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BUS REGULATION IN SCOTLAND — A REVIEW OF THE FIRST SIX MONTHS

by

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Local bus services in Scotland were deregulated in 1986. Since then there has been a substantial increase in the supply of bus services and strong competition in the four main cities, particularly in Glasgow. This article reviews the experience of deregulation over the first six months.

Introduction

The 1985 Transport Act introduced the doctrines of market forces, competition and privatisation into the previously regulated system of the supply of local bus services. Since the 1930s control had been exercised through route licenses granted by regional Traffic Commissioners, a quasi-judicial office whose function as defined in successive pieces of legislation was to secure a public transport service in accordance with the needs of the area. Integral to this system was cross-subsidy within large operators between profitable and unprofitable routes. Indeed, this was an explicit aim of the regulatory system and as a consequence of the need to protect operators’ territories, market entry was made difficult.

In this way unprofitable, mostly rural and off-peak, services could be provided at no cost to the public purse. Additionally the Traffic Commissioners had responsibilities for operator safety, thus encompassing both quantity and quality control.

Clearly the continued stability of the regulated supply of bus services depended in particular on the balance between operating losses on some routes and operating profits on others, with sufficient surplus for capital investments and overhead costs. Bus operators were able to sustain this situation against railway competition between the two world wars, and both bus and rail transport experienced a boom in the 1940s and early 1950s, as wartime-suppressed demand for travel was fulfilled. However, car ownership, which began to increase rapidly in the 1950s and surged ahead in the 1960s, began to undermine the framework of supply based on cross-subsidy which was an intrinsic feature of bus operations.

In 1961 the Jack Committee (HMSO) identified a need for the injection of funds to sustain the level of bus services in rural areas and in the 1965 Transport Act this proposal was implemented, local authorities (counties) being given discretionary powers to subsidise bus operators. The thrust of this new direction was emphasised in the 1972 and 1973 Local Government Acts, the Scottish regions being required to secure the provision of public transport adequate for the needs of their areas. Annual Transport Policies and Programmes (TPPs) produced by the regional councils were in effect a bid for finance to be used in transport spending, including revenue support payments to bus operators.

However, through the 1970s the funds being provided through the Rate Support Grant came under increasing pressure both internally, as other council budgets competed for resources, and externally, as central government exercised controls on public spending. Increasing use of cars,
encouraged by road improvements, reduced bus revenues and the spiralling implications of revenue support were becoming a high cost item in regional council expenditure.

In the early 1980s the large operators (the state-owned Scottish Bus Group and the municipal undertakings) carried out market analysis (SCOTMAP) and produced increased efficiencies by tailoring supply more closely to demand. The rural networks in Scotland survived SCOTMAP largely intact. Only a few routes were totally lost, though frequencies were reduced (Farrington & Harrison, 1985) on many rural routes, with a corresponding supply increase in areas of high demand and market potential, which were mainly urban. Despite these improvements in efficiency, however, revenue support payments continued to increase.

Towards deregulation

The 1980 Transport Act introduced deregulation of long distance bus services, resulting in a rapid expansion of a pre-existing competitive trend among bus operators and between bus and rail services. Fares were reduced, supply increased and vehicle quality improved. The market expanded, partly at the expense of rail traffic (eg British Rail admitted to a loss of £15 million revenue per year after the 1980 Act) and partly through generation of new traffic. This experience appeared to encourage the view that deregulation could be applied successfully to local bus services, though opponents pointed out that demand elasticity would undoubtedly be lower in the local context.

Probably even more encouraging for advocates of deregulation was the experience of the 'Trial Areas'. These were enabled under the 1980 Transport Act but only three authorities applied for Trial Area status - Norfolk (part), Devon (part) and Hereford and Worcester. None of these included urban areas and deregulation of the type embodied in the 1985 Transport Act was applied only in Hereford and Worcester. These short term results were adduced in support of deregulation since fares and revenue support payments decreased. Despite the absence of any other experimental deregulation, including urban or Scottish experience, the 1984 White Paper 'Buses' (HMSO) proposed deregulation of local bus services (Mackay 1984) and this was carried through in the 1985 Transport Act.

The 1985 Transport Act

The aims of this legislation, as promoted in the preceding White Paper, can be summarised as:

1. To introduce competition into the supply of local bus services.

2. To increase consumer choice, and supply levels.

3. To reduce fares.

4. To eliminate cross-subsidy within operators' networks.

5. To produce subsidy transparency, allowing the clear identification of 'value for money' in revenue support payments.

6. To reduce the total amount of revenue support.

7. To maintain safety levels by reinforcing quality control.

8. To encourage innovation.

9. To maintain a supply of bus services in areas of social need.

The mechanisms incorporated in the Act, by which these aims were to be accomplished, are lengthy but the main provision can be
summarised as:

1. Operators are free to enter the market subject to registration of new or changed services at six weeks notice, the registration authority being the Traffic Commissioner.

2. The Traffic Commissioner has responsibility for ensuring that quality control standards are maintained. He also has the power to call public enquiries into situations alleged to be causing severe traffic congestion. The Office of Fair Trading (OFT) has the power to investigate allegations of unfair competition.

3. Regional Councils are notified of registrations and their roads departments, together with the police, consult with their public transport units on traffic and safety implications of registered services.

4. Regional Councils are empowered to secure the provision of 'social' bus services where it is felt that registered 'commercial' services do not provide the necessary supply level, or are absent altogether. This is achieved by inviting operators to tender for specified routes, the lowest tender normally being accepted.

5. Concessionary fare arrangements (paid for by regional councils) are to continue.

6. Municipal and PTE operators in Aberdeen, Dundee, Edinburgh and Glasgow were to become separate companies.

Deregulation was to proceed to a prescribed timetable, the main features of which were:

by 28 February 1986:

Notification by operators of intention to operate registered services, giving time for the regions to secure tenders before;

26 October 1986:

Deregulation takes force. This was followed by a standstill period during which operators were not allowed to vary their registration. (In some areas deregulation effectively began in stages from June 1986.)

26 January 1987:

Full deregulation in force, with free market entry and exit for commercial, registered services subject to 42 days' notice.

Monitoring of deregulation

Monitoring the effects and implications of deregulation is being carried out by a variety of bodies and interest groups. 'Buswatch' is a mainly voluntary system of monitoring local effects on services, and is co-ordinated from Lancaster University. The Scottish Office has commissioned work from Newcastle University, based on case study areas distributed throughout Scotland and a review of regional council policies. The Transport and Road Research Laboratory includes Scottish regional councils in its review of policy in the deregulated environment and a survey of deregulation's effects in Passenger Transport Executive (PTE) areas being carried out by the Transport Studies Unit at Oxford, funded by the Association of Metropolitan Authorities and the PTEs, includes the Strathclyde PTE in its remit.

In addition to these studies, the Scottish Consumer Council (SCC) commissioned a monitoring programme to cover the effects of deregulation throughout mainland Scotland, to be carried out jointly by Mackay Consultants of Inverness and the Transport Research Group of Aberdeen University. The review of deregulation impacts in Scotland presented in this article is based on the findings of this work, conducted between October 1985 and April 1987, and represents the views of the authors. A full report was published recently by the SCC.
The objectives of the work were to report on the effects of deregulation, specifically the following topics: service characteristics including fares, frequencies, reliability and quality; unfair competition, if any; the effects on revenue support levels; any problems with access to bus stations; facilities for the disabled; school transport. The information required was obtained by interviews with regional council officers, bus operators, the Traffic Commissioner and OFT, and SCC's Consumer Network provided feedback from consumers on passengers' views of service changes etc.

The structure of the Scottish bus industry

Local bus services in Scotland have been dominated by the Scottish Bus Group and the four municipal authorities in Aberdeen, Dundee, Edinburgh and Glasgow/Strathclyde. The latter had a near monopoly of services in the four cities until 1984; through its various subsidiaries provided most of the services elsewhere. There were a number of small independents throughout Scotland, with particular strength in Ayrshire.

According to Scottish Office statistics (Scottish Office) the number of buses (vehicle stock) in Scotland in 1984 was 8,389, of which the SBG accounted for 36.6%, the local authorities (including Strathclyde PTE) 21.7% and the independent or private operators 41.8%. Vehicle kilometres in 1984 totalled 431.8 million, with the SBG providing 45.5%, the local authorities 32.1% and the independents 21.3%. Of the total vehicle kilometres, the stage (or local) services accounted for 56.1%, express services 7.5%, excursion/tours 1.5% and contract/private hire 24.9%.

One notable feature of deregulation was that the four municipal operations became limited companies. Unlike in England, the Scottish Bus Group was not privatised and its operating subsidiaries are still in public ownership.

Findings to April 1987

The following summary of the authors' findings is presented as a series of conclusions and recommendations, together with speculation as to possible future trends.

It should be made clear that it is as yet too early to make definitive judgements about the effects of deregulation in Scotland. Stability in terms of supply and market has not yet been achieved and the implications for regional councils' revenue support payments have not yet worked through the system. It will probably be 1988 at least before firm assessments on the situation can be made. It should also be noted that changes through Scotland have been far from uniform and generalisation is often difficult. Nevertheless some trends can be picked out and certainly the nature of changes to date can be reported.

Competition

The Act clearly had the effect of bringing competition into local bus operations, to varying degrees in different areas but generally focussing on the large urban markets. Glasgow quickly emerged as the area of fiercest competition, which occurred mainly between SBG subsidiaries on the one hand, and the Strathclyde Buses (the former PTE undertaking) on the other. This resulted in a sharp increase in supply in the central area and much-publicised congestion. Peripheral housing estates also received increased service levels with an independent operator, Magicbus, competing in these areas too. Minibuses have been used to provide high frequency services and to penetrate deeper into public housing areas.

Strong competition also quickly emerged in Edinburgh, again between the SBG and the former municipal undertaking (Lothian), though this was less intense than in Glasgow. Dundee and Aberdeen were slower to show strong competition but from
February 1987 this appeared, particularly in Aberdeen, again between the SBG (Northern Scottish) and the former municipal operator (Grampian).

There appear to be two sets of problems arising from the situation so far. Firstly, in order to achieve competition it is necessary to have two or more large operators in a territory. In Fife Region, there is no large operator to challenge the SBG subsidiary (Fife Scottish) and this has implications for the tendering process, as noted below. Secondly, it has been alleged that the SBG subsidiaries are competing unfairly because they are drawing on reserves to finance a level of service which represents an oversupply for the market, in an effort to drive competitors out of the scenario altogether. This is the main form taken by competition so far, though some fares competition can also be seen. A formal complaint along these lines has been made to the OFT by Strathclyde Buses and the outcome is awaited with interest.

There has been a significant increase in the supply of bus services. The Scottish Office estimates that following deregulation the total bus mileage in Scotland has increased from 177 million miles to 182 million miles, a 2.8% rise. They estimate that in Glasgow vehicle miles have increased by 25%. In Lothian the increase is given as 9%, with 3% in Edinburgh itself and 24% in the surrounding districts. In the rural areas covered by the Scottish Office/Newcastle University study (Dumfries and Galloway Region, North East Fife, Badenoch and Strathspey, and Inverness and Lochaber districts) a 3% increase in vehicle mileage is estimated.

These figures suggest that overall local bus mileage in Scotland has increased by about 14%. In contrast the authors estimate that the number of journeys has increased by only 1.5%.

This increased level of supply does not appear to be tenable in the long run. Already there are indications that the bus companies are desperately trying to reduce costs in order to maintain services at the present level. The SBG efforts to reduce their wage bills led to widespread strikes in July. Nevertheless, the authors are strongly of the opinion that there will be substantial reductions in services, particularly in the cities, in the near future.

There has been little expansion by independent operators so far, with the notable exception of the Perth-based Stagecoach group which also expanded rapidly when express coach services were deregulated. There appear to be two main reasons for the lack of change in the independent sector. Firstly, some of them appear to be waiting until the market settles down - probably in 1988 - and the excess supply has been reduced before deciding on long term strategies. Secondly, the entry or expansion costs of establishing a fleet of buses (say 30) capable of competing with the SBG subsidiaries can be very large and therefore a significant deterrent.

**Fares**

Although competition has mainly been expressed in terms of level-of-service, there is also competition on fares. This has not taken the form of a general reduction but rather reductions designed to exploit the greater demand elasticities of optional travel in specific market segments (shoppers, OAPs, young people) or season tickets offering discounts. The latter may cover no more than 10-15% of an operator's market but the benefits in product loyalty are felt to be worthwhile. Such season tickets typically offer a wide range of discounts, up to about 25% off full fare. On the negative side, some passengers have been faced with higher costs of travel, two trip types being affected in particular: school pupils accustomed to half-fare travel at lunch times have lost this concession in Strathclyde, for example; and through journeys involving competing operators are more expensive since through-ticketing is not available.

**Cross-subsidy**

This remains an important element in operators' commercial (registered)
networks. It has not been 'squeezed out' by competition and is indeed the mechanism being used to support competition as operators move resources round to confront competitors or retain a 'territory'. It is also the basis of many off-peak operations, particularly evening and Sunday services. An increase in competition which reduces an operators' revenue will therefore tend to reduce the cross-subsidy available to these types of services, and cutbacks will follow as has already occurred.

The alternative of fares increases to maintain revenue is being avoided as much as possible but inflation alone is providing a pressure in this direction. Another alternative, that of increased efficiency and reduced costs, is being applied but may not yield much further saving. A consequence is the tendency for wage levels to fall as premium day and overtime payments are avoided as far as possible.

**Tendering**

The policy of all regional councils has been to seek reinstatement of non-registered routes through the tendering process, but frequencies have been allowed to fall in off-peak services and in some rural areas. Also some routes have been truncated and diverted, leaving consumers with reduced frequencies or greater walking distances. Network package tendering in Fife appears to have had disappointing results from the local authority viewpoint. The large packages offered for tender prevented small independent operators from competing and allowed Fife Scottish (SSG) to offer discounting on whole packages to secure tenders.

In general competition for tendering has been less forthcoming than anticipated by the 'Buses' White Paper. This is partly due to the small independents' limited fleet size and partly to their preference for waiting upon the outcome of the early stages of deregulation. The costs/savings to local authority revenue support budgets show a varied pattern on which it is too early to make definitive judgements. Some appear to have made financial savings, while others have had to increase their subsidy expenditure. However, given the current instability in the industry it is impossible at the present time to make any firm judgements on the overall outcome.

**Office of Fair Trading**

One disappointing feature of deregulation to date has been the role of the OFT. There had been various complaints about unfair competition and anti-competitive practices. The sizes of the Scottish Bus Group and the four ex-municipal operators are such that it is very difficult for the smaller independents to compete with them, and there is therefore a very important role for the OFT to ensure that there is fair competition in the industry.

Unfortunately, the OFT has shown great reluctance to deal with the complaints made to it and where it has become involved its procedures are very slow. There is a real danger that some independents will be forced out of business while the OFT is still considering the cases in question. A particular problem has arisen where companies have lost tendered services to other operators but have subsequently decided to run commercial services in direct competition with the subsidised services. In some cases the companies involved have run free bus services, presumably in an effort to force their competitors out of business.

The inability or slowness in dealing with these problems, is, in the opinion of the authors, one of the major deficiencies of the present system. The "policing" of the 1985 Act needs to be improved substantially.

**Conclusions**

There has been an increase in the supply of bus services in Scotland since deregulation in October 1986. It is estimated that vehicle mileage has risen by about 14%. In contrast, the number of
passengers has increased by only 1.3% so far.

Much of the increase in services is attributable to a duplication of services, particularly in Glasgow and Edinburgh, so the benefits to consumers may not be as great as might be inferred. Another point to stress is that there has been a net increase in peak (daytime) services but a net decrease in offpeak (evening and weekend) services. As far as rural services are concerned there appears to have been little change. The main reason for this has been the policies of most regional authorities to try to maintain such services at their pre-deregulation level and therefore "buy-back" those services which were not registered commercially.

Continuity of services has been adversely affected in two main respects. Firstly, there have been a lot of changes and a lack of information about them. This was probably an inevitable problem of deregulation, the purpose of which was radical change, and should reduce over time as the new system of services settles down.

Overall, the authors would summarise the effects of deregulation on supply and fare levels as being to increase overall supply, though with decreases in offpeak and low patronage routes, and to reduce fare levels for those travelling frequently in the peak or in specific market segments in the offpeak. The supply increases, however, may be temporary as operators move their resources around an area to maintain competition. Supply levels may also decrease if, as has been alleged, some operators are financing their competitive effort from reserves in an "unfair" manner.

Most local authorities have adopted policies of trying to maintain services at their pre-deregulation levels and have not therefore sought to "buy-back" services which were not commercially registered. The financial implications of these policies are not yet clear, but there seems to be increasing evidence of a rise in the subsidy required. However, there are a few examples, notably in the Highlands, where competitive tendering has generated savings.

The system of "policing" the 1985 Transport Act appears to be causing difficulties, apart from the safety aspects of bus operation. The Traffic Commissioner/Office of Fair Trading functions have been criticised as partially ineffective or too slow. There appear to be particular problems because of the inability or reluctance of the OFT to investigate cases in Scotland.

It is very unlikely that the oversupply of bus services at the present time will be reduced by a substantial increase in demand. It is much more likely that there will be cuts in services in the near future, particularly in the four main cities. Until services have settled down to a reasonably stable level, it would be premature to reach firm conclusions on the effects of deregulation.

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