

UK Experience with Bus Restructuring

Outline

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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 operating costs**

Bus Deregulation Outside London (1986)

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:**

Commercial

- **Defined as any service that an operator is prepared to offer with the only government support being:**
 - **concessionary fares reimbursement**
 - **fuel taxes rebate**

Basic Elements of UK Bus Deregulation

Commercial (cont'd)

- **Services are registered including the route and timetable, and changes become effective after 6 weeks notice**
- **Fares can be changed with no prior notice**
- **Unrestricted entry and exit from the market**
- **Known as "Competition In the Market"**

Non-Commercial

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

Public Transport Authority Reorganization

- **As a transitional strategy, 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 (now Transport for London) 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**
- **Used competitive pressure to induce LBL subsidiaries to restructure labor contracts and management strategy**
- **In 1994 all LBL subsidiaries were privatized**

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

Quality Partnerships (QPs)

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

Operator contribution examples:

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

Evolution since Deregulation

Quality Partnerships (QPs) (cont'd)

Local Authority contribution examples:

- 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%**

Edinburgh Case Study

- **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