

## **Re-regulating the deregulated – a case study of the Scottish bus market**

Title: Jonathan Cowie

Position: Lecturer in Transport Economics

Institution: Edinburgh Napier University, SEBE/Transport Research Institute

### **Abstract**

Much research surrounds the move from publicly owned and operated bus markets to publicly controlled and privately operated markets, or in the case of Great Britain, a fully deregulated market. Little research however exists concerning the counter move and the issues that this may raise. Such a step would be consistent with Gwilliam's regulatory cycle, which suggests that a combination of self seeking behaviour of suppliers and unrealistic aspirations of politicians leads to instability in the regulatory arrangements for the provision of bus services. Consequently, the associated structural and institutional arrangements go through a cycle of private/public ownership and competitive/regulated markets.

The paper discusses some of the measures that are being considered in different parts of Great Britain, and primarily focuses on recent proposals that have appeared for the partial reregulation of the bus industry in Scotland. Trends within the Scottish bus market/industry are examined to establish the background to any possible measures. Analysis is then made up of three components: firstly, a quantitative analysis of any potential savings that could be made in subsidy by introducing competition for the market in Scotland, secondly an examination of experience in New Zealand with bus reregulation, and finally a qualitative analysis of views expressed during the consultation phase of a proposed private member's bill for bus reregulation in Scotland. The overriding conclusion from this analysis is that whilst deregulating the market does not actually break Gwilliam's regulatory cycle, it makes it very difficult to 're-connect', and thus a further long term consequence of bus deregulation in Britain in the mid 1980s is that future policy options have been severely restricted in the very long term.

### **Introduction**

Over the last number of years, there have been various attempts in Britain to detune the provisions of the Transport Act 1985. This Act introduced the deregulated market into the British bus industry, and remains the main legislation governing service provision today. In terms of amendments, this has included two further pieces of legislation, the Transport Act 2000 (Scotland, 2001) and the Local Transport Act 2008. In both cases, the additional powers provided to public authorities were optional, and whilst these have been notably employed in a number of isolated cases, by and large they have been unused. More recent times have seen an increased interest in bus re-regulation from a number of different sources, all of which are reviewed later in the paper.

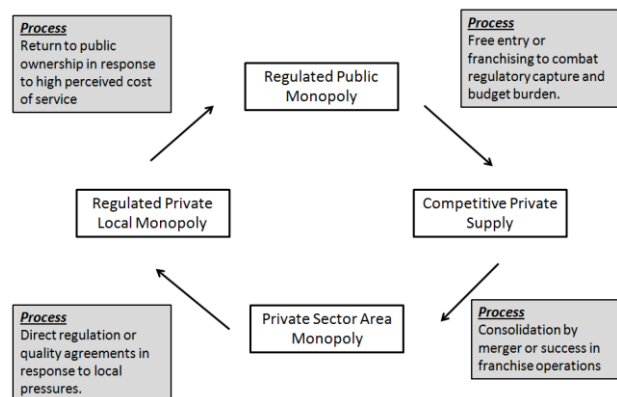
It therefore seems a good time to examine more fully the issue of re-regulation from a deregulated bus market, to attempt to uncover some of the problems and issues such an initiative may encounter. This paper uses a case study approach in the broadest terms, to examine the viability of bus re-regulation in Scotland. Whilst no single case study should be considered as 'typical', the use of this approach should allow a full study of the problems involved to identify if such a move is possible or not.

The paper begins with an overview of Gwilliam's regulatory cycle, before giving an overview of recent developments in this policy area, an overview of the Scottish bus industry, a quantitative and qualitative analysis of some of the key issues, before ending with some conclusions.

### Gwilliam's Regulatory Cycle

The issue is an interesting question in its own right, but not only from a practical perspective, but also from an academic one as well. Gwilliam (2008) put forward the idea of a regulatory cycle in public transport provision, specifically relating to bus provision in industrialised countries. This arose as a consequence of the work of Needham (1983), who argued that the outcomes of any moves towards regulatory measures were not always consistent with the original intentions of those reforms. This would inevitably lead to reform back towards market based solutions, thus producing an inevitable constant flux between regulation and the market, i.e. a regulatory cycle. As the author highlighted, this work pre-dated the distinction between competition in the market and competition for the market, the latter of course potentially providing a balance between the two perspectives. Gwilliam therefore posed the question, is there a regulatory cycle in the bus transport sector? The regulatory cycle was broken down into four identifiable phases as shown in Figure 1.

Figure 1: The industrialised country regulatory cycle (in bus transport)



Source: Gwilliam (2008)

Starting at 6 o'clock in Figure 1, stage one occurs where there exists a private sector area monopoly. Consistent with economic theory, firms in such a position will profit maximise, and this may not be consistent with the public interest, particularly the restriction of supply to maintain high prices/profits. This leads to the specification of minimum standards in order to provide a clear base level of service, thus leading to a regulated private local monopoly. Gwilliam (op. cit.) states that history and practice tend to show that this only has a minimal effect, and hence leads on to the next stage of the cycle, full public ownership. Here all strategic, tactical and operational functions (van de Velde, 1999) are taken into the public sector. This generally helps to stabilise the transport system and it is run on the basis of a single network, i.e. the public interest. Rising costs and increasing subsidy however leads to the re-introduction of the private sector. In the context of the British bus market, costs and subsidies increased substantially in the late 1970s and early 1980s, and the prevailing macro economic climate (recession) and political ideology hastened reforms back towards private sector provision. In Gwilliam's regulatory cycle, this is in the form of either free entry or through franchising, with both examples being present in the British market.

The British experience with deregulation is well documented elsewhere (e.g. Simpson 1996, White 1997), with one clear outcome being that it led to considerable merger and company acquisition following the 1985 Act, particularly in the mid 1990s (Cowie, 2002). This resulted in a return to stage 1 of the cycle, private sector area(s) monopoly. With a few exceptions, this is roughly where the British market stands today, i.e. it is made up of a large number of local bus markets, each of which is dominated by a single operator, with some limited competition from another of the major operators. For example in Glasgow, Firstbus has around 85% of the market, with Stagecoach having the other 15%.

This leads to the question as to whether such a market structure now means that moving to a regulated private local monopoly is now no longer viable, i.e. the regulatory cycle is broken.

### **Policy background**

As noted in the introduction, the Transport Act 1985 is still the main act that legislates the bus industry throughout the whole of Great Britain. The Act removed all economic regulation from the industry, specifically authority control over fares, market entry and bus frequency. Prior to 1985, these were closely enforced by the Traffic Commissioners. In terms of the new structure, Traffic Commissioners still have a strong role to play with regard to qualitative regulation (e.g. operator licensing, vehicle inspection and testing), but in terms of economic regulation this is now purely an administrative role where bus companies are required to lodge changes to routes with the commissioner giving 56 days notice.

Establishment of the Scottish Parliament and Welsh Assembly in 1997 devolved many transport powers to these bodies, although the 1985 Act remained the main legislative instrument governing the industry. The Transport Act 2000 (Scotland, 2001) introduced the possibility of putting what had been voluntary agreements between local authorities and bus operators on (usually) whole route upgrades, i.e. buses and infrastructure, on a statutory bases. Consequently, enforcement of quality standards above the statutory minimum could be legally imposed. The Acts also introduced the possibility of introducing bus quality contracts, which could be used to effectively reregulate whole areas where all other possibilities had been exhausted and 'market failure' could be established. Whilst some authorities did introduce statutory bus quality agreements (four in Scotland), no authority introduced a bus quality contract. Exact reasons for this are unclear, but the two most likely are that firstly establishing 'market failure' was very difficult to do, and secondly the cost of bringing the planning function into public administration, along with contract costs, were prohibitive.

The final piece of legislation introduced to date was the Local Transport Act 2008 (only in England and Wales), which further reduced the constraints on introducing a bus quality contract by reducing the need to show market failure and exempting bus operators from the provisions of the Competition Act 1998. This was possible where local authorities recognised that co-ordinated bus timings and joint services were being provided in the public interest. Once again however, outside of a few notable instances, there has been very little uptake in these optional powers.

The issue of bus re-regulation has reappeared on the Scottish political agenda not through main stream party politics, but rather through proposals for private member's bills. The first (Gordon, 2008) was put forward in 2008 by Charlie Gordon, the then Labour MSP for Glasgow Cathcart and also former Chair of the Strathclyde Passenger Transport Executive. The main proposals were aimed at making it easier for local authorities to develop statutory quality bus partnerships and bus quality contracts, extend the concessionary fare scheme to include those on the lower disability living allowance and also extend the scheme's remit to include community transport. The measures were clearly targeted at provision in rural areas and better bus access for the mobility impaired, although it also envisaged that regulation could be used to better integrate bus services and introduce multi-operator ticketing. There were also suggestions that bus services operators grant (BSOG) could be used as a discretionary payment based on operator performance. The consultation document attracted 95 responses, with only four against the proposals outright. The initiative however failed to progress to the next parliamentary stage as it did not gain sufficient cross party support.

The second set of proposals were published in May 2013 by Iain Gray (Gray, 2013), MSP for East Lothian and former leader of the Scottish Labour Party. Faced with declines in bus services in rural areas, what Gray proposed was giving local authorities the power to bundle services into packages of routes where profits made on commercial services could be partially used to subsidise the losses made on socially necessary services. Further provisions were to extend the powers of the Scottish Traffic Commissioner to impose financial penalties on operators that were in breach of contract, enable local authorities to use their own fleets to provide socially useful services where there were gaps in provision, and finally to give local authorities greater flexibility to run services in the way they envisaged

most fit. There is also some discussion in the document regarding the levels of subsidy paid for rail services compared to those paid for bus services in Scotland. As with Charlie Gordon's earlier proposals, there is a clear statement regarding removing the need to prove market failure before introducing a bus quality contract. At the time of writing, the consultation period has just ended and a summary of the responses has not yet been published, but those responses that are available in the public domain are analysed later in this paper. In light of all of the responses received however, Iain Gray has stated his intention to move to the next stage of the private member's bill process, which is to gain cross party support in the Scottish Parliament.

In England, whilst no firm proposals to wholly or partially re-regulate the industry have appeared, the main opposition party has adopted a policy stance of allowing de-regulation exemption areas, in which the local transport authority (the local authority) would have the power to specify routes and fares and put these out for competitive tender. Once again, such powers would be optional.

Finally in Wales, there are proposals from the Welsh Assembly to modify subsidies paid under the BSOG. This is currently an automatic right, and at the moment just under 60% of the duty paid on diesel is reclaimed by the operator, with higher rates of rebate for biodiesel and bioethanol. In April 2013, the BSOG was replaced in Wales by the Regional Transport Services Grant (RTSG), with the funding coming from the same source. The major difference is that the RTSG is not an automatic right, but rather local authorities can define the outcomes they require from the funding and bus operators would need to deliver those outcomes, but if it was felt this would be 'uneconomic', they would then forego the funding of the fuel duty. It should be noted that at the time of writing the legality of such a scheme has been brought into question – basically BSOG predates UK membership of the EU, however as RTSG is a 'new' scheme then it must conform to the requirements of the EU single market, in this case the rules concerning illegal state aid. Potentially more problematic is the fact that at present BSOG is a non-discriminatory award, whilst the RTSG is not. Past experience in other areas of public (transport) policy, most notably the Clyde and Hebrides Ferry services, suggests this may be a real issue. These conditions being placed on the former BSOG is a very strong form of re-regulation, with British national figures for 2011/12 (Scottish Government, 2013), showing that BSOG represents just under 15% of the total revenue of the bus industry. One (of the four) local transport partnerships proposes taking up this option of imposing conditions on the payment of RTSG, SWETA (South East Wales). At the time of writing, it plans several initiatives, one being that from 2014/15 a proportion of the RTSG be given to operators that achieve higher quality standards. The exact details at this point however are unclear, as the whole process is currently out for consultation.

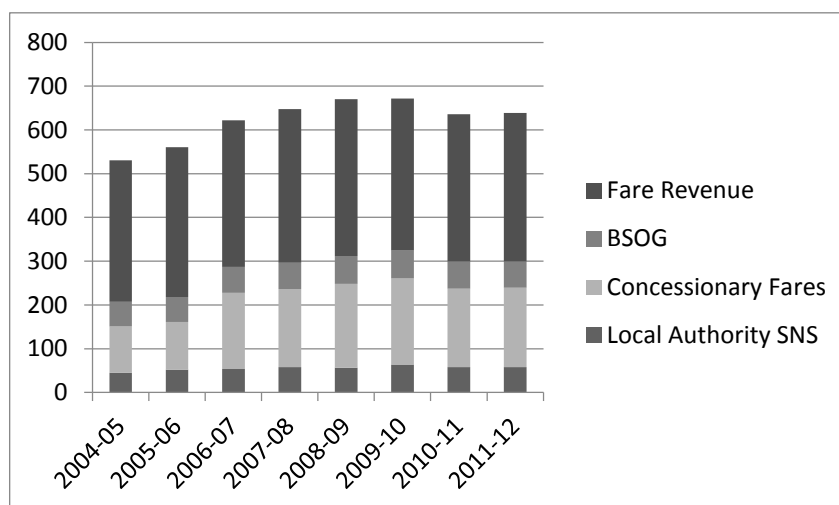
What the above strongly suggests is that in all areas of the British deregulated market there is a feeling amongst public authorities that some form of change, in the direction of more public control, is generally perceived to be desirable.

## **The Scottish Bus Industry**

Before examining the potential for re-regulation in Scotland, it is useful to give an overview in summary of some of the main characteristics of the bus industry in Scotland. The following section therefore outlines the structure of the industry and the main trends over recent years. Scotland has large areas of rural and isolated land, as most of the country's population lives in the central belt and along the east coast. Nevertheless, levels of subsidy are no higher than elsewhere in Great Britain and the level of bus usage per head of population is almost identical (in the very recent past it has been significantly higher). As regards the actual industry itself, as with the rest of Britain, this has been dominated by the three largest bus companies, although Arriva's recent withdrawal from Ayrshire now only leaves two with a major presence, Firstbus and Stagecoach. First has a strong presence in Aberdeen, Glasgow, Central Scotland and the South East, and Stagecoach a strong holding in the more rural areas, such as Ayrshire, Perthshire and the Highlands. Edinburgh is a virtual monopoly for the local authority owned (but commercially run) Lothian Buses. In this context it is probably important to highlight that Scotland is also the origin of two of the major British bus operators, the aforementioned First and Stagecoach.

As regards trends in the industry, the first to examine is the total finance in the industry and the main sources from which this is derived. This is given in Figure 2.

Figure 2: Scottish Bus Industry, Total Finance Split by Main Sources (Passenger and Public), 2011/12 Prices

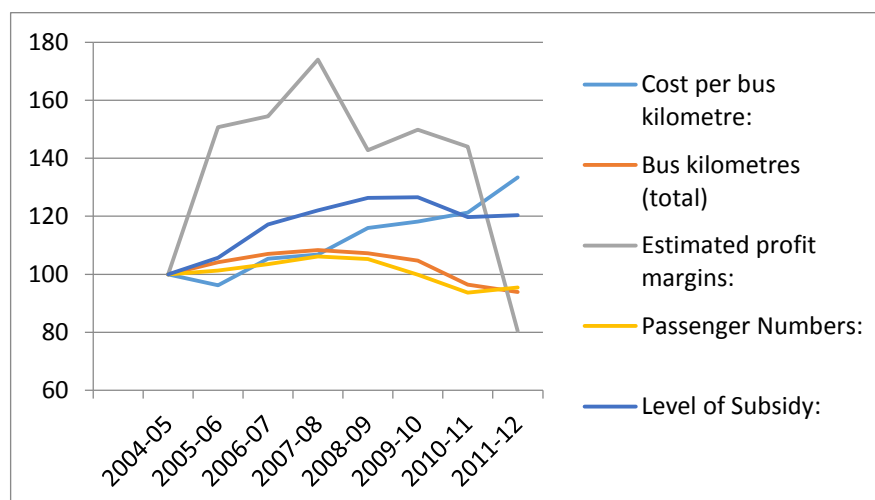


Source: Drawn from Scottish Bus and Coach Statistics, e.g. Transport Scotland (2013)

Over the whole period, figure 2 shows a significant increase in the level of public finance going into the industry, mainly as a result of increases in the provisions for concessionary fare schemes. At the beginning of the period, 61% of industry revenue came directly from the fare box, but by 2011/12 this had fallen to 53%. Direct passenger revenue rose in real terms by £14m, despite the level of fare paying passengers falling by around 4½%. Figures from elsewhere indicate that most trips are in the central belt, which accounted for just over 83% in 2012, a percentage share that has been steadily rising over the period.

Figure 3 tracks five other key variables over the last eight years, namely cost per bus kilometre, total bus kilometres on staged services, the level of public subsidy (in absolute terms), estimated profit margins, and passenger numbers (including concessionary travel).

Figure 3: Five key variables for the Scottish bus industry



Source: Drawn from Scottish Bus and Coach Statistics, e.g. Transport Scotland (2013) and TAS Statistics (e.g. TAS 2008)

Figure 3 presents some slightly concerning figures with regard to the industry over the period reviewed. Firstly, the cost per bus kilometre has risen by some 35%. Cost rises on their

own are not an indicator of industry inefficiencies<sup>1</sup>. Certainly over the period reviewed, there have been some clear indicators of improvements in the standard of services in Scotland (see footnote), and the price of oil has risen considerably over the same period. It is doubtful however if these factors alone can account for such a large cost rise. For example fuel costs account for something like 10% of operating costs, thus even a doubling would only increase costs by 5%. Whilst requiring further analysis, it may indicate some inefficiencies in the sector. The other notable trend in Figure 2 is the estimated profit margin. This began at 10.7%, but after a strong rise in the middle of the period, had fallen to 7.4% by the end. In terms of the overall British industry outside of London, neither of these figures could be termed as excessive. Passenger numbers have fallen and supply appears to have contracted by roughly the same amount. Finally, the industry has seen rising levels of subsidy, which as outlined above, has led to an increase in dependence on public finance.

### **Analysis – Quantitative, qualitative and experience from elsewhere in the world.**

Previous sections have outlined the background to recent proposals and private member's consultation bills to provide an optional choice to introduce re-regulation into parts of the Scottish bus industry. What follows is an analysis of the main barriers that have emerged during general debates and consultations on the subject, as well as evidence from New Zealand on bus re-regulation.

#### **Quantitative - Efficiency Improvements**

One obvious key barrier to any partial or wholesome re-regulation of the bus industry in Scotland would be the increased cost to public finances, both in terms of potential increased subsidy levels and also in public administration and legal costs incurred by taking the tactical function back into the public sector. This is an issue that will be borne out by the qualitative analysis later in the paper. This need not necessarily be the case, although some increase in public spend would appear to be inevitable. One key aspect would be the re-regulatory model that was actually adopted, particularly the question over the tactical function and whether this does indeed need to be taken back into public administration (e.g. tenders could include full proposals on the network to be operated). A second key aspect would be to establish if any productivity/efficiency gains could be achieved by moving to a regulated market (irrespective of its form), and thus as a result potential savings made on what is currently paid.

There is an argument that the industry in Scotland has now reached a very mature market state. Furthermore, with considerable market consolidation in the mid to late 1990s, it now displays very clear signs of the economist's theoretical model of an oligopolistic market structure. Such markets are characterised by non price competition, abnormal profits, scale inefficiencies and Leibenstein's x-inefficiency (Leibenstein, 1966). Due to the absence of competition, the market does not 'regulate' itself and hence does not achieve economic efficiency, i.e. in the purest terms there is market failure. Re-regulation could introduce competition back into the sector through competition for the market rather than competition in the market (stage 2 of Gwilliam's regulatory cycle), and by doing so efficiency improvements could be achieved. Baumol (1982) showed that under certain conditions, this can produce market outcomes similar if not identical to the perfectly competitive market.

It should be noted however that in a general context efficiency gains can be 'distributed' in different ways, for example to company shareholders in the form of larger dividends, to users in the form of lower prices or finally to public authorities in the form of lower subsidies. There may also be other non monetary benefits arising out of increased efficiency, which can really only be grouped under the generic title of 'the public interest', mainly arising out of improvements to the efficiency of the local economy, human capital stock and also to the

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<sup>1</sup> If cost 'inefficiency' is as a result of improvements to the quality of services, if this results in the retention or even an increase in passenger numbers, then this could actually represent an improvement in overall economic efficiency.

social infrastructure. In what follows, efficiency gains are assumed to only be distributed to public authorities in the form of lower subsidies, hence price and profit levels are assumed to remain the same (in real terms). The question to be answered therefore is, under such assumptions, how much public finance could be saved by moving to a regulated contestable market?

In order to address this issue, what follows is a productivity analysis of the deregulated Scottish market and the regulated London market, over the period from 1995 to 2010, although as will be seen, this is not without its (considerable) problems. For ease of interpretation, estimates are based on a modified Cobb Douglas cost function, as all results were found to be generally consistent with figures estimated from a more complex Translog function. The estimated model specifies fare adjusted revenue as the output, and labour and buses as the two inputs. The function is based on the simple cost relationship shown in equation 1:

$$C_i = f(Q_i, P_i, t) \quad [1]$$

where the operating cost C for the ith firm is a function of the output Q, the price of the inputs P and time, where time is the indicator of cost inflation/efficiency improvement. In equation 2, this is formally specified as a simple two input modified Cobb Douglas function:

$$\ln C_i = a + b_1 \ln Q_i + b_2 \ln Q_i^2 + c_1 \ln P_l + c_2 \ln P_k + d D_{Scot} + (e + f D_{Scot})t \quad [2]$$

This is one of the simplest forms of production economics assessment, however in this case all that is looked for is a simple estimate. In equation [2], the condition that  $c_1$  and  $c_2$  sum to unity is imposed to ensure linear homogeneity in prices, i.e. if individual input prices double, total operating cost will double. A Scottish dummy variable has been added to the basic cost function, as (a) it is believed that costs in Scotland, per pound generated, will be significantly higher than in London simply due to significantly lower loading factors, and (b) a second slope dummy has been included to assess how this difference has changed over time. This is the key variable in this analysis, as this will identify if the London regulated market has performed better or worse than the Scottish deregulated market in terms of cost control. If it is better, it will also identify the level of savings that could be made in terms of subsidy if this was applied to the Scottish market.

In order to estimate equation 2, data was taken from the TAS Bus Industry Monitor (e.g. TAS, 2008) covering the period 1995 to 2010. This provided information on revenues, operating costs, staff costs, staff levels, all other operating costs and fleet sizes. Estimation of Equation 2 produced the results shown in Table 1.

Table 1: Production Model, London and Scotland Bus output

Variable	Parameter	Estimate	T
Constant	Constant	-1.3549	-1.4620
Q	Fare Adjusted Revenue	0.6667	3.7850
Q2	Fare Adjusted Revenue	0.0211	1.2560
PL	Labour Price	0.7974	27.8330
PK	Bus Price	0.2026	7.0710
T	Time	-0.0038	-1.1250
SCOT	Scottish Step Dummv	0.2762	7.3700
SCOTT	Scottish Slope Dummv	0.0378	8.4200

$$R^2 = 0.9683, \bar{R}^2 = 0.9683$$

With an  $R^2$  of 0.9683, the model fits the data very well, with almost 97% of variation in cost levels 'explained' by variation in the input variables. The inclusion of the Scottish dummy variables however are key to a strong fit, with  $R^2$  falling to around 0.3 without it. In this context, two variables are key, firstly the trend variable and the Scottish slope dummy. The trend variable is very close to zero and not statistically significant. This may suggest that for the London regulated market, with revenue specified as the output, there has been no

change in the general cost level. The London regulated market may therefore be 'working', as one possible reason for this result is that any efficiency gains have been incorporated into subsequent contract prices (contracts are on a full cost basis, with all passenger revenue given to TfL). In the Scottish deregulated market however, the Scottish slope dummy suggests that costs per pound generated have risen by 3.8% a year above the regulated London market. Such a figure should be treated with a great deal of care, as not only are the London and Scottish markets very different, but furthermore London has seen considerable increases in passenger numbers whereas Scotland has not. In a more general sense, rises in productivity are more consistent with rising output, as inputs are generally more sticky downwards. Furthermore, estimation of the full Translog function suggested that actual productivity differences were smaller, at around 2.7% a year, but nevertheless such estimates should still be viewed as extremely optimistic.

Taking the above figures and applying to potential savings in public subsidy, Table 2 presents a simple 10 year time horizon using a 3.8% annual saving as the very uppermost estimate, with 1 and 2.5% given as lower estimates. Potential savings are broken down into public transport subsidy (PTS), bus services operators grant and all subsidy levels. It should be noted however that under current legislative arrangements, such 'gains' should only be applied to PTS, as productivity gains in BSOG lie outside the scope of bus operators and concessionary fare rebates are subject to the demand for bus services, not the supply. The figures however do provide an overview of what could be achieved if such arrangements should change.

Table 2: Potential productivity savings in terms of public finance

Variable	Current Level	Year 2	Year 4	Year 6	Year 8	Year 10
Public Transport Support (PTS)	58					
1.0%		1.2	2.3	3.5	4.6	5.8
2.5%		2.9	5.8	8.7	11.6	14.5
3.8%		4.4	8.8	13.2	17.6	22
PTS + Bus Services Operators Grant (BSOG)	118					
1.0%		2.4	4.7	7.1	9.4	11.8
2.5%		5.9	11.8	17.7	23.6	29.5
3.8%		9	17.9	26.9	35.9	44.8
All Grants	299					
1.0%		6	12	17.9	23.9	29.9
2.5%		15	29.9	44.9	59.8	74.8
3.8%		22.7	45.5	68.2	90.9	113.7
Cost per bus kilometre	1.32					
1.0%		1.29	1.27	1.24	1.21	1.19
2.5%		1.25	1.19	1.12	1.06	0.99
3.8%		1.22	1.12	1.02	0.92	0.82



In a hypothetical ideal world, Table 2 clearly indicates that productivity savings resulting from full re-regulation will produce the required savings in public funds to make such a move entirely viable. Even based on public transport subsidy alone, after six years this will produce an annual saving of £13.2 million pounds, which very loosely based on experience from elsewhere in Scottish public transport policy (Cowie, 2013), will more than cover the increased transaction costs of any regulatory framework. The problem however is that this is not the hypothetical 'ideal' world. One key difference already stated is that in London, patronage has been growing, and this is generally 'good' for productivity gains. A second key factor is the overall size and spread of the London market – it is big and it is highly concentrated. What this means is that companies can compete for most if not all of TfL's contracts. The Scottish bus market on the other hand is considerably smaller and spread over a far larger geographical area. Re-regulatory measures therefore aimed at introducing competition for the market therefore are likely to have a far smaller impact. Even taking the 1% figure reported in Table 1, for PTS alone this would only produce savings of £3.5m by year 6, although a more considerable £18m on all grants. The latter figure would probably cover public administration costs, but everything, public and private, would have to 'work' in order for this to be the case. This is not sufficient evidence to suggest that regulatory measures will produce the required savings in public finance to support the increased public administration role, although the potential net cost is perhaps not as large as may have been envisaged in some views expressed during discussions on other aspects of this research.

### **Qualitative Analysis 1 - The New Zealand Experience**

Outside of Great Britain, New Zealand is the only other developed country to fully deregulate urban bus services. Three pieces of legislation passed in 1989 effectively implemented the British model of bus deregulation into the country. For example, as a result of the legislation councils' were required to divest transport operations to commercial entities and their principal role became one of planning public transport services and contracting services that were not provided through commercial registrations (Sergejew, 2010). Why New Zealand is of interest in this context is that it has recently fully re-regulated its bus industry and removed legal prohibition on regional councils having an ownership interest in public transport operations (Alexander and Maguire, 2013). There are however several important differences between the British and New Zealand models of bus deregulation. Firstly, as envisaged by the 1989 legislation, in the 'deregulated' market most services were still operated under contract to the regional council. For example, Alexander and Maguire (op. cit) highlight that in the two largest cities (Auckland and Wellington) only 25% of bus routes consisted of commercial registrations, with a question mark even over many of these as to the extent to which they ran entirely 'subsidy free'. Secondly, after initial reductions in subsidy, levels had begun to rise, and significantly, growing in real terms by 260% between 1999/00 and 2011/12, with only a 63% increase in patronage. As a consequence, the vast majority of funding in the sector was provided by the public sector. All of these factors mean that the 'gap' in New Zealand between the deregulated market and a return to regulation was not vast.

Nevertheless, the lessons that can be taken from the New Zealand experience are that re-regulating a deregulated bus market is possible, but some very clear criteria need to be in place first. The first of these is that commercial services represent the minority of the overall market and that contracting is the norm. The second is that subsidy levels need to be considerably rising. And finally the third is that there needs to be a strong political will for change driven/complemented by dissatisfaction from public transport authorities over current arrangements and their failure to deliver an integrated public transport network.

At first glance none of these criteria appear to be present in the current case, with the level of commercial bus kilometres at around 83% in Scotland, subsidy levels have been rising but not nearly to the same extent as in New Zealand, and finally there appears to be little political will for bus re-regulation within the current government. Charlie Gordon's private members bill for example received no cross party support and acquisitions have been made by some Labour opposition MSPs that Brian Souter's political donations to the ruling SNP government have influenced its policy towards the bus industry in favour of the status quo (The Scotsman, 2011).

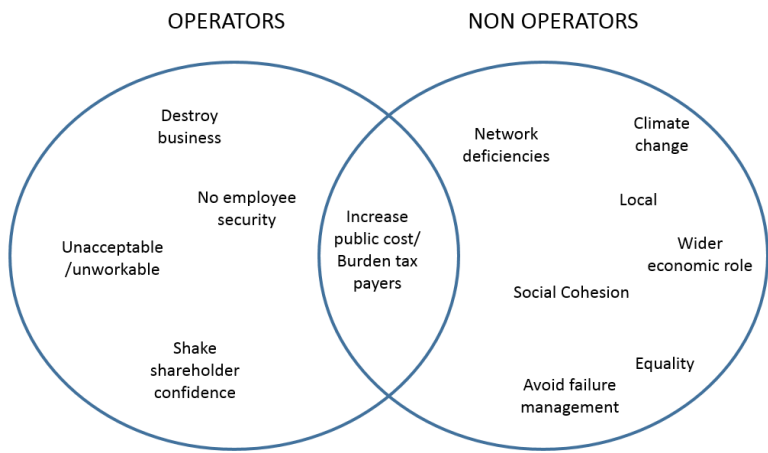
On further analysis however, some of these factors are present in Scotland. Whilst commercial services represent the majority of bus kilometres, and commercial revenue remains the main source of finance, as shown above rises in levels of public subsidy have now reduced this proportion from 61% in 2004/05 to 53% in 2011/12. Although the political factor, irrespective of the reasons, remains unchanged, informal evidence does suggest there are rising levels of dissatisfaction from local authorities over bus service provision, both commercial and contracted, and a question mark over the value for money the latter represent. There is also further concern in the parliament that the present government needs to do something with regard to bus provision, which has already seen a renegotiation of concessionary fare re-imburement to lower levels of compensation.

**Qualitative Analysis 2 – Responses to Iain Gray’s Consultation**

Whilst at the time of writing it was hoped to have full visibility of all of the responses to Iain Gray’s consultation, this has not been possible due to an extension of the consultation period, hence only those that have been available have been analysed. This consisted of ten in total, which included a mix of local authorities, operators, academics and passenger pressure groups.

A content analysis was undertaken on these in order to pull out the underlying trends or themes which emerged from each response. What became apparent from this exercise was a very clear division of opinion into two very distinctive groups – bus operators and non bus operators. Figure 4 presents a summary of the key phrases used in some of these responses and within the groups identified.

Figure 4: Output of Content Analysis of Bus Consultation Responses



What is most surprising in the responses analysed is that there is virtually no common ground between the two. This is true even on the one point of agreement, the potential increase in public cost, where completely different language is used to put the point across. Taken from a general perspective, it is almost as if the two groups were writing about two completely different things. With regard to re-regulation, operators talked about jobs at risk, undermining confidence in the industry, burdens on the tax payer, with one even going as far as to express the view that any measures to re-regulate the industry would be immoral and against human rights. Ignoring the last view as a simple headline grabber, the overall perspective is purely financial.

The non bus users groups on the other hand uses entirely different language, such as ‘equity’, ‘social cohesion’, ‘local’ features particularly strongly, and ‘climate change’. Perhaps a key difference is highlighted by one non operator response which describes bus services as a ‘public good’, by which it is clear they really mean a merit good. In other words, bus operator responses view bus services exactly for what they are, basically a way of making money and employing people, whilst non operator responses appear to

completely ignore that fact and mainly concentrate on the wider functions played by bus services, tending to concentrate on their inherent 'goodness', i.e. a merit good.

Perhaps in some ways this polarisation of opinion is to be expected, however what it represents in the current context is a major barrier to taking the bus industry forward, and that's even before the issue of re-regulation is proposed as one possible way of doing that. The non bus operator group appears to have a complete misunderstanding of bus economics and a good understanding of the social and wider role of bus transport, whilst the bus operator group has an excellent understanding of bus economics but (appears to) have no understanding of the social and wider economic role played by bus services. Until such a divide is bridged, any measures that change the status quo would be difficult to implement.

What is also interesting in the responses is what is not written. Only one of the responses examined actually stated that a high quality bus service was already in place, and whilst the respondent was in general agreement with the provisions of the proposed bill, that agreement was clearly based on the Churchillian view of a united Europe, i.e. good for the Europeans, but not for us. It may be no surprise that this particular respondent actually bridged the two groups identified above, in that it was a local authority with a heavy invested interest in bus operations.

### **Closing Discussion and Conclusions**

The question was posed at the beginning of this paper if deregulating bus markets broke Gwilliam's regulatory cycle, thus making a return to more publicly controlled and regulated bus markets impossible. The New Zealand experience shows that it is possible for authorities to re-regulate deregulated bus markets, although three clear criteria were identified as necessary conditions for this to happen. In terms of Scotland, only some of these are present, and probably the most important of all, political will is, at the present time, absent. What the research also identified was two further barriers that represent clear obstacles to any return to any form of re-regulation of the bus industry. The first is the sheer financial cost of taking the planning function back into the public sector. This is not in terms of the cost as such, but in the financing of that cost. Reformist measures have historically generated their own savings to public finance, however based on this analysis, even the most optimistic estimates would not produce the savings required to overcome the added cost. Given the prevailing economic and political climate therefore, this is a major barrier.

The second in some ways is even more concerning, and that is the complete divergence of views within the stakeholder group of the role played by bus services. In many respects it may be implied that this is an inevitable consequence of deregulation, as a deregulatory structure separates the commercial aspects of bus operation from the other (loss making) roles it plays. Certainly in the case examined, this appears to have created a clear polarisation of opinion on what buses actually represent. What the research suggests is that perhaps the issue of the effect of deregulation is greater than simply developing the industry along the lines of a re-regulated market, but rather development of the industry in any form, irrespective if that is through greater involvement of public authorities through further market based initiatives. As such, this polarisation of opinion represents a major barrier to re-regulation. In order for any future development of the industry, a far more convergent view needs to gain widespread support.

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