

BUS PLANNING, PERFORMANCE AND REGULATION

Executive Summary

January 2004

Prepared for:

Pteg
Wellington House
40-50 Wellington Street
Leeds
LS1 2DE

Prepared by:

Steer Davies Gleave
28-32 Upper Ground
London
SE1 9PD
[t] +44 (0)20 7919 8500
[i] www.steerdaviesgleave.com

Contents	Page
1. PTE OBJECTIVES AND STRATEGIES	1
2. OPERATOR PERSPECTIVES	3
3. LIMITATIONS OF THE CURRENT REGULATORY/PROCUREMENT FRAMEWORK	4
4. USE OF QUALITY CONTRACTS	6
5. OVERALL CONCLUSIONS	7

This document comprises the Executive Summary of research and analysis undertaken by Steer Davies Gleave on behalf of pteg during the period October and November 2003. The material supporting this summary has been documented in working notes which have not been prepared for publication with the exception of Working Note 1 - Implementing a Quality Contract and Working Note 2 – Operator Strategy and Performance.

This document has been prepared in collaboration with pteg but the opinions expressed in it are those of the authors. No reliance on this document should be made by any other party. Steer Davies Gleave does not and will not assume any responsibility for its use by any third party.

1. PTE OBJECTIVES AND STRATEGIES

1.1 Objectives and strategies are being clearly articulated in local transport plans (LTPs) and bus strategies, but they are being constrained within the current, partnership-based framework. This assumes that partnership will work in delivering objectives. However, targets are not generally being set across a wide enough range of measures to point unequivocally to a change in performance trends.

1.2 There is a lack of consistency between Passenger Transport Executive (PTE) strategies, but this probably reflects local priorities and issues. Taking the broad themes, the objectives generally relate to:

- Accessibility to public transport – with emphasis on the more needy social groups
- Connectivity – between trip generators and attractors
- Mode shift – from car to public transport.

These may, in turn, support wider social, economic and environmental objectives.

1.3 A review of the strategies shows that patronage growth and service quality targets are generally not being met:

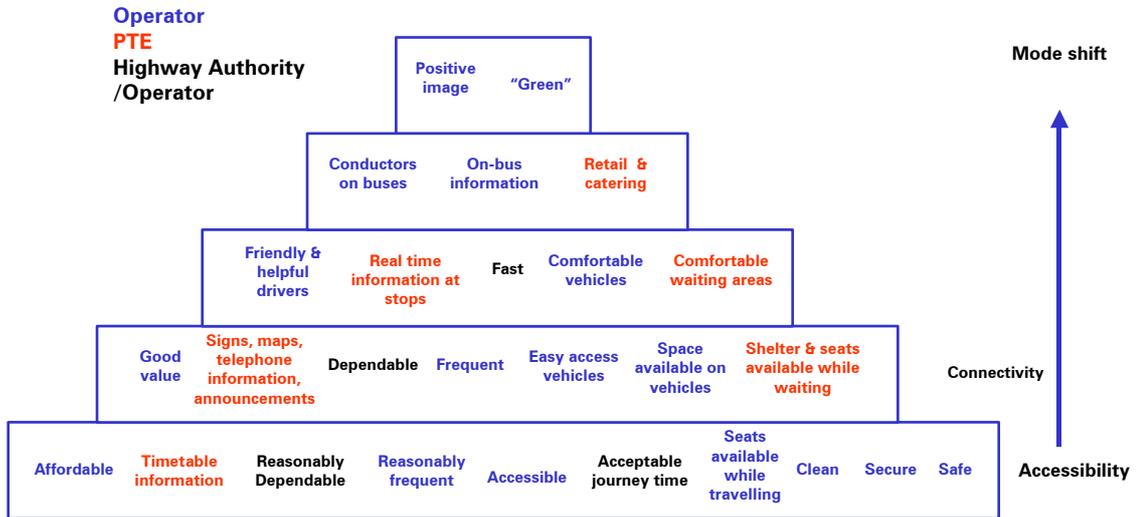
- Patronage is down about 2% 2000 to 2002 – although there are different trends among different market segments
- Customer satisfaction scores are down – driven by value for money (fares), reliability (both operator driven), bus stop cleanliness and information (both PTE driven)
- Bus age appears to be typical for the UK as a whole at around 8 years.

1.4 There is a growing acknowledgement that buses could be doing more to make an effective and efficient contribution than is currently the case but the framework does not facilitate this. Bus strategies will need to be very clear and lay the ground for any change in the approach to bus procurement. Department for Transport (DfT) officials have stressed that they will wish to see bus strategies reflect the role of wider transport and development strategies, for instance through:

- Public transport to new development areas (whether housing or commercial)
- Services integrated with light and heavy rail networks
- Capacity expanded in areas proposing road user charging initiatives
- Improved accessibility to public transport networks and vehicles.

1.5 A hierarchy of passenger needs is shown in Figure 1.1. This demonstrates the inter-relationship between characteristics that are currently driven by operators, PTEs and Highway Authorities.

FIGURE 1.1 HIERARCHY OF NEEDS - ALLOCATION OF RESPONSIBILITY



1.6 The overall service is only as good as its weakest link. Thus all parties must work together to ensure that the whole service chain is sound. There is a clear argument for a more highly co-ordinated approach to service specification, as there is little value in improving the higher level attributes until the lower level attributes are all in place.

2. OPERATOR PERSPECTIVES

- 2.1 Bus operations are the major ‘cash cow’ activity for all the large UK-based transport operations groups. UK bus business generates 25% of their turnover and 50% of their profits. The ‘big five’ transport operators undertake 90% of PTE-based operations which account for 35% of their bus service turnover and 44% of their bus service profit:
- The National Express Group is dominated by the very profitable Travel West Midlands
 - 40% of FirstGroup’s bus turnover is in PTE areas and it operates 35% of the PTE market
 - PTE area operations are important businesses for each of the other three companies (Arriva, Go Ahead and Stagecoach) comprising 28%, 25% and 17% of their bus businesses respectively.
- 2.2 There is a strong relationship with London operations with high levels of cascading of double deck fleet into PTE areas (e.g. of 132 recent double deck bus ‘disposals’ from First’s London operations, 80% transferred to PTE-based companies). However, the average age of the PTE fleet (8.3 years) is only slightly higher than in London (7.7 years but distorted by the elderly Routemaster fleet employed on some of London’s routes).
- 2.3 Operators earn a higher return on capital from PTE areas, but these areas arguably have the highest cost and revenue risks, with London having moved completely to gross cost contracting and Shires tending to have a higher proportion of supported networks (often gross cost) and less on-the-road competition. Operators are motivated by profitability with a focus on revenue maximising fares rather than passenger growth. This may be encouraged by the fact that higher fares can generate higher concession reimbursement. Costs tend to be controlled in part through short notice service reductions.
- 2.4 Nonetheless, operators are also motivated by income growth, therefore London is an attractive market and the PTE market has the scope to become more attractive if the risk profile can be changed and the prerequisites for patronage growth put in place.
- 2.5 Our conclusions on operator perspectives are that:
- Operators can be expected to defend this market vigorously
 - A lower cost of capital may be acceptable for a lower risk operation
 - Common objectives include - efficient, effective and reliable services, reduced traffic congestion, lower cost of capital and patronage growth
 - Objectives in tension include – levels of fares, high quality vehicles, cross subsidy to support the social network, service stability and investment ahead of demand build-up
 - Quality Partnerships (QPs) or London-style contracts are needed to stimulate new bus purchases.

3. LIMITATIONS OF THE CURRENT REGULATORY/PROCUREMENT FRAMEWORK

3.1 There are many constraints on PTEs in the current framework:

- They are unable to influence fares, service frequency or capacity
- Integrated timetables are deemed to be ‘anti-competitive’
- Interchange and integration with other modes cannot be forced
- Services cannot be developed in advance of demand
- Fare levels cannot be capped
- Vehicle standards cannot be imposed
- There are also partial constraints with regard to integrated marketing and branding, developing off-bus ticketing (and therefore improving journey times), and enforcing good operational performance.

3.2 The key problem with Quality Partnerships is that the overlap between commercial and public policy objectives is only partial and varies between areas. Priority schemes are a key public sector contribution but their effective operation is the responsibility of the Highway Authority and the police and is therefore two steps removed from the PTA as Transport Authority. Consequently, QPs have significant shortcomings, notably:

- High policy priorities can get ignored
- Difficult-to-broker areas (such as integrated ticketing) may be excluded
- There is a tendency to focus on corridors rather than areas
- Other areas can suffer adverse effects (such as investment starvation)
- Management emphasis can be shifted from (long-term) service to (short-term) project
- Commitments by all parties are unenforceable.

3.3 These constraints and shortcomings mean that, whilst partnership is useful it is not the answer to all problems.

3.4 Drawing from the conclusions of other studies conducted in the UK and Europe, the key factors that influence choice of regulatory approach are:

- History – public transport culture, mode share, extensiveness of networks
- Policy – the extent of car restraint and public transport promotion
- Professional skills and capacity within the Transport Authority
- Potential for competition.

3.5 Key success factors for effective public transport are:

- A strong Transport Authority with wide-ranging powers
- Willingness by the Authority, and financial capacity, to invest in infrastructure and services
- Powers to enforce integration in service delivery, information and ticketing.

3.6 Key success factors for changing the regulatory environment are:

- Protecting employment rights
- Ensuring professional expertise is not lost
- Ensuring the stability of the network
- Preserving service quality.

3.7 A qualitative comparison of different regimes is summarised in Figure 3.1

Figure 3.1 Summary assessment of different procurement arrangements

Case Study	Model	Operation	Model type	Allocative efficiency	Productive efficiency	Incentives	Patronage levels / trends	Sustainability
Adelaide	Public sector led: Passenger Transport Board	Private through competitive tendering	3	●●●	●	●	●	●
Copenhagen	Public sector led: Regional Planning Body	Private through competitive tendering	3	●●●	●●	●●	●●●	●●●
Evora	Partnership of Local Authority / operator / parking meter company	Long term concession to private operator	2	●●●	●●	n/a	●●●	●
Lyon	central Public Transport Agency	Long term concession (management contract) to private operator	3	●●●	●	●●	●●	●●
The Hague	Regional Transport body	Private through competitive tendering		●●	●	●	●	●●
Toronto	Public body	Public monopoly	1	●●●	●●	●	●●	●
Zurich	Public controlled, single operator	Long term concession to private operator	2	●●●	●	●	●●●	●●
Preston	Private operator	Open competition	4	●	●●●	●●	●	●

Key

Scoring
 ●●● good
 ●● moderate
 ● poor

Model type
 1 Public authority determines and provides service without competition
 2 Public authority determines service provided by private operator without competition
 3 Public authority determines service provided by private operator with competition
 4 Market determines service, with public authority filling gaps

3.8 Within all regulatory frameworks there is a tension between the efficient allocation of resources (taking into account social need) and the efficient delivery of services (requiring strong commercial incentives). In a regulated environment, this tension can be eased by introducing measures to reduce entry barriers (by using appropriate contract sizes, adopting gross cost contracts initially, providing depots and possibly fleets), and using performance based contracts. In a deregulated environment it can be achieved by specification and enforcement of conditions, joint investment through partnership, and effective targeting of subsidy.

4. USE OF QUALITY CONTRACTS

- 4.1 It would realistically take around 3 years to introduce Quality Contracts (QCs) under the Transport Act, even with a relaxation of the ‘21 month rule’ (without relaxation, it is likely to take 6 months longer). It may be possible to reduce this timescale to 2½ years, assuming that contracts and specifications are developed in parallel with the decision making process, there is no delaying action by operators, and that the promoting PTA and the National Authority (Secretary of State/Scottish Minister) are fully committed.
- 4.2 Detailed work is necessary to develop and deliver a QC scheme, and the process is far from straightforward:
- There are numerous ‘feedback loops’ in the process creating uncertainty and delay, brought about by multiple consultation/representation phases
 - There is a wide-ranging undefined requirement for the Secretary of State to act ‘in the public interest’ in determining an application
 - There are opportunities throughout the process for an un-cooperative incumbent operator to slow the process down and undermine it through unsustainable partnership offers
 - Concerns and associated risks remain, related to information provision, legal challenge by operators, and management of the transition between de-regulated and contract regimes
 - There is no certainty that gains made through a QC can be retained beyond a 10-year timescale.
- 4.3 Operators, particularly incumbents, are likely to be strongly resistant to PTE proposals but there is likely to be support from smaller operators and new entrants who currently find it difficult to enter the deregulated market in PTE areas.
- 4.4 Incumbents are likely to propose attractive partnership options to head off the QC threat, but if this were unsuccessful, they would bid for the QC and make it clear they would defend their ‘territories’ strongly. If their bids are unsuccessful, there is a risk that they may concentrate their investment in other areas and offer increasingly poor levels of service during the transition.
- 4.5 Competition is likely to be limited if there have been high levels of opposition or ‘signalling’ from the incumbent. This will be more likely to happen if only a few QCs are initiated. However, if there are many QC opportunities, operators will be forced to recognise that ‘the game has changed’ and resignedly enter the market.

5. OVERALL CONCLUSIONS

- 5.1 There is little prospect of PTEs achieving significant progress towards key transport objectives dependent upon bus services unless there is a strong joint commitment with full operator involvement to deliver the full transport experience covering all aspects of the passengers' perceived needs. In support, PTEs will need to have strong influence over vehicle standards, service coverage and capacity. Strong enforcement of licence conditions is also required to ensure performance in delivery.
- 5.2 Some progress can be made through quality partnerships (voluntary and statutory) but there are significant limitations as these cannot cover frequencies, network and timetable co-ordination, and fares and ticketing. All successful international models include a public specification role.
- 5.3 The quality contract route, with DfT/Scottish Executive co-operation and support, offers a flexible way forward and an avenue for directing increased revenue spending into local bus services. However, pathfinding this route will be hard and expensive and the pressure to settle for an improved partnership deal 'en route' will be strong, not least because of the relatively long lead time and the risks associated with pursuing QCs through to implementation. Nonetheless, a win-win result with operators should be possible, though it will be hard to convince them.
- 5.4 PTEs should expect vigorous defence of operators' current lucrative business and limited competition for the new contracts unless multiple QCs are signalled.

CONTROL SHEET

Project/Proposal Name: BUS PLANNING, PERFORMANCE AND REGULATION

Document Title: Executive Summary

Client Contract/Project Number:

SDG Project/Proposal Number: 205520

ISSUE HISTORY

Issue No.	Date	Details
1	16/01/04	Draft
2	22/1/04	Final
3	15/3/04	For distribution

REVIEW

Originator: Hugh Ashton
Other Contributors: Tim Larner (pteg)
Review By: Print: Hugh Ashton

Sign:



DISTRIBUTION

Clients: Pteg (Tim Larner)
Steer Davies Gleave: DAN, JTR, MPH

