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Overview of recent developments in Great Britain

Peter White  
University of Westminster

'PW Thredbo11 plenary slides.ppt'/mydocs/c:/USB2

# At 'Thredbo1' (1989)

- Continued decline in public transport use (especially bus) seen as the 'norm'
- Strong emphasis on securing better value for money (competitive tendering)
- Mixed outcomes of deregulation— growth in express coach use since deregulation in 1980, decline in most areas since local bus deregulation in 1986 (but sharp reduction in costs)
- Partial privatisation of buses, rail still in public sector

# Main aspects of recent change

- Relatively little change in legislation or formal structure (apart from Local Transport Act 2008)
- Strong growth (until recession) in ridership
- Growth in public spending
- Specific issues in privatisation/  
contracting for infrastructure as distinct from services

# Recent trends in Britain

- Percentage changes in local bus passenger boardings 1999/2000 to 2007/08:

London	+61%
English PTEs	- 8%
Rest of England	+ 2%
Scotland	+13%
Wales	+ 4%

- And in rail passenger trips:

London Underground + DLR	+ 21%
Light rail (excl. DLR)	+ 63% (new systems)
National Railways (TOCs)	+ 32%

Higher growth than existing models suggest (London Bus, National Railways) or lower decline (PTEs)

# Trends in public expenditure

- Very rapid growth in recent years in three sectors:
- London (direct support to buses) to £650m in 07/08 (from effectively zero 99/00)
- Concessionary fares compensation (mainly bus, for those 60+) GB total from £570m in 99/00 to £1,039m in 07/08 (and further growth due to nationwide free travel in England from April 08)
- Direct funding to Network Rail (and predecessor), zero in 99/00; £1,448m in 03/04 and £3,519m in 07/08 (now exceeds access payments via TOCs: central govt. net support to franchisees -£469m 03/04 to 07/08)
- Fairly obvious user benefits and ridership growth from first two items - less direct in third case

# Specific sectors

- Express coaches: Some growth in ridership (poor quality stats.). National Express remains dominant, competition mostly from other big groups (Stagecoach Megabus, and recently First Greyhound)
- Franchised rail services. In general, demand growth gives similar real revenue growth, enabling lower subsidies/higher premia
- But risks of optimistic bidding, especially ECML – GNER, and then NXEC withdrawals (latter on £1,400m premium over seven years)

# Bus service and fares co-ordination

- Sharp changes following 1985 Act
- Largely impossible to maintain services on agreed common headways and even more so on fares (e.g. Maidstone)
- Decline in market shares of travelcards and off-bus ticketing, although some efforts to retain by PTEs. Shift to operator-only cards, and back to cash fares
- Indirectly strengthened position of dominant operator who could retain travelcard (e.g. West Midlands), whereas inter-operator cards seen as 'anti-competitive'

# Limitations of price competition

- Works well in long-distance market, but in local market short-run price elasticity low ( $\sim -0.4$ ) and precise journey timings often not pre-planned. Value of extra waiting and decision time may offset money saving. Low elasticity means that operator loses revenue through lower prices (unless high inter-operator cross-elasticity)
- Hence of limited effectiveness in local markets, although some sectors more price-sensitive
- Tendency for competition to focus on levels of service, especially using small buses, in some cases to deter entry
- Low average vehicle loads as a consequence



# Later phases of bus competition

- Reduced in many areas, often now a single operator on each route and/or in each area
- Consolidation of operators into larger groups
- Improved industry profit margins from mid 1990s, enabling fleet replacement
- Few cases of sustained competition since late 1980s (Oxford the main example)
- Periodic outbreaks elsewhere, e.g. Barnstaple area, and Northumberland
- Greater quality differentiation, e.g. low floor vehicles, air conditioning
- Competition remains in tendered service market (around 3 bids per contract) but variable

# 2000 Transport Act

- Introduced 'Statutory Quality Partnerships' (SQPs) with minimum vehicle quality standards specified for entry (and operators not meeting these excluded from relevant infrastructure). In practice very few, and most QPs on a voluntary, informal, basis
- Quality Contracts (QCs) on similar lines to London model, but subject to very restrictive conditions re timescale, etc. None introduced.
- Made it easier to use tendered service powers to strengthen frequencies over commercial routes
- Main impacts probably through introduction of common half-fare concession for 60+ in England

# Competition legislation and practice

- Very limited penalties at time of 1985 Act, simply requiring unacceptable practices to be stopped
- Penalties introduced through Competition Act 1998 (although perhaps after the worst excesses)
- Initial investigations by the Office of Fair Trading (OFT) with subsequent referral where it considers justified to the Competition Commission (formerly the Monopolies Commission)
- Recent/current cases – Eastbourne and Preston mergers, bus industry market inquiry

# Local Transport Act 2008

- Royal Assent 26 November 2008, but some powers being introduced in stages
- Passenger Transport Authorities (PTAs) renamed as 'Integrated Transport Authorities' (ITAs) from February 2009 with wider powers re transport planning. New ones may be set up (none so far)
- Voluntary Partnership Agreements (VPAs) recognised from Feb 2009, making greater co-ordination in timetabling and ticketing between operators and local authorities possible. OFT powers to impose fines removed, and clearer 'competition test'. However, local authority cannot prevent use of facilities unless SQP applies.
- Qualifying Agreements (QAs) between two or more commercial operators, usually with LA 'sitting in' to certify agreement is fair

# LTA 2008 (cont)

- Easier conditions for establishment and scope for Quality Partnership Schemes (QPSs). Conditions include frequencies, timings, and maximum fares, as well as vehicle standards under 2000 Act.
- Easier introduction of Quality Contract Schemes (QCSs), where benefits would arise. Consultation and review before introduction
- 'Passenger champion' to represent bus users nationally (Passenger Focus, extending role from rail)
- Wider scope for community transport services (secs. 19 and 22 of 1985 Act), but some concerns re fair competition by fully-licensed operators.

# OFT market inquiry

- In addition to enquiries in specific cases, OFT has powers to examine conduct 'market studies' in whole sectors. Bus industry study launched March and report published August 2009 (since workshop paper written).
- Concerns re outcomes of competition – tendered and commercial markets, price levels, service quality, etc.
- Evidence taken from industry, local authorities etc. Some analysis of DfT statistics.
- London and Northern Ireland explicitly excluded from Terms of Reference – “..no issues of concern” from “stakeholders in these two areas” (para 2.2)
- *Still a tendency to review within bus industry competition as a 'good thing' per se? If so, contradiction re London?*

# OFT market enquiry (cont)

- Paragraph 3.37:

“...for purposes of this study the relevant markets are the markets for local bus services in Great Britain (excluding London) and that the markets do not include car travel, inter-urban rail services or other mass passenger transport systems, taxis, cycling or walking”

- Paragraph 4.39:

“.....to the extent that exclusionary behaviour [by operators] does take place it may be exacerbated by the conduct of paying passengers...brands generally were not strong and.... customers were happy to use rival buses if they arrived at a stop first...”

- *So does real behaviour match competition theory? A narrow market definition?*

# OFT market enquiry (cont)

- Concern re lack of sufficient depots to provide competing services in many areas (commercial and/or tendered)
- Scope for entry seen as limited if competitors deterred from some routes by exclusionary behaviour (para 4.29)
- Criticism of operators for lack of interest in multi-operator ticketing agreements (*but no acknowledgement of previous OFT role in deterring these, especially prior to block exemption*)
- Modelling of fares suggests 9% higher levels in areas with monopoly provision, sig. at 5% [appendix C] (although some problems with data quality)
- *If so, what measures appropriate for this? Competition or regulation?*



# The London case

- Further pax growth in last two years, from already high per capita base
- KPMG report broadly endorses present system of gross cost tendering.
- Some problems:
  - Issues re direct role of Mayor in setting fares
  - Politicalization of vehicle design.

# Road pricing

- London congestion charging introduced February 2003 – broadly successful
- Western extension February 2007, including substantial residential areas: to be withdrawn.
- Strong rejection of Edinburgh and Manchester schemes in public referenda
- But Nottingham to introduce workplace parking levy
- Strong case in principle remains for road pricing, but politically now very sensitive

# The infrastructure question

- Competitive tendering for services (relatively) straightforward - can be divided into manageable units, with possibility of alternative bidders/substitute operators. Variable timescale
- ‘Privatised’ infrastructure (or long-term private-sector contracts) – Network Rail, London Underground PPP.
- Issue of how one regulates a monopoly supplier (NR) or deals with very large contracts (three infracos within 30-year PPP)

# Infrastructure experience

- Network Rail increasingly funded direct by central government rather than via access charges. Total subject to Office of Rail Regulation controls. For CP4 (April 2009 - March 2014) ORR determined total funding of £28,500m, compared with NR proposal of £31,100m, and £29,500m actual in CP3 (April 04 – March 09) [all at 06/07 prices]. Main reductions in annual expenditure from 2011/12
- London Underground PPP effective from 2003. Three contracts – SSL and BCV to Metronet consortium, JNP to TubeLines. Severe financial/ managerial problems at Metronet, into administration 2007 and re-incorporated into TfL/LUL in 2008. TubeLines more successful, but some current problems re future cost estimates for period 2 from 2010 (reviewed by PPP arbiter) and extent of line closures needed for engineering work

# Infrastructure options?

- National Railways operations all private (franchised TOCs + open access), but London Underground train operations still public. Case for 'Stockholm approach' in London?
- Lack of effective comparators, e.g. could part of national system infrastructure be managed separately for comparison with NR (Merseyside? Scotland?). TubeLines and former Metronet operations might serve this role

# Convergence of practice?

- LTA 2008 would enable more effective coordination in ticketing systems and service headways within deregulated regions, while operators retain separate identities and can compete (e.g. for tendered work).
- Possibly QCs giving parallels to London case in other city
- Possible scope in London for greater competition in tendered market?

# Or the opposite?

- Broadly similar structure likely to remain in London
- Renewed emphasis by OFT on the role of competition outside London (albeit accepting position within London) and referral to Competition Commission
- Bus operators placed between competing pressures.

# Public spending constraints

- Strong growth in recent years likely to be reversed
- Fairly inflexible commitments to rail (PPP, NR budget, Crossrail) and free concessionary travel 60+ on buses
- Bus tendered service expenditure more flexible – danger of being ‘squeezed’ (social equity implications)