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# Briefing Paper 2

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## SCOTTISH BUS SERVICES AND THE 'BUSES' WHITE PAPER

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The White Paper on 'Buses' (Cmdnd 9300; 1984) is undoubtedly a revolutionary document. The overriding theme is that, while the rise in car ownership and other shifts in lifestyle have created problems for the sector, the major current difficulties derive from lax growth of subsidies to an industry with a seriously defective structure. A rise in revenue support from £10m in 1972 to £520m in 1982 (£38m being in Scotland) has failed to reverse the decline in patronage and has come into sharp conflict with government's desire to cut public spending. The budgeted revenue support of English local authorities for buses in 1984/85 is still 83% above government provision. The Scottish excess is lower, but still significant, at 34%. The White Paper insists that these spending levels must be reduced yet goes on to argue that, in a fully competitive environment, spending cuts will be compatible with a reversal of public transport's declining share of the travel market. Since spending would be concentrated on specific social objectives, the government's view is that increased competition need not mean any increase in social deprivation. The urgency for structural change in the industry is stressed and legislation is anticipated in the 1984/85 parliamentary session.

The White Paper proposed to extend the deregulation introduced in the Transport Act, 1980. This Act made three main changes - abolition of the requirement for express buses (operating over 30 miles between stops) to have route licences, the removal from the Traffic Commissioners of controls over fares (except for certain reserve powers) and the introduction by the Commissioners of a presumption in favour of new services still coming within

the regulatory framework. The further proposals are now being made are:-

- 1) total abolition of route licensing for scheduled bus service (but with strengthened quality and safety controls to prevent abuses of deregulation)
- 2) abolition of general operating subsidies (at present widely used by passenger transport executives (PTEs) and municipal bus operators)
- 3) conversion of PTE and municipal bus operators into separate companies owned by the relevant local authorities but with the option to privatise if such authorities so wish
- 4) concession fare support to be available to all operators and to be modified to prevent disguised subsidy to general costs
- 5) introduction of competitive tendering for essential, but non-viable, services
- 6) application of Restrictive Trade Practices Act, 1976, to the bus sector (involving the monitoring of agreements between operators in the interests of competition)
- 7) provision to be made for separate fares on taxis and for the removal of quantity controls on taxis
- 8) all bus operators to have equal opportunities for access to terminals
- 9) the statutory duty of local authorities to co-ordinate services to be replaced by a duty (applying to Regional and Islands Councils in Scotland) 'to secure the efficient provision of such transport services as necessary but not provided by a free market'.

In total, this represents a substantial shift towards a deregulated, competitive market and it is recognised that this will involve elimination - over time - of the extensive cross-subsidies which have been the norm since 1930.

Chapter 7 of the White Paper deals with Scotland. In most respects, it adopts the proposals made for England and Wales but there is one important exception. South of the border, the White Paper makes much use of the argument that effective competition will depend on breaking down existing large operators into smaller units and there is also a distinct preference for privatisation. Firm proposals are put forward to split up and privatise the National Bus Company. In the Scottish chapter, however, attention is drawn to the relative efficiency of the Scottish Bus Group (SBG). No proposals are made either to split up or privatise this Group though, as part of the new system for competitive tendering, it would be expected to tender for loss-making routes rather than be the preferred recipient for subsidy.

Anticipating reactions that transformation of a well-established system of regulation would lead to economic destabilisation and social deprivation, the White Paper contains three Annexes which seek to justify the proposed changes. The most interesting material is in Annex 2, prepared by Department of Transport economists assisted by three external advisers - Professor M Beesley, Dr S Glaister and Mr M Buchanan.

Attention is rightly drawn to the difficulties of forecasting the dynamic impacts of structural change, not least in relation to labour agreements and to the more urbanised areas where the potential for change is greatest. Despite its messianic market approach and the ferocity of some of the comments opposing the White Paper, structural changes take time to have full effect and, so far as Scotland is concerned, the White Paper envisages some increase in competition between the SBG and the four Regional Council bus undertakings (at present based on Glasgow, Edinburgh, Dundee and Aberdeen) rather than any spectacular, and unsettling, growth of competition from the private sector.

### **The Scope for Cost Reductions and Structural Change**

The White Paper carries conviction when it argues that existing revenue support has given very variable results which cannot be explained away by differences in the areas served. This echoes the findings of Hart and Thomson (1981) for the Scottish Consumer Council. Given that bus support in Aberdeen in 1982/83 was £2 per head of population compared to over £15 in Glasgow (with Aberdeen, if anything, having the better pattern of fares and services), it is hard to resist the White Paper's conclusion that, by applying best practices more generally, some reduction in financial support could be achieved without any net inconvenience to the travelling public. A similarly unfavourable contrast is drawn between Strathclyde PTE's bus costs and the much lower costs of Central SMT, the subsidiary of SBG serving the most urbanised part of the SBG area and therefore likely to have costs above the SBG norm.

Unless operators such as the Strathclyde PTE are able to improve their efficiency, the requirements of the White Paper are likely to see further contraction of SPTe services in favour of SBG expansion. Something similar may happen around Dundee but both Aberdeen and Edinburgh would appear to be better placed to sustain, or even expand, their level of bus operations. As regards private bus companies, some shift away from SBT is to be expected in rural areas but SBG, with its superior resources and comparatively high level of efficiency, ought to be well placed to respond to the threat of encroachment on busier traffic corridors. This would still leave some scope for the further expansion of private operators (as has already happened since 1980) but SBG would remain the dominant operator. In employment terms, of course, these changes represent an increased threat to the Strathclyde PTE but this is a threat which already exists in the Regional Council's own efforts to achieve better value from its spending on public transport.

### **The Elimination of Cross-subsidy**

Another important issue arising from the White Paper is cross-subsidy and the implications of ending this under deregulation. One of the main purposes of regulation since the 1930s has been to allow cross-subsidy both between routes and within routes. Such cross-subsidy has come under

powerful attack on economic and social grounds. The economic effect of cross-subsidy is to 'tax' profitable services, hindering their expansion and weakening public transport's share of the travel market. Socially, cross-subsidy has also harmed many lower income users who would benefit from fare reductions and/or service improvements on profitable routes while, additionally, cross-subsidy has had the arbitrary effect of taxing some lower income earners (the main users of bus services) to provide services for other low income earners and, in some cases, for middling to higher income bus users. The actual impact of cross-subsidy in relation to economic and equitable objectives has been under-researched but the White Paper's conclusion that better results would be achieved if direct subsidy replaced cross-subsidy is substantiated.

What is less convincing is the view that, even after the elimination of cross-subsidy and the reduction of direct aggregate support, social provision will be at least as good as now. The theory behind this view is that the scope for cross-subsidy can be more than compensated by a switch of a greater share of reduced direct funding from city services to other services. Whether such a switch is feasible in Scotland is doubtful for two reasons. Firstly, within the SBC area, cross-subsidy still accounts for 75% of all subsidy. At least £15m a year of direct support would be required to replace it. Secondly, in admitting that the 'excess' on public transport revenue support is much less in Scotland than in England, government is also admitting that it would be more difficult to find the 'painless' savings needed to finance the replacement of cross-subsidy without increases in the total budget. A hint is dropped that one way out of this dilemma would be for Strathclyde to accelerate savings in its substantial expenditure on support for local rail services. It is also pointed out that competitive tendering and fuller use of minibuses, school buses and taxis could prevent deprivation without requiring replacement of the entire £15m a year of cross-subsidies with direct support.

The White Paper does concede that the situation will require careful monitoring. It admits that social losses may exceed social gains and indicates that the client group means of assessing Rate Support Grant will be used to assist Regional Councils facing funding problems for

social bus facilities as a result of deregulation. Given the present financial pressures on local authorities, regulated cross-subsidy remains for them an attractive means of sustaining desirable, but loss-making, bus services without affecting the rate burden yet these financial circumstances have diverted attention away from the real argument over the economic and social disadvantages of cross-subsidy. The White Paper will ensure that this argument is no longer ignored.

### **Deregulation, Co-ordination and Reliability**

The last type of assessment made in the White Paper concerns the fears that deregulation may lead to service fragmentation, 'cowboy' operations, poorer co-ordination and reduced reliability. Some trend in this direction is accepted as inevitable to secure the greater benefits of a competitive and innovative environment but it is emphasised that 'market' pressures will promote, co-ordination where it is commercially attractive. In their own interest, competing operators would also have a strong incentive to provide convenient and reliable services. Chronic abuses would be prevented by the intensification of quality controls. Licences to operate (as distinct from route licences) would still be required with offending operators liable to the sanction of loss of licence. The White Paper also proposes that the Licensing Authority should have new reserve powers to impose conditions on routes and stopping places eg in congested urban areas. Routes and timings of all local bus services will still have to be registered and adequate notice given of withdrawal. Finally, open access to bus terminals is proposed to encourage interchange and to prevent any one operator excluding rivals.

Depending on how these provisions are interpreted, they could still amount to a substantial - though different - system of regulation. Further consultation is also promised on the details of moves towards the 'market' - particularly on systems of tendering, the means of ensuring that all operators can participate in local concessionary fare schemes, provisions for temporary Regional Council funding in cases of insolvency and on adjustment of the taxi market. This leaves considerable scope for modification of the actual proposals and,

cynically, one has to bear in mind that the four-year period of transitional financing outlined for the new system would extend well beyond the next General Election.

It would be regrettable if the White Paper led to unnecessary instability by provoking confrontation between a right-wing rush to push through market-oriented legislation and an equally strong left-wing determination to revert to a much more regulated framework with a high degree of public ownership. Further discussion is needed to ensure that the White Paper leads to an acceptable legislative framework, as free as possible from the upsets of abrupt alteration.

### **The Lack of a Systematic 'Market' Approach**

The White Paper has sensible things to say about the need to shift towards better practices to meet both economic and social objectives. It is rightly critical of general operating support and of cross-subsidy but it is preoccupied with cuts in public spending rather than with finding an overall structure to increase the total effectiveness of transport. It exaggerates them in a peculiarly limited way. By failing to consider whether 'market' concepts are applied evenly across transport, it is in danger of applying more rigorous standards to public passenger transport than to cars. John Hibbs (1982) has argued that with effective road pricing and traffic management, the 'economic' bus sector would be even larger than it appears to be under present conditions. An effective market therefore requires either economic subsidies related to public transport use (notably in urban areas) or a reduction in the requirement for such subsidy through road pricing and traffic management measures. The White Paper ignores this issue and, in applying 'market' techniques to social subsidy, is curiously reluctant to consider options under which general operating deficits would be replaced by direct spending in support of non-commercial, but desirable, objectives. The emphasis is on cuts in total public support rather than on the possibility of internalising social considerations within the 'market' through new types of direct payment in support of policy objectives. One such payment is recognised - that for social concession fares - but this concept ought to have been taken further.

Provided that payments to cover deficits are avoided, there is considerable scope for the use of financial techniques to promote a more effective transport market geared to social and economic needs. The White Paper does acknowledge the central government support given to local buses in the form of the rebate of Fuel Duty but it makes no effort to explore the more dynamic use of such a device. An increase in the value of this support (currently worth almost £100 million a year) could be a means both of stimulating expansion and of reducing the administrative costs of competitive tendering and the negotiation of concession fare support. At the local authority level, greater financial resources could also be used to secure greater co-ordination than would otherwise occur within a deregulated system. Clearly, the desire for spending cuts has inhibited investigation of such options, yet in many other countries, there has been a willingness to spend more heavily on public transport and to replace regulated cross-subsidy (which did have attractions under conditions of rapid public transport expansion and low car ownership) with a new variant of cross-subsidy from motor taxation revenues to public transport.

The White Paper seems unable to appreciate the common continental European and North American attitude that affluent societies may choose to give much more substantial support to public transport than the norm set by the British government. Some of this support has been misused, Meyer and Gomez-Ibanez (1981), but, on the whole, it has produced benefits for users and for the environment which would not have been attainable under alternative policies.

### **The Merits of Regulation**

The very complexity of environmental, transport and land use issues place limits on the extent to which a 'market' approach to transport can be successfully adopted. Greater use of market incentives does have attractions for controlling costs and encouraging change but the 'market' needs to exist within an appropriate framework of regulation. The White Paper favours a loose reign of regulation, virtually confined to financial rules, quality and safety. It envisages much more flexible operation with greater differentiation in fares and services emerging from competition. It recognises that 'systems of large-scale planned public service networks can indeed provide high-quality services and connections' but it doubts whether the

benefits of such networks are great enough to justify the costs. No direct justification of this conclusion is made and, in highlighting the desirability of more varied services and fares with multiple operators, the White Paper does not give enough attention to the positive merits of planned transport and land use developments supported by integrated marketing. Much of the progress already made in reversing the decline in urban public transport and in improving the environment has been made through the introduction of Travelcard tickets (bought before use and with zonal availability) associated with well planned bus/rail co-ordination, selective traffic management and reductions in inner city road building. Such 'planned' approaches tend to reduce total resource and social costs and also facilitate successful overall marketing with a view to increasing public transport's share of the market, something which is difficult under a fragmented, competitive approach with little through ticketing and poor publicity for the total system.

There is a continuing case for regulation which goes beyond mere quality controls, especially in larger urban areas and in highly marginal rural areas and corridors where unrestricted competition could create dangerous instability. Hibbs himself, though a pro-market writer, has argued strongly in favour of Conurbation Transport Authorities to integrate all modes into the same policy framework. In Strathclyde, the most urgent reform is for the Regional Council to develop an integrated approach to its roads, traffic management and public transport policies rather than to be forced to adopt new structures which could destroy the advantages beginning to come from the extensive use of Travelcards and improved publicity. The 'market' and 'regulation' must co-exist. The problem is not how best to dismantle regulation but how best to marry the market with restructured regulatory and financial procedures. (Hart, 1983).

### Conclusions

To sum up, the White Paper requires significant modification before it passes into law. In its Scottish aspects, it is more willing to see network advantages

(e.g. in sustaining SBG as a unity) and more cautious about privatisation than for England and Wales. Other matters which merit careful consideration and modification include:-

- a) a change of emphasis from spending cuts to spending restructure (with Regional Councils being required to eliminate general deficits but simultaneously encouraged to increase spending in direct support of policy objectives)
- b) increased central government support related to bus use and paid direct to operators (as in the present Fuel Rebate for local buses)
- c) allocation of part of the proceeds of motor taxation for sustaining and improving public transport
- d) strengthened regulatory powers over the total transport system in the larger urban areas and in rural zones where unrestricted competition would be likely to have a severe, destabilising influence.

More fundamentally, the government ought to publish, and review regularly, a Transport White Paper. No White Paper on Transport Policy has appeared since 1977 and a White Paper dealing only with buses is not an adequate substitute for an overall review of the transport framework in relation to policy objectives and changing needs.

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