

Can Quality and Deregulation Go Hand in Hand?

Corinne MULLEY

Abstract

The United Kingdom is renowned for having the most extreme of deregulated frameworks in the developed world for the operation of its local bus services outside its capital, London. This paper reviews the effect of deregulation on efforts to enhance quality and generate patronage on local bus services. Quality partnerships have shown some success in meeting quality and patronage improvements but more recently, legislative reforms have been introduced to facilitate and extend their use. This paper considers the different policy approaches to discuss whether a deregulated institutional framework can provide the environment for quality local bus services.

Introduction

The United Kingdom is well known for its radical approach in the deregulation of its local bus services outside London. The Transport Act 1985 introduced the deregulated framework. It was a step change from the regulation of local buses which had been in place, virtually unchanged, since 1930. The deregulated framework offers the opportunity for operators to register a “local service” as long as the quality standards are met. Operators could provide such commercial services on a route by route basis. Stringent anti-competitive rules were also put in place to prevent potential collusion between operators, particularly in fare setting, location or frequency of operation.

One reason for deregulation was the concern over the long term decline in patronage and increasing levels of subsidy. There was increasing recognition of subsidy leakage into

higher costs, particularly labour costs and internal cross-subsidy which was regarded as inefficient and inequitable. In summary, the advocates argued that a more competitive market would provide local services which would better meet customer needs. Without the requirement to cross-subsidise to provide a network of services, it was anticipated that operators of commercial services would reduce fares as a way of generating additional bus users.

The main purpose for looking at the role of quality in the provision of local bus services is the perception that quality plays a key role in restoring or retaining patronage. The evidence on patronage change is considered in the next section. This shows that the change in institutional framework in 1985 was not accompanied by increases in patronage. Moreover, changes in patronage were unevenly distributed over the country.

The paper then turns to the ways in which quality enhancements have been developed for local bus services, including reforms to the deregulated market to provide a legislative framework for quality partnership. This allows a tentative answer to be given to the question posed by the paper "Can quality and deregulation go hand in hand?"

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Evidence on Patronage Change

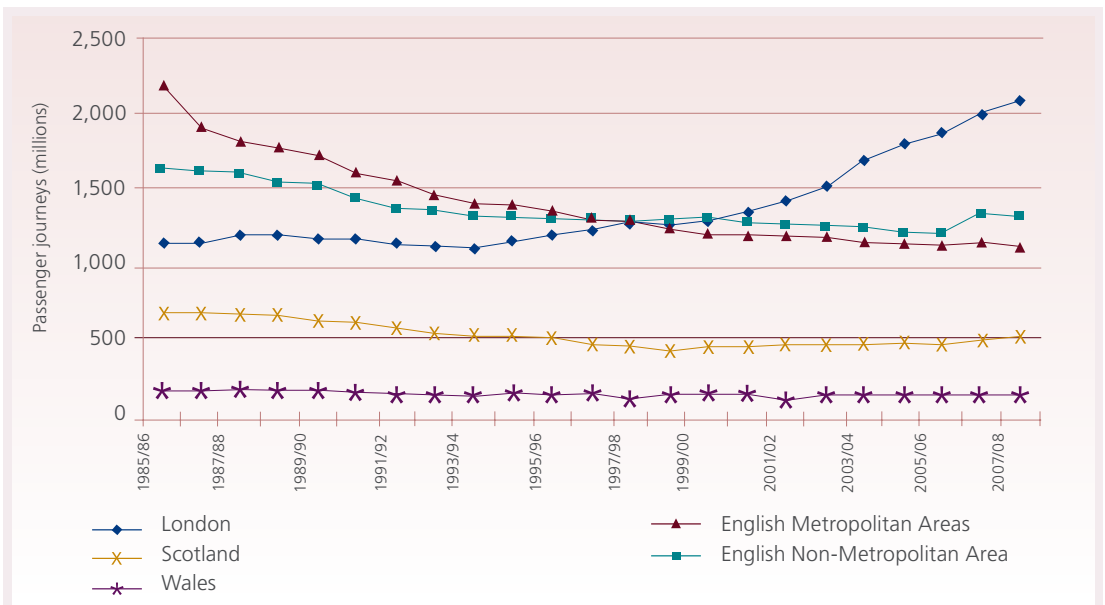
Bus passenger journeys peaked at 13,225 million in 1955 but had fallen to 4,961 million by the time deregulation was in place in 1985. After deregulation, the number of passenger journeys continued to decline until

the mid-1990s when the number stabilised before slowly climbing again. In 2007/8, bus passenger journeys stood at 4,530 million.

Of course, not all the decline can be attributed to the regulatory framework. In the early 1950s, over 40% of all passenger-kilometres were undertaken by bus in contrast to 27% by car. This was because only 14% of households (in 1952) owned a car. In 2008, the position was completely reversed, with bus representing 6% of the passenger-kilometres and car 84%.

However these total figures mask the geographical differences across the country as shown in *Figure 1*. English metropolitan areas, in particular, are still experiencing decline, partly explained by the faster growth in car ownership and urban dispersal. London, on the other hand, has continued to show growth in bus patronage.

Figure 1: Passenger journeys by bus from 1985-2008



Source: DfT (2008)

Conditions in London are different from those outside: the economy has been stronger in London with growth in population; buses there are subject to a different form of area based regulation and enjoy a higher level of subsidy; parking controls and policies such as congestion charging have changed the price and availability of other modes of travel; and an integrated ticketing system allows transfers between services on the same mode or between modes with no financial penalties. There has been much commentary on why London is different (for example, Mackie 2001). Many have pointed to the higher quality of service provided in London, compared to outside London, as a key factor.

Outside London, whilst patronage has fallen, the level of competitiveness has increased. In many areas, operators are offering higher quality services, particularly on their more profitable commercial services.

Quality Improvements through Voluntary Partnership

Many passengers outside London perceive travelling by bus as the “mode of last resort”. In seeking ways to improve the quality of bus service, many local authorities began to explore partnerships with their local operators. Partnerships were necessary since local authorities were not allowed to intervene in the market directly. Perhaps more importantly, some aspects of service quality are within

Table 1: Examples of quality attributes and spheres of influence

Service element	Quality attribute (examples)	Operator	Local authority
Reliability of journey time	Vehicle, staff availability	✓	
	Infrastructure provision		✓
	Parking and other “soft” measures such as better information about travel options or marketing		✓
Comfort of journey	Standards e.g. modern vehicles meeting up-to-date emissions standards.	✓	✓
	Driver quality	✓	
	Vehicle quality	✓	
	Traffic environment		✓
Accessibility	Vehicle access e.g. low floor	✓	
	Quality of stops		✓
	Quality of interchange		✓
Information	Knowledge/provision of timetables	✓	
	Printed and other provision on an area basis		✓
	Real time information provision	✓	✓

the influence of the operator, some within the local authorities' remit and others can be influenced by the decisions or behaviour of both the operator and the local authority. (See *Table 1*).

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A second motivation for partnership is the way in which the benefits and costs of improvements are distributed. If the local authority carried out improvements, any additional revenues from increased patronage would accrue to the operator. Similarly many of the improvements which are within the operator's jurisdiction will work better if improvements by the local authority are undertaken concurrently. There is a symmetry about improvements in quality that makes it in both parties' interests to have a partnership.

In the early 1990s, many voluntary partnerships were set up. Operating standards were established on various features such as frequency and vehicle quality (age, accessibility, emissions standards) alongside matching improvements by the local authorities (traffic priority, stops and shelters, and information). In many cases, partnerships were motivated by the way in which they led to the unlocking of central government funds, particularly for capital projects. For example, in Nottingham, bus priority, improved bus stops and shelters

(including raised kerbs for easier boarding), and the introduction of a multi-operator travel card was offered by the local authority. The operator on the other hand introduced modern, green accessible vehicles, driver training and "easy to understand" timetables and fare structures. In Kent, in the small town of Dover, the operator replaced most of their old minibuses with a fleet of accessible midibuses in return for better bus priority and improved bus stops and shelters.

As partnerships work by identifying the key features to improve in a location, it is not surprising that different forms of partnership have emerged. Not all involve simply the operator and local authority. More recently, in Warrington for example, the partnership was between four partners. In addition to the local authority and operator, the private company Adshel provided bus shelters and the police authority provided heightened security. This led to a 13.2% growth in passengers (2007) with 63% of new bus users converting from private car trips.

Figure 2: An upgraded Warrington bus stop with real time information



Source: UK bus awards (www.ukbusawards.org.uk)

Varying figures have been given for the growth in patronage resulting from quality bus partnership schemes: from 40% over two years in the West Midlands; to 63% in Ipswich over two years; to sustained, network growth of 5% per annum in Brighton and Hove; and 77 % over 5 years in the City network in Cambridge (Davison and Knowles 2006; www.ukbusawards.org.uk). More focused research, using a stated preference approach, suggests that the potential gains in patronage were between 10-30% per scheme and such gains were achievable if the town/city had a population in excess of 25,000 (CfIT 2002).

However there were operating problems in some areas where low cost/quality operators could not be excluded from benefiting from improvements made by local authorities. These operators could either enter the market and compete with the operator who had invested in quality improvement, or they could “free-ride” in parts of a multi-operator environment. In addition, the existence of a low cost/quality operator on a route or corridor where service quality had been enhanced affected passengers’ perceptions of the whole corridor.

Voluntary partnerships are not legally binding. Some partnerships had difficulties where one or both sides did not fulfil their commitments. Another problem was uneven quality enhancement faced by cross boundary services as a result of different investments by the transport authorities. Most importantly, overall patronage continued to decline. Improvement in quality was seen as the only way of reversing this trend.

Against this background, the Government reformed the legislative framework for the operation of local buses. The Transport Act 2000 defines more clearly the opportunities of improving quality in the bus industry through partnership.

Reform for Quality Enhancement—Round One

The Transport Act 2000 introduced enabling legislation for two types of regulatory controls within the local bus sector: the statutory quality partnership (SQP) and the statutory quality contract (SQC). The SQP scheme allowed local authorities to specify quality standards to be met by operators in return for using facilities such as bus lanes and upgraded bus stops. Low cost/quality operators could therefore be excluded from facilities provided as part of the quality bus partnership, but not from the route or the territory as a whole. Quality contracts, on the other hand, were designed as a last resort. They gave local authorities more radical powers to contract local bus services, including being able to specify routes, frequencies, fares and give exclusive rights. However an SQC required specific Ministerial approval after showing that all other partnership approaches have failed. No quality contracts have been agreed to date (2009).

It might have been expected that the quality partnership provisions would be much used. However this was not the case. There are a number of reasons linked to the way the legislation was framed. Firstly, the legislation provided for a significant period of consultation before implementing a SQP. Secondly, and importantly, all the facilities

“promised” by the local authority needed to be in place before the start of the scheme. In multi-operator areas, the consultation process was so lengthy that the first statutory quality bus partnership was only signed in August 2007. This was established in North Sheffield where the local authority provided additional bus priority lanes, upgraded stops and shelters, real time detection and priority at selected traffic lights, real time information at certain stops, junction improvements and enhanced parking controls. All participating operators provided low emission accessible vehicles with CCTV monitoring, highly trained drivers and a commitment to a high quality of bus cleanliness and maintenance. In the first year of operation, the scheme delivered 10% patronage growth with improved reliability and punctuality. But for most areas, the process appeared to be just too difficult to implement.

Figure 3: An enhanced interchange under North Sheffield statutory quality partnership



Source: The Scottish Government, Statutory Quality Partnership: Best Practice Guidance

Voluntary quality partnerships have nevertheless continued, and many are delivering patronage growth outside the main metropolitan areas. In the metropolitan areas, however, patronage continues to fall. For these

areas, it is clear that the Transport Act 2000 did not deliver the change that was hoped for—a genuine way of making patronage grow.

In the metropolitan areas, there are normally two authorities responsible for different aspects of transport provision, in contrast to other areas of England. Highways responsibility (and the provision of bus priority lanes, for example) lies with the District authority while the responsibility for planning, subsidy of services and on-street infrastructure lies with the Passenger Transport Executive (PTE)ⁱⁱ. The PTE, whose boundaries overlay a number of District authorities, is tasked to integrate public transport in the metropolitan conurbation which would not be possible at the lower spatial level of the District authority. However for voluntary quality partnerships, this means that three partners, rather than two, need to deliver. Any failure to deliver on one element will impact on the effectiveness of the other improvements as, by the nature of the partnership, the investments are complementary. Whilst the existence of a third party makes partnership agreements more difficult to co-ordinate, it does not appear to be the main reason why patronage is still falling in the metropolitan areas.

Voluntary partnerships have been seen as concentrating on the “easy wins” where quality corridors or routes have been selected based on the commercial considerations of operators and/or political considerations of local authorities instead of focusing on the passengers. But this is the essence of voluntary schemes—decisions that are expensive for the local authority or give a low

return to the operator will not find favour (NERA 2006). Whilst there is an incentive for both operators and local authorities to participate, the character of their investments is different. Local authorities typically have front loaded investments such as the provision of infrastructure, whereas operators typically have a more long term investment. Therefore it can be problematic to bind operators to the full length of the agreement.

Finally, voluntary partnerships need to benefit all parties and this is not always possible. Under a voluntary partnership, the local authority cannot “direct” an operator to increase frequency, for instance. Indeed this is not possible under the Transport Act 2000 unless a quality contract is in place. However if the local authority feels that the commercial operation provides too low a frequency, they can subsidise the existing operator to run more journeys under *de minimis* provisions or seek a competitive tender to operate the extra journeys. Either way, the subsidised journeys will result in lower patronage for the original service which is commercially registered, making it less viable. The deregulated environment also does not prevent the operator from running a commercially registered service just in front of the subsidised service.

In summary, the Transport Act 2000 failed to understand the difficulty of forging a statutory quality partnership, let alone a quality contract. For the metropolitan areas, several issues remained unresolved: how to secure quality improvements on routes important to passengers; how to tie in the various partners for the length of the partnership or contract; and importantly, how to allow the PTEs to

properly plan their networks when they had no real control over fares and frequency.

Reform for Quality Enhancement—Round Two

Following a bus policy review in 2006, various changes to the Transport Act 2000 were proposed to make quality partnerships a more realistic option. These were embodied in the Local Transport Act passed in November 2008.

The new framework allows for two different forms of quality partnership in addition to the quality contract. Quality partnerships are now defined as voluntary or statutory. Whilst both are voluntarily entered into, the latter are binding. Importantly, partnerships can cover fares, frequencies and operating hours of local bus operation. Voluntary quality partnerships are strengthened by giving participating operators protection from predatory or low cost/quality operators, while authorities have the ability to enforce performance standards.

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Under statutory quality partnerships, operators who want to use an upgraded route or corridor must first meet the operating standards specified by the authorities that invested in the upgrading. These provisions are a step forward in the quest for delivering better quality within the deregulated framework. But in many ways, the powers which were

intended to make partnerships more effective mean a derogation of the competitive market. Indeed, the statutory quality partnership is now framed in such a way that its only difference from a quality contract is that the latter will prevent any but the contracted operator from operating.

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Under the new legislation, it is easier to implement quality contracts as the transport authority has the ability to invite bids for the operation of a specified network. Once successful, the operator would be fully protected from on-the-road competition for the duration of the contract. Quality contracts, where the public sector specifies the service standards and the private sector delivers the bus services, have been adopted in many parts of Europe (and is the norm for other public transport provision in the UK). Such quality contracts certainly allow the transport authority to plan and procure an integrated network with a frequency of service and fare levels that could be used to arrest the decline in patronage. For example, the authority could specify an increase in frequency if the commercial operators have thinned out provision to ensure viability. However better quality services will cost more money and there is no indication of where or if additional funding will be available.³ More importantly, quality contracts will need administrative

support and monitoring if they are to be effective and this will also need funding.

The new form of quality partnerships and quality contracts could lead to quite different levels of competition in adjacent transport authorities. This may give rise to significant cross boundary problems. Cross boundary problems have, of course, been a potential problem with voluntary quality partnerships. However with the implementation of statutory quality partnerships and quality contracts, this becomes a more important issue because the degree of competition in adjacent authorities could be different.

Conclusions

The deregulated framework introduced against a background of falling patronage has created a much more competitive market for the provision of local bus services. However a deregulated local bus market has not provided the quality required to grow patronage or to arrest its decline in the larger metropolitan areas. This led to a number of quality partnership schemes being created to try and arrest the decline. Whilst this seemed to be successful, eventually, at halting the decline in some areas, patronage continued to fall in the metropolitan areas.

This paper has identified some of the issues with making voluntary quality partnerships work effectively. The Transport Act 2000 was not successful in promoting more and better quality partnerships as evidenced by the low take-up of its powers. It is still too early to know whether reform embodied in the Local Transport Act 2008 will make a difference.

Moreover the new legislation gives rise to greater potential border conflict between adjacent transport authorities with different levels of quality and degrees of competition. Time will tell whether it will be successful

in delivering quality local bus services, and whether its powers are needed to do so. This will be a significant determinant of whether a deregulated market can provide quality local bus services.

Notes

1. A "local service" is defined as a passenger service vehicle (PSV) carrying passengers at separate fares where the overall route or distance between stopping points is less than 15 miles (approximately 24km), measured in a straight line.
2. Passenger Transport Authorities (PTA) are responsible for subsidising and planning but this is carried out for them by the Passenger Transport Executive (PTE).
3. The Act also makes provision for net revenues from any local congestion charging scheme to be hypothecated to local transport and this is a potential source of additional funds. But local transport is not necessarily public transport and could include, for example, further road schemes.

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Corinne Mulley is the founding Chair in Public Transport at the Institute of Transport and Logistics Studies, University of Sydney, Australia. This Chair has been funded by the New South Wales Government to expand capacity and knowledge in the public transport field. Prior to taking up her position in December 2008, she has been active in transport research at the interface of transport policy and economics. She led a high profile European and UK consortia undertaking benchmarking in urban public transport and has provided both practical and strategic advice to local and national governments on benchmarking, rural transport issues, and public transport management. Professor Mulley is recognised as a leading economist in the field of transport deregulation.