



Buses: deregulation in the 1980s

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This note briefly summarises the bus policy of the Conservative Government in the 1980s, during which time bus services were deregulated (except in London) and bus companies were privatised. It covers services in England, Wales and Scotland.

Information on other areas of bus policy such as concessionary fares, funding and grants and the policies of successive governments since 1997, can be found on the [Buses Topical Page](#) of the Parliament website.

Contents

1	Background	2
2	England and Wales	2
	2.1 Transport Act 1980	3
	2.2 Transport Act 1985: deregulation	4
	2.3 Transport Act 1985: privatisation	5
3	London	5
4	Scotland	6
5	After deregulation	6

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1 Background

The regulation of passenger-carrying motor vehicles was introduced by the [Road Traffic Act 1930](#). This Act marked the beginning of comprehensive state intervention in the bus industry by its introduction of both quality and quantity regulation. The Act remained virtually unchanged until 1980 despite two Government reviews in 1953 and 1961.

The [Road Traffic Act 1930](#) established a system of road vehicle licensing controlled by regional traffic commissioners. This covered quality regulation - of the operators, vehicles and drivers - and quantity regulation of the number and types of services operated. It provided for the award of licences to operators to run a service defined by a route and timetable with a specified fare scale. Once granted, a licence in effect conferred local monopoly rights on the operator particularly where local services in urban areas were concerned. Such services were developed on a comprehensive basis and provided a co-ordinated network, parts of which were usually dependent on cross-subsidy. Ownership of the local services was predominantly public.

The structure of the bus industry had changed little over the 50 years to 1980, but the market in which it operated had altered dramatically with the increased use of the private car. Bus patronage halved between the 1960s and 1980s.

Concomitant with this the bus industry was finding that operating costs, fares and levels of subsidy were on the increase. Almost all companies suffered from a shortfall between revenue from fares and their operating costs. Following the [Transport Act 1968](#), the [Local Government Act 1972](#) and the [Local Government \(Scotland\) Act 1973](#), local authorities played an increasing role in sustaining public transport through revenue support payments, in line with their statutory obligations to provide co-ordinated public transport to meet the needs of their populations. To retain the network of services and maintain fares at acceptable levels, local authorities were asked to make good the losses by subsidy payments. The level of support provided varied considerably from area to area. Because of the extent of cross-subsidy between routes, it was often difficult to assess the value for money obtained. Bus services in large parts of rural Britain, together with many commuter-based rail and bus networks in the conurbations, continued in existence only because of the subsidy paid by local authorities and the metropolitan passenger transport authorities (PTAs).¹

2 England and Wales

The Conservative Government that came to power in 1979 was very strongly in favour of bringing private investment and management into public transport. It argued that this would improve the passenger experience by making buses and trains more efficient. The government was committed to reductions in public expenditure and an increased role for commercial objectives, it therefore developed policies to reduce subsidies to buses, to reduce the role of local government in planning and controlling bus systems and to increase competition between bus companies. It decided that the way to deal with the decline in bus services, rising costs and increasing subsidies was to deregulate the industry and allow services to be subject to competition. Their basic argument was set out in the 1984 buses White Paper:

¹ the [Transport Act 1968](#) designated the metropolitan counties as 'passenger transport areas'; the [Local Government Act 1985](#) established a Passenger Transport Authority (PTA) in relation to each of those areas, with responsibility for planning local transport services (jointly with metropolitan district councils); the PTAs were renamed Integrated Transport Authorities (ITAs) under the [Local Transport Act 2008](#)

For 50 years from 1930 to 1980 local bus services were subject to a highly restrictive licensing system. Within this system the belief grew up that the way to provide comprehensive public transport is to protect the existing operators so that their profits from popular routes can cross-subsidise services for which there is less demand. The result of these worthy intentions has been to maintain a pattern of services developed for a different age and to neglect the best parts of the market. There has been too little incentive to develop markets, to woo the customer. Operators have been hampered by a philosophy that is defensive and inward-looking.

[...] There is good evidence that services could be improved and costs reduced if we went about it in a different way. Without the dead hand of restrictive regulation fares could be reduced now on many bus routes and the operator would still make a profit. New and better services would be provided. More people would travel. This is not idle speculation. In 1980 the Government removed regulation from the long-distance coach services. As a result fares have come down, new services have been provided, the number of people travelling has gone up, new vehicles with greater comfort compete for custom. Competition has done all this – and the customer is the beneficiary.

If the customer has the final say, bus operators will look keenly to see where and when people want to travel. If one operator fails to provide a service that is wanted, another will.²

Legislation to deregulate the industry outside London was introduced in the *Transport Acts* of 1980 and 1985. The former dealt with express coach services and the latter with the traditional, 'local' bus service. The Secretary of State for Transport at the time, Nicholas Ridley, stated that the aim of deregulation was "to halt the decline that has afflicted the bus industry for more than 20 years".³

2.1 Transport Act 1980

The *Transport Act 1980* lifted regulations on express coach services and also allowed county councils to set up 'trial areas' in which road service licences were no longer required and operators could run services on any route they wished. The Transport and Road Research Laboratory (TRL) reported on the three trial areas (Norfolk, Hereford and Worcester, and Devon) in 1984 and reported mixed results, qualified by the fact that the areas were largely rural, that the trials lasted only a limited amount of time, and that areas were affected by wider economic factors such as pressure on financial resources and declining demand, which influenced the provision of bus services everywhere. TRL concluded as follows:

The gradual decline in rural bus services in the Trial Areas simply reflects the general pattern, and is not demonstrably a consequence of deregulation. In all three counties, councils have achieved a degree of success in replacing services formerly provided by NBC [National Bus Company] companies with privately operated services, thus preserving basic networks with substantially smaller amounts of revenue support.

[...]

Deregulation has provided opportunities for operators to experiment with new services. It is arguable that some of those which have been tried in the more rural areas would have been allowed under the licensing system, but the procedures for obtaining licences can be a deterrent to small operators in marginal cases. Nevertheless, it should be recognised that the scale of rural initiatives has been small, and many of them have not been successful, simply because the market for them is small and

² DoT, *Buses*, Cmnd 9300, July 1984, paras 1.4-1.6

³ [HC Deb 12 February 1985, c192](#)

generally in decline. Deregulation has not therefore been sufficient to halt the overall decline in rural bus services, but neither has it worsened the situation. Operators have benefited from simplified administrative procedures.

The effects of deregulation are more discernable in urban areas and on inter-urban routes, where bus services may still be profitable. Independent operators have provided new services, sometimes complementary to those run by established operators, and sometimes in direct competition. Where there is competition, established operators have responded by reducing fares, increasing service frequencies, adjusting schedules, running free buses or various combinations of these actions. The public have consequently enjoyed lower fares and better levels of service. Demand has increased, but not necessarily by enough to cover the costs of the additional service provision ... Under present conditions, deregulation in itself may not be sufficient to allow small operators however efficient, to compete successfully with established operators with greater resources.⁴

2.2 Transport Act 1985: deregulation

Proposals to deregulate local bus services were published in the 1984 buses White Paper, mentioned above, and a subsequent series of more detailed consultation papers.

They were brought into effect by Part I of the *Transport Act 1985*. This abolished road service licensing in Great Britain, except in London, from October 1986. It replaced the licensing system with a system of registration and removed the duties of local authorities to co-ordinate public passenger transport in their area. Thus, a bus company could register any service that it chose to operate on a commercial, i.e. unsupported, basis. The local authority could invite tenders for additional routes or journeys if it considered social needs were not met by the commercial services and on condition that it went out to open tender.

The licensing authorities, the traffic commissioners, lost many of their former powers. Once the Act was implemented, any licensed bus operator merely needed to register its intention to set up a service with the traffic commissioner responsible for the area, giving at least 42 days' notice.⁵ The operator was then obliged to run the service according to the specification in the registration.⁶ Individual bus operators were responsible for the timetable and the introduction of new services depended on the operator's opinion of the demand for it and its commercial viability. There was no requirement in the 1985 Act or its consequent regulations for the commercial bus operator to consult before making changes to the timetable and the position of bus stops. The criteria for registration did not include any reference to public demand or to existing services and objections could no longer be made by other operators or local authorities.

PTAs and county councils were given powers to secure, using subsidy, socially necessary services which were not provided by the commercial market. Controls over these services in terms of fare levels, type of bus and so on, could be maintained.⁷ Operators had the right to participate in concessionary fare schemes and the PTA had powers to compel participation in the schemes. Operators were to be reimbursed for the net financial loss incurred by participating in the scheme.⁸

⁴ TRL, *Deregulation of bus services in the trial areas 1981-84: digest of report*, LR 1131, 1984

⁵ this was raised to 56 days under the Labour Government; for more information, see: HC Library standard note [SN/BT/1523](#)

⁶ *Public Service Vehicles (Registration of Local Services) Regulations 1986* (SI 1986/1671), as amended

⁷ information on subsidised and tendered services can be found in HC Library standard note [SN/BT/1522](#)

⁸ information on concessionary fare schemes can be found in HC Library standard note [SN/BT/1499](#)

2.3 Transport Act 1985: privatisation

At the same time proposals were also put forward to change the structure of the bus industry through privatisation. Deregulation was intended to increase competition through an increase in the number of competitors and by reducing the possibilities of entry-detering behaviour. Privatisation, in itself, was not necessarily going to increase competition. The 1984 White Paper envisaged that the various types of public ownership then existing in the local bus sector would gradually be replaced by private companies. Privatisation was seen by the Conservative Government to be a means of achieving a more committed management and better access to private capital.

In the years before 1985 the bus industry was dominated by public sector companies. In the six English metropolitan counties and Greater Glasgow the vast majority of urban bus services were planned, funded and operated by PTAs. A number of other cities and towns had, by historical precedent, municipal bus companies under the control of the relevant district council in England and Wales, or the regional council in Scotland. Most of the remaining urban services and a high proportion of inter-urban and rural routes were operated by subsidiaries of the state owned National Bus Company (NBC) in England and Wales, and by the Scottish Bus Group (SBG) subsidiaries in Scotland.

Part III of the 1985 Act required the sale of the National Bus Company subsidiaries to the private sector. The company reorganised its services into 72 separate companies and these were all sold to the private sector or to management and/or employee buy-outs by April 1988.⁹ Forty of the companies were bought by management or employee teams and many of the sales included provision for employee share schemes or profit-sharing schemes. Gross proceeds of the NBC privatisation amounted to £323 million, resulting in a net surplus to the Government of £89 million after all debts and privatisation expenses had been accounted for.¹⁰ The House of Commons Public Accounts Committee was critical of the Department for Transport's conduct of the sale of the individual companies as it felt that they had not accurately forecast their value.¹¹ Ten bus companies were sold between September 1994 and January 1995 for £233 million (£218 million net). In a report, the National Audit Office concluded that the key objectives of the sale had all been achieved and that it had raised £30 million more than the original indicative offers.¹²

Section 75 of the Act gave local authorities the power to dispose of their bus undertakings, subject to the Secretary of State's approval. Portsmouth City Council was the first municipal bus company to sell its bus operation in June 1988 and by 1997 only about seven per cent of passenger services were attributable to the municipal bus companies.¹³

3 London

Buses in London were governed by the *London Regional Transport Act 1984*, which transferred responsibility for the bus network from the Greater London Council (GLC) to London Regional Transport (LRT). The Act required London Transport to set up operating subsidiary companies to run bus and Underground services and in 1985 London Buses Ltd

⁹ [HC Deb 18 April 1988, cc355-57W](#)

¹⁰ [HC Deb 25 January 1989, c575W](#)

¹¹ PAC, *Sale of the National Bus Company* (ninth report of session 1990-1991), HC 119, 18 March 1991, para 3

¹² NAO, *The sale of London Transport's bus operating companies* (session 1995-96), HC 29, 14 December 1995, paras 2.41 & 2.43

¹³ [HC Deb 28 November 1997, cc691-92W](#); section 71 of the *Local Transport Act 2008* removed the requirement to seek the Secretary of State's approval for such a sale and at time of writing there are very few council-owned bus companies in existence – one [press report](#) from mid-2009 put the number remaining at just 13

was formed as a wholly-owned subsidiary. In November 1993 the Government announced that it would defer the previously intended deregulation of buses in London, although privatisation of the bus operating subsidiaries of London Transport would proceed.¹⁴

In London's regulated regime, all services were secured by London Transport, through LT Buses, from private operators following competitive tendering. Its role, in addition to securing services from private operators, was to determine the level and structure of fares to be charged, to determine the general structure of bus routes and their frequency of operation, to provide and maintain the infrastructure, to promote customer information and develop technology and to ensure operators deliver safe, reliable and clean buses.¹⁵

4 Scotland

In Scotland the position was slightly different as the Scottish Bus Group (SBG) operated the buses and coaches. As in England, long distance journeys were deregulated by the *Transport Act 1980* and local bus services were deregulated in October 1986 by the *Transport Act 1985*. However, whereas the 1985 Act placed on the NBC a duty to draw up plans for its privatisation, a similar duty was not placed on the SBG. It was not until 1988 that the then Secretary of State for Scotland, Malcolm Rifkind, announced he would privatise the company. The *Transport (Scotland) Act 1989* restructured the SBG into ten separate independent bus companies before being privatised. The sales were completed by October 1991 and yielded some £90 million for the Exchequer. The sale was considered by both the National Audit Office and the Public Accounts Committee; the latter of which was critical of the escalating costs of the sale and the considerable amount spent on work not subject to competitive tender.¹⁶

5 After deregulation

The Conservative Government remained committed to the promotion of competition in the provision of bus services and saw competition as in the best interests of the consumer and the public interest. The 1985 Act resulted in dramatic changes to both the operating environment and the pattern of ownership in the bus industry but there was criticism about predatory behaviour and the powers of the regulatory authorities. The conflicts between rival operators highlighted the absence of a regulatory framework, leaving an ad hoc policing arrangement to the [Office of Fair Trading \(OFT\)](#) and the Monopolies and Mergers Commission (now the [Competition Commission](#)).¹⁷

Following a consultation exercise on local bus services in 1993, the then Transport Minister, Roger Freeman, ruled out major changes to the legislation but announced a package of minor rule changes.¹⁸ These included clarifying the powers of the traffic commissioners to make it clear that they could use their powers to regulate the number of buses used in providing a service and to control the use of duplicate buses.¹⁹ The Government also worked

¹⁴ DoT press notice, "Delivering the best bus services for London", 8 November 1993 [PN 93/437]

¹⁵ the [Greater London Authority Act 1999](#) transferred responsibility for London's bus services from LRT to [Transport for London \(TfL\)](#) in 2000; for more information on London buses after 1997 see: HC Library standard note [SN/BT/1523](#)

¹⁶ NAO, [Sale of the Scottish Bus Group](#) (session 1992-93), HC 884, 23 July 1993; and: PAC, [Sale of the Scottish Bus Group](#) (twenty-first report of session 1993-94), HC 97, 21 April 1994, para 4

¹⁷ the OFT published an overview of the industry, making these points, in 1997, see: OFT, [The Effectiveness of Undertakings in the Bus Industry](#), Research Paper 14, December 1997

¹⁸ DoT press notice, "Freeman to act on results of bus consultation", 16 November 1993 [PN 93/455]

¹⁹ DoT press notice, "Freeman to introduce new measures to help ease bus congestion", 19 July 1994 [PN 94/264]

with local authorities on the Bus Working Group to look at issues concerning the provision of bus services and ways in which they could be improved. This culminated in an announcement in January 1996 that the government would introduce a number of measures aimed at improving bus performance and to lead to more stable services, including: high quality accessible vehicles; convenient waiting areas; ticketing schemes; good passenger information; and traffic management measures.²⁰

Regulation continued to be a concern throughout the period. In 1985, three-quarters of bus turnover was in the hands of the public sector; by 1997, this amounted to approximately seven per cent. Many of the more dubious businesses that took advantage of deregulation to run substandard vehicles on profitable routes were squeezed out and those that remained were committed to modern fleets and long term investment. By 1997 the three largest private groups - Arriva, FirstGroup and Stagecoach - controlled just over half of the bus market by turnover. While it could be argued that deregulation failed to deliver the Conservative Government's stated objective of halting the decline in the bus industry, it did reduce the costs of providing the services and the Government subsidy.

The twentieth anniversary of bus deregulation in October 2006 prompted several reviews of how the industry stood and whether it was fit for purpose. In taking stock two basic arguments were made on either side of the debate.

In terms of criticism of the deregulated system, several reports published in 2006 looked at the state of the bus industry and considered whether changes needed to be made, taking into account the general downward trend in patronage levels, the increasing costs to local authorities and the repeated complaints, particularly in the major metropolitan areas outside London, that the present system is not working.²¹ In particular, the Transport Select Committee published a report heavily criticising the current system and calling for the Government to make it easier for local transport authorities to take control of bus services in their areas.²² There are a number of reasons why some PTAs, local authorities and passenger groups take issue with the deregulated system and many of them come down to the same basic issue – deregulation has not necessarily meant healthy competition in the bus market. The industry is dominated by the 'big five' operators – Arriva, First, Go-Ahead, National Express and Stagecoach – who effectively run monopolies in many areas. Even where two or more of the 'big five' operate in the same area, this has not always (or often) led to streamlined services and cheaper fares.²³

Others pointed to the successes of deregulation. In November 2005 the Institute for Economic Affairs published a book by Prof. John Hibbs, one of the architects of deregulation. Professor Hibbs wrote that “after twenty years of comparative freedom the bus industry today has become a commercial success”:

Despite failings in some sectors there are many examples of proactive response to the market, with increased investment and some remarkable developments in man-management and consumer sensitivity. The central importance of costing and pricing

²⁰ DoT press notice, "Norris announces measures to improve bus performance", 8 January 1996

²¹ for example: Public Accounts Committee, *Delivery chain analysis for bus services in England* (Forty-third report of session 2005-06), HC 851, 23 May 2006; and NERA, *The Decline in Bus Services in the English PTE areas*, August 2006

²² Transport Committee, *Bus services across the UK* (eleventh report of session 2005-06), HC 1317, 26 October 2006

²³ in January 2010 the Competition Commission launched a [market inquiry into local bus services](#); it is expected to conclude in early 2012

for the market has been better understood than ever before and the provision of real-time information is making a new breakthrough in marketing. Some of the small firms snapping at the heels of the larger companies provide poor-quality vehicles which give a poor impression to the public, but the value of open access is recognised by some of the leading figures in the industry, while many small operators offer a high standard of customer care along with lower prices. While the overall proportion of bus travel continues to fall, there are many examples of substantial growth; restructuring of services in Cambridge has led to an increase in patronage of 45 per cent over three years.

What has been sadly lacking ever since 1985 has been a positive attitude on the part of highway authorities. To provide services buses need their own track, like trains. This has to be shared with cars and goods vehicles, but cars are singularly inefficient users of road space and in the absence of road pricing it should be the responsibility of local government to deal with the problem. Buses, however, do not rank high in public status, and motorists, who are voters and ratepayers, resent the introduction of bus lanes and other kinds of priority. A professional gap seems to have grown between urban planners and bus operators reflecting perhaps a distrust of commercial management. After the Transport Act 2000 the quality partnerships were designed to overcome this, but there now seems to be a real possibility that franchise would simply make things worse, by throwing the baby out with the bath water.

The real problem facing the passenger and freight transport industry, whether by bus, car or train, is the prospect of falling overall motoring costs and rising fuel prices forecast over the coming decade. Subsidy, which is an inevitable consequence of franchise, can be no answer to this. Only an industry made up of professional, profit-seeking businesses can hope to meet the challenge, supported and respected by local government planners.²⁴

²⁴ John Hibbs, *The Dangers of Bus Re-regulation*, Institute of Economic Affairs, November 2005, pp65-66