analysed, especially several successes of the bus system. Finally, some new recommendations will be considered.

Quantity deregulation, fare deregulation and safety deregulation

Under the Road Traffic Act 1930, a system of road vehicle licensing was controlled by regional traffic commissioners. This covered quality regulation in the same name of safety - of the operators, vehicles and drivers - and quantity regulation of the number and types of services operated. There seemed to be little change in the structure of the bus industry during the period from 1930 to 1980. However, use of the private car increased dramatically, which could influence the market. Indeed, there is some evidence that operating costs, fares and levels of subsidy rose over this 50 years. Almost all companies suffered from a gap between revenue from fares and their operating costs. Consequently, quantity deregulation for express coach services was abolished on the Transport Act 1980. Furthermore, it allowed county councils to set up ótrial areasô in which road service licences were no longer required and operators could run services on any route they wished. The nationalized companies including the óNational Expressô services of the National Bus Company (in England and Wales), and the Scottish Bus Group (in Scotland, and on trunk routes to London) operated almost all trunk all-year-round express services. In addition, smaller private operators (generally known as óindependentsô) run mainly in the seasonal scheduled express market which were excursion

and tours; the contract and private hire markets. Total volume of express coach travel rose by approximately 50% between 1980 and 1986 (White, 1995).

After quantity deregulation for express coach services had been valid, quantity deregulation of local buses outside London was introduced by the Transport Act 1985. The traffic commissioners lost a great number of their former powers. Any licensed bus operator simply needed to register its plan with the traffic commissioner having responsibility of the area in order to set up a service, giving at least 42 daysô notice. Then the operator was obliged to run the service which was applied for the registration (Butcher, 2010). Moreover, part III of this Act required the National Bus Company subsidiaries to be sold to the private sector. As a result, the 70 National Bus Company subsidiaries were sold between 1986 and 1988, the 9 Scottish Bus Group subsidiaries were sold in 1990/91 and the 11 London Buses subsidiaries were sold in 1994 (Mackie, Preston and Nash, 2007). Following deregulation total bus kilometres experienced a rise of 20% whilst total passenger journeys decreased by 31% outside London. Mackie *et al.* (2007) show the following mixture of factors leading to this increase:

- The minibus influence: monopoly operators replaced conventional big bus services by improved minibus frequencies in many small and medium sized towns. This seemed to be socially beneficial.

- Entry restriction policies: officers in the market had to avoid leaving profitable gaps. This resulted them in increase frequencies on the core network in order to cover the space.

- On the road competition: outbursts of competitive activity occurred in many areas such as Glasgow, Manchester, Preston.

Having considered fare deregulation, some recommendations will now be discussed. From 1930s, fares were regulated by the Road Traffic Act 1930. Indeed, ó*In the case of regular services, the time-tables and fare-tables of the services which is proposed to provide under the licence*ô (Road Traffic Act 1930:60). This leaded to the fixture of the minimum or maximum fares. However, from 1985, the bus fare was deregulated. Individual bus operators had responsibility for the timetable and the introduction of new services. These operators had the right to join in concessionary fare schemes. The Government hoped that there would be increased demand and lower fares. Although, Preston (1999) states that deregulation does not appear to have cause lower fares. Real fares outside London have risen by around 27 per cent while bus passenger trips have declined by about 31 per cent since 1985/6. In order to explain

these changes Romilly (2011) analyses influences of subsidy decline and he used the results of univariate time-series estimation: ôthe actual outcome of deregulation with subsidy reduction, in terms of passenger journeys per person and bus fare, is very similar to the forecasts made for the regulated system for 1986-1997ö. In other words, the positive effects of fare deregulation were generally lost by the negative effects of subsidy reduction. One reason for the fare increase seemed to be operatorsô opinion of fare and demand. Each individual operator appeared to have a strategy to make profits. Increasing fares could be a potential way to gain revenue. For example, one operator running a bus service may alter the quality of service offered (equivalent to miles operated) and the fares. It is assumed that elasticity with respect to fares and to mileage are -0.4 and 0.4 corresponding. This operator might use one economic software, Beat the Trend, to forecast profits. An increase in fares of 20 per cent could lead to make profits whilst the change of mileage does not seem to gain benefits.

The case of Hanoi, the capital of Vietnam, bus fares have not yet been deregulated. Fare regulation is controlled by government. Indeed, fare level is decided by a meeting of the People Committee based on the proposal of Department of Transport. In fact, Department of Transport has to consult with The Hanoi Urban Transport Management and Operation Centre and TRANSERCO company as the main operator. Moreover, operating deficits are compensated by subsidy. Revenue becomes considerably lower than operating costs. There is only a flat fare system with approximately £0.15 per single trip (Japan International Cooperation Agency, 2007). Fare regulation seems to be an approximate fares policy in a developing country where the average income per capita is low because bus fare level is directly related with country Socio-Economic characteristics.

Another main aspect of bus deregulation is safety. Glaister (1991) comments that safety was a subject of great debate when deregulation was proposed. The system of safety regulation was not greatly changed. Operatorôs licenses would be required and vehicles have to be tested regularly and randomly. The Traffic Commissioners would have restricted powers to stop operators who behave foolishly on the road from running local services to impose conditions about routes and bus stop. This would create a result which is both orderly and fair to all operators involved. In fact, fatalities ranged between 76 and 115 per year from 1966 to 1980, but only 19 and 32 over the 1980s. ôKill and injuryô casualties dropped from over 1,950 in 1980 to nearly 1,000 in 1985 and average casualties per year was around 800 in the late 1980s (Department of Transport, 1992). White and Dennis (1995) demonstrate that these reductions were affected by the decrease in use of bus and coach services, from 62,000 million passenger kilometres in 1966 to 41,000 in 1990. Additionally, local bus passenger trips had fallen

sharply since deregulation ï by 14% between 1985/86 and 1990/1, despite the growth in service kilometres (Department of Transport, 1992). On the other hand, Glaister (1991) believed that vehicle maintenance and personnel training were neglected in the past. One cause of fall in óKill and injuryô casualties could be that bus drivers are now better educated and broadly more responsible than they were before. As well as the average age of the bus and coach fleet has been declining since 1995, and new low-floor, lower-emission buses have also been introduced. This is one consequence of industrial investments in recent years in order to improve the quality of the bus fleet (Department for Transport, 2006)

Under the Transport Act 2000, Quality Contracts and Quality Partnerships were introduced. Department for Transport (2004) shows that there are two types of Quality Partnerships: Quality Bus Partnerships and Quality Partnership Schemes of which table 1 provides a summary. However, Lisa and Richard (2006) prove that one disadvantage of Quality Partnerships is lack of awareness of the overall Quality Partnership concept and subsequent lack of understanding of the changes introduced.

Table 1: Details of Quality Partnership terminology
Sources: DTLR (2001b) and DfT (2004b)

Ownership and competition

According to the Road Traffic Act 1930, ownership of the local services was mainly public. During 55 years of regulation, the greatest state-owned National Bus Company and the Scottish Bus Group running under the supervision of Traffic Commissioners in fare and quantity controls operated most of services. Transport Act 1985 seemed to change the structure of the bus industry through privatisation. This is shown by the table 2.

Table 2: Industry Structure
[Table removed before being made available online because of copyright]

Source: Cole (1998), TAS (1999, 2007)

So on-road competition between operators was a key aspiration of the Act. óThe concepts of ñprivatisationò and ñderegulationò are often mixed togetheré but not necessarily coincident and separate effects may be adduced for eachô (White, 2002:182). óDeregulation was intended to increase competition through an increase in the number of competitors and by reducing the possibilities of entry-deterring behaviour. Privatisation, in itself, was not necessarily going to increase competitionô (Butcher, 2010). The National Bus Company reorganised its services into 70 separate companies which were sold to the private sector by April 1988. Then, the 9 Scottish Bus Group subsidiaries were sold in 1990/91 and the 11 London Buses

subsidiaries were sold in 1994. The receipts from these sales have been over £650m. 70 companies of National Bus Company accounted for 28 per cent revenue was considered as the leading operator on the market over the period from 1985 to 1999. DfTôs 2008/09 reporting year indicates that more than 1,000 local bus operators are running services in the reference area. In particularly, the 15 operators including 5 Large Operators (Stagecoach Group, First Group, Arriva, National Express Group and Go Ahead), 5 Mid-Sized Operators and 5 Mid-Sized Non-Municipal Operators made up a combined 82 per cent share of local bus service revenues within the reference area, of which the Large Operators account for a combined market share of nearly 71 per cent.

In most industries, the combination of quality and price elements is taken in competition. However, in the local bus case in Britain, price competition appears to be honestly limited (White, 1995). Apart from this, White (2010) suggests that the intensive stage of competition in the late 1980s seemed to be based principally on the offer of high frequency, rather than distinction in service quality between operators. One reason for this, which was mentioned above, is to use small minibuses on large scale during this period. On the other hand, it has indicated competition in the labour market occurred after deregulation (Glaister, Burnham, Stevens and Travers, 2006:195). In order to achieve the labour market competition, privatising the state monopoly bus company and deregulating the industry were essential (Department of Transport, 1984). According to New Earnings Survey in various years from Office for National Statistic, incomes of drivers in the regulated bus industry were higher than them in competitive industries.

The case of London

Buses in London were governed by the London Regional Transport Act 1984, which transferred responsibility for the bus network from the Greater London Council to London Regional Transport. London Transport was required to set up operating subsidiary companies to run bus and underground services. As a result, London Buses Ltd was established in 1985 (Butcher, 2010). Deregulation was not applied in bus transport system in London after Transport Act 1985. In November 1993 the Government announced that the previously intended deregulation of buses in London would be deferred. Glaister (1991) explains that bus deregulation could not work effectively on congested roads which might occur regularly in London. Heavy traffic flows in London might lead to an increase in travelling times and operation costs for bus companies, as well as a rise in passengersô journey times. So if free competition in the bus system in London occurs, therefore, the number of bus operators in

some certain busy areas may rise quickly. This could result in a reduction of demand and quality services in routes.

It would probably be fair to say that there are some successes of the bus system in London from 1984, which is proved by following figures. In London, between 1985/6 and 2008/9, total passenger journeys surged considerably by 87 per cent as well as total bus kilometres rose dramatically by 78 per cent. In the same way, operating costs increased by 28 per cent. Additionally, real fares decreased by only 15 per cent, compared with 55 per cent outside London (Department for Transport, 2009). These successes could be explained by factors as follows. Firstly, Glaister *et al.* (2006:198) identify that the competitive tendering process has successful results due to reasonable contract length, enforceable quality clauses in the contracts with the service providers and an increase in bus patronage. Indeed, the contracts which last three years in the first instance and more recently five years were not too large. Moreover, the quality of public transport service was strictly controlled by Transport of London. For instance, standard fares and bus timetables were fixed. Secondly, there is some evidence that congestion charging scheme has succeeded. The congestion charge has been integrated with a package of bus priority, pedestrian and cycling measures, parking restraint and increased bus support. Hence, since the congestion chargeôs introduction, total bus passenger journeys rose by approximately 38% during the 3 hour morning peak period (Department for Transport, 2006).

Conclusion

To sum up, it has been illustrated fare deregulation, quantity deregulation and safety deregulation, as well as privatisation and competition in Britain. In general, there are certain dissimilarities between London and outside of London. The minibus which used popularly in many small and medium sized towns outside London might lead to increase in total bus kilometres. Deregulation does not seem to result in lower fares, which is in spite of the Governmentôs aspiration. Bus fares cannot be deregulated in a developing country, which would be proved in case of Vietnam. There is little evidence that one disadvantage of Quality Partnerships is lack of awareness of the overall Quality Partnership concept and subsequent lack of understanding of the changes introduced after 2000. The privatisation of the transport industries and the consequent redesign of their relations with Government has been a major and positive change in British transport policy since 1980. However, in Britain in the late 1980s, the competition in local bus system appeared to be based on the offer of high frequency, rather than price. The lessons of the London experience should be utilised in other

places because of several achievements such as the tendering for bus services and the Congestion Charge scheme.

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Appendix

Table 3: Five-year trends in bus and coach occupant casualties, the volume of service and ridership
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Source: Department of Transport (1991), (1992) and (annual)

Figure 1: Trends in Local Bus Demand (Passenger Journeys, Millions)
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Source: DfT PSV Surveys

Figure 2: Trends in Local Bus Supply (Vehicle Kilometres, Millions) Source: DfT PSV Surveys
[Graph removed before being made available online because of copyright]

Figure 3: Trends in Vehicle Operating Costs: pence per km, 2005/6 prices

[Graph removed before being made available online because of copyright]
Source: DfT PSV Surveys