UK Experience with Bus Restructuring

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Background

- Prior to mid-1980s, UK local bus industry broadly comparable to US transit industry:
  - public ownership at local level
  - heavily subsidized
  - slowly declining ridership
  - little innovation in technology, service, or management
  - little responsiveness to public needs or concerns
- Buses played a larger role than in US because of lower car ownership levels and higher usage costs

Bus Deregulation Outside London

Basic premises behind bus deregulation:

- deregulation would produce a competitive market
- competition would substantially reduce costs
- a competitive market would improve resource allocation
- there would be no significant negative side effects

Basic Elements of UK Bus Deregulation

- Bus markets were divided between commercial and non-commercial, with the following definitions and rules for each:

<u>Commercial</u>

- Defined as any service that an operator is prepared to offer with the only government support being:
  -- concessionary fares reimbursement
  -- fuel taxes rebate
- Services are registered including the route and timetable, and changes become effective after 6 weeks notice
- Fares can be changed with no prior notice
- Free entry and exit from the market
- Known as "Competition In the Market"

<u>Non-Commercial</u>

- Services which are not registered as commercial, but needed for social reasons as identified by local authorities
- Awarded after a competitive bidding process for a period of (typically) three years

Public Transport Authority Reorganization

- Public transport authorities were to be "corporatized," i.e., held at arm's length from government
- Could receive subsidy only as a result of success in a competitive bidding process
- Eventually they were expected to be privatized

London Strategy

- Deregulation not introduced in London because of concerns about:
  - the effects of free entry on congestion
  - rail system effects
- London Transport opted to retain control over all planning functions but to move to privatization through competition for incremental pieces of the London bus network
- Known as "Competition For the Market"

London Buses Reorganization

- Decentralization of London Buses Limited (LBL) operations, giving progressively more independence to LBL depots
- Awarding approximately 50% of competitive tenders to LBL subsidiaries with the remainder to independent private bus operators
- Use the threat of competition to induce LBL subsidiaries to restructure labor contracts and management strategy
- In 1994 all LBL subsidiaries were privatized

Table 1: Key bus operating statistics, GB and London, 1985/86 to 1999/2000

	Bus km (000)	Pax trip (000)	Subsidy				Operating costs per bus-km
			Total £m	Per bus km	Per pax trip		
London							
85/86	273	1152	335	£1.23	£0.29		£2.71
89/90	292	1188	238	£0.82	£0.20		£2.23
94/95	356	1167	177	£0.50	£0.15		£1.59
99/00	365	1307	124	£0.34	£0.09		£1.49
GB outside London							
85/86	1804	4489	904	£0.50	£0.20		£1.51
89/90	2150	3886	682	£0.32	£0.18		£1.02
94/95	2293	3253	620	£0.27	£0.19		£0.86
99/00	2234	2972	613	£0.27	£0.21		£0.76

Source - Transport Statistics GB 2001and earlier editions

Notes:

Subsidy includes concessionary fares payments.

Operating costs and subsidies are in constant 1999/2000 prices.

Operating costs exclude depreciation.

Table 2: Percentage change in key bus operating statistics with 1985/86 as base

	Bus km (000)	Pax trip (000)	Subsidy				Operating costs per bus-km
			Total £m	Per bus km	Per pax trip		
London							
89/90	+7%	-3%	-29%	-33%	-31%		-18%
94/95	+30%	-1%	-47%	-59%	-48%		-41%
99/00	+34%	+13%	-63%	-72%	-69%		-45%
GB outside London							
89/90	+19%	-13%	-25%	-36%	-10%		-32%
94/95	+27%	-28%	-31%	-46%	-5%		-43%
99/00	+24%	-34%	-32%	-46%	+5%		-50%

Source - Transport Statistics GB 2001 and earlier editions

Results of Bus Deregulation (1)

- Operating costs dropped significantly -- by about 50%, most of impact immediately after deregulation
- Bus kilometers of service increased substantially immediately after deregulation, but now is in modest decline again
- Fares rose significantly, particularly in major metropolitan areas
- Relatively little sustained on-the-street competition

Results of Bus Deregulation (2)

- Great majority of services (80-85%) are operated in commercial regime
- Subsidies have declined by about 30% since deregulation
- Ridership has declined significantly since deregulation
- Subsidy per passenger has remained approximately constant despite major decline in subsidy per vehicle kilometer
- Perceptions of service instability

Typical Trajectory Following Deregulation

- Incumbent operator registered most of pre-existing network as commercial
- Reduced costs and raised entry cost by converting to minibuses
- Establishing a foothold for a new entrant via competitive bidding proved difficult
- Price competition proved to be ineffective relative to frequency competition
- Large bus holding companies emerged through mergers and acquisitions
- The urban bus market as it developed in the UK proved not to be truly contestable
- Local bus planning staff largely disappeared

London Results

- Similarities:
  - Unit cost reductions in London are close to those attained outside London
  - Service provided has increased by a similar amount to outside London
- Differences:
  - Ridership in London has experienced modest growth
  - Subsidy has declined much more substantially in London than elsewhere

Evolution since Deregulation

<u>Quality Partnerships</u> (QPs)

- voluntary partnerships between the operator(s) and the local authority, aimed at improving the quality of bus service on specified corridors

<u>Operator contribution examples:</u>

- new buses
- higher frequencies
- driver training
- real-time passenger information

<u>Local Authority contribution examples:</u>

- bus priority measures
- bus shelters and better transfer facilities
- pedestrian access improvements
- real-time information infrastructure

QPs have had some success, but it is limited

Transport Acts of 2000 and 2001

New powers available to local authorities:

- to provide bus information at a defined level
- to require operators to arrange integrated tickets
- to subsidize operators to provide higher frequency on commercial services
- to define levels of service/vehicle quality in context of QPs and to prevent non-compliant operators from serving these corridors
- to move towards a Quality Contract (QC) which is loosely modeled on the London approach

Quality Contracts

To implement a QC, the local authority has to be able to demonstrate to central Government some, or all, of the following (a sample only):

- QPs will not work to deliver the required improvements
- QC necessary to meet social inclusion objectives
- to provide connecting bus services and intermodal connections
- economies in rationalizing services
- monopolistic or excessive profits have resulted
- fares are too high and/or frequencies are too low

Edinburgh Case Study

- Edinburgh regional population is 900,000
- High bus ridership -- 200 trips per person per year (highest outside London)
- Within the City of Edinburgh, 97% of services are commercial
- Dominant bus operator is Lothian Buses with:
  - 550 buses
  - 91.5 million passengers per year
  - profit on turnover of 12%
- Lothian is still publicly owned, operating as a public limited company
- Limited competition from First Edinburgh (a unit of First Group), which has concentrated on services to the periphery
- City of Edinburgh has invested in bus priority routes (Greenways) as part of a QP, but it does not directly control fares, frequencies, or routes.

Edinburgh Bus Wars (2001/02)

- Lothian became more active -- new buses, route rationalization, new day tickets, better information
- First Edinburgh responded by:
  - registering several routes with same route #s as Lothian
  - engaged in active on-the-street competition
  - undercut Lothian's day ticket price by 60%
- Lothian increased frequencies on contested routes and entered onto some of First's longer distance routes
- Lothian filed a complaint of anti-competitive behavior/ predatory tactics with the Office of Fair Trading (OFT)
- First withdrew from the battle

Current System Characteristics

- an improved bus fleet
- rising patronage
- low fares
- a stable network and good public information
- evening and Sunday service provided largely commercially
- willingness to serve new trip generators

This would make it hard to argue for a QC