Delivering value for money to government through efficient and effective public transit service continuity: some thoughts: response 4.

Peter White

School of Architecture and the Built Environment

This is an electronic version of an article published in Transport Reviews, 27 (4). pp. 432-434, July 2007. Transport Reviews is available online at

http://dx.doi.org/10.1080/01441640701192351

Observations on the paper 'Delivering Value for Money to Government through Efficient and Effective Public Transport Service Continuity : Some Thoughts' submitted to 'Transport Reviews May 2006.

Peter White
Dept. of Transport Studies
University of Westminster

The issues raised by David Hensher are illustrated in many recent developments and current problems faced in Britian. As is well known, the deregulation of bus services from 1986, and subsequent privatisation of rail services from 1996, has created in situation in which very extensive experience has been obtained both of commercial operation, and services contracted to public authorities – recent developments in the bus and coach sector are reviewed in White (2005) and issues relate to competition and tendering in both bus and rail sectors in White (2006, forthcoming).

The issue of asset ownership being retained (or transferred to) in the public sector does not generally arise with respect to rolling stock, unlike some cases he discusses. Apart from a few cases where authorities have provided buses to operators, the general practice is that the operator owns (or leases) the rolling stock, the cost of this (depreciation & interest, or leasing charges) being reflected in total costs covered either from passenger revenue (in the case of commercial services), or within the contract price. For example, a very modern bus fleet is now operated in London (98% of buses below ten years by the end of 2005, average age around 4 years) as a result of specifications in contracts for Transport for London (TfL), but it is the operators' responsibility to provide the vehicles. Clearly, higher costs are incurred, which will be reflected in the contract price (TfL 2005, p 290). The national rail fleet is largely provided through leasing from rolling stock companies, although the market set up for this purpose at the time from privatisation was somewhat artificial (especially in charges made for older stock) and only recently has a more competitive market developed.

A more critical issue is the ownership of infrastructure. The privatisation of the national rail system involved the transfer of infrastructure (track, signalling, stations etc.) to a private company (Railtrack plc). Following its demise, a semi-public body, Network Rail, now controls, such assets (its debt has been classified as 'public' by the Office of National Statistics, given government guarantees that exist). However, this remains as a monopoly supplier.

In the case of privatisation of the bus subsidiaries of London Transport, depots as well as vehicles were sold off. This may have given incumbents a substantial advantage, given the difficulty that newcomers face in acquiring land and planning permission for new operating bases. A more competitive market might have been secured by retaining depots in public ownership, making their use open to newcomers as well as incumbents. Currently, in the London area 86 depots are owned by operators, and 8 by TfL (TFL 2005, p 40), but TfL is now seeking to build 15 new depots which will assist newcomers to enter the market (Transit 2006, p 7)

David Hensher rightly raises the issue of quality of service in contracts, given the shift in emphasis from the simple cost-minimisation approach in the first phase of competition and privatisation. In the case of rail services, a fairly strict quality regime has been in place from the outset, with monitoring of train performance through data derived from the control system, and

attribution of delays between service operators and the infrastructure provider. Incentive and penalty payments are linked to this. Monitoring of performance in the case of local bus service (especially commercially-registered routes) has been more difficult, but in the London network a shift to 'Quality Incentive Contracts' (QICs) recently has produced substantial improvements in performance, linked with a set of incentive and penalty payments additional to the basic contract (London Assembly 2006). For example, rather than setting the minimum running time operators may now set a more realistic schedule to reflect variability in running times. This may involve more resources being used, but produces a higher quality of service for the users.

However, the Public Private Partnership (PPP) for the London Underground highlights some of the difficulties David Hensher mentions. Its very long duration (30 years, with periodic review every 7.5 years) makes it difficult to remove a contractor whose performance is unsatisfactory. It is also questionable whether penalty payments are sufficiently large to incentivise the infrastructure companies to minimise delays to passengers (for example, where weekend engineering work over-runs). A particular dissatisfaction has been expressed about performance of Metronet, a company holding two of the three contracts (Transit 2006).

The issue of trust' between operators and authorities is illustrated in the case of commercial local bus services. Quality can be improved both through action by operators (for example, better staff training) and by local authorities (for example, greater provision of bus priorities). This can be seen in the 'quality partnership' (QP) concept. However, trust between partners can be poor. For example, transferring road space from private cars to buses is politically difficult, yet the local authority receives no guarantees of service frequency or fares from the operator when such changes are introduced. The 'quality contract' (QC) concept, introduced in law under the Transport Act 2000 (but yet to be applied in practice) would create a situation similar to that in London, in which authorities would be able to specify service and fares levels, but is opposed by the operating industry. Its 'ownership' of profitable commercial services would be affected by such changes (since the incumbent operator would be in the same position as other bidders), leading to questions of possible compensation. A less strict application of competition laws would assist in enabling competing operators to co-ordinate their services, and could form part of a 'third way' between QPs and QCs, now being considered.

PRW 22.05.06

References

London Assembly Transport Committee (2006) '; Value Added? The Transport Committee's assessment of whether the bus contracts issued by London Buses represent value for money'.

Transit (2006), 12 May issue

Transport for London (2005) : 5 years investment programme (December)

White, P.R. (2005) 'Experience of privatisation and deregulation in the bus and coach industry in Britain' Chapter in Elisabetta Venezia (ed) 'Urban Transport' (FrancoAngeli, Milan), pp 35-53

White, P.R (2006). 'Competition in Public Transport in Great Britain' European Transport (forthcoming)