

12 Assessment

Background

12.1. On 3 October 1988 the Secretary of State for Trade and Industry referred to the Commission certain questions concerning the efficiency and costs of, and the service provided by, Ulsterbus Limited and Citybus Limited in supplying bus services in Northern Ireland (see Appendix 1.1).

12.2. In this chapter we discuss the main issues arising from our inquiry. A summary of our recommendations appears at the end of the report in Chapter 13.

12.3. In 1967 the Ulster Transport Authority was replaced by the Northern Ireland Transport Holding Company (NITHC); operational activities were transferred to subsidiary companies and in this way the bus services passed to Ulsterbus Limited. From the outset Ulsterbus placed great emphasis on cutting down management overhead costs. Operating costs were significantly reduced by completing the change to one-person operation of buses as early as 1972.

12.4. Belfast Corporation's Transport Undertaking was transferred to the NITHC in 1973 to be operated as Citybus Services, subsequently reformed as Citybus Limited. As with Ulsterbus, costs were significantly reduced.

12.5. The companies take pride in the fact that their drive for increased efficiency has made an important contribution to the preservation of the public transport network throughout Northern Ireland. At the same time, the companies have coped with a high level of civil disorder which has presented many severe problems, not least the destruction of over 1,100 buses since 1969 and many more damaged.

Performance

12.6. We have found an efficient, low-cost, lean organisation with short chains of command, supported by loyal, hard-working and frequently courageous staff. A consultant's report commissioned by Ulsterbus and Citybus compared their performance with that of operators in the rest of the United Kingdom. The comparison was based on the year 1986/87 before the full effects of deregulation on the mainland had come through. Nevertheless, the results are at least indicative of a satisfactory level of operating efficiency in the two companies, adding support to our own findings. The report showed that on average their costs per bus mile were 32 per cent lower than those of mainland operators. They received less financial support than mainland operators while many of their fares were lower than in Great Britain and had risen more slowly.

12.7. Nevertheless, the companies have recognised the need for change. Their management approach has been 'operations-led'. This, as we have indicated, has achieved impressive savings in costs but needs to be matched by equivalent attention to the type and pattern of service in relation to demand. Increased car ownership and the expansion of shared taxi operations have eroded bus patronage and it is clear from evidence to the Commission that bus passengers are looking for higher standards. The companies have themselves concluded that there is now a need for a market-led approach. Privatisation is expected within two or three years and may be followed by deregulation in the foreseeable future. Deregulation could be expected to erode the companies' monopoly of local bus services in Northern Ireland. It is therefore entirely sensible that the companies should have formulated a new primary objective of providing services which are fully attuned to passenger needs.

12.8. The companies recognised that while headquarters staff had been kept commendably small, it needed strengthening. The recent creation of the post of Inspector General is indicative of this need. His task is to examine depot operations in terms of efficiency and effectiveness but he is particularly charged with examining operations from the customer's point of view. This is a useful start to the underlying and necessary objective of changing attitudes throughout the companies. We have recommended that senior management should set out a plan for this, with targets and a timetable, and review progress regularly.

12.9. We are glad to note that improvements in quality of service are already in the pipeline, including making a start on fitting soft seats in Citybus buses, 43-seat layouts in all Citybus buses, improvements in public information, in-service driver training and improved availability of OAP passes. The companies have commenced a programme of bus station improvement. Nevertheless, we found that a lack of analysis of direct measurements of quality of service across the companies was a significant weakness in their quality control systems. We have recommended that a range of quality of service standards should be established and monitored, and the results published.

12.10. The companies' use of minibuses to improve penetration of housing estates, their use of market research to identify weaknesses and their attempts to improve quality noted above are an encouraging start to their new market-led strategy.

12.11. We now turn to the specific questions in the terms of reference.

The reference questions

12.12. We are first asked three general questions: whether each of the companies could improve its efficiency and thereby reduce its costs without affecting the quality of service provided; whether the quality of service provided could be improved without any increase in costs; and the extent to which a higher quality of service might generate higher net revenue. It will be clear from our assessment of the companies' performance that there is little scope for their reducing costs without affecting the quality of service provided. We found that a modest improvement in quality of service could be made at no or negligible costs by Citybus inspectors enforcing the company's no-smoking ban on its buses; by introducing bus priority measures; by improving the availability of OAP passes; and by improving in-service driver training. We noted that the first two of these would need legislation or other support from the authorities. As to the relationship between a higher quality of service and net revenue, we found that the companies lacked the data for a proper evaluation of this question. We have recommended that the companies should evaluate the effects of pricing experiments carefully in order to estimate the elasticities of demand for their services; carry out surveys of potential demand; and include questions in the surveys designed to assess how many new passengers have been encouraged to use the buses and whether current passengers have increased their usage, and why.

12.13. We are also asked some particular questions as follows.

The scope for improvements in efficiency

12.14. Efficient use of manpower and vehicles and procedures for maintenance of vehicles are specifically mentioned in the reference. In recent years the companies' workforce has decreased by an average of 1 per cent a year. The numbers of managerial, supervisory and clerical staff are relatively low. Drivers represent over 50 per cent of the workforce and are well utilised with very low levels of non-productive time. Engineering employees represent another 20 per cent or so of the workforce and also achieve good levels of productivity. Industrial relations are generally good. On the matter of bus utilisation, we are satisfied that the companies have sound scheduling procedures which ensure that the number of buses allocated to meet demand is not excessive. Furthermore, maintenance work is effectively dispatched, so that buses are off the road for the shortest possible time. In this way the need for additional buses to provide maintenance cover is minimised. The companies also have a reserve fleet of second-hand and time-expired buses so that they can replace at short notice buses taken out of service unexpectedly. This fleet has to be of a size which they judge

sufficient, in the light of their experience of bus losses in periods of sustained civil disorder and of their knowledge of the second-hand market, to enable them to sustain the service. We have concluded that the size of the reserve fleet is acceptable. The relatively old buses in the reserve fleet affect the average age of the companies' buses but we believe this average age is reasonable.

Investment

12.15. Turning to the companies' methods for determining the nature, amount and timing of capital expenditure, we concentrated on the choice of chassis and bodywork and the decision on when to retire a bus. We believe that the companies' policy of standardisation has reduced costs. However, we have noted that this does not preclude their going to two main suppliers, one for each of the main chassis types they need, and we think they are right to consider a second supplier. Our main concern is the lack of quantification of data supporting the companies' choice of buses and their maintenance and retirement policy. The companies need to assess more fully the financial implications of each choice and develop better information to assess their maintenance and retirement policies. We have made a number of recommendations to this end, in particular that the companies should undertake formal investment appraisals for all major capital expenditure and develop their information systems to allow them to estimate the whole-life costs of their buses on present policies and on a range of alternatives.

The relationship of fares to costs

12.16. On the question of the relationship of fares to cost structures, we have noted that Ulsterbus fares increase with distance and to that extent are related to costs. Moreover fares per mile on Ulsterbus fall with distance, further refining the relationship between fares and costs. The company does not generally practise peak/off-peak differential pricing to reflect the lower costs of off-peak provision. Citybus has a flat fare throughout its network and throughout the day, apart from occasional special offers. We have recommended that both companies should estimate the elasticities of demand for their services and practise more peak/off-peak differential pricing. We have also recommended that Citybus should conduct a study to determine whether it should relate fares in some way to distance travelled. Any such change would depend on legislation which would enable Citybus to initiate an effective penalty fare scheme.

Matching services to demand

12.17. As to the efficiency of the companies in adjusting services to match demand and whether greater efficiency in this matter would increase net revenue, we believe that their policy of devolving decisions on service provision to local managers has been broadly successful. Using their detailed knowledge of their areas these managers have responded to perceived changes in demand and have held down costs. Nevertheless, we have been left with the impression that the policy has perhaps led to a greater emphasis on maintaining the basic network than on anticipating the changing needs of existing and potential customers. This is understandable given the difficulties faced by the companies but opportunities to increase net revenue may well have been foregone. It is another illustration of the need, recognised by the companies, to change to a market-led approach. The companies need in particular to make more use of minibuses, take more account of the impact of quality of service on demand, be more ready to try new services and rationalise Ulsterbus and Citybus services in Belfast. In all these respects we detect a positive change of attitude in the companies, which we commend. Our recommendations aim to support their efforts in this direction and we have specifically recommended that they should build on their experience of minibus services outside Belfast to introduce more such services into that city.

12.18. Certain other matters arising from our inquiry seem particularly important.

Financial framework

12.19. The companies taken together have a record of profitable operations. In his letter of June 1986, the Minister at the Northern Ireland Office responsible for Transport asked the Chairman of the bus companies to ensure that this continued, and that the business earned an appropriate surplus. However, neither the Government nor the holding company has set precise financial targets or efficiency measures of the kind laid down in the 1978 White Paper on nationalised industries (Cmd 7131). This matter is now in hand and we recommend that the companies should in future operate within the financial framework of the 1978 White Paper. This would involve having a target rate of return fixed for an appropriate number of years; a series of performance aims for the same period; a fares policy related to the financial targets; and investment appraisal aimed at ensuring that new investment programmes earn a rate of return as prescribed by the Treasury.

12.20. The DOE (NI) makes a 50 per cent grant towards the purchase of new buses. This is effectively a subsidy to assist the companies to bear the cost of operating uneconomic but needed bus services. We considered the alternative of direct route subsidy but concluded that it was not a suitable system for Northern Ireland under present circumstances. We have therefore recommended that the current system of bus grants should not be changed at this time.

Black Taxis

12.21. Black Taxis provide significant competition to the companies' stage carriage services in Londonderry and particularly in West and North Belfast. They first appeared in 1971 in West Belfast during a period of severe civil disorder when Citybus was forced to withdraw its services for as long as ten days at a time. Over the years the Black Taxis have been regularised to the extent that all the vehicles are now taxed and insured and subjected to roadworthiness tests annually. They operate on a fill-up-and-go basis and run at very high frequencies along established routes. They do not suffer the severe harassment to which bus services are subjected from time to time. It appears that they are effectively operating unlicensed stage carriage services but this is a matter for the authorities and not for this Commission. However, it is clear that the companies have lost substantial revenue, some £3 million in 1987/88 alone, as a result of this competition. On the face of it, it is not competition on even terms.

Fares evasion

12.22. Apart from reducing Citybus' revenue, fares evasion has held back moves Citybus might make towards a graduated fares structure. The company's estimates of loss of revenue have varied but its survey in February 1989 suggested that the full-year net effect on its revenue of the measures it was currently taking to deal with evasion would be an increase of 15 per cent or some £1.6 million. In addition there would be substantial savings by the DOE (NI) on concessionary fares recovery, resulting from a reduction in concessionary fares abuse. However, the company stressed that legislative backing was still required to prevent the level of evasion from rising again. We understand from the DOE (NI) that the legislation necessary to enable Citybus to introduce an effective penalty fare scheme is scheduled to be in place in 1989 and we believe it is very important that this programme should be maintained.

Management information systems

12.23. The companies are relatively small enterprises, with short lines of communication and an informal 'hands-on' style of management. They rely largely on direct supervision and individual inspection for direction and control. As we have indicated, this has worked well and we have recommended that in making necessary changes every effort should be made to keep formal management reports to an essential minimum. Given the companies' devolved style of management we believe it is important that management performance should be monitored. We have therefore recommended that they should introduce a management performance appraisal system, including the setting of objectives and monitoring their achievement on an annual basis.

Priorities for action

12.24. In the conclusions to each chapter of the report we make a number of recommendations which are summarised in Chapter 13. There are two matters which we believe should have priority. The first is the companies' achievement of their new primary objective of providing services which are fully attuned to passenger needs. This market-led approach requires better information about the needs of the customer, careful matching of services to demand, suitable fares structures and attention to fares evasion, and good standards of service. Secondly, the companies need a clear financial framework for their operations: a target rate of return; performance aims relating to costs and standards of service; a fares policy related to the financial target; and investment appraisal to ensure that they aim at earning on their new investment programmes a rate of return as prescribed by the Treasury. The recommendations which require particular attention in all these areas have been set out in bold type in Chapter 13.

The public interest

12.25. We are required to consider whether, in relation to any matter falling within our terms of reference, Ulsterbus or Citybus is pursuing a course of conduct which operates against the public interest. We find that neither company is doing so. In fact, we have pointed to the outstanding achievement of the companies in increasing the efficiency of their operations and making an important contribution to the preservation of the public transport network throughout Northern Ireland in spite of the severe problems presented by civil disorder. All the indications we have seen are that they will respond equally well to the need to change from an 'operations-led' to a 'market-led' approach to managing their affairs.

12.26. We have been more than impressed by the dedication of the companies' staff at all levels to maintaining their services to the public often in the face of severe harassment.