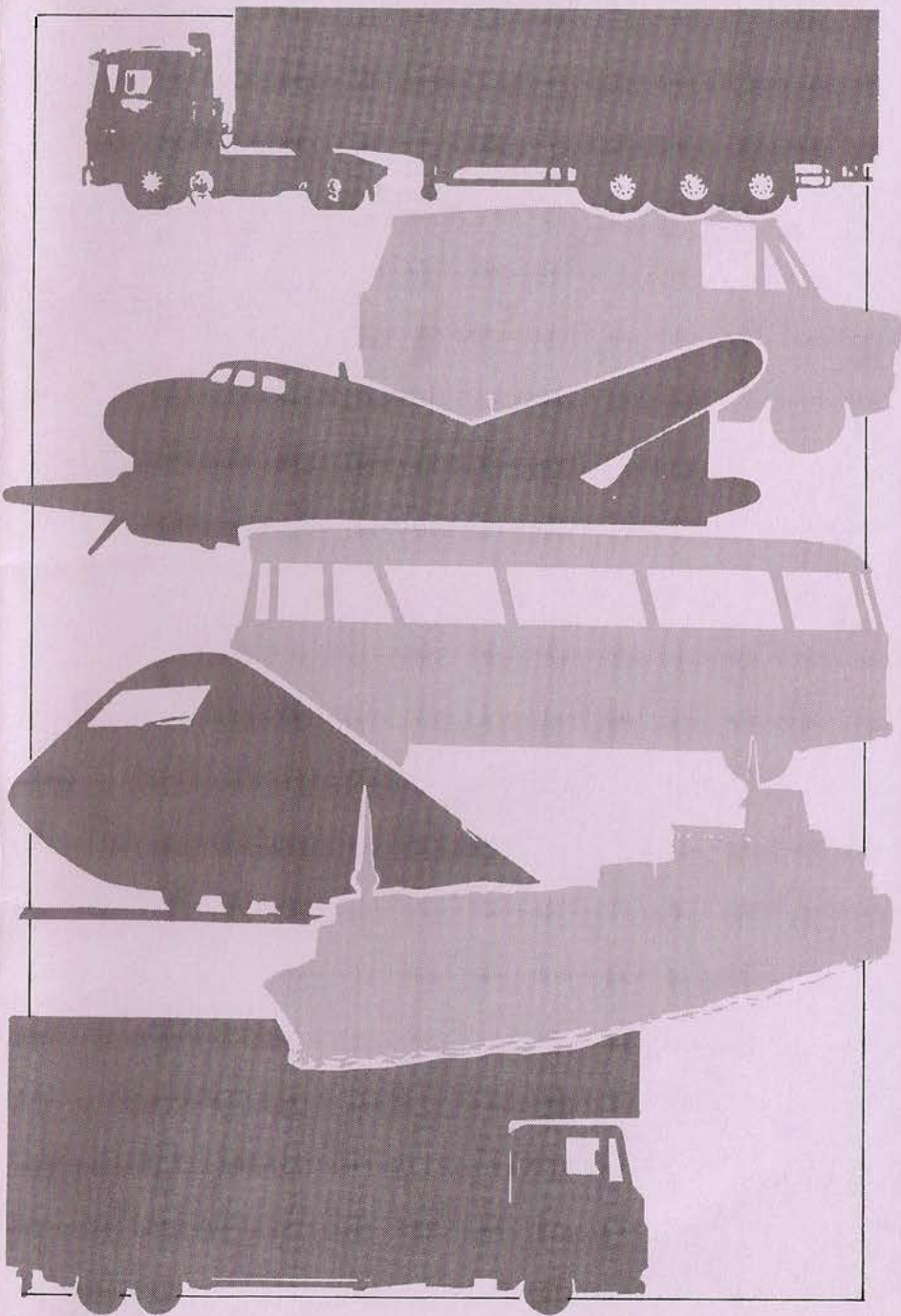


# TRANSPORT

# ECONOMIST

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THE TRANSPORT ECONOMIST

MAGAZINE OF THE TRANSPORT ECONOMISTS GROUP

VOLUME 16 NUMBER 1

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VOLUME 16 NUMBER 1

EDITOR: Stuart Cole, Polytechnic of North London Business School

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RECENT MEETINGS

AREA BUS DEREGULATION STUDIES

Kingsley Lewis, Associate Director Economics, Colin Buchanan & Partners

(London, October 1988)

The opening meeting of the group heard Kingsley Lewis describe work commissioned by the TRRL looking at the impacts of bus deregulation in 1986 and after in particular areas. He described two area studies undertaken by Colin Buchanan & Partners in the Medway area and South Nottinghamshire.

The Medway area could be described as two geographical units consisting of the Medway Towns (Chatham, Rochester and Gillingham) and the Swale District. There are about 238,000 people living in the Medway Towns and about 110,000 in Swale. The network of bus services can be described as a relatively dense urban network in the Medway Towns and in Swale a main corridor route along the A2 road with rural infrequent services linking villages to the larger centre. Prior to deregulation most of the network was operated by Maidstone and District and they have remained the dominant operator in the post deregulation period operating some 96% of the network.

In comparison South Nottinghamshire was three times the area with a population of over 605,000 people. Much of the population is centred in Nottingham or the towns on the edge of the city. There are many bus operators varying in size and complexity of operation. The operators include Nottingham City Transport (NCT), Trent. Barton (formerly the largest independently owned bus operator in the country), South Notts (50% owned by Barton), Skill's, Gash, Gagg, Worthington, Lincolnshire and others. Prior to deregulation the area was complex; after, the complexity was added to! Prior to deregulation there had been in existence the

Nottingham protection area which gave NCT and a few other services a monopoly to carry passengers within the city area. This monopoly was removed upon deregulation.

#### Analysis of service changes

There are two methods for analysing the changes subjectively.

- (1) Complaints and
- (2) Opinions and memories of events.

People only complain when things are bad. Complaints would not therefore give a clear picture of changes that were liked by the consumers of bus trips. The second subjective method has been extensively used by the TRRL who have conducted sample surveys. Kingsley Lewis was sceptical of the value of the surveys stating that respondents tended to have short memories; remembering the situation one year previously was quite difficult. The results of such studies must therefore be treated with caution.

The studies therefore concentrated on more objective measures.

(1) Vehicle miles operated. He showed a table indicating how this had changed over the period before and after deregulation by area of study. This is shown below and indicates the annualised figures based on operation at February 1988 and a series of indices from November 1985 and the degree of mileage operated under subsidy as well as the use of small buses.

	Medway Towns	Swale District	South Notts
-----			
Vehicle Miles			
February 1988			
Millions per annum	3.78	1.10	17.89
Index			
(% subsidised in brackets)			
November 1985	100	100	100
			95*
November 1986	141 (9.6)	105 (26.9)	99 (5.3)
November 1987	125 *1	111	103
February 1988	134 (16.4) *3	111 (30.9)	103 (3.7) *2
Use of small buses			
in February 1988	35% of mileage	In Sittingbourne	Limited
-----			

\* Services cut in front of deregulation

\*1 Maidstone & District initially registered evening and Sunday services as commercial but later dropped these from the commercial network. This effectively prevented competitors from establishing commercial networks from the base of subsidised tendered routes.

\*2 The reduction in subsidy was partly due to the "commercial capture" of previously subsidised routes.

\*3 Additional minibus services.

Between November 1985 and February 1988 operators shares of vehicle mileage have changed. A summary of the changes are listed below:-

	November 1985	February 1988
Maidstone & District	99.0%	96.0%
NCT	55.7%	54.8%
Trent	20.6%	14.5%
Barton	15.8%	14.3%
South Notts	3.4%	3.0%
Calllll	0%	3.4%
Others	4.5%	10.0%

(2) Bus journeys operated. This is related to vehicle mileage and gives a feel to the magnitude of the changes taking place. This is illustrated by a table showing the number of journeys on "city" services to/from the centre of Nottingham by time of day/day of week.

	November 1985	February 1988	% Change
<b>Weekdays</b>			
- 0730	222	161	-27
0730 - 0900	300	270	-10
0900 - 1600	185	244	+32
1600 - 1800	284	274	-4
1800 -	122	101	-17
<b>Saturday</b>			
Daytime	201	239	+19
Evening	127	103	-19
<b>Sunday</b>			
	113	91	-19

(3) Patronage. More passengers after allowance for fare changes etc. could indicate that services were perceived as having improved. Surveys conducted before and after deregulation indicate that these were only small changes.

(4) Limited sample of trips. This type of survey looks at the characteristics of trips with respect to walk, wait, ride and fare parameters.

(5) Detailed analysis by street. Compares the before and after situation at the micro level. The biggest changes in headways were associated with reroutings within residential areas and are concealed by more aggregated analysis.

(6) Cost Benefit Analysis. This would quantify the changes that had taken place in terms of monetary values but was not carried out due to lack of detailed patronage data and the fact that the biggest changes were at the micro level.

Consequently it was very difficult to add all the changes up.

Kingsley Lewis showed a summary table which tried to embody the key findings from the study.

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 Summary table of study findings

	Medway	South Notts
Reliability	Little change (bad congestion).	Little change (good). Problems with some contract & Camm's.
Service Structure	Concentration of services along certain roads and break in formerly cross-town services at Pentagon bus station*.	Broadly similar Trent more direct
Innovation	Use of minibuses and restructuring of routes*.	Detailed route changes. some new links.
Fares	Slightly ahead of RPI	Nottingham City 5% ahead of RPI. Elsewhere 2% ahead except where competition.
Concessionary Fares	Countrywide OAP scheme, District financed. Child commercial.	GAP schemes enhanced. Child worse. Student worse.
Patronage	Little change.	Small increase of up to 2%. except evenings and Sundays when small decline.

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 Summary table of study findings (continued)

	Medway	South Notts
Public Expenditure	Small decline in 86/7 but increase in 87/8 and 88/9.	Approximately 2.6 real decline. (8% of turnover, 4.3 pence per capita. This includes NCT surplus (11% of turnover). Most of rest accounted for by concessionary fare reimbursement *1

\* The County had formerly resisted these changes.

1\* About one third due to fares, one third due to lower wages and about one third due to efficiency gains.

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 Lower wages were not considered to be gain in efficiency but a redistributinal effect. Efficiency was defined as the change in costs with constant services and constant input prices.

The findings of the above and other TRRL studies had been compared to a "whimper" in comparison to the findings reported by the Association of Metropolitan Authorities (AMA) for the effects in the metropolitan conurbations. In terms of competition there had been skirmishes over fares and services on a limited number of routes in the SoNotts area. The potential for competition was very great in Nottingham but it appeared that LOACONSENSUS OF OPINION BETWEEN THE MAJOR OPERATORS HAD BEEN REACHED" relating to the broad division of services. A number of detailed cases were cited to explain the various competitive strategies adopted.

The competition in Medway was very limited and had lasted only a short time when the operator Roseway had started to compete against Maidstone & District (M&D). M&D ensured that the competition did not last for very long.

Was deregulation a success? It was felt that it was probably too early to say. In the S.Notts area there were a number of unstable factors which could affect the situation in the future. NCT are a very powerful operator and the City Council still has an influence, e.g. over fares. In the Medway area M&D, although the dominant operator, had not been ruthless to make money.

Questions from the audience spanned the whole subject area. Peter Livermore from the London Borough of Camden raised the matter of qualitative factors including vehicle design and passenger information. There had been a few problems with passenger information in Nottingham where many services had changed and the changes had been frequent, but these mainly concerned small operators at bus stations. Dan Flowerdew noted that the County Council produced compound timetables and in this there had been no great changes. On the vehicle front there had been little change. Minis had been introduced mainly to serve routes on which demand was light. The former Accessline services to serve special needs had been dropped but a Nottingham Dial-a-Ride service was subsequently introduced. (These changes had little to do with deregulation.) Only a few ex-London Buses Limited Routemasters had been introduced with conductors. Roger Webber of London Buses Limited asked whether the rumour was true that where British Rail services were an alternative to buses whether these services were carrying more passengers. It was difficult to say but in the Medway area rail is the main public transport mode for longer distance trips but in the S.Notts study area there are only four local stations. Robert Bain of PCL and Ernest Godward of ESG asked about innovative services and the role of taxis after deregulation. Taxis were only a small proportion of the market and there were no indications of significant change.

Mr Vivas of PCL questioned whether there was enough traffic to have a competitive environment. This point went to the heart of the problem. Even in Nottingham it was questionable. A number of the competitive theoretical structures were unstable and at the end of the day a monopoly of some degree would result. Kingsley Lewis felt that the man with the money during the competitive phase would be the winner in any competition.

Tony Flowerdew of the University of Kent asked about market structures and contestability of routes. In reply, Kingsley Lewis said it was plainly not the case that operators set fares and services as though there is competition in the absence of actual competitors since there are many examples where the intrusion of a new competitor led to dramatic changes in fares and services.

Stuart Cole of the Polytechnic of North London said that the government's objective in introducing deregulation was the reduction/impact that it would have on subsidy levels. The studies had shown that there were not the degrees of inefficiency in the system that had been suggested. Not much change had taken place in Medway and only one third of the reduction in subsidy in S.Notts was due to efficiency. Wages in S.Notts had been reduced but this was under the condition of less than full employment within the local economy. This would not be the case if full employment were the case. Mervyn Jones asked about the use of "friendly, flexible and frequent" minibuses. In S.Notts they were not prevalent. twelve were in operation before deregulation. Some more were now in use on routes with low passenger loadings. By contrast in Medway over 33% of mileage was operated by minis. For a 90% increase in vehicle miles, 25% increase in passengers had resulted indicating an elasticity of to.27 with reference to vehicle miles. On the cost side of the equation the consultants could only infer as the operator would not let them be privy to the information. They were probably not profitable. Peter White noted that the break even elasticity for minibus operation was about +0.4. He also went on to compare the bus industry with the airline industry



where there was a great deal of information even in deregulated environments which contrasted strongly with the situation on the bus side where there was a dearth after deregulation thus preventing any real analysis of impacts.

Reviewed by Ernest Godward, Economic Studies Group.

Full reports were published in August 1988 by the Transport & Road Research Laboratory:-

CR78 Deregulation of buses in South Nottinghamshire, K.J.Lewis and D. Flowerdew, Colin Buchanan and Partners

CR77 Deregulation of buses in Medway, A.D. Rice and K.J. Lewis, Colin Buchanan & Partners.

BOOK If:VIEWS

SECOND REPORT FROM THE HOUSE OF COMMONS TRANSPORT COMMITTEE,  
SESSION 1987-88: THE GOVERNMENT'S EXPENDITURE PLANS FOR TRANSPORT  
1988-89 TO 1990-91  
HMSO July 1988, HC-442, £11.30

The Select Committee on Transport has established a useful custom in recent years of holding a review meeting on the transport elements in the government's public expenditure plans, published by the Treasury in January or February. Submissions are also invited from other bodies, and amplification of the government's views is given in a detailed memorandum by the Department of Transport. Although Select Committee recommendations have little immediate impact at present - unless they conform with aims already set by the government - the report provides a useful review of the current scene, and highlights some areas for future action.

Much of the report is concerned with the roads programme, and the problem of defining capacity, in relation to forecast flows. Major motorways are shown to be already running at above their 'capacity' in 1986 (Figure 1). However, one does have some sympathy with the Department on this issue. Under pressure from public inquiries in recent years, there has been a move away from rigid definitions of 'capacity' - which must depend upon level of service specified, rather than being an absolute limit. There is also an awareness that previously-defined limits may be exceeded as vehicle and driver performance changes occur. It would be a pity if reversion toward a more simplistic approach were to result.

The Department's own memorandum to the Committee also provides some very useful data on British Rail and London Regional Transport operations, especially the graphs showing trends in traffic and revenue by sector. The gap between BR fares at standard levels, and average revenue yield (i.e. revenue per passenger-km, allowing for the effects of changing traffic mix) is particularly striking: from a common base of 100 in 1980, standard InterCity fares exceeded 115 in 1987, but average yield was only around 95 - due, no doubt - to policies such as the extensive introduction of 'Saver' tickets.

The Committee's recommendations emphasize strongly their wish to see more capital investment - the government is asked to 'take careful note of the economic return to be gained from road construction', and 'urgently review the case for providing more trunk road capacity'. In the local transport sector, the Committee wish to see a separate provision for car park investment reinstated in Transport Supplementary Grant. and in the case of BR the Department is asked to 'take immediate steps to ensure that additional investment funds are made available ••••. In this respect, some reversion to attitudes of about ten years ago has occurred, i.e. seeing capital investment per se as a 'good thing', while implicitly downgrading operating or current spending (although they recommend that 'PSO grant be made available for

InterCity where appropriate').

The question of bus deregulation is examined briefly, with some scepticism displayed as to the net financial savings made as a result. The Minister is asked to make a statement as soon as possible on the outcome of the sale of NBC.

In future, the departmental sections of the Public Expenditure White Paper are to be published separately in January. The Committee see this as an opportunity for the DTp to present an 'annual report' of its activities.

The Committee is now seeking evidence for its enquiry 'Roads for the Future' (to be received by the end of OctOber), which will examine forecasts, planning techniques, financing, and European Community policy.

Reviewed by by Peter R. White, Senior Lecturer in Public Transport Systems, PCL Transport Studies Group

## ARTICLES

### WHO IS GOING TO PAY FOR IT?

W.J. Tyson, Transport Consultant

This is a response to the challenge laid down by John Hibbs in the Summer Transport Economist. Perhaps to some people LRT does mean Love Running Trams, and John is quite right to think the unthinkable - long may he continue to do so.

There is, however, a serious side to the response. Taking his starting point about the preponderance of planners rather than economists at conferences, I am quite sure that this reflects the

relative supply and demand factors for the two professions. and I leave my fellow economists to draw their own conclusions from this! However. this does not mean that economists have been absent from the evaluation of LRT schemes. I have been involved in the Manchester scheme for more years than I care to remember, and am actively involved in work for one other Executive and two potential private developers. I have also been consulted - directly or indirectly - by two of the other PTEs who are promoting schemes. No doubt other TEG members have also been involved and I think that this illustrates the extent of concern with the economics of the schemes.

The Greater Manchester LRT scheme is the one with which I am most familiar. It is significant that this has, over the past two years, gone from a scheme which was originally conceived and evaluated on pure public sector criteria to one which it is expected will attract a measure of private capital in a form which will satisfy the Treasury on the issue of transfer of risk. This has meant that a considerable amount of work has been done to examine the extent to which consumer surplus can be captured in fare box revenue. In consequence the standard transportation .modelling has had to be supplemented by much more detailed analysis of the individual corridors. What. in a conventional economic analysis. used to be a "throwaway line" concerning benefits to generated traffic has assumed major importance. A lot of effort had to be put into market research amongst potential users concerning their likely response to the scheme and validating this against estimates of the time savings and other user benefits. A key factor in the evaluation was the extent to which it was possible to price up to obtain these benefits without simply driving potential new customers back to their existing modes.

This has been a long, complicated and, at times. painful process which has involved not only the PTE and its immediate advisers but the Department of Transport, two merchant banks (one

advising each side) and, more recently, one of the big accounting practises.

One consequence of the competitive environment in which we now all live is, of course, that the results of this are not as freely available as they might otherwise be. Therefore it is not difficult to understand John's apparent concern that schemes are being designed and built without much attention being paid to whether they will ever be financially or economically justified.

I also believe that the Government's objective of involving private sector finance or private sector operation will act as a discipline which will prevent some of John's worst fears coming to pass. Looking on the bright side, one of the side effects of bus deregulation and the effective ending of integrated networks, means that revenue gained by LRT from buses is no longer a book keeping transfer within the PTE's accounts but a genuine gain to the LRT operator. Obviously it will have to be matched by an equivalent saving in resources by the bus operators but the discipline in the market under deregulation should ensure that this takes place. The unanswered question concerns the extent to which this revenue loss from the bus network will result in travel demands which can no longer be met by the commercial bus services and which are considered of sufficient social value to be met with subsidised services.

I do, however, think that we should not be carried to extremes by the current situation. There are circumstances where the external benefits from investment in public transport are sufficient, and should be sufficient, to justify external funding by the community as a whole. The Department of Transport recognises this and is beginning to lay increasing emphasis on measuring benefits like relief of congestion and reduction in accidents as a basis for justifying Government grants. I believe that this presents at least two challenges to transport economists. These are:

Quantifying the effect of investment in public transport on external benefits like congestion and accidents. Previous work on this subject had generally taken place within the context of area-wide "macro" policies and had not been directed at the micro level towards specific areas;

Refining and deepening our understanding of the pricing process and the demand function with particular emphasis on cross elasticities between modes. There may be no point in raising the price on an LRT scheme so high that it fails to attract users from other modes and contribute to the relief of congestion and the reduction in road accidents.

I am also conscious that in this note I have concentrated almost exclusively on revenue and said very little about operating or capital costs. My experience is that we have got a lot to learn, particularly about operating costs of light rail schemes.

As a final thought, I wonder to what extent John Hibbs' concern is based on another issue. This is: at what stage in the planning process do the economists become involved? Conventionally it has been the job of the planners and the civil engineers to design and, to some extent, cost the systems, and the job of the economist "to justify them". Surely this is wrong and economic evaluation ought to be built into the planning process at a much earlier stage. However, if economists are to achieve this they must be capable of delivering rapid assessments and evaluations, albeit rough and ready, which are related to the needs of the particular situation. Perhaps the whole issue of LRT scheme justification will act as a catalyst to the profession, and transport economists in particular, and cause us all to look a little more carefully at the roles we play. I am sure that I cannot be the only TEG member to have experience and opinions on this particular topic and would be interested to hear of other members' experience. This might, possibly, be an area in which TEG could usefully have either a meeting or a conference.

TE ( ) NEWS

## MEMBERSHIP NEWS

There has been a steady flow of new members during the second and third quarters of this year. They are:

Philip Cornwell, who is Director of Traffic & Transport Consultants Jonathan Preston, a Research Fellow at the Institute of Transport Studies, Leeds

Mrs. Marian Marsh, a Transportation Planner with the York City Development Group

Andrew Newlove, a Postgraduate Student at the Imperial College School of Management who is at present studying aerial tramways as a method of public transport and would like to contact any other members who are similarly interested.

Dr Andrew Spencer, a Research Fellow for the Transport Studies Group, Polytechnic of Central London

Dr Jannette Barth has recently moved to London and is now a consultant transport economist. She was previously Chief Economist New York Metropolitan Transportation Authority.

Nick Tyler, a Research Assistant with the Transport Studies Group of University College, London

Ian Savage, who many will remember as a Committee member, is now at the University of British Columbia, having moved from south of the 49th Parallel!

Ernest Godward, after a short stay in academia, has moved to the Economic Studies Group, 61 Southwark Street, London SE1 1SA.

A thank you for those members who have taken the trouble to inform me of changes in address, occupation, etc. Unfortunately some changes did not arrive in time for them to be included in the distribution list because of holidays, etc. prior to the summer

issue of the Transport Economist. If any member is short of the summer edition. the 1988/89 Programme, or any past TE's for that matter. please let me know and I will supply any missing items which are still in print.

Don Box, Treasurer & Membership Secretary

## PROGRAMME OF MEETINGS 1988-89

## LONDON PROGRAMME FOR 1988-89

Programme Organiser: Roland Niblett, Network South East.  
British Rail

Wednesday, 16 November 1988

## THE ROLE OF HOVERSPEED IN THE CROSS-CHANNEL MARKET

A senior executive from Hoverspeed Ltd.

Wednesday, 14 December 1988

## NATIONAL TRAVEL SURVEY

Dr. Mike Collop, Department of Transport  
(N.B. This is the second Tuesday in the month)

Followed by \*\*\*A CHRISTMAS CELEBRATION\*\*\*

Wednesday, 18 January 1989

## CENTRAL LONDON RAIL STUDY

Roland Niblett, Network South East

Wednesday, 15 February 1989

## PRIVATE CAPITAL FOR RAIL PROJECTS

N. Lethbridge, Schroders (Merchant Bankers)

Wednesday, 15 March 1989

## CAR ONLY TOLL ROADS

Tony Flowerdew, University of Kent

Wednesday, 19 April 1989

AIRLINE DE-REGULATION

Tom Bass, CAA

Wednesday, 17 May 1989

LTS DEVELOPMENT

M. Copley. MVA Consultants

Wednesday, 14 June 1989 (\*N.B. second Wednesday in June)

MINIBUSES

Speaker from the Transport Studies Group, PCL

Note: All meetings are on the third Wednesday in each month EXCEPT December 1988 and June 1989 which is on the second Wednesday.

All London Meetings are held at 18.00 for 18.30 at the Polytechnic of Central London, 35 Marylebone Road, London NW1, adjacent to Baker Street Underground Station. Meetings are generally held on the third floor of the main block directly fronting Marylebone Road. The room number is displayed in the reception area.

#### NORTHERN PROGRAMME

Wednesday, 9 November 1988

THE ECONOMICS OF TAXI REGULATION

Ken Gwilliam, ITS, Leeds University

15.30 for 16.00

The Institute for Transport Studies, University of Leeds

Further meetings are to be arranged. Full details are available from Chris Nash, Institute for Transport Studies, University of Leeds, Leeds LS2 9JT (0532 431751 X5337)

#### COMMITTEE 1988/89

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## COPY DATES FOR THE TRANSPORT ECONOMIST

Edition	Vol.	No.	Copy Date	Date Out
Winter 1988	16	2	14 December	31 January
Spring 1989	16	3	14 March	30 April
Summer 1989	16	4	14 June	31 July
Autumn 1989	17	1	14 September	31 October