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
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
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

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