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The Role of Traffic Calming

Economic Evaluation of Light Rail Systems

Management and Employee Buyouts in the Bus Industry

European Railways - Financing & Planning

THE TRANSPORT ECONOMIST

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MEETINGS**THE ROLE OF TRAFFIC CALMING**Tim Pharoah, Polytechnic of South BankRoger Khanna, Frank Graham & Partners

London, October 1990

The speakers gave two views of traffic calming to a large audience in the Polytechnic of Central London. The first speaker, Tim Pharoah, gave an overview of traffic calming indicating the many benefits whilst Roger Khanna gave a different perspective from the viewpoint of a traffic engineer.

Tim Pharoah

Tim's introduction noted that everyone is now talking about "traffic calming" although there are wide differences in meaning. It is often used to refer to any scheme which has speed reduction as an objective or traffic management schemes to stop rat-running traffic. This may give traffic engineering a more acceptable face but the wider meaning as used in continental Europe is to be preferred - to accept the role of traffic but to integrate it into urban living.

Since traffic calming has been mentioned twice in the Environmental White Paper it is now on the official agenda.

To achieve this it is necessary to change the appearance and layout of streets, to emphasise their role as urban places rather than as merely tentacles of the traffic network. Environmental objectives are therefore an integral part of traffic calming - embracing social as well as physical environment in continental usage.

Traffic calming can be broadened to form part of strategies to limit the role played by the car in the urban transport system - an attitude toward urban development. The Dutch national transport policy emphasises public transport and cycling rather than the car - translated into rail and bus subsidies, integrated management and policies to reduce the need to travel.

Traffic calming is about changing priorities - with separated footway and carriageway the driver attitude is "make way"; on the other hand with improved appearance (extra trees) the driver attitude is "excuse me".

The main benefits of traffic calming can be listed as:

- fewer casualties and reduced severity
- less intimidation by traffic
- less severance of communities
- less noise and pollution
- more convenience for pedestrians and cyclists
- more convenient local access
- more attractive and useful public spaces
- better public transport (possibly)

All of these benefits are gained at the expense of one disbenefit - namely less comfort and convenience for drivers (especially impatient ones).

Three key elements of traffic calming were outlined and must be combined if the full range of benefits is to be realised. These are:

1. Speed reduction and calming of driving styles;
2. Space reclamation or re-allocation of space from carriageway to non-traffic uses; and
3. Redesign and improvement of street space to exploit and reinforce the change of priorities achieved by 1 and 2.

Those three-r's are essential although speed reduction is usually a pre-requisite to the success of the other elements because that is the one element that can reduce fatalities.

To produce low-speed areas (i.e. 30 km/hr zones) there must be self-reinforcing measures such as ramps and chicanes with planting and other environmental improvements. The lower speeds have achieved noise reductions equivalent to a halving of traffic volume and "calm" styles of driving have reduced both exhaust emissions and fuel consumption.

The completely shared surface is out of favour though because of the implications for partially-sighted people - the need is to extend footways.

There must be a reduction to a slow, steady speed with opportunities of the reallocation of road space. In the UK road humps have been used to reduce speed but without informing the driver why speed should be reduced.

Roger Khanna

Roger gave a very timely reminder of the problems of introducing traffic calming without enough attention to the design and the traffic engineering aspects. He gave an interesting perspective on current practice.

He began by defining the role of the engineer - to investigate, to design, to consult, to monitor and to maintain. Traffic engineering has been about movement and increasing the flow through roads. Action has included refuges, pedestrian crossings, pelican crossings, width restrictions. However, action is restricted by highway law - e.g. it is illegal to obstruct the footway. Traffic management is about the management of movement.

Traffic calming objective is to change the pattern of behaviour - need to understand people's response to the law and the way people refuse to obey it. One of the reasons for traffic calming is because people started to bend the rules. However, there is a need to be concerned about physically preventing people acting irresponsibly.

Roger then highlighted some of the problems that he had observed in his experience with some of the "calming" measures taken.

- road humps provided in accordance with law - the effects of winter snow and ice on humps was a hazard to cyclists and motorcyclists. The change in profile cannot be seen in very wet weather.

- problem of maintenance which leads to a lot of personal injuries because, e.g., a bollard knocked over.

Roger was unsure of how we are going to implement 20 mph zones because of the need to change people's attitudes - e.g. if people think they are safe, accidents increase.

Anybody who introduces a scheme needs to realise that there is a political problem:

- there is a possible downside
- maintenance must be taken into account
- cannot physically punish people because they do not obey the law.

Roger, however, welcomes the introduction of schemes but is worried about the next economic downturn on maintenance and the effect of statutory undertakers who fill surfaces with tarmac.

Discussion

Peter White (PCL) commented about some economic evaluation issues:- the question of how to tackle environmental issues in the economic equation had not been resolved; the economic costs of doing schemes to a high standard had an implication.

Liz Gillard (Steer Davis & Gleave): If drivers do not have an obedient attitude then they will not obey!

Response: Most calming is on local residential roads and not on main roads. Consequences of conflict on main roads are greater though. The UK has one of the worst child accident rates - mostly on local roads.

Roger Khanna: Calming is right in the right place - the problem is one of imposing on other people.

Kievan Sild (London Transport): People on foot have just as much right to free movement as vehicles - speed is a cost imposed on local residents. The economic evaluation still considers impact on injured parties, e.g. accidents and the law claims. If not properly designed - injury, legal challenge, aggravation.

Peter Gray (Maunsell) stated that a lot of the problem is peer pressure and psychology

US motorists stop and shrug

North Germans have a love of order and regulation

Dutch are as lawless as us.

In Berlin the whole city will be 30 km/hr next year except for the main roads. This is an attempt to change perception.

Martin Lawrence (Oscar Faber Traffic): asked if colour is more important than bricks. Are we trying to improve the environment - traffic management measures are not attractive but are effective.

Mervyn Jones - need to define objectives to give walking/cycling greater balance in the equation.

.Q: The Woonerf schemes had not been progressed because of the high initial cost and maintenance costs. 20mph zones offer a solution of achieving most objectives at a lower cost (£10/sq.m.) as can be included into housing and environmental improvement schemes.

Roger Khanna: The rat runs have taken the major increase in flow so that any reduction will have an economic cost - act of policy will have consequences.

.Q: In East London Assessment Study lower speeds had been modelled - the queue lengths went down; queuing time was transferred to running time therefore there was no overall increase in journey time.

Report by Laurie Baker, Principal Transport Planner, London Borough of Camden

ECONOMIC EVALUATION OF LIGHT RAIL SYSTEMS

Bill Tyson, Director of Planning, Greater Manchester PTE
London, December 1990

The speaker previously held an academic post at Manchester University, latterly he has been a consultant for the Tyne & Wear Airport Extension, also schemes in Chester and South Hampshire. He is now working full-time on Phase 1 of the Manchester Metro. Peter White quoted from his recent article in Rapid Transit UK that the lengthening time to get funding is a way of rationing schemes.

Bill Tyson started by stating that evaluation is driven largely by the requirements for funding. Although he does not consider every LRT scheme to be viable, he disagrees with John Hibbs' statement, "People enjoy running trams", this being the main reason for LRT.

Other Modes

The decline in urban bus services outside London is no fault of the operators, but mostly due to congestion. Their situation is very unstable and it is difficult for them to meet broader objectives. Heavy rail has become increasingly expensive for PTEs, despite BR's claims of lower costs overall. The Section 20 grant for Manchester was £20 million in 1988 and £26 million is being claimed by BR for 1989, but the PTE is disputing this figure. There appears to have been a rapid increase in operating costs. It is very expensive to expand the heavy rail system beyond existing rights of way.

Therefore light rail is the answer. It combines the benefits of both heavy rail and bus modes. Examples of present schemes range from total segregation from roads, e.g. Docklands; mostly segregated, e.g. Manchester; all on street but somewhat segregated, e.g. Sheffield.

Funding

Evaluation is very expensive and it is important to judge the professionalism of advisers. They must be able to tell initially if there is a good chance of it working or if not to drop it. Why is it not like road schemes? Unless the funding is being led by an

entrepreneur, e.g. Avon and Southampton, the DTp rules apply:-

1. One must, "seek to maximise the contribution from fares". One cannot look at a scheme unless fares cover the operating costs, at least.
2. Property developers may pay a contribution e.g. Canary Wharf, but this is unlikely outside London.
3. Section 56 (1968 Act) grants from the government, also local authorities can contribute directly. They may benefit from avoiding Section 20 costs and in Manchester also having to renew stock on the two lines involved (Bury and Altrincham). A grant from government can be up to 50% of the balance needed and there is also permission to borrow the other 50%. Then the cost of servicing the debt is met by increased revenue support grant, also from the government. There is a risk that the rules could change next year, leaving the local authority to pay the interest. Specified limits must not be exceeded.

Operation

Under the present government there cannot be any public sector operation. The DTp ensures that the private operator takes the risk. E.g. Manchester. The operator has paid £5 million to the PTE for a 15 year franchise. There is no control over fares because of bus competition. There are many penalty clauses. If the operator goes into receivership and no replacement is found, the PTE still owns the assets and might well operate it itself.

Evaluation

This is very different from COBA and now differs from that used for Tyne & Wear, which used only CBA for benefits to existing BR passengers, those switching from buses and cars. A Section 56 grant was paid on this basis. They costed resources on all modes, highway impact, congestion, accidents and regeneration of the city. Therefore the consumer surplus was most important.

Now the latter is still very important as it gives an idea of the willingness to pay. Manchester found a plausible number for CBA. They studied the likely switch from cars and surveyed passengers on the two lines involved. They even considered BR staff for revenue. Modal switch is a small part of the passenger benefits, but a Section

56 grant is given only if the benefits for non-users of decongestion, less accidents, improved environment and economic regeneration exceed the cost of the grant. The DTp needs a rigorous quantification and evaluation of any external benefits. Economic regeneration has to be considered from its site specific impacts, e.g. distribution of benefits between north and south Manchester, i.e. Bury and Altrincham lines.

The effects on competition have to be assessed. Increased accessibility to a development site may encourage a developer's contribution. As the operator has to take the risk, they have to be convinced of the scheme's viability. In Manchester there are three groups of potential operators with their merchant bankers. It is easier here because out of twelve million expected passengers, seven million are already using rail.

One should do three related evaluations:-

1. Financial - revenues and operating costs.
2. "Economic" - as defined by the DTp for a Section 56 grant based on external benefits.
3. Full economic - not a lot more work than in (2) above, but it ensures consistency. It is important to make it clear so that anyone can understand it.

Recently there has been a change in emphasis. The "value of time" standards are very rusty as used for COBA. New developments make extensive use of "stated preference" techniques, e.g. number of interchanges, permanence compared to bus services.

"Revealed preferences" were used, applying to specific areas or corridors, each with their own "value of time" and modal split. Modelling was used to apply data from 07.00 - 14.00, to the whole day. Three matrices were used:-

Origin!destination

Fares

Revenue.

In Tyne & Wear a county-wide model was employed. The Metro covered a large part of the county. It took six weeks to code the network and by then it could have changed. This is particularly

relevant to buses now. Traffic engineers' models have a limit to the number of junctions involved. The value of time is less important and priorities are now reversed. One has to solve this blow by blow.

Halcrow Fox reviewed the requirements of evaluation and decided that the tools were not very good and recommended attention to the following:-

Steering a middle course, using congestion models and complex SATURN models. If you take cars off the roads, how many more are attracted onto them?

Revenue estimation.

Stated preference.

Developers' contributions.

What is a benefit?

Economic regeneration.

Section 56 Application

This is a long process, for Manchester there are two big files (not like a passport application!). It is best to tell the DTp what you want well in advance and ask searching questions initially, so you know where you stand. They will take evaluations to pieces. It is easier to co-operate with them than any other approach. They have to answer the same questions from the Treasury. Therefore always answer their questions, as they need it for their own defence.

All this is very expensive in staff time, needing a lot of outside expertise. There is a pronounced peak in work load, which then tails off, but it is never finished. E.g. although the Manchester LRT is already under construction, with rails being laid in the streets, it has not been decided where the Piccadilly terminus will be sited. The best interchange is underneath the BR station, but this is supported by cast iron columns. In the case of collision damage these would have to be encased within concrete walls. If the vehicles then ride up, the roof is vulnerable and also has to be encased in reinforced concrete. Then one has an "underground" station, which has to be staffed adequately, following recommendations after the Kings Cross fire. If all this takes time and delays the contractor, he has to be paid extra under penalty clauses.

Finally, where any rail system cannot be justified commercially, one has to employ other approaches.

Questions

Chris Nash (Leeds University): Is replacing existing rail services easier than replacing bus routes?

Yes, often operators will not allow surveys on their buses and the DTp will not give a grant for LRT, which would put them into receivership. In Manchester the PTE did a deal with operators on the proposed extensions. They also co-operated with them in the central area. It is expensive to try surveying passengers at bus stops. To sample every passenger's travel habits on a line with 20 stations costs £60,000. Therefore in South Hants there is a consortium of developers, bus companies and ferry operators proposing to run the LRT. Similarly in Avon, Badgerline is involved.

Replacement of heavy rail is easy to justify by Section 20 savings. Bus subsidy savings are insignificant compared to the cost of a LRT scheme. The DTp have to be convinced that buses will not be knocked out, but also that the LRT will not collapse from their competition.

Peter Cain (BR): Have you looked at busways or guided busways? Yes, David Howell was very keen on them when he was the Transport Minister. Now one is looking at all the options, e.g. trolleybuses. Several consultants are very good at estimating the cost of rail construction, which can give a good idea of busway construction costs, but will guided buses capture passengers from ordinary buses?

Peter White (PCL): Is there a light rail attraction? In Manchester none has been claimed in the evaluation, but it may be there. DLR is not a good example because it is a new market.

David Stirling (DTp): If an operator's franchise is for 10-15 years, will they worry about the end of the period, if the council will take it over?

This is not a problem, because they are not bearing the risk of building the railway and 15 years is likely to be half way through the

life of the rolling stock. They have only to worry about running costs and revenue.

Q. How is de-congestion quantified because other users come in to use the road space created?

Halcrow suggests one should take half the benefits of the original effect over the projected life of the scheme.

Tony Flowerdew (Kent University): Are ALRTs expected to run to predictable timetables compared to buses and have you explored this by stated preference techniques?

The Bury line is self-contained and very punctual. This may be disrupted by through running. Reliability is said to be very difficult to quantify. A visible infrastructure does give a certain perception and confidence.

John Cartledge (LRPC): Maybe there will be one there in four or five minutes and also four or five years?

Yes, this is an advantage with developers. It is long term and operators are tied into it. Even if it goes broke the PTE would run it.

Paul O'Sullivan (DTp): Having worked on light rail for two months, de-congestion is very important. Urban roads are limited by capacity and LRT gives benefits quickly, but because traffic will be replaced very quickly, is there a consumer surplus?

At least it does increase the capacity of the whole transport system. Is traffic growth finite? At present, there is increased rat-running and Manchester has 250 local street prohibitions. The peak is extended and car users cannot travel when they want to.

Q. Perhaps one should look at integrated pedestrianisation or road pricing?

Yes, look at land use and where people live and work.

Peter White: What about road pricing?

A. It makes things simpler.

R.E. Webber (LBL): Does this make things less easy, because it may reduce the ability to extract monopoly profits?

David Stirling: Can one offset savings from not building new road capacity?

Yes, LRT capacity is equivalent to a six lane dual carriageway, but the final decision is made by politicians and political factors usually take precedence. One can only give the best advice, but it is up to the Transport Minister. Marginal constituencies etc. may be involved and the government sets the criteria. One of the conditions for a grant is that records are kept for 30 years and the scheme is monitored by the DTp, who pay 50% of the costs of this.

Chris Nash: Why is light rail much cheaper than heavy rail, when BR has decreased costs per train mile?

Long distance agreements with drivers etc. are more favourable for BR than shorter, urban ones. BR have tightened their accounting and PTEs have been hit by rolling stock problems, which causes them to bear the brunt of higher maintenance costs. The Pacers have been a disaster and caused a loss of revenue. There was a 50% increase in train miles with the Tyne & Wear Metro. In Manchester the Metro cost has been agreed at £6 million, with estimates of £5.8 - 6.2 million.

Peter White: How much of this effect is from organisational changes?

Tyne & Wear had local staff agreements whereas BR is too centralised. Extensions in Manchester will still be segregated from BR. Two single tracks is not enough, you still need a physical separation. Could you do a "Tyne & Wear" on the rest of the BR network?

Geoff Mileham (BR International): Whilst not wishing to knock the Tyne & Wear Metro, are the benefits largely from electrification (the second time since the 1902-1920s), also segregation in the central area and better central access?

Yes, to some extent this system was a victim of cut-backs in the 1960s.

John Cartledge: Would the same rules apply under Section 17 (1990 Act) "Grants for anything"?

It would be similar to funding under Section 56.

Q. £0.5 million was given to the Riverbus under this for "improvements to jetties".

Report by Geoff Mileham, Travel Consultant, British Rail International

MANAGEMENT AND EMPLOYEE BUYOUTS IN THE BUS INDUSTRY

Alan Krepple, South Wales Transport

London, January 1991

The speaker was Alan Krepple, now Managing Director of South Wales Transport, and who was a member of the management buy-out (MBO) team which purchased SWT in 1987.

Alan spoke with his usual frank, enthusiastic style and his always well-informed views and well-presented material. It was an enjoyable lecture and the retiring Editor and the TEG Chair repaid for a convivial continuation of the discussion.

The reporter has to declare a personal interest in SWT - he is a customer whose home town of Llanelli is in the SWT operating area.

Development of the Company

The South Wales Transport Company Limited was set up in 1914 and provided local bus services in the area Nedd (Neath), Abertawe (Swansea), Llanelli and Caerfwrddin (Carmarthen) areas of South Wales. It now extends its services to Pembrokeshire in West Dyfed. Like many other companies it expanded through growth and acquisition, became part of the BET group and was nationalised in 1969 to form part of the National Bus Company. Like the other NBC companies in Cymru (Wales) it was managed

from Darlington - one of the nonsenses of NBC, where local bus service decisions were made 300 miles away.

In 1987 the Company was privatised under the Transport Act 1985 and the MBO team sold out to Badgerline in February 1990.

Financial Position

The year ending 1985 produced the final set of "nationalised" accounts and on an historic cost basis the company was profitable. The miners strike of 1984/85 hit the company badly (it had £0.5m of colliery contracts per annum) and a downturn in bus ridership resulted from a fall in family income in the area.

The company however remains healthy. It has 280 vehicles of which 200 are less than five years old, profits are good, the mileage trend is upwards, passengers carried per employee is up, productivity is rising and engineering staff have been reduced. Turnover and county council revenue support is now fairly constant.

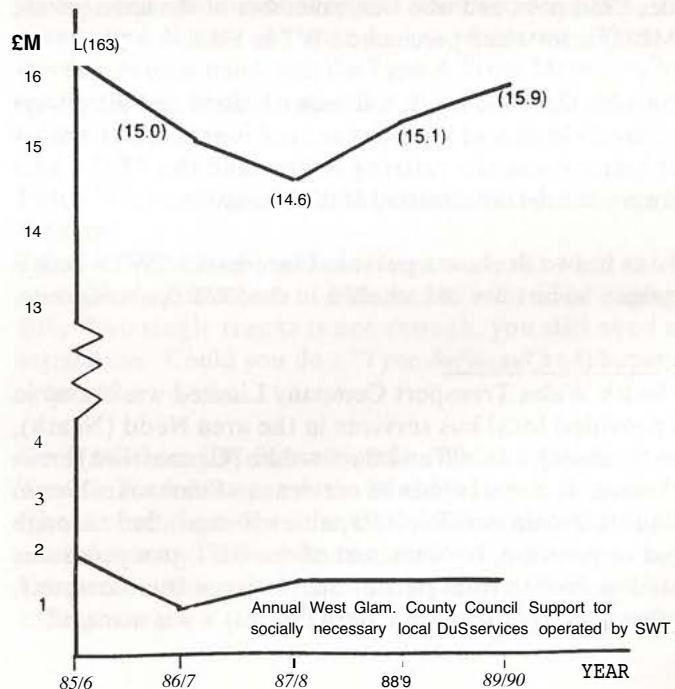


Figure 1: Total SWT Company Turnover.

Local Authority Support for Socially Necessary Bus Services in West Glamorgan operated by SWT

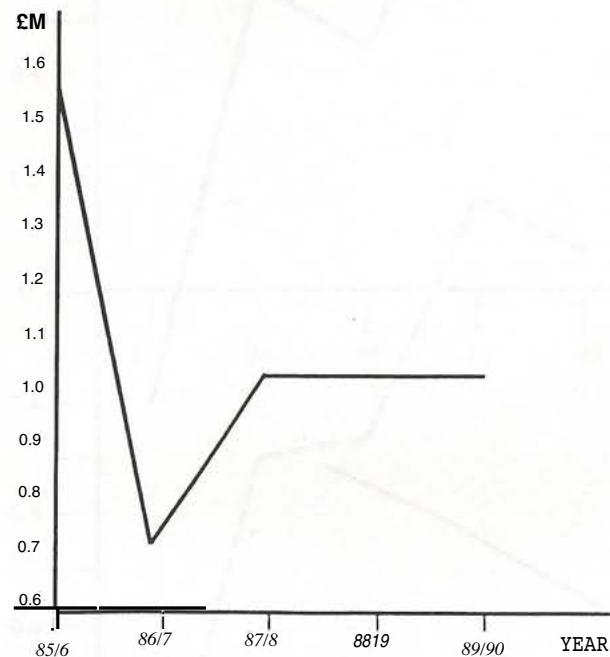


Figure 2: Local Authority Support for Socially necessary Bus Services in West Glamorgan operated by SWT.

Bus ridership has recovered since 1986/87 and since deregulation has increased by 8.6%. This compares with a national declining trend over the same period of 5.0%.

Overall the company has moved from a loss in 1985 to profitability - the extent of which depends on the basis for asset replacement.

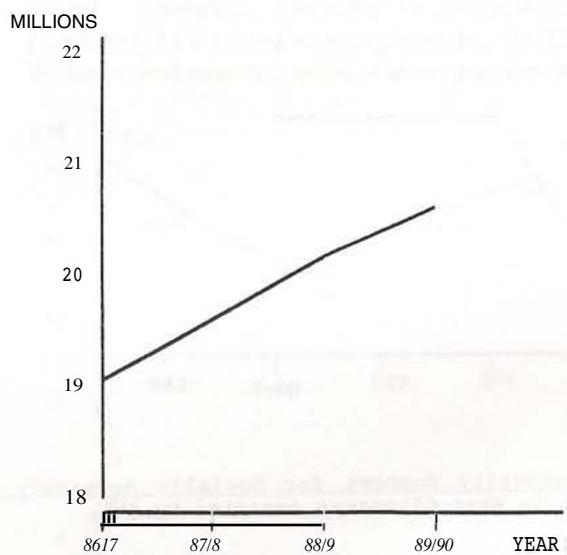


Figure 3: Passengers Carried in West Glamorgan.

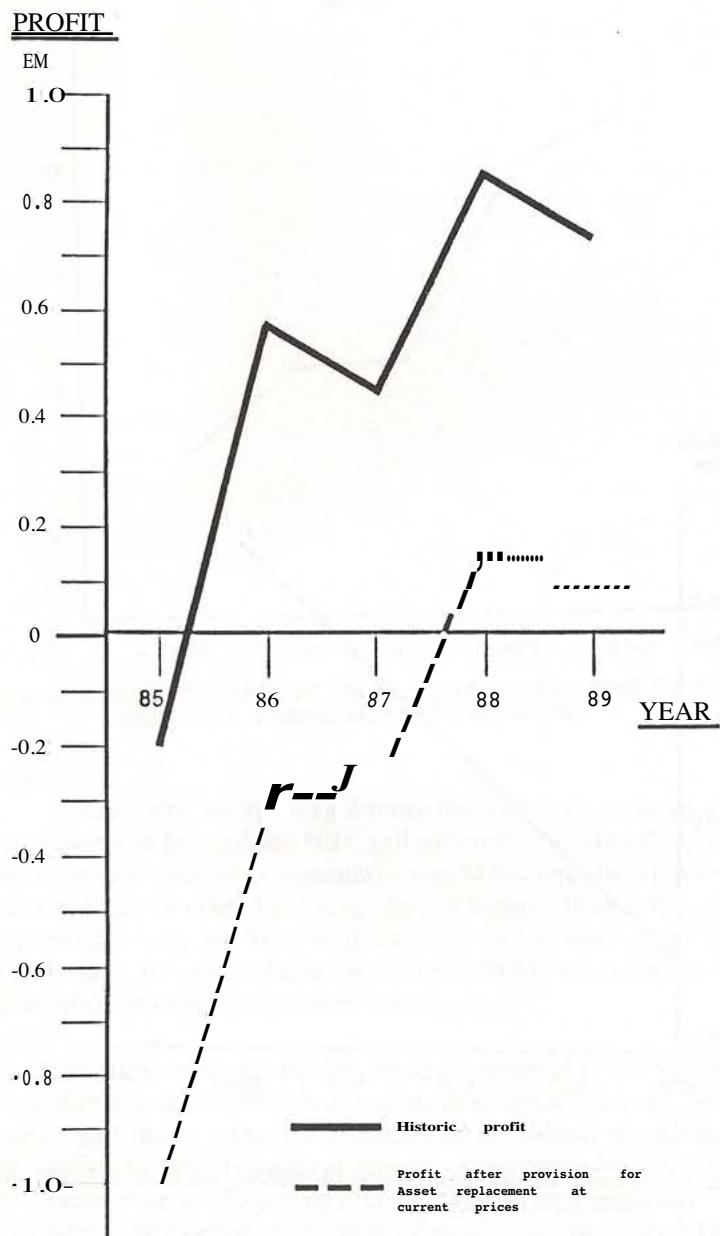


Figure 4: SWT Financial Performance.

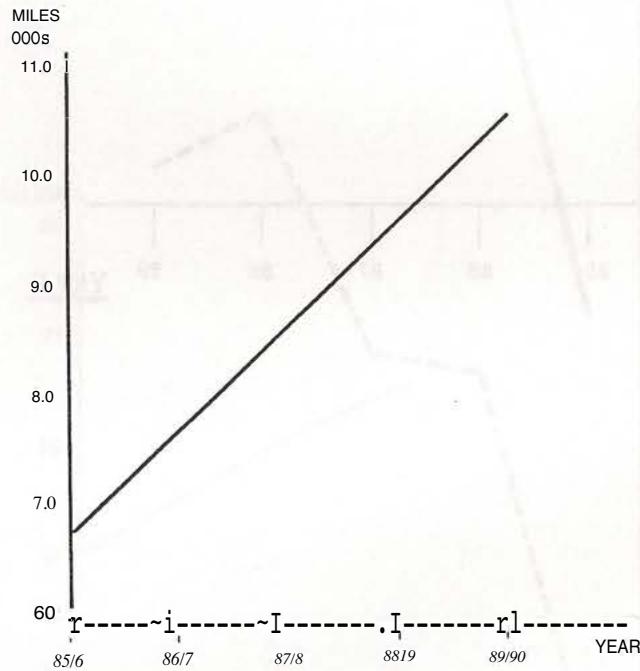


Figure 5: Annual Local Bus Miles Operated in West Glamorgan per member of staff.

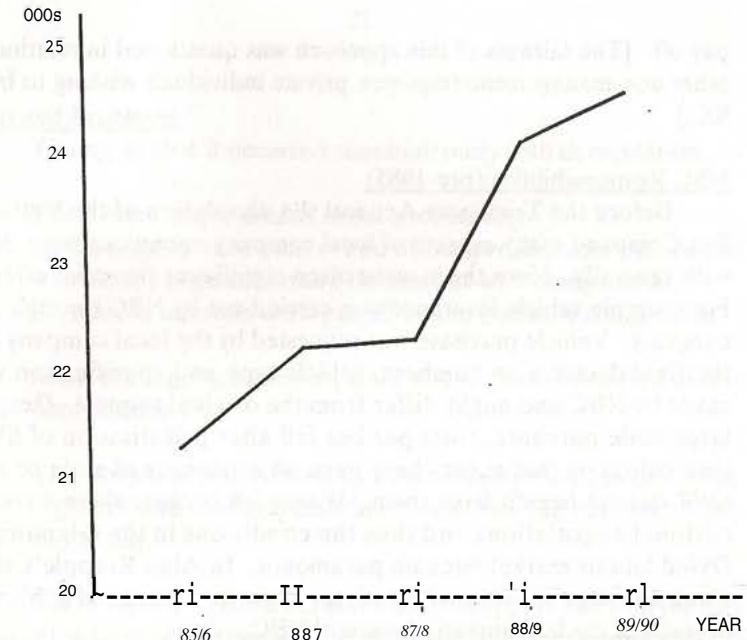


Figure 6: Annual Number of Local Passengers in West Glamorgan per annum per member of staff employed.

MBO's

These were increasing during the 1980s compared with previous decades and the NBC sell off contributed to this. Alan Krepple said that most managers in an MBO situation have one thing in common - they have never done it before. Even if they do it successfully most are likely to think twice before they try it again. Remember too that there were some MBO's that were not successful, including bus industry companies.

The NBC deal ensured that persons employed by the company were offered a reasonable chance of purchasing the company, and to encourage MBO's, a series of seminars on the subject was arranged for employees. The Treasury approved arrangements by NBC to

- exercise up to 5% pricing preference to management, and
- meet a proportion of the costs of monitoring unsuccessful bids up to a maximum of £48,415 per bid. But "consultants are expensive" and though this was an incentive, costs might well exceed that and leave large debts for the unsuccessful management team to

payoff. [The fairness of this approach was questioned in relation to other non-management/employee private individuals wishing to bid - S.c.]

NBC Responsibilities (pre-1985)

Before the Transport Act and the dissolution of the National Bus Company, many aspects of local company operations were dealt with centrally. Here there were often significant financial effects. For example vehicle insurance was carried out by NBC through one company. Vehicle purchase was requested by the local company but the final decision on numbers, vehicle type and specification was made by NBC and might differ from the original request. Despite large scale purchase, costs per bus fell after privatisation of SWT thus indicating that either there were no economies of scale or that SWT did not benefit from them. Wages fell because there were no national negotiations and thus the conditions in the Glamorgan Dyfed labour market became paramount. In Alan Krepple's view when all these were considered, many savings were not achieved because of the bureaucratic nature of NBC.

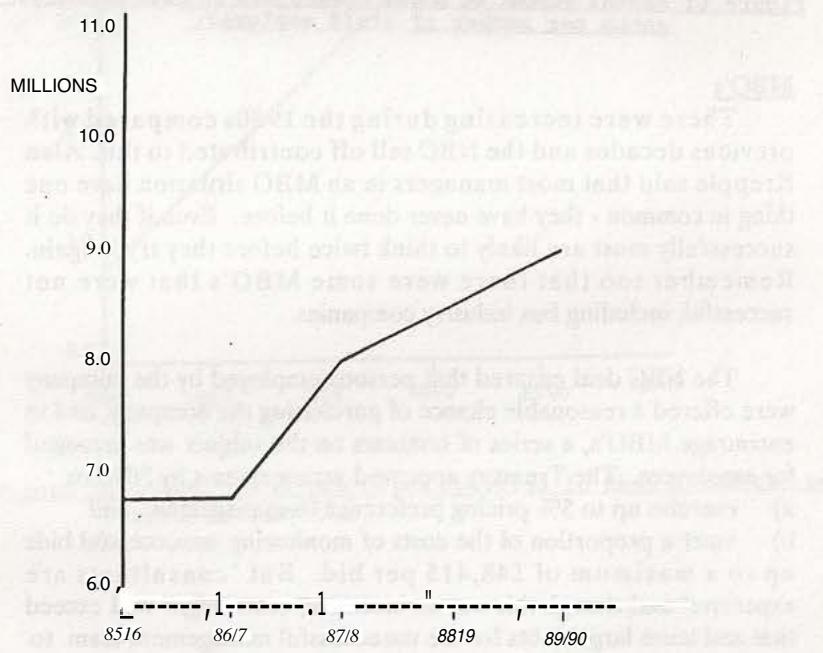


Figure 7: Annual Mileage Operated on Local Bus Services in West Glamorgan by SWT.

Buy-out Problems

1. Timing, in that it occurred simultaneously with deregulation.
2. There were major doubts about profitability
 - a) managers were concerned about profits even before the rules on regulation were thrown out with deregulation,
 - b) outside interests were put off by the potential competition.
3. Most managers, however, were not seriously worried about deregulation.
4. The workload was enormous with all these changes occurring together and managers having to still run the company from day to day.

There were also concerns about asset strippers entering the bus market who would have little regard for bus operations and be concerned solely with property acquisition development and disposal.

Given the combination of deregulation and privatisation occurring at the same time, the bus industry came through in better shape than some other sectors in the transport industry would have done.

The Bidding

The South Wales Transport workforce was very conscious of future employment; they felt they were long term employees. Under NBC the managers were usually in anyone particular company for a short term. The employees preferred the 'home team' to win rather than outsiders.

The rival bidders for SWT were
 SWT managers
 a pop star's husband
 a builder
 a solicitor.

Of the original four only two were left in the final analysis.

Meetings took place between the NBC disposal team, other bidders and existing management. often the discussions were unfriendly and worse; a view often expressed was that NBC did not at first realise that it was property companies they had on their hands and not bus companies.

The advisor costs of just over £48,000 was a small allowance for the managers to pay for the range of services and professional staff required. They had to pledge their own money also to acquire the funds to engage leading accountants (Peat Marwick), lawyers, property experts, bankers (LJoyds), pension funds etc. In total the costs were about £100,000.

Alan Krepple mischievously suggested that data on the company was leaked by the "taffia" (a wicked slur on them, and the Cymru Nostra) - it's just that Wales is too small a place to keep secrets.

Funding the South Wales MBO

The first requirement was to raise £100,000 to launch the bid. This came from savings and loans (using the houses of directors as security). The Bank provided a loan of £3m with 22 employee shareholders providing £25,000 (highest £2000; lowest £100). This figure was low said Alan because the Financial Services Act 1985 restricted companies encouraging employees putting money into a company.

Employee Profit Sharing Trust Fund

This was a scheme set-up for employees. They can sell their shares after two years (taxed) or five years (untaxed capital gain).

National Audit Office Report

South Wales Transport was one of the companies examined in the sample of detailed analysis in the NAO Report 1990. Out of sixty two sales SWT was number 25.

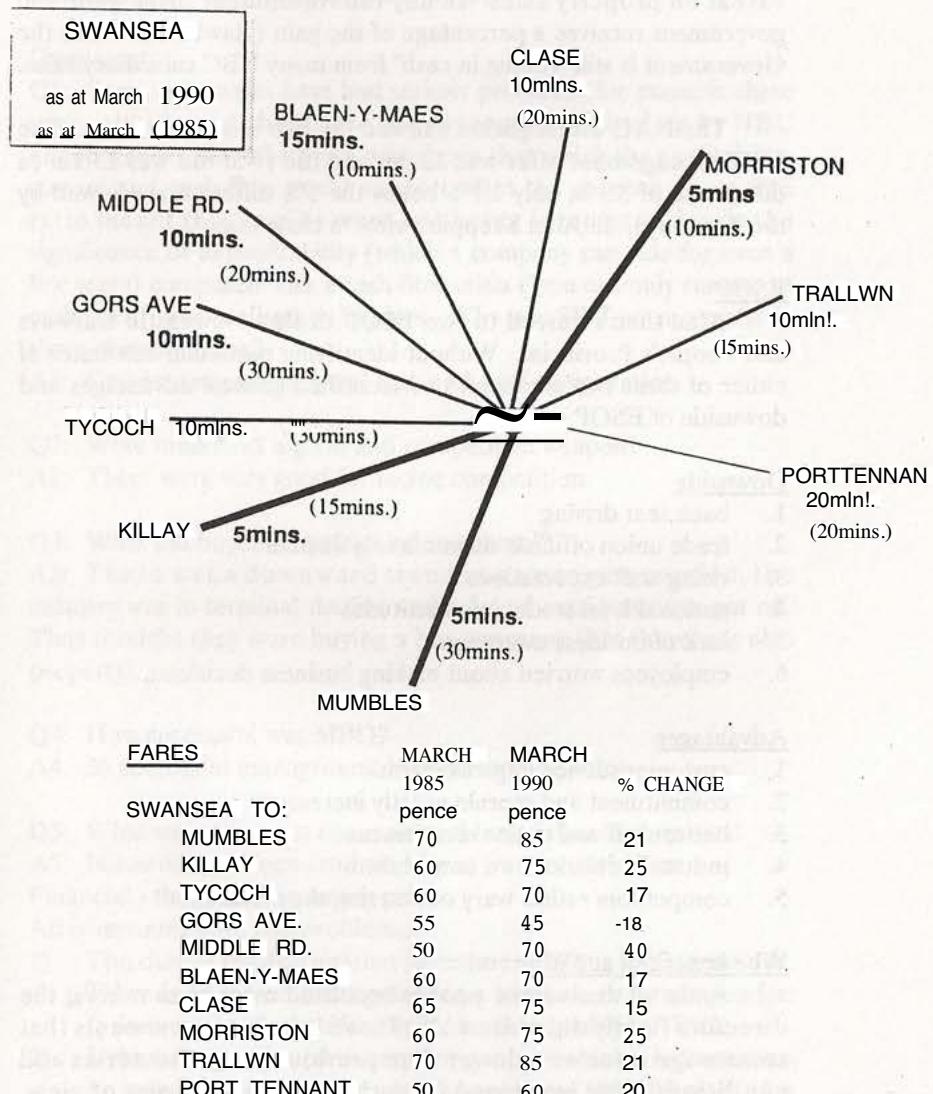


Figure 8: Service Frequencies in District/City Council Areas 1985 compared with 1990.

In its decision on the SWT sale price, National Bus imposed a caveat on property sales. In any redevelopment price gain, the government receives a percentage of the gain (clawback). Thus the Government is still "rolling in cash" from many NBC subsidiary sales.

The NAO investigation showed the two bids were close. The SWT management offer was £0.0m and the rival bid was £0.1m (a difference of 3.3%, only 1.7% below the 5% differential allowed by the Treasury). In Alan Krepple's view "a close thing".

ESOP

Alan then referred to two ESOP deals - Newcastle Busways and People's Provincial. Without identifying particular attributes of either of these two companies he identified general advantages and downside of ESOP schemes.

Downside

1. back seat driving
2. trade union officials dilemma in a dispute
3. rising staff expectations
4. national level trade union attitudes
5. lack of business awareness
6. employees worried about making business decisions.

Advantages

1. customer service improvements
2. commitment and morale greatly increased
3. better staff and easier recruitment
4. industrial relations - a new realism
5. competitors rather wary of entering the market.

Who benefited at SWT

As in all deals some people benefited more than others; the directors finally did quite well. There have been comments that some wage rates were lower than previously and that terms and conditions were worsened from the employees point of view. Minibus drivers were employed on different (and in some drivers view worse) terms than big red bus drivers. However without such adjustments the view given to the meeting was that the company

would have become financially less secure.

Questions

Q1: Some companies have had serious problems, for example there several bids and therefore the price was pushed up by NBC negotiators. Often the price was above that which the profitability stream and cash flow could support. But the absence of any PIE ratio meant that profits were not being forecast. Clearly the significance of unprofitability (which a company can ride for even a few years) compared with a cash flow crisis ("you can only run out of cash once") was realised by bidders. Why was SWT so successful in these circumstances?

A1: Good management, good luck and staff co-operation.

Q2: Were minibuses a good anti competitive weapon?

A2: There were very good for facing competition.

Q3: What did buyers have in mind in general?

A3: There was a downward trend in passengers carried, the industry was in terminal decline and a lot of outsiders were put off. They thought they were buying a bus company (but there was also property).

Q4: How successful was MBO?

A4: 36 successful management buyouts from 62 sales.

Q5: What were the most common problems following buyouts?

AS: Industrial relations - the workforce was not with them.

Financial - they paid the wrong price.

All companies have two problems:

- 1) The dice is loaded against investment in bus infrastructure. There is no government grant for a bus lane or a transponder. It does not reach the £5m capital level to qualify for TSG.
- 2) Urban congestion (thus requiring more vehicles in Swansea on one route three extra buses costing £100,000 would be required to maintain the headway).

A6: What are your views on investment appraisal criteria?

Q6: First, a bus station may cost over £5m but not a bus shelter or even 30 shelters so no TSG is available. Coba is used for roads with social benefits providing the rate of return. For bus companies the minimum return with a reasonable profit is 18% (the first 15% of returns on investment goes to the bank in loan funding. This is particularly so where the company has high gearing).

British Rail InterCity has to pay an 8% rate of return to the Treasury.

Clearly the bus industry has an unfair disadvantage over both BR and road investment.

Q7: Did you consider buying other companies?

A7: Yes, but many of the interesting ones had gone. (The company bought several local firms, e.g. Brewers and Llynfi Motors - SC.) In any event the buyer had identified the market and knew the area.

Q8: What was the deal, and what is the present relationship with Badgerline Holdings?

A8: BH have a hands off approach except for budget targets. United Welsh ServicesLtd., the MBO company, sold South Wales Transport Co. Ltd. and United Welsh Coaches Ltd. to Badgerline for cash. This was sufficient to payoff the purchase price (and UWSL debt) and the company (UWSL) kept the cash balance.

Q9: What was the original share structure?

A9: Total shares 100,000 @ £1; Employee holding 25,000 @ £1; Management holding 75,000 @ £1. There was a later split to 10p shares. There is a share market once a year. The shares are currently worth three times their original value.

Q10: What price did UWSL (the MBO company) pay for the SWT package from NBC?

A10: £3.0m - we thought it was worth that.

Q11: Atwhat price did you sell SWT and UWC to Badgerline?

All: Ho! ho! ho! - you're not catching me out with that one.

Report by Stuart Cole, Polytechnic of North London Business School

ARTICLE

EUROPEAN RAILWAYS - FINANCING AND PLANNING

Reg Harman, FCIT, MIHT, MRTPI

[NOTE: This article is based on a briefing paper prepared for the Transport 2000 public transport financing initiative, launched in December 1990. Copies may be obtained from Transport2000]

Background

Recent exchanges between John Kissen and John Roberts have highlighted the issue of support for British Railways' development compared to other European countries. Do they put more in than we do?

The answer, I believe, is definitely yes. This brief note tries to answer how and why, using what information is available. It covers two aspects: the funding arrangements, especially; and the planning and decision structures.

Levels of Funding

Funds can be granted to railways for two purposes:

- as a year-on-year contribution to meet the difference between commercial revenue and operating costs; and
- to provide funds for capital use (infrastructure and major equipment).

Comparative data from the European Commission show that on average revenue support for railway companies in 1986 covered about 40% of costs. Levels ranged between 22% and 74%, the lowest level being granted to British Rail. Relative levels of grant have not changed greatly in most countries since 1986, except for Britain, where it has fallen steadily.

In most other European countries public funds also provide significant capital support as well. The value of funding railway projects is generally assessed on socio-economic cost/benefit terms

as well as on commercial criteria. This places railway investment on a similar basis to investment in roads and other public projects. This is intended to help railway corporations develop efficient services on a sounder long term basis without being hamstrung by short term market swings, as British Rail are.

In contrast British Rail must provide most of its investment funds from income, assessing the return on them in commercial terms. We have certainly seen high self-financed investment on British Rail in the last three years. But total investment over the last decade has been limited by the tightening financial targets posed through the declining Public Service Obligation (PSO) grant and External Finance Limit (EFL), both set by government. To put British Rail in the same position as other major European railways, it would be necessary to catch up with a massive backlog of investment, as well as providing considerably increased capital now.

The overall relationship can be measured by matching total levels of expenditure on railways against Gross Domestic Product (GDP). This shows that British Rail receive almost the lowest amount in Europe, about one-third the normal level of other European countries.

The Role of Planning

On what basis should cost-benefit assessment of railway projects be made? The benefits of railway development are most effectively seen at national and regional level. Most European nations have more readily evaluated the scope for railway development and support as part of their planning process, looking at impact in terms of specific objectives, albeit non-financial. Economic and development planning are strongly guided by the national government on the continent, and generally a powerful regional planning structure guides the shape of local plans. Most railways on mainland Europe can therefore achieve all stages of decision making in one reasonably clear process. Often this planning process also opens up access to public loan funds or to government support for taking commercial loan funding.

Examples of major projects that have been implemented in this way include: development and construction of France's lignes à grande vitesse and of Germany's Neubaustrecke; and creation of the Paris "reseau express régional" (RER), and of the Stadtbahn (S.bahn) networks in cities of Germany, the Netherlands and Switzerland.

This contrasts sharply with the British approach. Even commercial companies have been very hesitant to commit funds to major railway projects because of their uncertainty. The sage of the proposed Channel Tunnellink offers a fine example of this. Uncertainty is a costly business in financial terms.

Concern over the environmental pressures of increased road movement has renewed general interest in railways' potential for improving accessibility. Railway undertakings in some countries have consequently developed long-term strategies, containing specific targets and investment for service and network expansion. Some of these have been taken up by governments for discussion and decisions at national level, others are already being implemented. In the Netherlands, France and Switzerland these agreed strategies form the basis of contracts between government and railway corporation on funding, services and development.

In Britain there is a long term programme for trunk roads, with projects set out in priority order, published at regular intervals by government, with clear commitment in principle to their funding. Similar commitment exists in county councils' road schemes through the TPP system. But no equivalent programme exists for our railway network.

The European Future

In early 1990 the European Commission tabled four proposed policy instruments for consultation through the European Community decision process. Broadly they aim at giving national railway corporations more freedom and management responsibility. They also set out a framework within which national governments may assess railway projects on equal terms with other transport modes, and may also provide whatever support they consider

appropriate under transport terms.

In my view, Britain's railways need commitment from government and comparability with other modes if they are to play the role that many organisations and individuals now expect of them. The approaches taken by other European countries, and now endorsed by the European Commission, point the way that I believe we must follow.

TEG NEWS

ESSAY COMPETITION

The closing date given in the last issue of the Transport Economist was in error. It should have read 14th June, 1991. The Committee welcomes entries from members and non-members. If those members who know of anyone who might like to enter, please urge them so to do. The details are:

Subject: A current and original topic in transport economics.

Length: 2000 - 3000 words

Closing date: 14 June, 1991

Prizes: First prize £250; second prize £100

Rules: Essays should be typed

The Committee will judge the entries

Committee members are barred from entering.

Entries should be clearly marked: "TEG ESSAY COMPETITION", and with the author's name and address, and should be sent to:

Peter White

Transport Studies Group

Polytechnic of Central London

35 Marylebone Road

London NW1 5LS

CHAIRMAN'S REPORT FOR 1990

During 1990 the Group continued with its regular activities, through monthly meetings in London, and publication of 'The Transport Economist'. In addition, a second successful one-day seminar was held in February 1991 on the subject of 'Links into Europe', looking both at connections between London and the Channel Tunnel, and the regional implications of this issue.

Among the topical subjects and speakers have been: Cost-benefit analysis (Jill Beardwood, January 1990); Reg Evans of Halcrow Fox on the East London Rail Study (February); Elizabeth Banker of the House of Commons Private Bills Office on the transport legislative process (March). The 1989/90 session continued with an examination of change in the taxi market (Richard Balcombe of TRRL, April), rail freight and the Channel Tunnel (Philip O'Donnell of BR Railfreight Distribution, May) and the scope for road pricing in London (Keith Gardner of the London Planning Advisory Committee, June).

In the current 1990/91 session, we have examined techniques for estimating latent demand (Luis Willumsen of SDG, October), viewpoints on the role of traffic calming (Tim Pharoah of the Polytechnic of the South Bank, and Roger Khanna of Frank Graham & Partners, November) and economic evaluation of light rail systems (Bill Tyson of Greater Manchester PTE, December).

Proceedings of the first one-day seminar in June 1989 formed the content of a special issue of 'The Transport Economist' during 1990, and a similar special issue is planned for the 'Links into Europe' seminar held on 19 February 1991. Both events were well attended, and have helped to widen interest in the Group.

An innovation recently launched has been the first essay competition organised by the Group. Submissions are invited by 14th June, with a first prize of £250, and second prize of £100.

A steady turnover of membership continues, within a stable overall total - currently 133.

Laurie Baker has taken over editorship of the Journal from Stuart Cole, and has been co-opted onto the Committee. I would like to thank all members of the Committee - especially our Membership Secretary & Treasurer, Don Box; and Andrew Spencer for his efforts in organising the latest one day seminar - for their work during the year.

Peter R. White

REPORT OF THE TREASURER & MEMBERSHIP SECRETARY
FOR 1990

1. The year's activities produced a surplus of £182, in contrast to a shortfall of £255 in 1989. The principal reason for this turnaround is the absence of the one-day seminar in 1990. (Members will be aware that the 1990 seminar was, in fact, held in February of this year.)
2. The breakdown of expenditure between the main items and compared with the two previous years is:

| | 1990 | 1989 | 1988 |
|----------------|------|------|------|
| | £ | £ | £ |
| Administration | 572 | 557 | 471 |
| Publications | 769 | 655 | 401 |
| Meetings | 304 | 187 | 96 |
| Seminar | - | 806 | - |

The formal accounts and balance sheet have been made available to members at the Annual General Meeting and will appear, together with this report, in the next issue of the JOI,lrnal.

3. During the coming year I expect expenditure on publications to rise significantly as more frequent issues of the Journal are planned. Also there is the seminar and essay competition to

provide for, and, no doubt, other costs will rise with inflation. I am, therefore, budgeting for a substantial shortfall in 1991, which can be very well absorbed by the reserves built-up from previous years and without increasing the subscription rate above the present £13.

4. On membership I can say that at 31 December we had 133 members full paid-up for 1990. During the year 15 were recorded as new members or old, temporarily lapsed members renewing. As 15 old members failed to renew, there was no net change compared with end-1989.

Don Box, Treasurer & Membership Secretary

INCOME & EXPENDITURE ACCOUNT FOR 1990

| <u>Income</u> | £ | £ |
|----------------------|---|-------------|
| Subscriptions - 1989 | | 39 |
| - 1990 | | 1718 |
| Interest | | 106 |
| Other | | 3 |
| | | <u>1866</u> |

Expenditure

| | |
|--------------------------------------|-------------|
| Administration - Secretary | 492 |
| - Other | 80 |
| Publications | 769 |
| Meetings - Room hire & entertainment | 249 |
| - Insurance | 55 |
| Bank charges | 2 |
| Corporation tax (@35%) | 37 |
| | <u>1684</u> |

Surplus of income over expenditure for the year

182

BALANCE SHEET

| | |
|--|-------------|
| Accumulated funds at 31.12.89 | 1585 |
| Plus: Surplus of income over expenditure | 182 |
| Creditors | 903 |
| | <u>2670</u> |
| Represented by: | |
| Deposit Account | 1301 |
| Current Account | 1416 |
| Less: Uncleared cheque | <u>47</u> |
| | <u>2670</u> |

S.D. Box
Treasurer

REPORT OF THE AUDITOR

To members of the Transport Economists Group:

I have examined the books and records of the Transport Economists Group and have received explanations from your Treasurer as necessary. In my opinion the Balance Sheet gives a true and fair view of the state of affairs as at 31 December 1990 and the Income & Expenditure Account properly reflects the excess of expenditure over income for the year then ended.

J.E. Bentley, FCCA
24 Phillimore Road, Emmer Green, Reading

COMMITTEE 1991/92

The AGM on the 20th March elected the following members to the Committee for 1991/92:

CHAIRMAN:

Peter White, Senior Lecturer in Public Transport Systems, Transport Studies Group, Polytechnic of Central London, 35 Marylebone Road, London NW15LS (071-911500 X 3104)

VICE-CHAIRMAN:

Peter Collins, Commercial & Transport Planning Manager, London Transport, 55 Broadway, London SW1H OBD (071-227 3368)

SECRETARY:

Vacant

TREASURER & MEMBERSHIP SECRETARY:

Don Box, 73 Silverdale Road, Earley, Reading RG6 2NF (073464064)

PUBLICATIONS EDITOR:

Laurie Baker, Principal Transport Planner, Planning & Transport Service, London Borough of Camden, Town Hall Extension, Argyle Street, London WC1H 8EQ (071-860 5962)

LONDON PROGRAMME ORGANISER:

Roland Niblett, Strategic Planning Manager, BR Network South East, Euston House, Eversholt Street, London NW1 (071-9226939)

COMMITTEE MEMBER:

Andrew Spencer, Senior Lecturer, Transport Studies Group, Polytechnic of Central London, 35 Marylebone Road, London NW1 5LS (071-9115000 X 3090)

COPY DATES

| <u>Issue</u> | <u>Com: Date</u> | <u>Issue Date</u> |
|--------------|------------------|---------------------|
| Vol.18 No.2 | 4 May 1991 | June 1991 |
| No.3 | 31 July 1991 | September 1991 |
| Vol.19 No.1 | 31 December 1991 | February/March 1992 |
| No.2 | 31 March 1992 | May 1992 |
| No.3 | 31 July 1992 | September 1992 |

PROGRAMME OF MEETINGS

The meeting scheduled for 19 June 1991 has been cancelled. The next programme due to start in September 1991 is currently being prepared. Details will be sent out to members in due course.

ONE DAY SEMINAR

A very successful and informative one-day seminar was held on 19th February on the theme Links with Europe - Policy and Infrastructure. Reports of six papers presented to the seminar will be in the next issue of the Transport Economist due out in June 1991.