



THE MONOPOLIES AND MERGERS COMMISSION

London Transport Executive

A report on the arrangements made by
the Executive for the maintenance of buses
and coaches

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by Command of Her Majesty
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CHAPTER 1

Introduction

1.1. On 28 March 1983 the Department of Trade sent to the Commission the following reference:

The Secretary of State, in exercise of his powers under section 11(1)(a) of the Competition Act 1980, hereby refers to the Monopolies and Mergers Commission the questions set out below relating to the efficiency and costs of the arrangements made by the London Transport Executive ('the Executive') for the maintenance of buses and coaches.

The Commission shall upon this reference investigate and report on the following questions:

- (i) Whether the Executive could, within the general level of passenger services provided, improve the efficiency of its maintenance arrangements, and thereby reduce its costs, with particular reference to:
 - (a) The structure and scale of the engineering organisation, and its appropriateness for operational requirements including the allocation of work as between different locations, and between in-house and contracted-out facilities;
 - (b) The effectiveness of management control systems including budgetary control, the provision of cost information, the use of work measurement/job costing standards, stock control, and supervision and quality control;
 - (c) Industrial relations, including the flexibility of agreed working practices and the impact of any bonus schemes on the quality and volume of work output;
 - (d) Production planning including standards set for routine inspections and servicing, arrangements for identifying and reporting vehicle defects, and the balance between preventative maintenance and major repairs; and
 - (e) The impact on maintenance costs of procurement policies including procurement of vehicles, vehicle components and engineering equipment.
- (ii) Whether the introduction of annual testing of public service vehicles has led to a significant increase in the maintenance costs of the Executive and, if so, the extent to which the increase could be offset by more effective planning and organisation or by other improvements in efficiency.
- (iii) Whether, in relation to any matter falling within the question set out above, the Executive is pursuing a course of conduct which operates against the public interest.

The Commission shall report on this reference within a period of six months beginning with the date hereof.

28 March 1983

(signed) A J Mantle

*An Assistant Secretary
Department of Trade*

1.2. On the same day the Chairman of the Commission, acting under section 11, sub-section (9) of the Competition Act 1980 and Part II of Schedule 3 of the Fair Trading Act 1973, directed that the functions of the Commission in relation to the reference should be discharged through a group of six members with Mr J D Eccles, a member of the group, as Chairman. The composition of the group is indicated in the list of members which prefaces this report.

1.3. On 12 September 1983 it was announced that the Secretary of State, being satisfied that there were special reasons why the report could not be made in the period specified in the reference, had agreed that the reporting period should be extended by three months to 27 December 1983.

Scope of the inquiry

1.4. LTE is a public authority set up under the provisions of the Transport (London) Act 1969 with the duty of providing (in conjunction with British Rail and the National Bus Company) public passenger transport services for Greater London in accordance with principles and financial policies laid down or approved by the Greater London Council (GLC). However, the terms of reference direct the Commission's investigation to only one aspect of the Executive's activities, 'the arrangements made by LTE for the maintenance of buses and coaches'.¹ Because of the structure of the Executive it was not practicable to examine vehicle maintenance entirely in isolation from the other aspects of the business. At the beginning of our inquiry the Executive, which is appointed by the GLC, was made up of five full-time members; one full-time member serving as Chairman and Chief Executive, two being managing directors (of the Bus and Rail Businesses respectively) and the other two being responsible for personnel matters and finance and planning respectively.² We have examined the areas of responsibility of the two latter members to the extent that they impinge on bus maintenance. Other aspects of the Bus Business such as the operation of bus services have been included in our enquiries only where they have a particular impact on the maintenance activity. A chart showing the structure of the Executive at 31 October 1983 is at Appendix 1.1.

¹ Throughout this report the words 'buses' or 'vehicles' include 'coaches' wherever appropriate.

² On 19 July 1983 the GLC appointed five part-time members to the Executive. Subsequently, on 10 November 1983, the GLC appointed one of the part-time members, Mr A Latham, as a full-time member to fill the vacancy resulting from the resignation of Mr J C F Cameron, the member responsible for personnel matters. At the same time a replacement part-time member was appointed to the Executive.

Statutory framework

1.5. Public passenger transport operators and their vehicles are subject to various licensing controls, the principal legislation being set out in the Public Passenger Vehicles Act 1981. The controls are administered by the Traffic Commissioners and the Department of Transport (DTp). For the purposes of the Act buses and coaches are classed as public service vehicles (PSVs).¹ An explanation of the licensing system for operators and their vehicles is given in paragraphs 3.4 to 3.11.

LTE's relationship with the Greater London Council

1.6. The Council is, under the Transport (London) Act 1969, responsible for the overall policy and financial control of the bus and the underground services provided by LTE. In particular, section 1 of the Act lays the general duty on the GLC 'to develop policies, and to encourage, organise and, where appropriate, carry out measures which will promote the provision of integrated, efficient and economic transport facilities and services for Greater London'. Section 11(1) of the Act enables the Council to give general directions to LTE as to the exercise and performance by LTE of its functions in relation to matters affecting the duties laid on the GLC by section 1. Section 11(2) requires LTE, *inter alia*, to submit to the GLC and obtain the GLC's approval of annual estimates of income and expenditure and major changes thereto, and any proposal for substantial capital expenditure.

1.7. The Transport Act 1983 amended certain sections of the Transport (London) Act 1969 to redefine the financial duties of LTE and introduce new financial planning and management procedures. The new procedures require a systematic form of forward planning by LTE leading to guidance from the Secretary of State for Transport as to what he considers to be the maximum amount appropriate for revenue support, and the final determination of grants by the GLC. LTE is required after consultation with the GLC to prepare annually a plan setting out its operations for the next three years which it must then submit to the GLC for approval. The final decision on the form and content of the plan, and on the final level of revenue support, rests with the GLC.

1.8. In addition section 8 of the Transport Act 1983 provides that LTE '... shall in the case of such activities carried on by the Executive as they may determine to be appropriate, invite other persons to submit tenders to carry on those activities ...'. It further provides that LTE shall accept a tender so invited if it appears to the Executive that to do so would result in the relevant activities being carried on in a satisfactory manner and at less cost. The section also enables the GLC to direct LTE to invite tenders for any of its activities.

The White Paper—Public Transport in London

1.9. In July 1983, during our inquiry, the Government published its White Paper entitled *Public Transport in London*.² The paper set out proposals for

¹ Vehicles used for carrying passengers for hire or reward which are either adapted to carry more than eight passengers or if not so adapted carry them at separate fares in the course of a business of carrying passengers.

² Cmnd 9004.

fundamental changes in the way in which public transport in London is organised and financed. It stated that as a first step the Government had decided that control of LTE should be transferred as soon as possible from the GLC to the Secretary of State for Transport. It will then be reconstituted on the pattern of a small holding company, with its bus and underground operations established as separate subsidiaries. The holding body, to be re-named London Regional Transport, will be responsible for the strategic control of its operating subsidiaries and for securing the cost-effective provision of bus and underground services from these and other operators. Shortly before we submitted our report, the London Regional Transport Bill, giving effect to the proposals described in the White Paper, was published.

Method of inquiry

1.10. The Department of Trade issued a press notice on 28 March 1983 setting out the terms of reference and inviting persons wishing to give evidence to write to the Secretary of the Commission. Specific invitations to submit evidence were sent to the Confederation of British Industry, the Trades Union Congress and individual trade unions concerned as well as to other bodies which might have an interest in the inquiry. The views of the GLC, the London borough councils and six adjoining county councils within the area served by LTE were also sought.

1.11. On 4 May 1983 the GLC submitted a memorandum of evidence explaining its statutory responsibilities in relation to LTE and outlining action approved by the Council in recent times aimed at improving the reliability of bus services provided by LTE; this action included the purchase of new buses by LTE and the provision of new or improved bus garages with better maintenance facilities. The GLC said that it looked forward 'to receiving the Commission's recommendations and would consider them for implementation in association with London Transport'. The Council also authorised its officers 'to attend the inquiry, if required, and to give comments on matters which may arise'.

1.12. Subsequently staff of the Commission had meetings with officers of the Council to discuss such matters as traffic congestion in Greater London and the Council's authorisation and monitoring arrangements for capital investment. Towards the end of our inquiry the Council submitted evidence concerning LTE's review of its bus maintenance activities at its works at Aldenham and Chiswick (see paragraphs 2.47 to 2.52 and paragraphs 4.67 to 4.69) including officers' reports and Committee decisions.

1.13. Written evidence was also received from the London Borough of Hillingdon, Surrey County Council and the London Transport Passengers' Committee in response to our enquiries.

1.14. Members of the Commission visited LTE's headquarters, its two principal works at Chiswick and Aldenham, as well as three representative garages. During the course of their visits members met local trade union representatives.

1.15. Officials made extensive visits to LTE's three works (including the small ticket and vending machine repair works at Effra Road, Brixton), to each of the eight district offices and to more than one-third of the garages to observe, at first hand, maintenance procedures and practices, and to collect data and other evidence.

1.16. The Chairman of the group met the Chairman of the Traffic Commissioners for the Metropolitan Traffic Area. LTE gave evidence at two hearings. Written evidence was given by trade unions representing LTE employees; the trade unions subsequently attended two hearings. In addition members of the Commission met separately the LTE Garage Maintenance Supervisors' Committee and the Works Supervisors' Committee.

1.17. Paragraph (1)(a) of the terms of reference required the Commission to consider, *inter alia*, the allocation of work between in-house and contracted-out facilities. As a means of comparing LTE's maintenance costs with those of other organisations we sought the assistance of four companies, Ensign Bus Co Ltd, Leyland Bus, Metro-Cammell Weymann Ltd and the National Bus Company, in providing estimates for the overhauling of certain vehicles and major components on the basis of specifications provided by LTE (see paragraph 6.38). We thank all four companies for their willing co-operation in this work.

LTE's Bus Business

1.18. LTE currently employs a staff of about 57,000 of whom almost 29,000 are employed in its bus operations; of these some 7,500 are engaged in engineering in garages and works and in related duties elsewhere within LTE. A chart showing the organisation of the Bus Business is at Appendix 1.2.

1.19. LTE has 62 garages and three works which were serving an operational fleet of some 5,000 buses (approximately 4,500 of which were double-deck (D/D) and 500 single-deck (S/D) vehicles) at mid-1983. In addition LTE had about 170 buses which were used for training and staff transportation and about a further 260 buses, the majority of which were either in works or awaiting sale. The composition of the fleet by vehicle type at 30 June 1983 is given in Appendix 1.3. The garages are at present organised into eight districts. LTE is, however, in the course of a reorganisation into six districts which is expected to be completed by 1 January 1984.

LTE's operating area

1.20. LTE serves the whole of the GLC area which covers over 600 square miles and contains 6.7 million people; it comprises 32 boroughs and the City of London. The Executive also operates some bus services outside the Greater London boundaries in parts of the adjoining counties of Berkshire, Buckinghamshire, Essex, Hertfordshire, Kent and Surrey. The map at Figure 1.1 shows LTE's operating area as organised in 1983 into eight districts, and the location of its garages and works. The six-district organisation which LTE proposes to introduce in 1984 is shown in Figure 1.2.

FIGURE 1.1

LTE's operating area organisation—1983

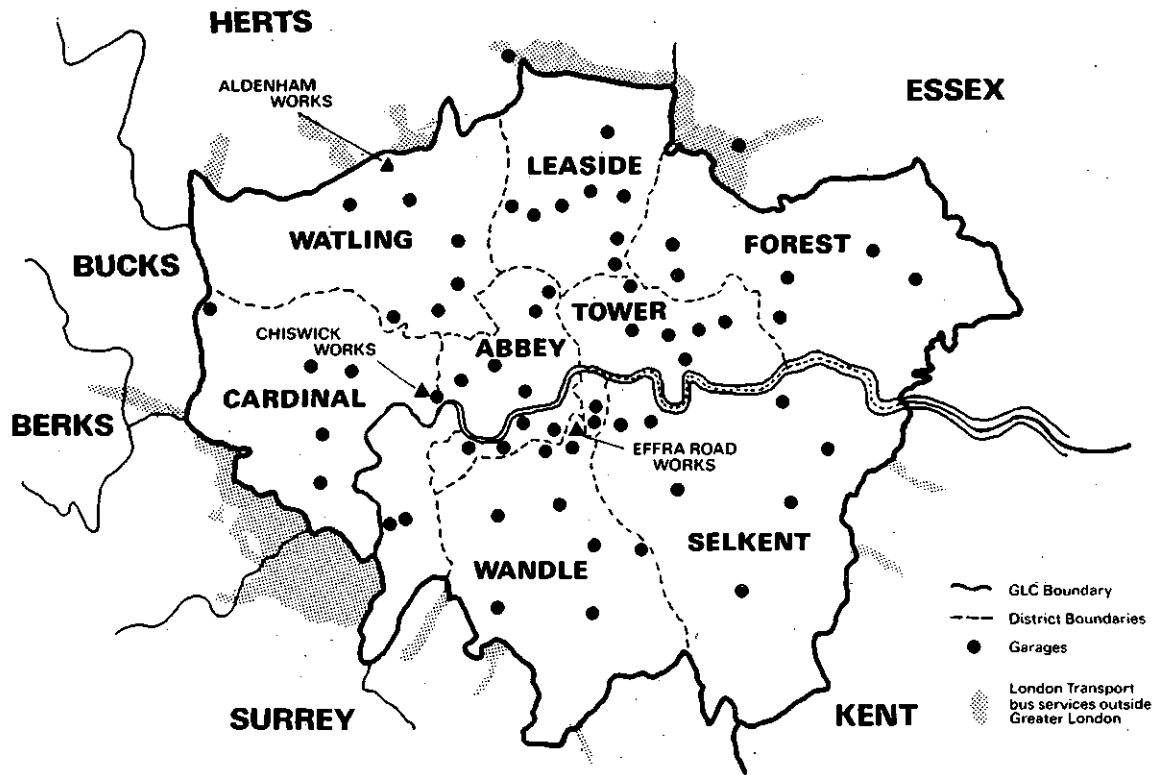
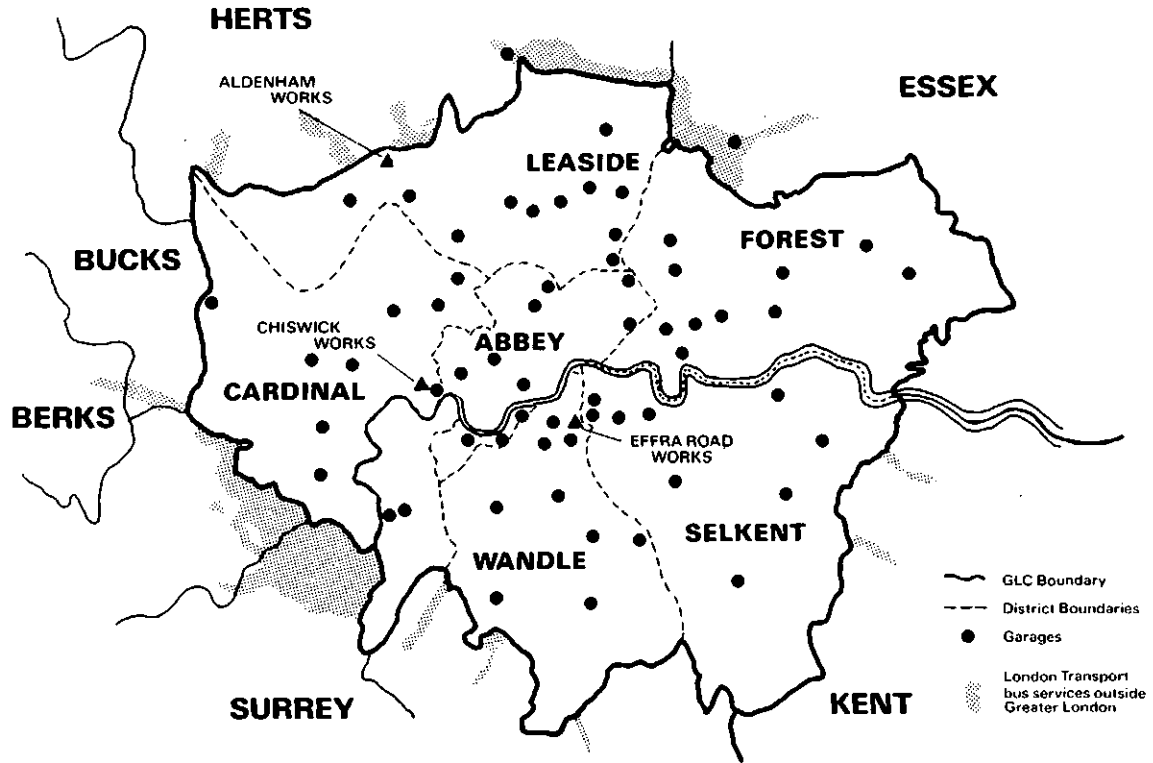


FIGURE 1.2

LTE's proposed operating area organisation—1984



1.21. LTE operates in a densely built-up area of considerable traffic congestion both in central London and, unlike most provincial cities, in peripheral centres. The problems of operating in this environment and the consequential effects on the maintenance of the Executive's vehicles are discussed in paragraphs 3.1 to 3.3 and Appendix 3.1.

1.22. Some of the evidence obtained in the course of our inquiry was of a confidential nature; our report contains only such information as we consider necessary for understanding our conclusions.

1.23. In the subsequent chapters of this report we examine the various aspects of LTE's bus and coach maintenance operations. Chapter 2 sets out vehicle maintenance costs in the context of LTE and its Bus Business and explains the procedures designed to control these costs; it also deals with the financing of capital expenditure, management information systems and audit. In Chapter 3 we consider the bus operating environment of London, the statutory controls which are applied to bus operations and set out certain measures of LTE's maintenance performance. LTE's bus engineering structure and organisation of its maintenance activities are explained in Chapter 4. In Chapter 5 we give details of the composition of LTE's engineering workforce, manning arrangements and pay structure and outline industrial relations procedures. Chapter 6 deals with the efficiency of LTE's engineering operations, its management and quality controls and bonus payment schemes in works and garages. Consideration of LTE's bus procurement policies and the impact of investment on vehicle maintenance is set out in Chapter 7. Lastly in Chapter 8 we review LTE's bus maintenance activities in the context of the terms of reference and provide a summary of our conclusions and recommendations and our conclusions on the public interest.

1.24. We should like to take this opportunity to thank all those who helped us in the course of this inquiry. We are particularly grateful to the representatives of LTE at all levels on whom the main burden of the inquiry fell.