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## Big buses in a small country: The prospects for bus services in Wales

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## ABSTRACT

The evolution of the bus market and industry in Wales since deregulation in the mid-1980s is reviewed. After a brief period of competition, which seemed to offer the prospect of welfare gains, the industry rapidly consolidated, with resulting losses in bus usage and welfare, similar to the rest of Great Britain outside London. There were large increases in subsidy following the introduction of a national free concessionary fares scheme in 2002. There is some evidence that some of this subsidy has leaked, at least some of the time, into super-normal profits, in part due to generous concessionary fare reimbursement terms. For the urban parts of Wales, particularly in the North East (centred on Wrexham) and the South East (centred on Cardiff), there are aspirations to develop Bus Rapid Transit to supplement the existing rail network. For rural Wales, there have been long standing aspirations to develop more flexible public transport services and long distance bus services, but this has often been thwarted by lack of funding. Organisational reforms that might assist the Welsh Government in delivering these aspirations are reviewed, including Quality Contracts, Quality Partnerships and Community Partnerships.

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## 1. Introduction

Wales is one of the four countries that constitute the United Kingdom. It achieved limited devolution in 1999, following the Government of Wales Act 1998, and acquired independent executive powers in 2007 following the Government of Wales Act 2006. It has a population of around 3 million (4.6% of the UK total) and an area of 20,799 km<sup>2</sup> (8.5% of the UK total). It is a relatively small country and one in which the role of conventional buses has been under review. This paper is based on a report produced for the Public Policy Institute for Wales in the summer of 2014 (Preston, 2014) that has been updated and revised in the summer of 2015. It aims to answer four questions:

1. What has been the impact of deregulation on bus services in Wales?
2. What are the advantages and disadvantages of the Welsh Government's current approach to working with bus operators?
3. What alternative approaches could be considered and what impact would they have on services and the pattern of subsidy?

4. What can the Welsh Government do to improve the effectiveness of quality partnerships?

The analysis in this paper is based on a review of policy documents and the relevant academic and non-academic literature plus economic modelling of comparative performance of the Welsh bus market since deregulation.<sup>1</sup> We tackle each of these four questions in turn (sections 2–5), before drawing some conclusions (section 6).

## 2. The impact of bus deregulation

The current approach to regulating bus services in Wales dates back thirty years to the 1985 Transport Act which:

- Abolished the system of Road Service Licences that had existed since 1930, opening up the commercial market to any company that had appropriate operator, driver and vehicle licences and registered its services in a manner proscribed by the Traffic Commissioner;

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<sup>1</sup> The database for the economic modelling was developed with assistance of Dr Jinan Piao.

- Made provision for tendering of socially necessary services. In part due to its large rural core, Wales has a higher than average proportion of socially necessary services. By 2007/8, they comprised 34% of its bus services, compared to around 20% in the rest of Great Britain. Due to funding constraints, this figure has been declining in Wales and in 2013/14 stood at around 26%;
- Led to the corporatisation and subsequent privatisation of publicly owned bus companies, including National Bus Company (NBC) subsidiaries owned by central Government and the Municipals owned by local government.

In Wales, the Act resulted in the privatisation of the three NBC subsidiaries and most Municipals. South Wales Transport, covering south west Wales, was acquired by the predecessor of First Group in 1987. National Welsh, covering south east Wales, was also privatised in 1987. Crosville Cymru, in north and mid Wales, was bought by the predecessor to the Arriva Group in 1989. Most Municipals were privatised including Cynon Valley (1992), Inter Valley (1989), Islwyn (2010) and Taff Ely (1988). Only two (in Cardiff and Newport) now remain in public ownership.

### 2.1. The Welsh bus market since deregulation

Our analysis highlights five key trends in the bus market in Wales since deregulation:

1. **Demand has decreased** – The number of bus trips per head has declined between 1985/6 and 2014/15 by 43% (37% after allowing for population growth). Ridership increases in the early years of deregulation were quickly followed by a strong secular decline. Fig. 1 shows that the drop off in demand lessened and indeed reversed from around 2002, largely as a result of the national concessionary fare scheme. However more recently, a return to secular decline is evident. This is confirmed by a recent review undertaken by [TAS \(2015a\)](#).
2. **Supply has increased but is now beginning to decline** – Vehicle miles have increased by 20% between 1985/6 and 2013/14. The greatest increases were seen in the early years of deregulation, when a number of minibus services were introduced and there was three way competition between the Municipals, NBC subsidiaries and independents. Fig. 2 shows that the rate of growth was less marked from the mid-1990s and in recent years has started declining largely due the contraction of the social (tendered) network.
3. **Fares have risen** – Receipts per bus trip, including concessionary fare reimbursements, are difficult to calculate due to

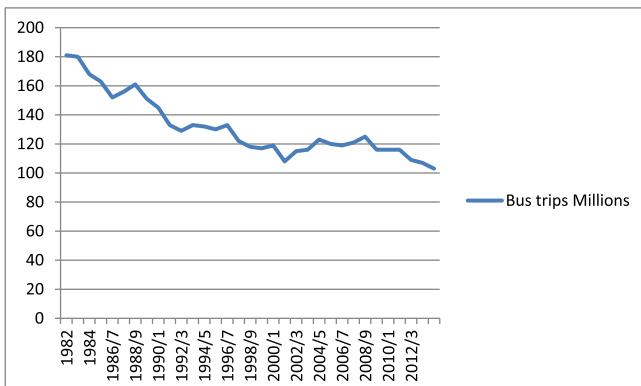


Fig. 1. Bus demand in Wales: passenger trips 1980–2014/5. Source: Statistics Wales (2015) and predecessor publications.

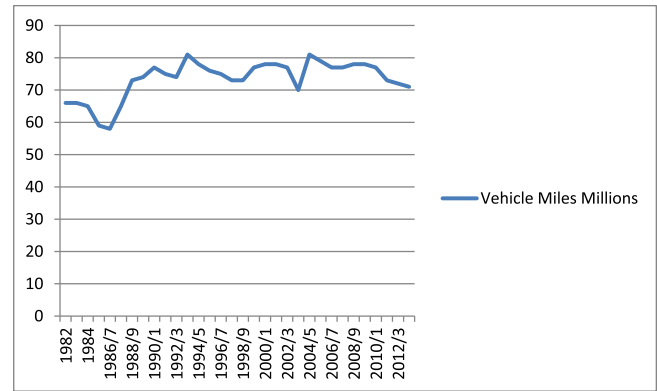


Fig. 2. Bus supply in Wales: vehicle miles 1980–2013/14. Source: Statistics Wales (2015) and predecessor publications.

differences in definitions over time but we estimate have increased between 1985/6 and 2013/14 by 37% in real terms.

4. **Operating costs have fallen but are now increasing** – Costs per vehicle kilometre, including depreciation, have decreased by 15% between 1985/6 and 2013/14. The large reductions in costs took place prior to 2000 when they amounted to around 50%.
5. **Subsidy initially decreased, then increased substantially and is now decreasing again** – Excluding Fuel Duty Rebate/Bus Services Operators Grant (BSOG),<sup>2</sup> subsidy reduced by 35% in real terms between 1985/6 and 1997/8. Between 1997/8 and 2009/10, there was a very strong increase of 251%, largely due the growth in concessionary fare repayments. Since 2009/10, there has been a real decline in bus subsidy of around 17% (based on 2015/16 estimates). Overall, subsidy has increased by 89% since 1985/6. However, the overall figure masks important differences between revenue support (down 25%) and concessionary fares reimbursement (up 318%). A national free concessionary scheme was introduced in Wales in April 2002. Expressed in terms of out-turn prices, reimbursement jumped from £14 million (2001/2) to £30 million (2002/3) in one year, but has since increased steadily to £67 million by 2010/11. This was estimated to be £73.2 million in 2013/14. Agreements were made to limit this to £67.75 million in 2014/15 and £69.75 million in 2015/16.<sup>3</sup>

### 2.2. Modelling the impact of deregulation

To determine whether these changes in bus services in Wales are the result of deregulation it is necessary to try to assess what would have happened if the reforms had not been introduced (the 'counterfactual'). Using an approach developed by [Preston and Almutairi \(2013, 2014\)](#) and outlined at previous Thredbo conferences that is based on bus demand forecasting models, we assessed the extent to which demand for bus travel is influenced by fare levels, services and income levels. We then estimated consumer surplus (benefits to bus users); producer surplus (benefits to bus operators); and changes in welfare (the sum of the consumer and producer surpluses). We analysed the data for London and for the rest of Great Britain and compared these to the Welsh bus market. Our comparative analysis only goes up to 2009/10 as cost data from London are not available after that date. Comparisons with London

<sup>2</sup> BSOG replaced fuel duty rebate as part of the 2000 Transport Act but remained a rebate of around 80% of the fuel duty (tax) for conventional diesel and 100% for greener fuels.

<sup>3</sup> Local Transport Today, 651, 11–24 July, 2014, p. 3.

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