

Overview of Bus Industry Performance, Great Britain, since Deregulation

1. Introduction

This article seeks to present facts on the overall performance of bus services in Great Britain¹ since deregulation in 1986. It is intended, as far as possible, to take a neutral approach; many other commentaries are either obviously “pro-operator” or “pro-local authority”. The data presented here has mainly been abstracted from official statistical publications from the UK and Scottish governments, in particular various editions of:

- Transport Statistics Great Britain;
- Department for Transport (DfT) Bus Statistics; and
- Scottish Bus and Coach Statistics.

Note that all financial figures quoted in this article are at 2009/10 prices.

2. Why Deregulate?

Immediately prior to deregulation, the proportion of bus operating costs covered by fares was around 63%. This figure had fallen sharply over the previous few years; between 1977 and 1982, the proportion of costs covered by public support had risen from 17% to 27%. The chief factor causing this change was a sharp decline in passenger numbers (See Figure 1 below), which the then publicly owned bus companies were unable to match by cost reductions. The Transport Act (1985) had three main aims:

- to reduce public spending on bus services
- to reverse the decline in passengers, and
- to create business opportunities for existing and potential bus operators.

Deregulated Bus Services

Bus services in Great Britain (outside London) were deregulated under the Transport Act (1985); D-day itself was 26th October 1986. Since that date bus operating companies, while under strict quality and other supervision, have been free to run what services they wish (though they have to give several weeks notice of route or timetable changes). These “commercial services” are eligible for Bus Service Operators Grant, and for Concessionary Fares Payments, but not for “Public Transport Support” from Local Authorities. Commercial services run by different operators may compete on the road.

If a Local Authority judges that the level of service provided by commercial services is insufficient, they may invite tenders for operation of additional “tendered” services which they specify. In general, these services should not run alongside commercial services.

Note that Northern Ireland is not part of Great Britain, and was not affected by the 1985 Act.

¹ Note that “Great Britain” excludes Northern Ireland – bus services there have not been deregulated or privatised.

As well as *deregulating* bus services outside London (see sidebar), the act made provision for the privatisation of bus operations throughout the UK, including London. This happened over a period of some years (see sidebar on page 2).

3. Headline Results of Deregulation

Some of the aims of deregulation were achieved, while some were not. In general terms:

- Public spending on bus services was reduced, although in recent years it has risen again;
- The decline in passengers continued unabated; it has only been halted in recent years as a result of broader transport policy initiatives; and
- Business opportunities for bus companies were created, and many new businesses were started. However, few of these lasted very long – most were either purchased by larger companies, or failed. Bus operation in the UK is now dominated by relatively few large groups, who tend not to compete with each other.

The following sections look at these changes in more detail.

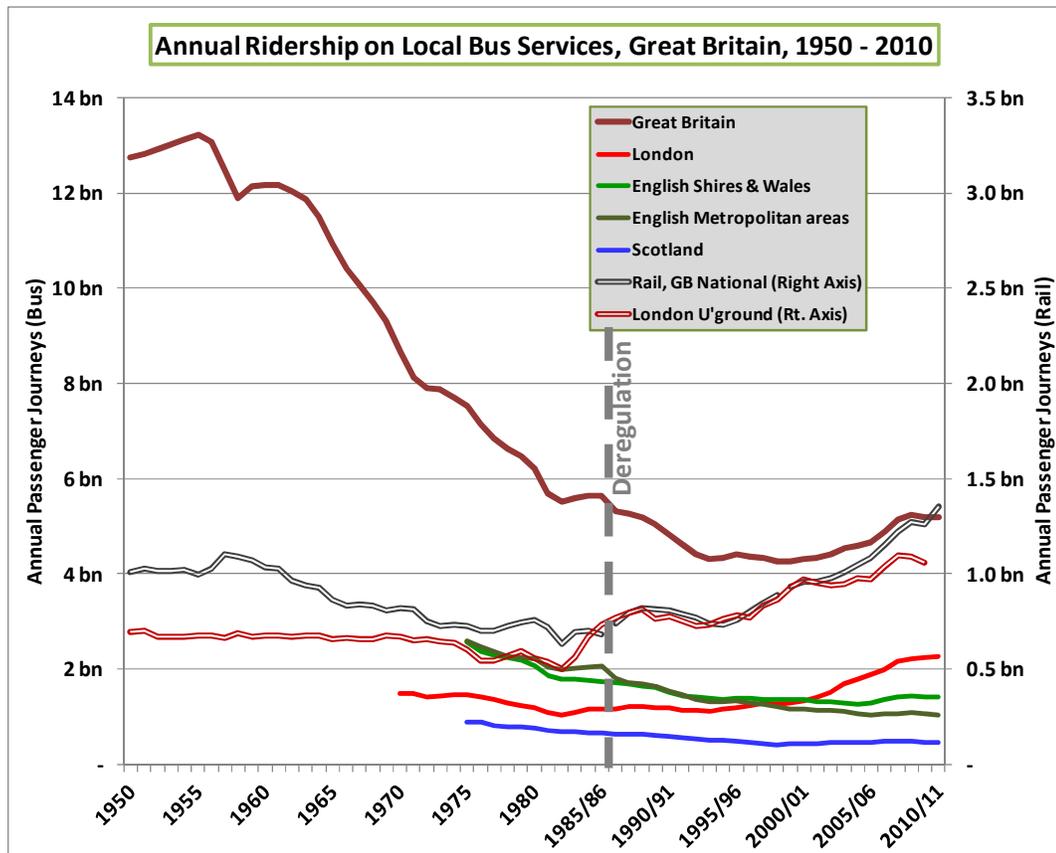


Figure 1; Bus Ridership, Great Britain, 1950-2010

4. Passenger Numbers

Changing lifestyles and increased car ownership have driven down bus passenger numbers in the UK since the 1950s, as has been the case in most other developed countries. The trend is illustrated in Figure 1 above, with the period since 1975 shown in more detail in Figure 2 below. National Rail and London Underground passenger numbers are also shown; note that 70% of the former are in London and the South-East.

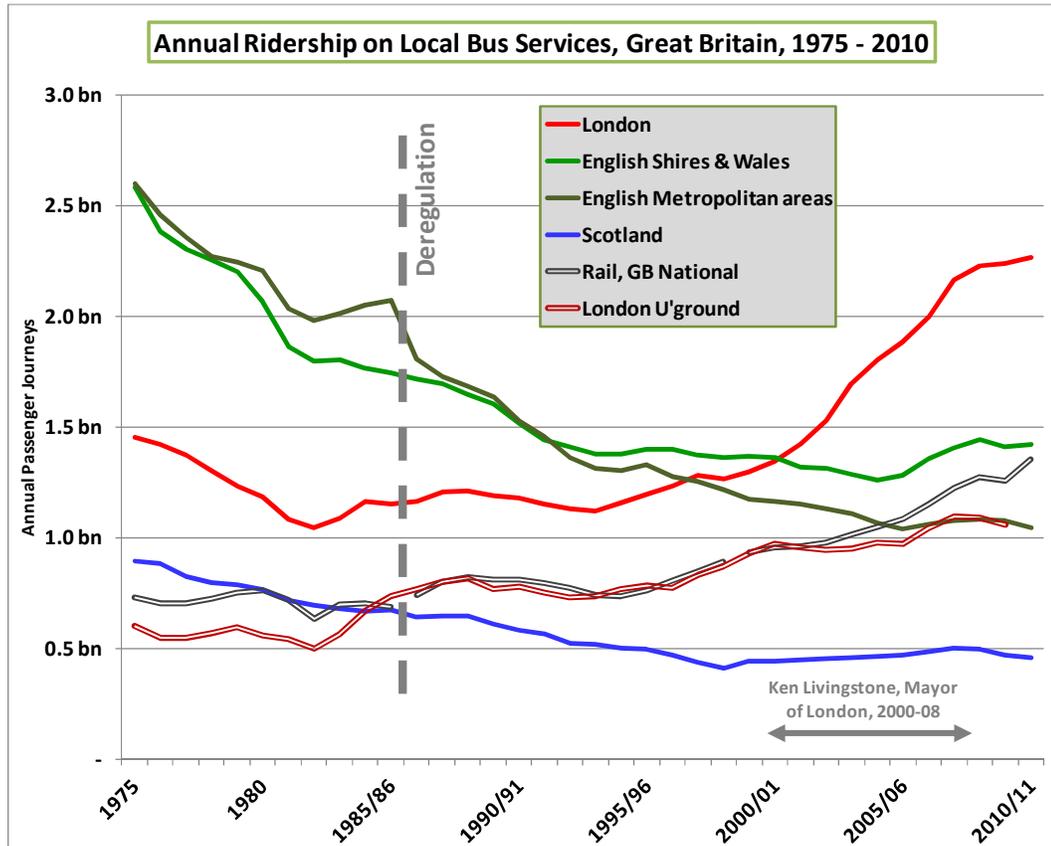


Figure 2; Bus Ridership, Great Britain, 1975-210

As can be seen, deregulation certainly did not arrest the fall in passenger numbers. In fact, in the English Metropolitan areas² there was a particularly steep fall in numbers, prompted in part by some hefty fares increases. Only in un-deregulated London did the numbers hold up.

In the last few years however, ridership has shown some encouraging improvements – although most of the GB-wide increase is accounted for by London (where Ken Livingstone, Mayor from 2000 to 2008, made better public transport a particular priority). Indeed, while before 1986 London accounted for around 20% of all GB bus passenger trips, it now accounts for 44%; a remarkable increase. Since 1985, there has been an increase of 96% in bus ridership in London, but a decrease of 35% outside London (as much as 50% down in the English Mets).

² Six in number; West Midlands (including Birmingham), South Yorkshire (including Sheffield), West Yorkshire (including Leeds), Greater Manchester, Merseyside (including Liverpool), and Tyne and Wear (including Newcastle).

Privatisation of bus operators in Great Britain

Before the Transport Act 1985, virtually all operators of scheduled bus services in the UK were publicly owned – either by municipalities (including passenger Transport Executives – PTEs), or by two major nationalised groups; the National Bus Company (England and Wales) and the Scottish Bus Group. The 1985 Act provided for the sell-off of these two groups, and strongly incentivised municipalities and PTEs to sell off their bus operations – only eleven municipal operations now exist (see Wikipedia for more details). Even these latter have to operate in the commercial arena.

The transition to private ownership happened over a period starting in 1985, largely completed in 1991. Unlike the case of deregulation, London Buses *were* included in privatisation.

There have, however, been small increases in numbers over the last few years in England and Wales outside the biggest urban areas, and numbers are at least holding steady in Scotland and the six big English urban areas outside London.

This improvement has been achieved in spite of fares increasing above the rate of inflation (see section 6), and decreased competition within the bus operating industry as the large bus groups increase their domination of the market (the four largest groups currently constitute about 66% of the market by turnover).

However, the most significant factor in the recent growth in numbers outside London has been the extension of concessionary fare schemes for senior citizens (see section 7), to the extent that all over-60s in the United Kingdom are now entitled to free bus travel, the main restriction being that in much of England the concession cannot be used in the morning peak period. If concessionary passengers are excluded, it is estimated that bus ridership has actually declined in Great Britain outside London by 15% in the last 10 years (and by 9% in the last five years). In London, however, non-concession ridership has increased by an estimated 70% over the last 10 years.

5. Productivity

There are various ways of measuring bus service productivity (or KPIs – Key Performance Indicators). Possibly the “best” is the metric “passenger-kms per seat-km” – although data to measure this is not always readily available. Others often used are passenger numbers per bus-km, passengers per day per bus, and passengers per day per staff member.

“Passenger numbers per bus-km” is not necessarily the best indicator, but it is one of the most readily available. It is closely related to the average load factor of buses, and aligns well with what most people consider buses should be for, i.e. carrying good numbers of passengers. Empty buses are not good PR for the bus industry.

In these terms deregulation was not particularly effective. As Figure 3 below shows, passengers per bus-km declined significantly following deregulation. This was because not only did passenger numbers continue to fall, but the amount of service provided (bus-kilometres) rose sharply in areas outside London (less so in Scotland). This is illustrated in Figure 4 below.

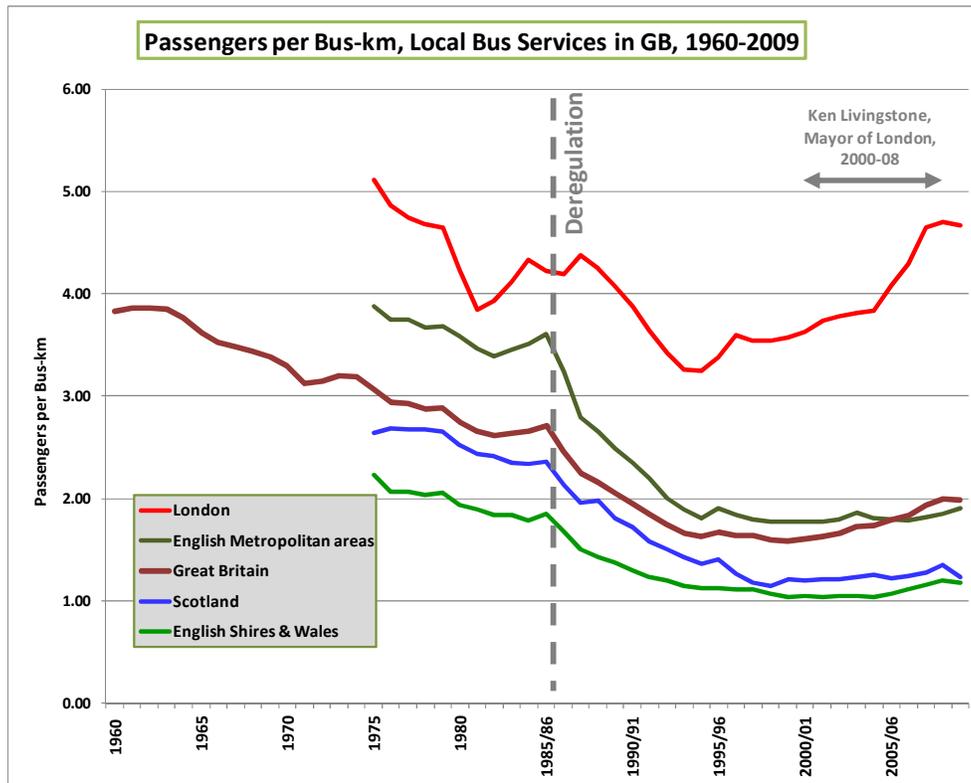


Figure 3; Productivity - Passengers per Bus-km

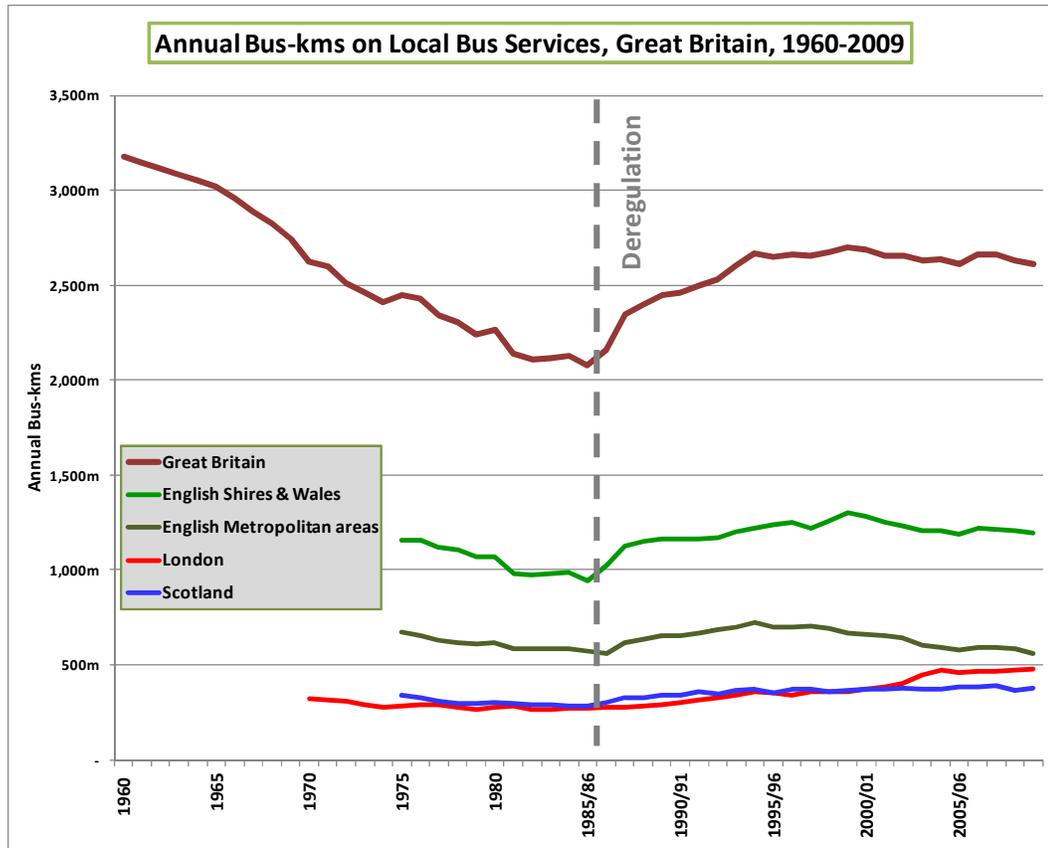


Figure 4; Annual Bus-kilometres, Great Britain

This increase was mainly due to intense on-street competition in many places following deregulation – in Wilmslow Road, Manchester, over a dozen companies competed for custom, buses were lined up end-to-end, and passenger loadings were as low as 3.5 per bus. On-road competition is now much less intense across the UK, as ownership of bus companies has been consolidated. This is the main reason for the reduction in bus-kms since around 2000. Again, London shows a more stable trend; in fact as can be seen in Figure 3 above passengers per bus-km have increased markedly in the capital over the last ten years or so, with an increase of 32% in bus-kms being more than outpaced by an increase of 73% in passenger numbers.

One caveat should be made; in the period following deregulation, many bus operators introduced high-frequency minibus networks, so reducing average vehicle sizes (and reducing the ratio of seat-kms to bus-kms). However, this was by no means the major factor in the decline in passengers per bus-km.

6. Fare Levels

Bus fares throughout the UK have risen steadily since deregulation – though it should be noted that a similar trend was evident before deregulation, except in a few cities such as Sheffield where a low-fares policy was in place. Trends from 1985 onwards are shown in Figure 5 below, adjusted for inflation. There was a very sharp initial rise in fares in the six English Metropolitan areas, but apart from that fares have risen steadily since 1985 in all areas – Scotland being affected least. (Partly, perhaps, because there was less wasteful competition, evidenced by rising bus-kms, in the period immediately following deregulation.) The same trend can be seen in London, although many bus-users there take advantage of Oyster Cards which give a heavy discount to regular users. London fares did drop in the early years of Ken Livingstone’s mayoral term (from 2000).

Note that average fares in Great Britain have risen by 60% in real terms since 1985 (and by over 100% in the six English Metropolitan areas); on the other hand overall motoring costs, despite recent real fuel price rises, have gone down by around 10%, and while rail fares have gone up in real terms in the last ten years, they have done so less slowly than bus fares.

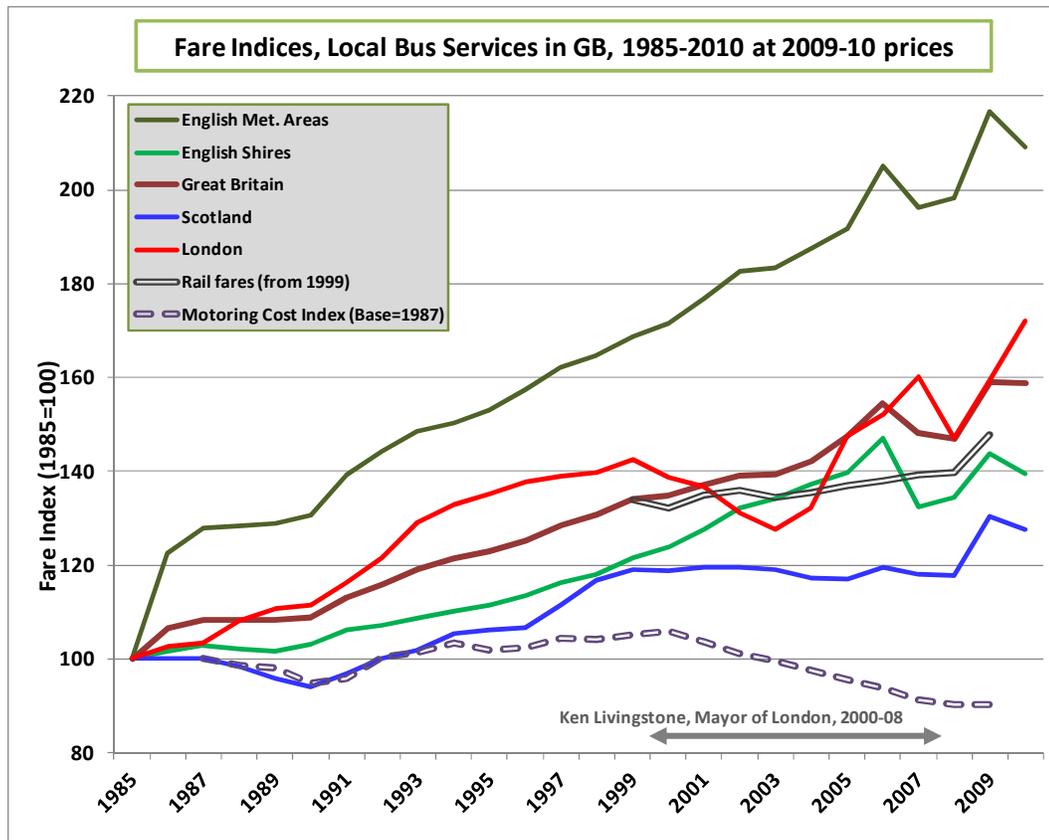


Figure 5; Fare Indices and Motoring Costs, GB, 1985-2010

7. Concessionary Fares

A key factor that distinguishes bus services in the UK from those in other countries is the very generous concessions given to senior citizens. In simple terms, everyone over 60 in Great Britain is entitled to free bus travel, although there are variations on this basic scheme – see the sidebar below.

As already mentioned, much of the growth in bus passenger numbers since 2002 is due to concessionary passengers – in fact were it not for the scheme, numbers could well be falling. National data on trips made by concession pass holders is not available before 2007/8; however, the available data shows that 34% of bus trips in Britain are made by concession holders – in Wales the figure is 43%. In England, outside London and the six Metropolitan areas, concessionary trips increased by 20% from 2007/8 to 2009/10, following the extension of nationwide availability. Other evidence shows that in four of the six English Metropolitan areas, the local free travel scheme increased concessionary travel volumes by an average of at least 25% compared with the previous half-fare scheme.

In Scotland, some data is available back to 2001/2, before introduction of the first “local” free-travel scheme. This shows that that scheme resulted in a 37% volume increase; numbers of concessionary passengers are now (2009/10) 52% above those pertaining in 2001/2, an increase of 53 million passengers per annum. On the other hand, this implies that non-concession passenger numbers in Scotland have fallen by rather over 3% per annum over the last eight years, the same trend as was apparent during the 1990s.

Information about reimbursement arrangements is given in the sidebar on page 2.

Concession Fare Entitlement

Concessionary fares for older people have been a feature of public transport in the United Kingdom for many years. Before 2002, all schemes were administered by local authorities; a statutory minimum half-fare scheme for women over 60 and men over 65 was introduced in England in June 2001.

In April 2002, nationwide free bus travel was introduced for over-60s in Wales; a similar scheme was introduced in Scotland in September 2002, except that travel was restricted to the user’s home council area (32 councils cover Scotland). The Scottish scheme was extended to nationwide free travel in April 2006. (Scottish pass-holders cannot travel free in England or Wales, and *vice versa*.)

Also in April 2006, a scheme was introduced in England giving free travel (although not before 09.30 on weekdays) to all over-60s, within their home council area; in this respect, England is divided into over 250 areas (though some councils made joint arrangements). This scheme was extended “nationwide” in April 2008, although the morning peak restriction still applies. Some councils give more than the basic concession.

All these schemes also include people with disabilities (subject to eligibility criteria).

Note that rail services are not included in the statutory scheme, although free or discounted rail travel is available in London and some other areas ([Wikipedia](#) has some details).

8. Resources and Costs

Bus companies made significant cost savings following deregulation, particularly by reducing staff numbers and reducing wage rates for those still employed; in this respect, productivity *did* increase.

It will be seen from Figure 6 below that, by deregulation, staff numbers had been falling steadily for more than twenty years, in line with passenger numbers and bus-kms operated. The fall in absolute staff numbers following deregulation was relatively small – a little over 10% - but in relation to bus-kms operated numbers fell by over 25%. Most of this reduction was in administrative staff.

Since 1997, there has been an increase in staff numbers, back to the level at deregulation. This appears to be mainly driven by an increase in the level of services offered in London (bus-kms up by 32% in the last ten years), and perhaps by a general increase in drivers employed as a result in tighter driver’s hours regulations which may have reduced average weekly working hours.

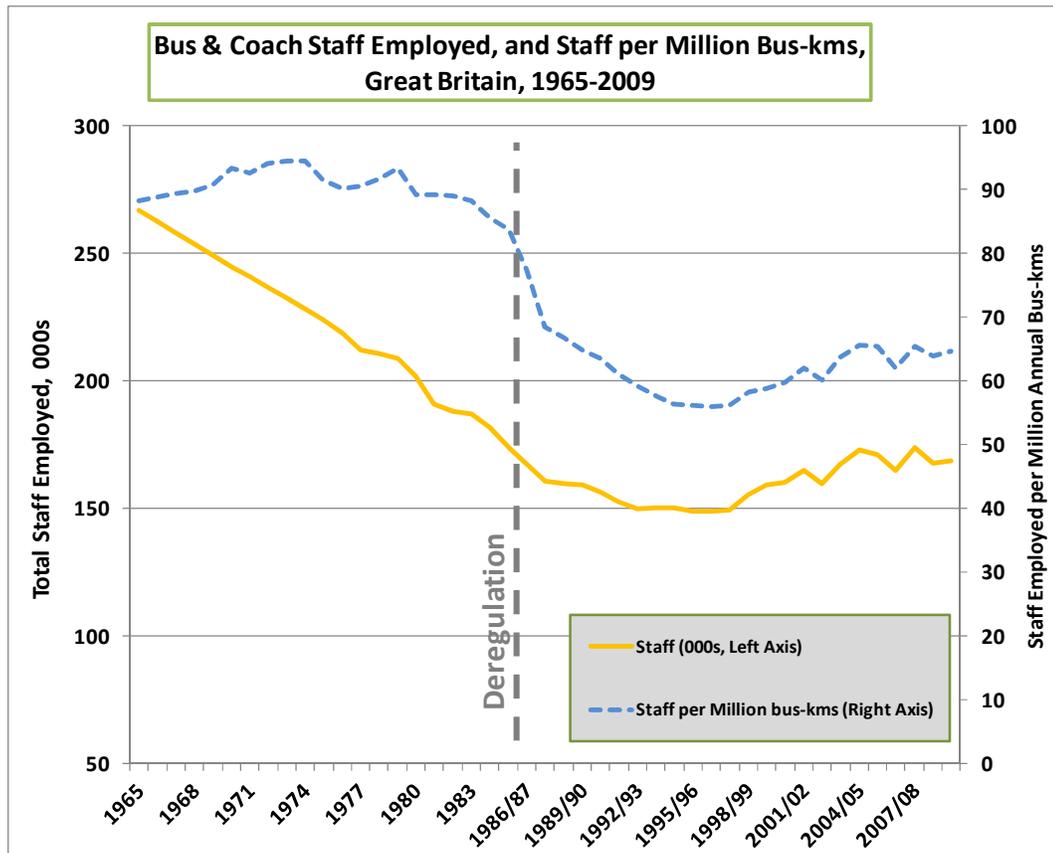


Figure 6; Staff employed, 1965 – 2009

One of the main drivers for cost reductions following deregulation was a reduction in bus staff wage levels. Figure 7 below shows that over the ten years from 1986 bus drivers’ wages fell in real terms, and fell behind sharply compared with the national average; from being paid the average wage, drivers’ wages fell to some 25% below the average. Since 1997 bus drivers’ wages have better kept pace with the norm, and in recent years have even caught up a little –

though they are still over 20% below the average. The trends in driver wages will have been reflected among other bus company staff.

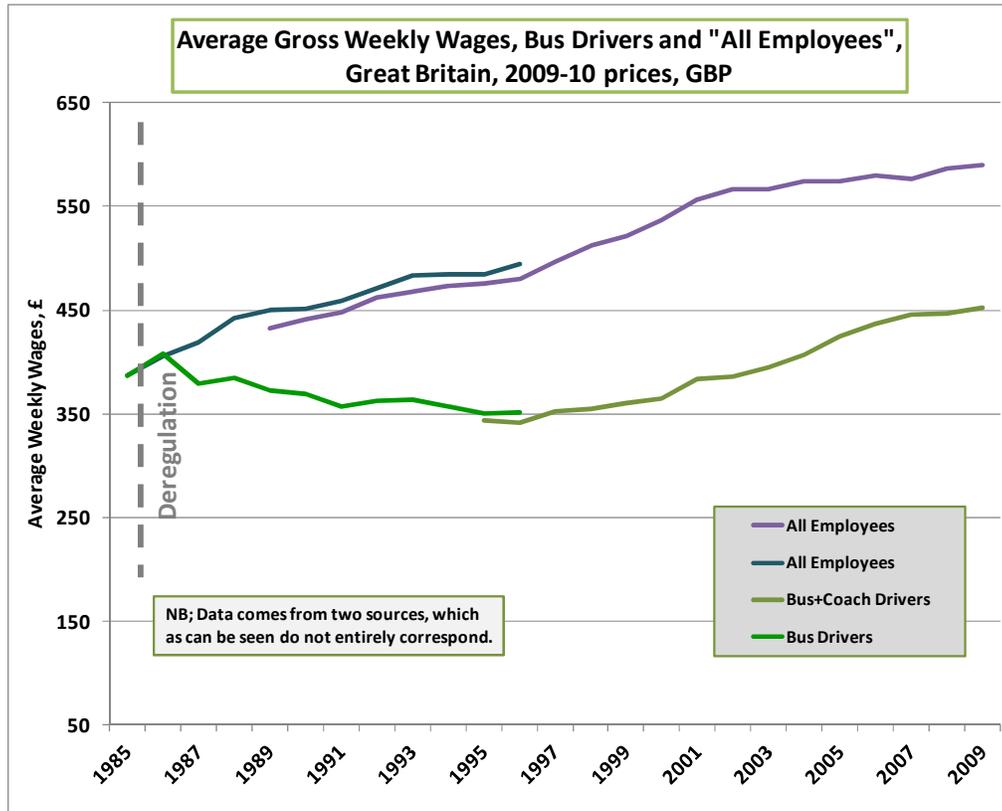


Figure 7; Bus Drivers' Wages, 1985 – 2009

The effect of these and other cost reductions, together with increases in bus-kms operated compared with staff and bus numbers, can be seen in Figure 8 below. As can be seen, operating costs per bus-km (in Great Britain outside London) fell by almost 50% between 1985 and 1999 – a quite amazing reduction. A similar reduction was achieved in London itself. However, the various factors mentioned above have led to an increase of over 30% in operating costs over the last 10 years.

Another factor leading to increased costs is the rise in fuel costs. This is illustrated in Figure 9 below; an increase of around 70% in real terms over the period 1995 to 2010.

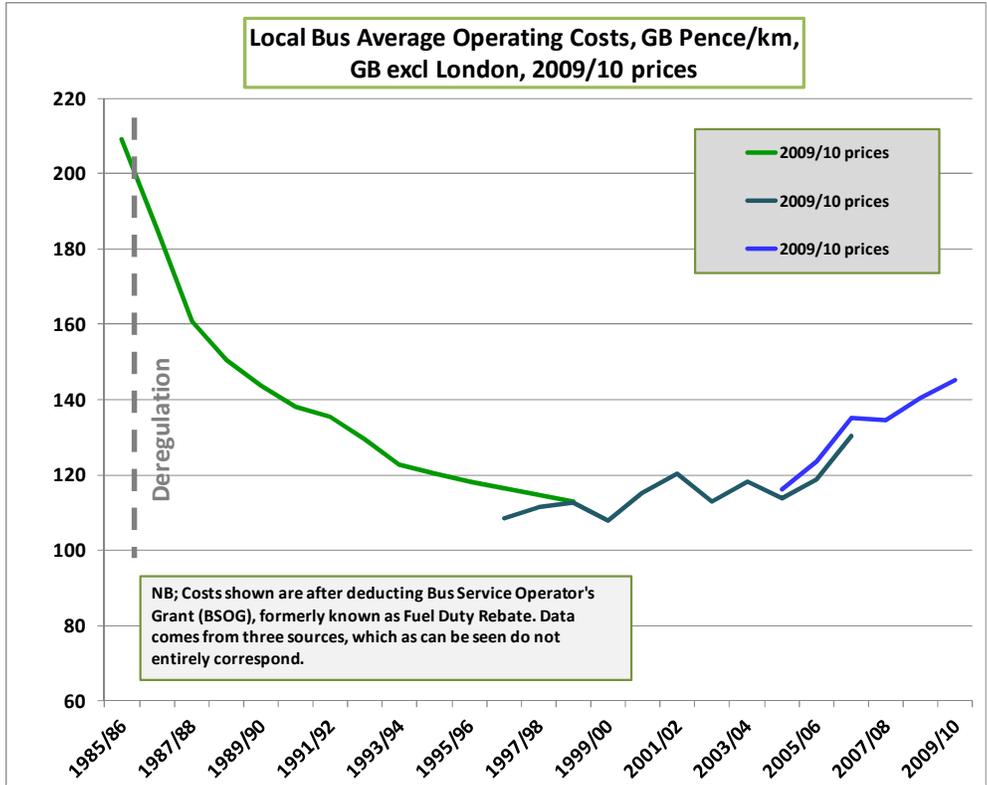


Figure 8; Bus Operating Costs per km, 1985 – 2009

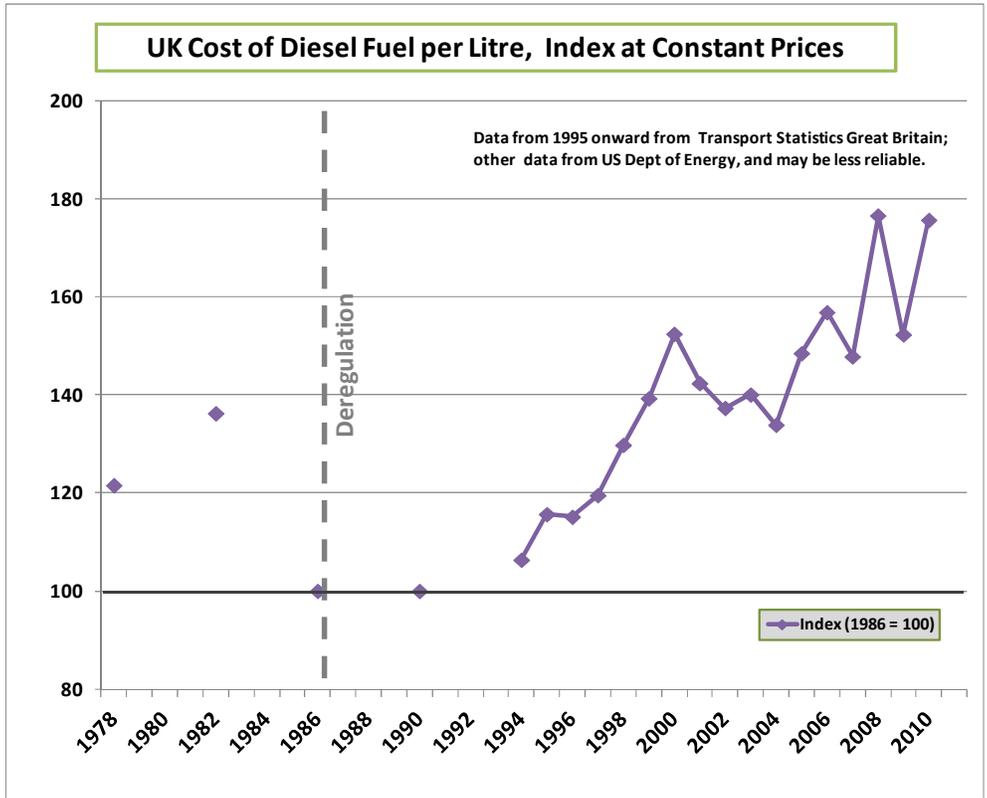


Figure 9; Diesel Fuel Cost per Litre, 1978 - 2011

Figure 10 below looks at costs from another perspective; total bus company revenue (from all sources) related to passenger numbers. This total revenue equates closely to costs plus profits; while the British bus industry is certainly more profitable now than in the period immediately following privatisation, profits are not excessive³ and have not risen over the last few years (if anything they are falling). The rise in revenue per passenger (outside London) of 80% since deregulation is most concerning; it can only be met by increases in fares, or subsidy, or both. It is notable that London has suffered from this rise in revenue – and therefore costs – to a much lower extent.

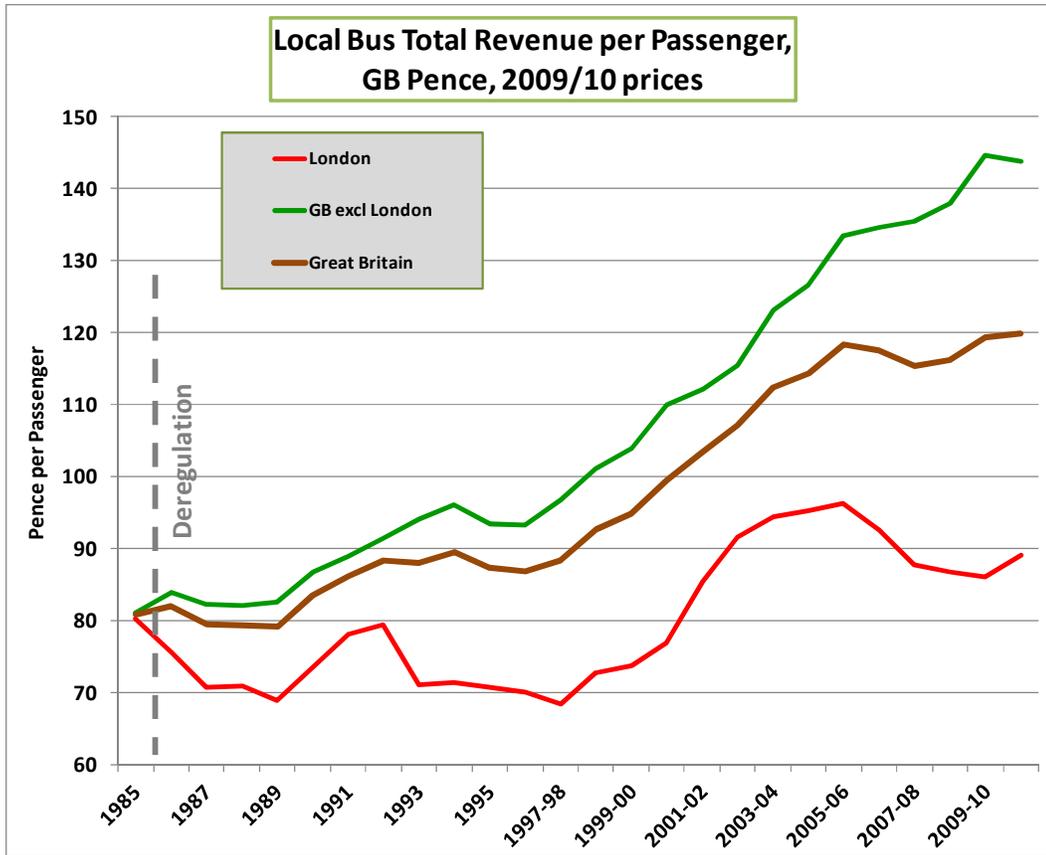


Figure 10; Total Bus Company Revenue per Passenger

It has been suggested that one other factor leading to increases costs is that operating speeds are declining owing to increased congestion; one industry analyst quotes an increase of 20% in running times on main corridors over recent years. However, annual bus-kms covered per bus have remained fairly constant, and published statistical data does not appear to confirm this figure. It is certainly the case, however, that many bus operators have inserted “recovery time” into bus schedules in recent years, in order to avoid penalties⁴ for late running owing to unreliable traffic conditions.

³ Overall bus industry rates of return (outside London) in 2009/10 are quoted as around 9% by *Bus Industry Monitor*. Rates in London are considerably lower.

⁴ These penalties are levied by the Traffic Commissioner in cases where less than 95% of bus services are running “on time”, this being defined as between one minute early and five minutes late.

9. Funding

So what does all this mean for public spending on bus services? The source of funding for bus services in the UK has changed significantly over the last 25 years. In 1985, immediately prior to deregulation, passenger fares made up 64% of total operating costs, although this proportion had fallen significantly over the previous five years. Deregulation of bus services (outside London) in 1986, and the concurrent privatisation of most operating companies, changed this significantly. The proportion of costs covered by fares rose steadily until reaching 72% in 1995, with a corresponding fall in support payments from Local Government. These fell by 65% from 1985 to 1995, with even bigger reductions in urban areas (including London, where bus services were privatised but not deregulated). However, since then the proportion of costs covered by fares has declined significantly; in 2009, the figure was only 50%.

Figure 11 below gives an overview of these trends.

If fares now constitute a smaller proportion of revenue, where does the rest come from? As Figure 11 below shows, both “Public Transport Support⁵” and payments for Concession Fares have risen significantly.

Public Transport Support

PT Support fell markedly after deregulation; from a figure of slightly over £1bn immediately before deregulation (at 2009/10 prices), it fell to only \$281m in 1997/8 (significantly, the year that the Conservative Party left office at Westminster after 18 years in power, mostly under Margaret Thatcher). However, since then it has risen again more rapidly than it fell, currently standing at around £1.3bn per annum, *of which 53% is in London* (in 1997/8, PT Support in London was effectively zero).

PT Support outside London fell sharply after deregulation until 1997/8, when it was only 36% of the pre-deregulation level. However, it is now running at over twice the 1997/8 level (although still somewhat below the figure before deregulation).

⁵ Public Transport Support (outside London) is the (generally tendered) payment made by Local Authorities to secure the operation of bus services which are not self-supporting (“Commercial Services”). Within London, different arrangements apply – there is no specific distinction between Commercial and Supported services.

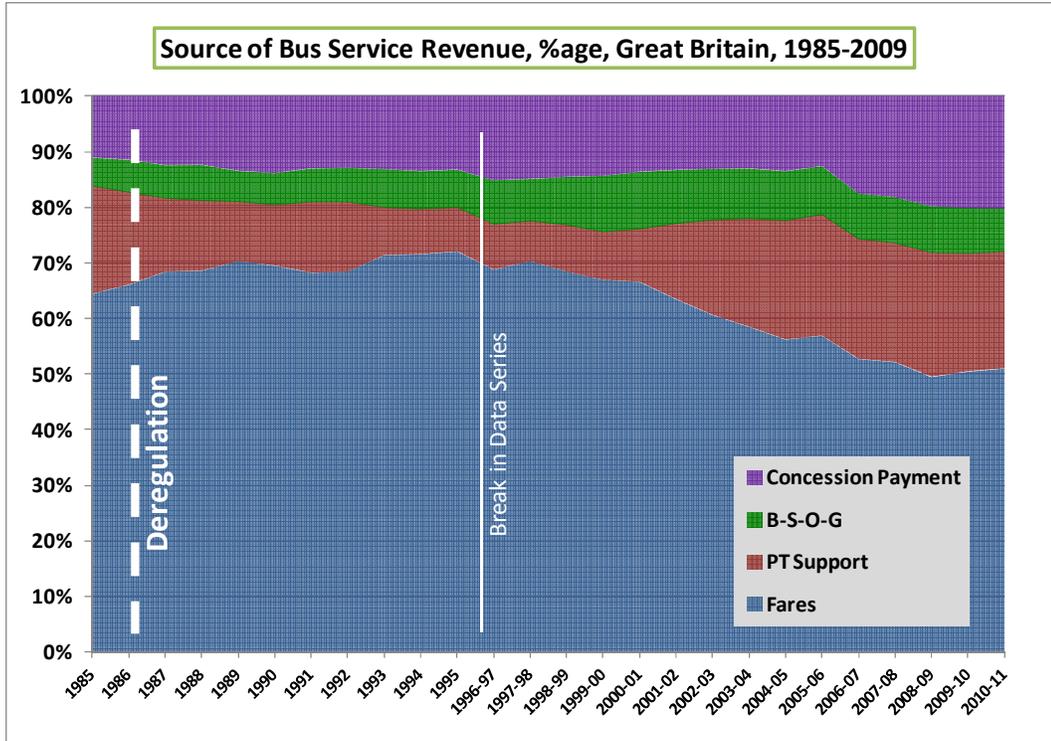


Figure 11; Trend in Bus Service Revenue Sources since Deregulation

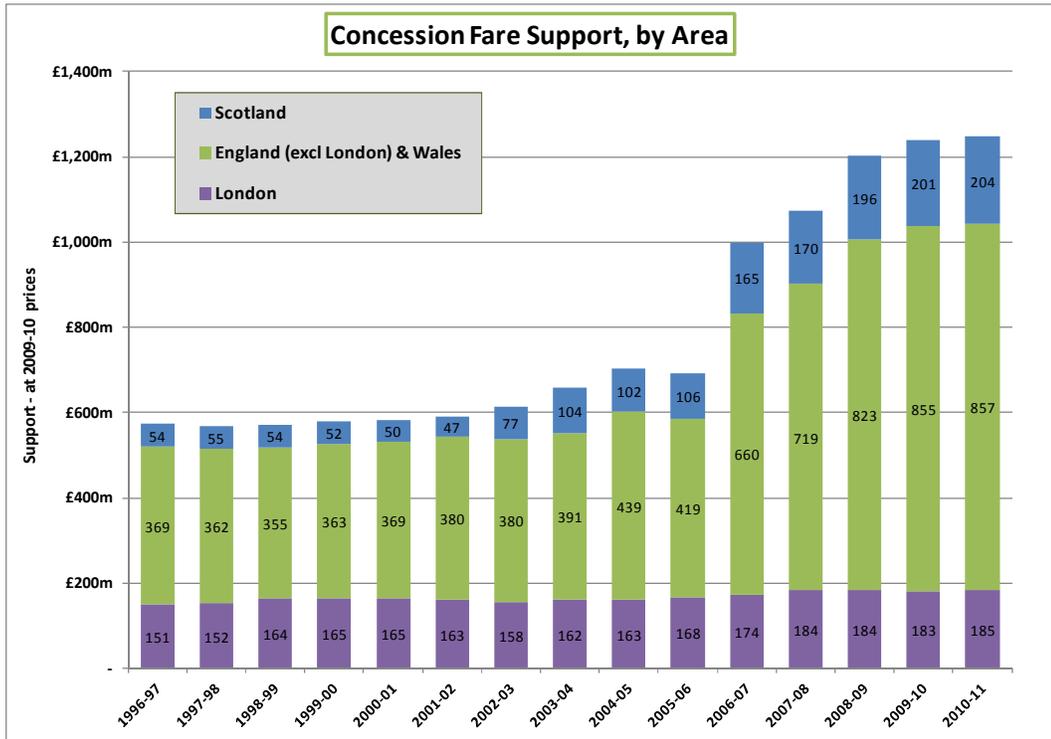


Figure 12; Concession Fare Support by Area

Concessionary Fare Support

Support for Concessionary Fares, on the other hand, remained fairly constant in percentage terms until 2005/6, after which it increased rapidly; from \$690m in 2005/6 to £1.25bn in 2010/11. This was due to the significant increase in benefits granted over the period 2002 to 2008 (see Section 7 above; Figure 12 above clearly shows the increases in support costs associated with extensions to the schemes). There is much controversy as to whether this payment should be treated as a subsidy or not; bus operators maintain that it is akin to bulk purchase of season tickets, as it is only intended to replace revenue lost as a result of offering the concession (plus any extra costs incurred); see the sidebar below. There is no doubt, though, that the scale of these payments has had an effect on the bus operating industry in Great Britain, and on the services provided. For instance, on services where the great majority of passengers are travelling on concession fares, bus operators can set fares at a high level without any concern about passenger resistance – the local authority will pick up the tab.

Bus Service Funding in different parts of Great Britain

The remaining four figures below show trends in the four components of bus service funding over the last fifteen years, respectively in Great Britain as a whole, in Scotland, in England and Wales outside London, and in London itself. All are at constant (2009/10) prices. There is little more to comment on in these figures, except to point out the following;

- In all areas, fares have remained fairly constant but support payments have risen substantially.
- Only in London has there been a rise in fares revenue, mainly driven by an increase in

Concession Fare Reimbursement

Local Authorities in England, and the devolved national governments in Scotland and Wales, are responsible for reimbursing bus companies for the revenue lost under the Concession Fares scheme, after deduction of an amount relating to “generated traffic”, but supplemented to cover any additional costs incurred (such as provision of extra buses). Bus operators are supposed to be “no better or worse off” as a result of the scheme. (In England, the Local Authorities receive extra central government funding to support the scheme.)

However, it is very difficult to establish how many pensioners would travel by bus in the absence of the scheme, thus leading to seemingly endless arguments over the correct level of reimbursement. In Scotland and Wales, this level is established by the respective governments and is standard across the country; in England it is calculated by the various local authorities according to a guideline formula established by the Department for Transport, and is different for each authority.

The level of reimbursement is generally expressed as a percentage of the adult single fare, or as so many pence in the pound. (The establishment of the appropriate “adult single fare” is itself a matter for disagreement – what account should be taken, for example, of discounts for return tickets or season tickets?)

In Scotland, the reimbursement rate was originally established at 73.6%, but was reduced to 67% in April 2010. In England, rates differ but are significantly lower, typically of the order of 50%.

passenger numbers.

- There has, however, been a very large increase in Public Transport Support to buses in London; it now amounts to 31 pence for every passenger carried, compared with 21 pence outside London (and only 13 pence in Scotland). In London, PT Support and BSOG now amount to 40% of total revenue, while Concession Fare Support is a further 9%.
- In Scotland, PT Support and BSOG amount to 20% of total revenue, while Concession Fare Support is a further 32%.
- In England and Wales outside London, PT Support and BSOG amount to 24% of total revenue, while Concession Fare Support is a further 24%.

10. Conclusions

The primary purpose of this article is to present facts, rather than interpret them – interpretations will necessarily vary according to the role of the reader. However, the author would like to put forward the following views;

- Privatisation of bus operations does seem to have succeeded in bringing down operating costs, both outside London (where deregulation was also implemented) and in London (where it was not).
- The verdict on deregulation must be more mixed. While it has prompted innovation in the bus industry, and has prompted the level of service to be improved in many areas, there is no evidence that it has led to a general increase in passenger numbers; indeed, the downward trend evident before deregulation has continued, albeit at a lesser pace, afterwards, whereas in London ridership has grown considerably. The UK was one of the first to institute regulatory reform of bus services – it has paid the price by adopting a model that appears decidedly sub-optimal. A more refined model, with the public interest given greater weight, would almost certainly get more people onto buses and out of cars – but the cost of change is high (both financially and in terms of disruption), and the major bus groups, which have considerable power, would be against any change.
- The fall in general ridership outside London has been masked by increased travel by over-60s who now get very generous free travel benefits (supported by payments from the public purse); while the income derived from this is a welcome boost to industry revenue, it does tend to distort the market and tends to define bus transport as a social service. While public transport should indeed have a “public service” element, over-concentration on this aspect can impair its ability to achieve modal shift.
- In fact, there are already signs that the level of public spending on concession fares is becoming unsustainable, and reductions in this source of revenue are likely in future years. This is unlikely to be conducive to stability in the bus transport sector.

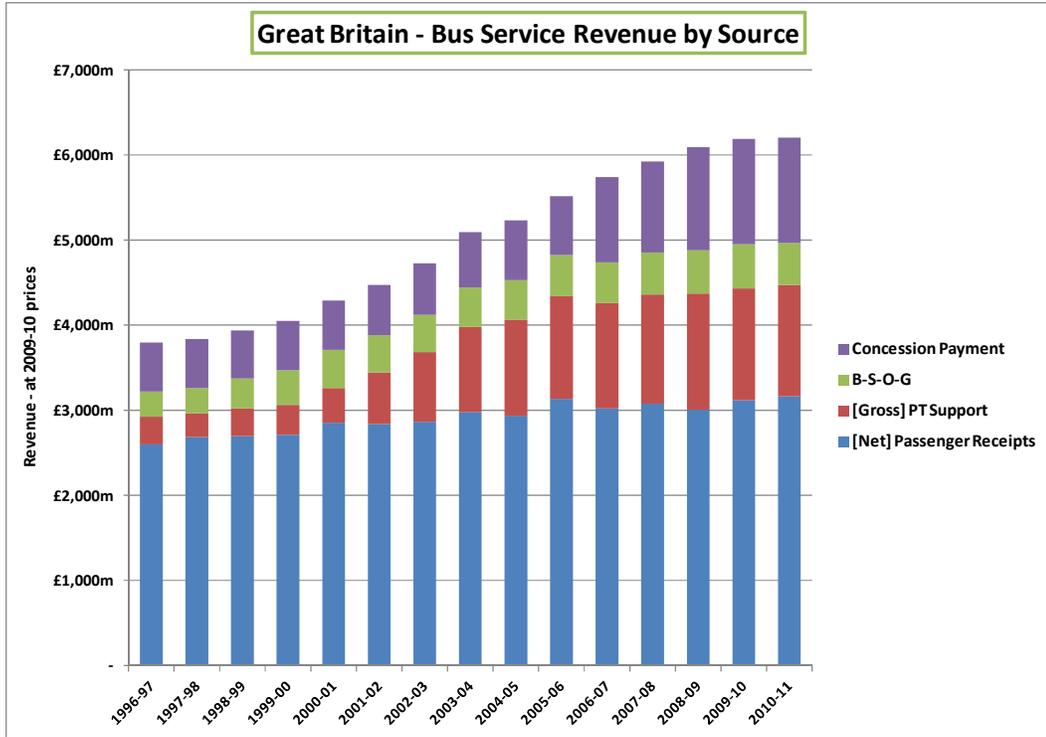


Figure 13; Bus Service Support, Great Britain

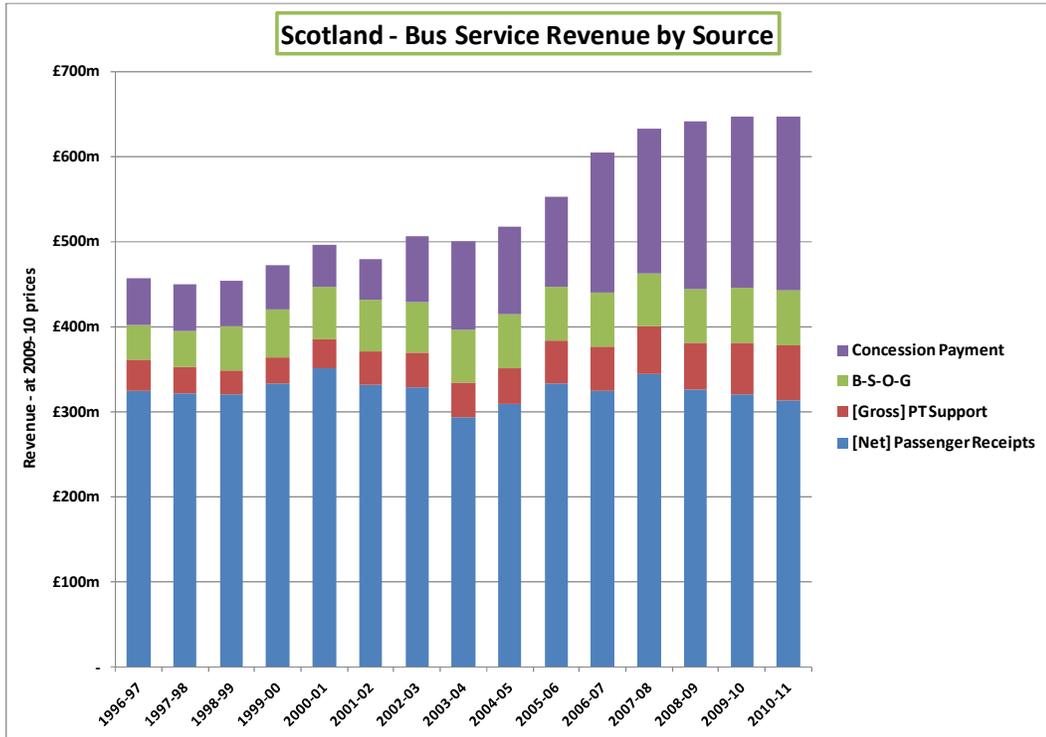


Figure 14; Bus Service Support, Scotland

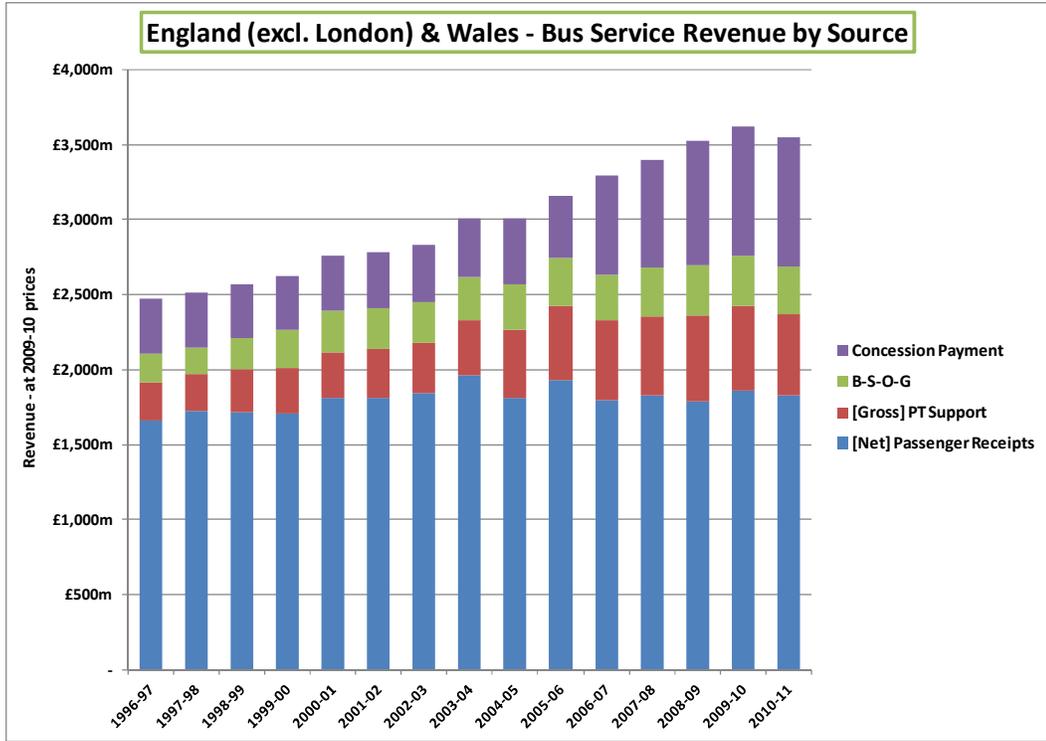


Figure 15; Bus Service Support, England and Wales (outside London)

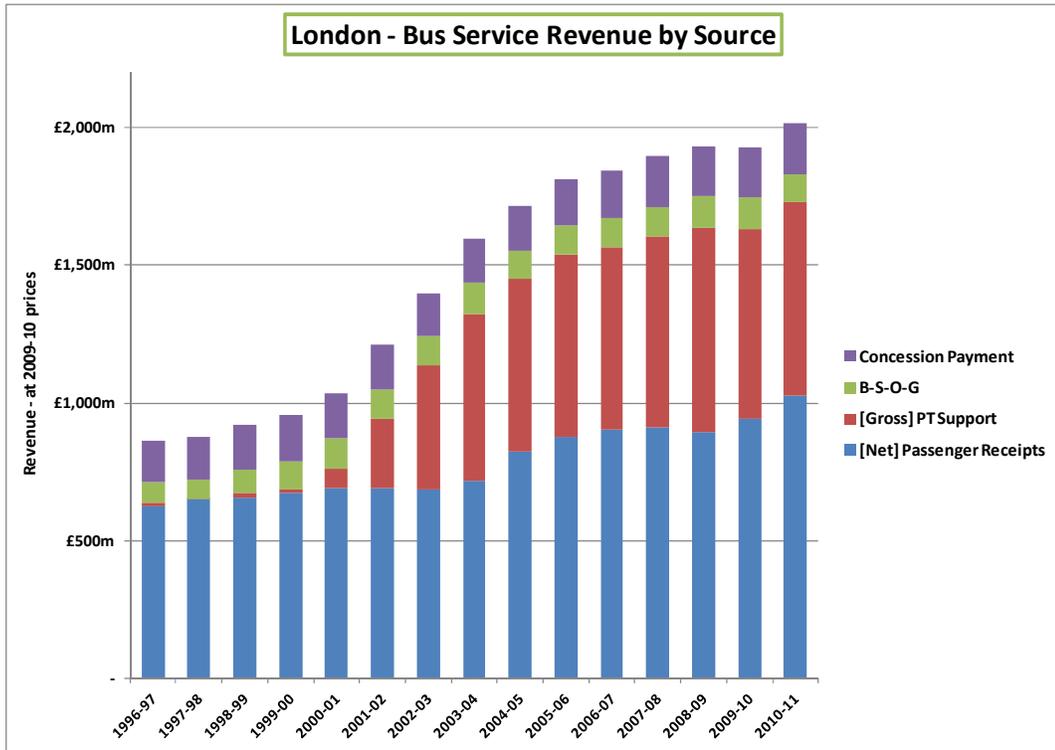


Figure 16; Bus Service Support, London

Alan Howes Associates
Scotland, UK
www.alanhowesworld.com

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