25+ years of marketisation and institutional change: are we getting a better deal from transport?

Lecture of the Transport Research Foundation

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ABSTRACT

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Since 1996 he has been chairman and/or board member of a number of public boards including the Strategic Rail Authority, Docklands Light Railway, British Tourist Authority and the English Tourist Board; and was a board member of Transport for London. He was chairman of SeaBritain 2005, a nationwide celebration of Britain’s relationship with the sea, inspired by and incorporating the Trafalgar Bicentenary.

Prior to 1996 David was for 12 years a main board director of Sainsbury’s, first as logistics director and then as joint managing director. From 1975 to 1984 he was a board member and then managing director, buses, at London Transport. From 1970 he was London Transport’s director of OR and then chief planning officer.

David gained his PhD at Leeds University in the 1960s, with ground-breaking research on modal choice and the value of time. From 1966 to 1970 he was an economic adviser at the Ministry of Transport.

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Abstract

Of all countries in Europe, Great Britain has seen in the last 25 or so years the most radical changes in the regulatory and institutional arrangements for public transport – bus, tram, metro and rail. But the underlying thrusts of deregulation, privatisation and marketisation have been applied differently in London, in buses outside London, in tram development and in the national rail network. And the institutional arrangements have evolved differently, as between London, the metropolitan areas, counties and unitaries, and at national level in England, Wales and Scotland. How successful has this all been? Indeed what are the measures of success for our local, metropolitan and national transport systems? What objectives should they be trying to satisfy? Financial? Efficiency? Commercial? Economic? Public interest? Urban development and quality of life? Environmental? Are they in conflict?

David Quarmby offers a critical examination of how well today’s transport regulatory and institutional arrangements score against these different objectives, and puts up for discussion some reforms which he argues would enable transport to do a better job for our economy, our cities, the environment we live in and our quality of life. He also looks at whether reforming the way our roads are provided, managed, improved and funded can offer similar benefits. In tackling this topic, Dr Quarmby brings to bear his long and varied experience in transport, from running London’s buses, running Sainsbury’s supply logistics, advising the Department for Transport (DfT), chairing the Docklands Light Railway (DLR) and the Strategic Rail Authority (SRA), being a director of a railway and bus company, carrying out transport and economic consultancy on policy and strategy for public and private sector clients, and chairing transport research and policy organisations.
25+ YEARS OF MARKETISATION AND INSTITUTIONAL CHANGE: ARE WE GETTING A BETTER DEAL FROM TRANSPORT?

David Quarmby

Introduction

Ladies and gentlemen, thank you for inviting me as a member of the TRF Fellowship to give one of these lectures. It is a privilege to address you and I hope I do justice to the occasion.

Britain has seen more radical change in the market, regulatory and institutional environment for transport in the last 25 years than anywhere else in Europe. With a sense that it takes time to get it right – and perhaps we still have not got there yet – we have seen some steady tinkering with the bus regulatory regime, the latest version being the Local Transport Act 2008; there has been a constant tension with the Office of Fair Trading (OFT) over the exact nature of the competitive environment, with another OFT inquiry in process now. And don’t forget that the rail regime is now on its third institutional version since privatisation some 15 years ago.

I would guess that of all the sectors subject to marketisation and privatisation during the 18 years of Conservative government – aviation, utilities, telecommunications, government research establishments indeed, and many others – transport has been the one most subject to review and challenge about whether we have got it right. Two reasons I think why that is. One: the public policy considerations are much more complex for transport than for other sectors such as telecommunications or utilities. Second: there is considerable public funding in transport but very little into other marketised sectors, and understandably public interest and political accountability follow the money.

In this paper I will consider the different aspects of surface public transport one by one: national rail, bus in London, bus outside London, the Docklands Light Railway (DLR) and recent tram schemes, and the London Underground; and finally ask some questions about whether there are any lessons for roads (which have not been subject to such institutional change, but perhaps could be). Each has differences, but each has been subject to its own tailor-made marketised solution – competition, privatisation, regulatory arrangements, institutional arrangements to reflect the public interest, and so on. The question is: are the arrangements for each of those modes fit for purpose in today’s environment?

Fitness for purpose

Three questions
- Economic (productive) efficiency
- Meeting market needs
- Ability to satisfy public policy objectives
  - Are the quantity of service and fares charged ‘right’?

For me, fitness for purpose means addressing these three questions (Figure 1). First, economic efficiency. Do the arrangements deliver adequate economic or productive efficiency in its narrow sense? Second: do they meet market needs? Do the arrangements enable the providers – whether moderated by intermediate bodies or not – to meet market needs and aspirations effectively? Third: satisfying public policy objectives. Are the mechanisms effective for reflecting public policy objectives in decisions about resource allocation and service provision? And a sub-question within this is whether the total quantity of service provided and the fares people pay is “about right”. In other words, is it at some welfare optimum?

To attempt this, I am not going to try to emulate or update the impressive amount of academic work on the impacts and implications of regulatory and institutional change – and I think particularly of work by Peter White, John Preston, Peter Mackie, Peter Romilly and, overseas, David Hensher and many others. Indeed, John Preston delivered one of these TRF Fellowship Lectures on the subject of deregulation and privatisation of public transport, 20 years on, in May 2004. So this is not the first time that the TRF has addressed this issue.

I have neither the skills nor have had the opportunity to attempt the analysis that they have done. What I bring is my own personal experience of many of these changes and how they have worked out in practice, having been personally in the thick of them, in one way or another, in nearly all the transport industries affected. Where I can, I will draw on the insights and findings of the recent academic work. But I hope my analysis is complementary to the academic work, and helps to enlarge our collective understanding. But please do not look for detailed analysis in my paper because you will not find it. And if you were drawn to come tonight by the breadth and comprehensiveness of my synopsis, quite honestly, reading it again, it is a bit ambitious and grandiose; it reads rather like a consultancy proposal, actually. So I hope I do not disappoint you.
Rail
So let us start with national rail. This is a big subject and
difficult to do justice to in a short time. Let me explain where
my personal perspectives and experience come in: I was one
of Alistair Morton’s first appointments to the shadow Strategic
Rail Authority (SRA) in 1999, and was one of the last board
members to turn the lights out in 2006. I was Richard Bowker’s
deputy for two years, and I chaired the SRA’s Investment and
Procurement Committee, and then I was appointed chairman
in 2004 to close the SRA down and turn the lights off. More
recently, I have been a non-executive director of NedRailways
for two years, which in joint venture with Serco owns Northern
Rail and MerseyRail. And nearly my last act as SRA chair was
to commission Dr Terry Gourvish of the London School of
Economics (LSE) to follow his two masterly histories of British
Rail with a write-up of the turbulent history of what he calls
Labour’s strategic experiment with the SRA. It is an excellent
read and I do commend it to you.

I am not going to take you through the three different
institutional arrangements that we have had since the 1993
Railways Act. Much of what we have today, created by the
Railways Act 2005, is built on the many successes and failures
and misconceptions and delights of those first 12 or so years
of rail privatisation (Figure 2).

First, the weakness of the first Railtrack/TOC/OPRAF/ORR model
in 1995, which was based on the idea of it being a static or
decreasing railway, in which initially franchised services procured
by OPRAF would give way (outside the London commuter
network and some regional rail routes) to open access services
regulated by the Office of the Rail Regulator (ORR). Based on
the misguided assumption that market forces could drive
good long-term solutions in this case, within the franchising
framework run by OPRAF, there was no guiding mind for the
direction of development of the railway, nor did the legislation
make it easy for Ministers to pull any policy levers.

The arm’s length contractorised model adopted by Railtrack
for the maintenance and renewals of the infrastructure, and its
focus on commercial exploitation of its non-operating assets,
turned out to be deeply flawed. Quietly but inexorably in the
1990s the asset condition of the railway began to slip.

Instability in the market came as optimistic assumptions about
cost savings failed to materialise. I remember when I joined
the shadow SRA in 1999, about half the franchises had some
form of sticking plaster on them.

Mind you, commercially hungry Train Operating Companies
(TOCs) started to drive up passenger numbers with more
aggressive and clever marketing and fares yield management,
driving them up by 6% compound per annum. Freight also
grew at the same rate in the first three or four years, and
investment was taking place in infrastructure and new trains.
However, the growth of passenger numbers and more trains
was putting pressure on the infrastructure with no mechanism
to consider the implications or to lead the development of
strategies and solutions.

Then we had John Prescott’s SRA (Figure 3). Alistair Morton
devised the long 20-year franchise and the commitments by
the franchisee to invest in capacity and quality improvements
on the network as part of the deal. Conceptually it was a good
business model, but in the event it was undeliverable. The
attempt to apply it to South Central floundered on complexity.
It has worked extremely well with Chiltern Railways – a self-
contained and relatively uncomplicated railway, led by a
visionary railwayman, Adrian Shooter.

Morton’s successor, Richard Bowker, developed the second
version: the simplification to a shorter franchise, straight
service delivery against a specification, with bids for premia or
subsidies on a net cost basis. Meanwhile, the SRA separately
funded and delivered investment, over and above the
renewals activity of Railtrack, later Network Rail.

Hatfield occurred in this period, in October 2000, and set in
train events which led a year later to the demise of Railtrack,
and, a year after that, the creation of Network Rail, a public
interest company in the form of a company limited by
guarantee with 115 members – more of this anon.

I believe the SRA did achieve many things, including of
course the rescue of the doomed and originally unrealistic
West Coast Mainline upgrade plan, and the SRA was both
commercially and intellectually on top of the job it was there.
to do. Its legacy was the tools and concepts it developed – the Network Utilisation Strategy, the Route Utilisation Strategy, the particular franchising model, the Rail Passenger Partnership scheme for funding local rail investment, its approach to strategic planning of Rail Freight infrastructure; all these tools and techniques live on today in Network Rail and the Department for Transport (DfT).

But this model foundered because the structure of ORR/Network Rail/SRA and DfT had too many ambiguities and unresolved overlaps and, brutally, the SRA was the easiest one to kill. The other reason is more fundamental. First, the SRA was given the task of developing a strategy for the railways with no indication of the funds available from government to support it. And second, ORR had, it seems at that time, complete freedom to decide the funding that Network Rail needed to do its job, and dropped a bombshell in the government’s lap with its unexpectedly large determination in December 2003 of Network Rail’s funding for the control period 2004 to 2009. Up with this the government decided it was not prepared to put. The result was the abolition of the SRA announced in July 2004, only three and a bit years after it had formally come into being, and then the transfer of its functions two years later to DfT and Network Rail.

At the same time (Figure 4), the Railways Act 2005 provided I believe the most intellectually coherent way of handling the forward planning and the funding of the railways ever seen, so much so that the five-year cycle now forms the core of the government’s entire transport planning and funding process. This is the famous, if archly named, High Level Output Statement (HLOS) and Statement Of Funds Available (SOFA). The government states what it wants the railway to deliver over the next five-year period – the HLOS – and it is required to state what funds are available – the SOFA. The ORR has the task of establishing whether and how these can be reconciled, with suitable fall-back powers if they cannot.

This process forces government not to will something without the means to deliver it. So in this, the current railway institutional model scores, in my view, pretty effectively on its ability to deliver the public policy interest in the railway.

The rest of the model is working quite well but it is not perfect. The governance of Network Rail is weak – the model of a company limited by guarantee with 115 members, of whom most are drawn from members of the public, is a hopelessly Utopian idea of popular democracy. They are supposed to appoint the Board and hold the Board to account, but the wily chairman of Network Rail managed for several years to ensure it did not work. This needs substantive reform.

Meanwhile, it falls to ORR to regulate the Network Rail monopoly. I think it does a sterling and determined job to force Network Rail to reduce its unit costs while, appropriately given the history, doing a better and more intelligent long-term job of infrastructure management, maintenance and development than Railtrack ever did, and probably better than British Rail did. But I do have a question over whether the quality/cost/value trade-off is in the right place; it is all still rather expensive.

There is a widespread belief, that I share, that the DfT is too prescriptive about the franchise specification, and too prescriptive about rolling stock. It is also very demanding that TOCs should operate under the quality management scheme EFQM (European Foundation Quality Management), which some of you may have heard of. This does ensure that TOCs are high-performing and generally well-managed companies. All this, plus the commercial imperative placed on the TOCs, has helped to drive service performance, which for 2008/2009 is standing at an unprecedented 91% Public Performance Measure (PPM, ie the passenger service measure), and along with a strong economy until the last year, has driven an astonishing growth in rail passenger traffic. At the last measure, billion passenger kilometres carried were a staggering 58% higher than they were only 13 years ago in 1996. Rail freight in 2008/2009, which started to feel the recession, nevertheless has seen a 35% growth since 1996.

I will just mention the second collapse of the East Coast Mainline (ECML) franchise, National Express, this time (Figure 5). It has been suggested that this evidences systemic weaknesses in the franchising system. I do not share that view. I believe that the ECML is uniquely prone to three particular
risks. First: it is a narrow, single market franchise of long-
distance travel which is particularly income elastic. No other
franchise has such a narrow market. Second: its revenue/cost
ratio is the highest of all the franchises, so its revenue-based
risk has a disproportionately high impact on its business, and
the ability to absorb risk while still funding the substantial
premium payments is correspondingly reduced. Third: the
high revenue-to-cost ratio understandably attracts more open
access services (Hull Trains, Grand Central and others) than
on any other corridor, and on our present regulatory policy
these are allowed to compete directly with the franchised
service. In my view, the answer is to take specific measures
to de-risk this particular franchise, and there are various
remedies such as marrying the East Coast franchise with a
different operation like the Great Northern commuter services
based on King’s Cross or the Trans-Pennine Express, or both.
Secondly, changing the cap and collar to give more protection
to revenue shortfalls, and I suggest to change the rules on
open access. For more detail, read my recent article in Rail
Magazine about six weeks ago.

There remains a question, which no politician likes to face
up to: this is whether in the process we are buying too much
railway and buying too much rail travel (Figure 6). At a total
net cost to the Exchequer of some £4.5–£5 billion per annum,
the taxpayer is subsidising every passenger kilometre travelled
on rail by about 10p, with the passengers paying about 12p.
Whether this represents value for the nation is beyond the
scope of my paper. But what the present model, and the
results it delivers, has done is to take rail off the problem
agenda for government and onto the solutions agenda, and
make it sexy; and now we have overenthusiastic politicians to
try to rein back, dear Andrew Adonis.

Buses in London

I’m going to deal with buses in London first (Figure 7). It is just
25 years last month since I handed over my job as managing
director of buses in London and went off to run logistics in
Sainsbury’s. Last week I found in my archive, and I was amazed
how quickly I found it, my strategic plan for London Buses,
dated March 1984, when we knew the transfer of London
Transport (LT) from the Greater London Council (GLC) to
government was coming. The new version of LT, which was
called London Regional Transport, could begin to behave
as an arm’s length procurer of services from London Buses,
which I was running, while still owning it. It is fascinating to
be reminded that our strategic plan was beginning to address
the implications of that. Privatisation of the constituent parts
of London’s bus companies, or London’s bus organisation, was
still not openly on the cards, although I think it would be said
that I unwittingly anticipated it by creating eight bus district
business units four years earlier.

Well, as we all know, deregulation in London, which was put
off in 1984, was revisited a few years later, but wisely in my
view it was then ruled out. I returned to London’s buses when
Ken Livingstone appointed me to the Transport for London
(TfL) Board in 2000. Full competitive tendering for the planned
network had been in operation since the early 1990s, and
break-even for the buses had even just about been reached,
though the service quality in the 1990s was not particularly
good.
Ken Livingstone, in 2000 when appointed mayor, decided to reduce bus fares both in absolute terms and in relation to the tube and national rail (Figure 8). He decided to require bus companies to pay more for staff to address the then chronic staff shortages and to meet his own wider social objectives; but, in particular, he introduced a strong quality performance incentive through the new Quality Incentive Contracts (QICS). The QICS scheme contains strong financial incentives to minimise excess waiting time, and excess waiting time is measured as the difference between the actual observed waiting time minus the waiting time you would get with a perfectly even interval service (you can understand mathematically how that is). What delights me is that which is used today in QICS is a performance measure that we devised in the 1970s.

The low fares, much improved service reliability and the introduction of the central London congestion charge in February 2003 all drove up bus passenger traffic in London and required additional bus mileage to provide the capacity. In these circumstances, the marginal cost of additional mileage was much more than the marginal revenue, so naturally the subsidy requirement started to shoot up. In addition, in more recent years, the network has seen considerable densification, requiring even more bus mileage and even more subsidy. This has driven the London bus subsidy to over £600 million per annum, which now seems a bit less affordable than it did in the last years of Ken’s second mayoral term.

My perspective on the London bus situation has been enriched by the acquisition by NedRailways (now Abellio Group) of National Express’s company Travel London (now Abellio London). It operates services in south and west London and Surrey out of six garages. So as a non-executive director of Abellio Group, I see the contract award process from the other side as well.

In the early part of this decade Oyster extended to all TfL’s transport systems and this necessitated the introduction of a flat fare on buses, which in my view has exacerbated the transfer of rail and underground passengers to bus for medium-distance trips, and again pushed up bus costs. But the immense convenience of Oyster, with auto top-up for Pay as You Go users, has lifted the perception and the use of buses as a mode of transport. Buses in London always had good penetration across different passenger markets, better than most places outside London (Figure 9).

With this, of course, goes the long-standing traditions of good static information – on maps, bus stops, the TfL website, and so on. Oddly, London has lagged other towns and cities in developing modern real-time information to passengers, whether at bus stops or to mobiles and PDAs. Can you believe that Countdown, the system we have today at many bus stops, was being piloted in my time, 25 years ago! I find it irritating that RTI is universal throughout all the rail systems, common in an increasing number of towns and cities outside London, but not on London’s buses.

The recent strategic review of bus services in London, led by KPMG and commissioned by the TfL Board earlier this year in response to the burgeoning subsidy, gives some useful insights to current levels of efficiency. It concludes that generally the competitive tendering system is working well and delivering cost-efficient operations, although the report expresses some concern about the degree of consolidation still going on in the supply market, and draws attention to the modest, I think, barriers to entry created by the requirement for bidders to provide their own depot or garage facilities.
We know from John Preston’s presentation to the TRF of five years ago that the initial unit cost reductions in London in the 1980s of some 50% were similar to those achieved in the deregulated sector, interestingly. But unit costs have since risen in real terms, partly driven by higher and more demanding vehicle specifications (low maximum vehicle age, low floor requirements and other features), and partly by the consequences of higher service reliability expectations on resourcing, partly by higher drivers’ wages. Do these higher unit costs reflect a higher quality product and not just a worsening efficiency? Even taking out the effects of lower fares and higher frequency, passenger demand is responding in London to something qualitative and intangible, as indeed Peter White’s work for the Passenger Transport Executive (PTE) in the run-up to the Local Transport Bill has demonstrated (Figure 10). This is probably not just about vehicles but about marketing, stability in the network, integration with other modes, the convenience of the Oyster card and so on, and may be worth 10–15 percentage points of the passenger growth in London.

The KPMG review also reports how London scores against other cities internationally as reported by the International Benchmarking Group run by Imperial College. Briefly, London performs better than average when compared with ten other group members, particularly on measures of cost efficiency. However, interestingly, in spite of the considerable improvements in service reliability, London seems to perform below the mean of the benchmarking group.

So how does the London bus regime score on my fitness for purpose indicators (Figure 11)? Generally well on efficiency in the narrow sense, and generally well on meeting public demand. The public policy question is whether the intervention by public authorities, the Greater London Authority (GLA) and the mayor in this case, in the specification process, mean we end up buying “too much” or “too high quality” a service and at too low fares? But these are policy choices. Estimating the wider social benefit delivered by this high service and high passenger volumes was a requirement of the strategic bus review but KPMG has not reported on it. While politically the quality, quantity and value of the bus service is acclaimed, the question remains as to whether we are buying too much service for too much money.

John Preston presented a view of where the welfare optimum might sit for a given budget constraint in his paper five years ago, but he was cautious about the results because he admitted he was not properly modelling the supply side as fully as he would have liked, so I have done him the courtesy of not mentioning his results. The imperative today is to reduce the ballooning subsidy, but the challenge is still to do so in a welfare optimum way. My instinct is this involves both scaling back the quantity of service significantly and putting the fares up significantly. Someone, perhaps John Preston, should do the sums again about the welfare optimum.

**Buses outside London**

Like rail, the deregulated regime for buses has been debated and tweaked over the 23 years since it was first introduced; it has also been studied and researched at great length by academics. Although a keen observer over the years, my direct experience is modest and recent – leading a major consultancy project for Colin Buchanan for the Greater Manchester bus operators to develop a complex strategic partnership with the PTE in the run-up to the Manchester Transport Innovation Fund (TIF) bid in 2007, and more recent work for Kent County Council on buses. As part of this, I was close to the development and passage of the Local Transport Bill. So I do know what it is like on both sides of the fence, both the operator and the local authority.
But let us be quite open about this. Developments since the 1985 Act have reflected two fundamental tensions (Figure 12). First: between local transport authorities and PTEs on the one hand, who view bus services as part of the transport mix and who wish to influence networks, services and facilities in a way that supports their transport policies and plans, and on the other hand the bus operators who want to maintain maximum freedom to operate their services in accordance with their commercial criteria and objectives. The second tension is between the operators and local authorities on the one hand who increasingly share an objective for coordinating services and fares and ticketing arrangements, and the competition authorities on the other who are reluctant to see any developments which, in their view, mitigate competition between operators.

These two tensions are intrinsic and fundamental to the British deregulation model, and while they can be mitigated, they cannot be resolved without changing the model (Figure 14). The two main pieces of legislation – the Transport Act 2000 and the Local Transport Act 2008 – have sought progressively to frame these tensions and to provide partnership-style solutions which reflect the legitimate concerns of both operators and public authorities, and which create some protected space for the coordination of services and ticketing that’s safe from the competition authorities. In addition, the two devices introduced by the 2000 Act and strengthened in the 2008 Act – the statutory quality partnership scheme and the quality contract scheme – represent more substantial attempts to enable the local authority to influence or determine the nature of bus services provided in a corridor or in an area; the quality contract scheme in effect suspends deregulation.
Although voluntary partnership agreements are well established across the industry, they tend to be found outside the metropolitan areas (Figure 15). Whether as formal partnership agreements or as practical collaboration based on trust and good personal relationships, the successful development and integration of bus services into the local transport strategy tends to be found in freestanding towns such as Brighton, Oxford and Reading. My reading is that partnership-type measures like park and ride, serious bus priorities, network planning around substantial pedestrianisation, good bus infrastructure and well coordinated and presented service information including RTI can really help to achieve the objectives of such transport strategies.

Where it all seems to get more challenging is in the metropolitan areas where the ambition for the bus network may be more substantial, whether in ticketing and fares policy, in network development, in the degree of integration with tram or commuter rail networks or just as part of a more radical transport policy for the area. The limits of what the voluntary partnerships can be expected to achieve were painfully evident to me in the development of the bus strategy in Greater Manchester, and of the strategic partnership framework between the bus operators and the PTE in the run-up to the Greater Manchester’s TIF bid (Figure 16).

The effect of deregulation, in my view, was to turn buses back into a cottage industry, an approach which persisted even during the massive consolidation of the 1980s and 1990s (Figure 18). Only in this decade has the industry started to develop, and the attention to innovation, sophisticated marketing and what I would call modern business practice is welcome and appropriate, if slightly overdue. Much is made, quite rightly, of focusing on the customer and the cultural changes necessary to support that. But it can be argued, certainly in larger cities and in the metropolitan areas, that the community as a whole is as much the customer as is the...
passenger, because of the more integrated role that buses need to play in a transport system which supports the whole economy and quality of life in the entire city.

Conceptually, the decisions and measures taken by an operator to optimise his business in relation to his passengers and their revenue are not necessarily exactly those which optimise the role that buses play in that city as a whole; and the larger the city the more this is likely to be the case. In this context, it does seem odd to me that government expects this difference to be addressed successfully through voluntary partnerships between city authorities and operators. Voluntary means that each party can decide whether to sign up or not, and that terms are negotiated as between equal partners.

I want to tell you a parable (Figure 19). Suppose we lived in a country called “Binland” and in “Binland” we pay for our waste collection services at the point of delivery, not through our council taxes; and suppose there is an open market for the provision of such services to households. Firms compete to collect your waste – they compete on service and on price. Those who offer no separation of your waste into organic, recycled and non-recyclable waste would incur lower costs and be able to offer lower prices, and could clean up [excuse the pun], except of course for the environmentally conscious middle class who would probably demand and pay more for separated waste services. There are low barriers to entry but there are benefits of scale, so generally the predators have run the weaker firms off whole individual streets and complete areas, and then enjoy a territorial monopoly. Due to consolidation, in “Binland” nearly all local waste companies end up being owned by one of five big plcs. Generally, service remains fairly basic with low prices, except for the niche operators providing separated waste services to more affluent areas. While most towns and cities have weekly collections, many rural communities get fortnightly collections, some only monthly; and quite a lot get no collections at all and have to take all their own waste to municipal dumps.

Eventually, the government of “Binland” says that for public policy reasons it wants all households to have a collection service and for much more waste to be recycled. So government is thinking perhaps we ought to legislate for this and get local authorities to organise it, but the big five companies do not want to lose their commercial freedoms and they lobby hard saying local authorities would not be capable of organising it effectively, and anyway it would cost more. So government is persuaded instead to encourage local authorities to tender or negotiate with providers to cover the unserved rural households, and to enter into voluntary partnerships to try to increase the amount of recycling, and to ensure that all households remain covered.

The local authorities find that, due to territorial monopolies, there is usually only one provider with whom they can negotiate the rural extension of the waste collection service, and they feel they never get a good deal. Some local authorities invest in clever waste recycling plants and offer access to these plants free to the providers, to try to persuade them to offer recycling to their customers. One or two of the more progressive provider firms start to do this and find their market will pay a small premium to segregate their waste and have it recycled. But a predator comes in and offers basic waste collection at a knock-down price, drives the progressive company out of the area, and hardly any use ends up being made of the local authority’s expensively provided recycling plant. Meanwhile, in the next town, two of these more progressive providers agree to share vehicles in order to reduce their costs and resist further predators, and explore how they can cooperate over their collection runs. They get reported to the competition authorities, however, and someone from the OFT comes knocking on their door. There is instability in the services provided, rural areas are not uniformly covered and recycling never really takes off.

Eventually, the local authority leaders go and see the “Binland” government minister. “Sod this”, they say, “Can we just have what the capital of ‘Binland’ has?” And what does the capital have? A statutory responsibility for waste collection, universal coverage and ambitious recycling targets. The capital’s authorities go out to the market to contract with service providers against a clear specification of the task, including the collection of separated waste and the delivery to recycling plants, organic waste disposal points, and Combined Heat and Power (CHP) for the non-recyclable waste. And I know this is where my parable slightly parts company, because it is a universal service to households, they stop charging directly for it and put it on the Council Tax.
So is our bus regulatory regime outside London fit for purpose? For the metropolitan areas and city regions, in my view no, it is not. For the free-standing towns and rural, it works well in some places, but fragility and inability to deliver public policy objectives are demonstrated elsewhere (Figure 20).

DLR and tram

Let us move onto the Docklands Light Railway (DLR) and tram. I have left myself relatively little time to cover my remaining modes, but I think the arguments are more straightforward. I joined the DLR Board in 1998, became chairman 11 years after it had opened and soon after it had tendered and awarded its first operating franchise to Serco.

Built and operated entirely by the public sector up to that point, the DLR had had a chequered history as a unit within London Transport, and it was only when taken over by the London Docklands Development Corporation (LDDC) in the early 1990s did it get the degree of attention and sorting out that was really necessary.

The first operating franchise was at net cost, ie the franchisee set the fares and took the revenue risk. That was and still is the pattern in our mainline railways, but the more proactive regime on ticketing and fares adopted by Ken Livingstone when he became mayor meant that this business model for the DLR became unsustainable. So when the franchise was re-tendered and won again by Serco, this was on a gross cost basis with no revenue risk, ie with Transport for London (TfL) setting fares and integrated ticketing and taking the revenue. It is almost a vertically integrated franchise, in that Serco maintains and renews all the infrastructure, as well as maintaining the rolling stock and operating the train service. By all accounts, including my own personal experience as DLR chairman for three years, this has been an immensely successful venture. The service has been consistently excellent for over ten years and the costs reflect an efficient resourcing of the timetable as set down by the client, DLR Ltd (Figure 21).

What are the critical success factors here? A combination of a highly competent and intelligent client organisation, a sophisticated, business-like and competent service provider, a fit-for-purpose business model, coupled with all the virtues and benefits of a small organisation. Major line extension projects have – Lewisham extension onwards – been funded and delivered by private finance initiative (PFI) on a design-build-finance and maintain basis, with the client paying an availability fee, although the Stratford Extension is now being built on design-build PFI with a separate maintenance contract just being tendered at the moment. This model has certainly delivered trouble-free extensions on time and on budget and in subsequent operation.

Trams are outside my own experience and knowledge, and the business models have varied a little between recent tram projects. Generally, my observation would be that the design-build-finance-operate (DBFO) concessions of the early schemes, for example Croydon, really held too much risk; correct pricing > unaffordable? TfL bought out Croydon Tram Link fairly recently and now operates it rather like the DLR on a gross cost contract, with TfL taking the revenue. Generally, to treat the upfront project cost as public sector capital investment and then to let an operator concession along the lines of the original Serco DLR franchise, as now happens with the Manchester tram links, seems an appropriate model unless and until the local authority or the ITA (Integrated Transport Authority) takes control of public transport.
transport fares and ticketing. Fitness for purpose? I’ll be summarising these at the end.

London Underground

- PPP has been an expensive mistake
- Only virtue is committed channeling of £ asset renewal on Underground
- Need a different model which commits long funding streams, achieves the objectives efficiently and with less tortuous and costly arrangements
- Current default not necessarily best

Figure 23

I include the London Underground for completeness. Given the collapse of Metronet within a few years and the difficulties Tube Lines seem to be getting into, the doomsayers of the public private partnership (PPP) – and I am joined with Ken Livingstone and Bob Kiley in this – seem to be right that it was neither sustainable nor value for money (Figure 23). It has been a ridiculously expensive experiment. Its only virtue, in my view, being that it has managed to channel large sums of money into renewing the assets on the Underground in a way that conventional funding would never have done, and by and large has raised the standards of maintenance and system availability and performance, but at what a price. It would be an interesting task to devise a different model which retained the long-term funding commitment to asset maintenance and renewal, without the tortuous commercial and contractual arrangements which combine inflexibility with lack of market discipline and some highly perverse incentives. You will be relieved I am not going to try to develop that model now.

Figure 24

It was part of the strange model constructed on a mandarin’s desk in the Treasury that the operation of the Underground should remain in the public sector. One cannot guarantee that the difficult relationships which currently persist with the RMT, for example, would not have been present in a contracted operation such as a TOC or DLR, nor can one be certain how much more in efficiency savings or customer focus would have been delivered in comparison with all that Tim O’Toole achieved in his seven years as MD of London Underground, although there is evidence coming through now that actually there are quite a lot of operational cost savings that London Underground can and will be making. But I have to say that to sustain a high degree of excellence and efficiency over a long period of time in the public sector without the pressures of the marketplace and the requirement to re-bid every seven or ten years is nevertheless pretty challenging (Figure 24). Fitness for purpose (Figure 25)? We will come back to that.

Roads?

- No significant marketisation except recent ‘improvement’ DBFoS (A13, M25)
- No debate about institutional options – why not?
- Stephen Glaister/RAC Foundation – stimulate debate about regulated arm’s-length body with transparency of objectives and funding, targets for service performance, maintenance and investment, funded from govt or road charging
- Limited to strategic road network (SNN, HA, Principal Roads?)

Figure 26

Finally roads, question mark! I include this (Figure 26) as a PS just to remind you that apart from the M6 Toll and the Skye Bridge, the last century saw no departure in the roads model from public sector construction, maintenance and operation. In recent years there have been PFI packages put together for substantial road improvement and maintenance, such as the A13 and the M25.
What we have not seen yet is serious debate about the institutional options for the development, maintenance, operation and funding of at least the strategic road network. My colleague Stephen Glaister at the RAC Foundation has stimulated debate recently with a commissioned paper exploring the possibility for arms-lengthing from government some kind of roads body, which could be a public interest company like Network Rail or a private company. Like the energy utilities and telecoms, it would be subject to independent regulation, which would of course impose disciplines of transparency, clarity of objectives and goals, clear targets for investment and service performance, and it would be funded by a revenue stream either from government or from a form of road user charging. I would suggest that similar tests to the ones I have been applying might be applied to this one too, but that is for a future paper, I think.

**Conclusion**

I would simply like to leave you with my table of performance of the different modes and topics I have covered against the three criteria for fitness for purpose that I have set (Figure 27). You may not agree with my scores. That is fine. I just want us to have the debate, develop the insights and extract the lessons when we look across the piece.

**Discussion**

**Question**

You did not include aviation in your review but that seems to be one mode in which open-market competition between competing firms seems to work.

**David Quarmby**

I agree.

**Question**

At the time of the original national bus deregulation, the plan was that you would have competition in local buses; it seems not to work. Why does competition in the market not work for local transport services but does work, I suppose, in long-distance public transport services?

**David Quarmby**

I think that is a very interesting question and you are right, I did not set out to cover aviation, but generally the deregulated market seems to work well for aviation. As you would expect, it certainly pushed for costs to be reduced and for operators to get clever with their marketing and their yield management, which they all have. But it is the case that we do have territorial monopolies in our local bus services.

What is really interesting, and I was discussing this beforehand, the other day I met the adviser to Nicholas Ridley during the time of the privatisation of National Bus Company (NBC), and he remembers debating how this would develop. In fact, he described how they deliberately deregulated NBC into, I think, 50 different companies and they expected that the stronger companies would take over weaker ones, but they set it up so that they would not create territorial monopolies in that way. However, he said he told Nicholas Ridley that within five years there would end up being territorial monopolies. What is really interesting is that Nicholas Ridley did not seem to mind.

Now, that is 25 years ago and he may not have remembered the exact details, but it is quite clear that the more far-seeing architects knew that on-road competition would not last, except in a few intense corridors. And, of course, we know that in Manchester up till not very many years ago there was a lot of competition on Oxford Road, which was very dysfunctional for traffic and passengers and everybody else.

**Questioner**

What is the difference? Why is it that some work and some do not? You were obviously right in your predictions but what was the basis on which you said that?

**David Quarmby**

You have got to think about how it actually works on the ground. The way it works is that a predator is able to run his service at a lower price ahead of the person he is trying to “kill”. And there have been countless examples since 1985 where stronger operators have just forced weaker operators to the wall, or they have bought them, and there is nothing to prevent that. There is nothing in the Competition Act that has prevented the consolidation of local monopolies and,
although barriers to entry are quite low, the ability to engage in very aggressive predator behaviour means that these territorial monopolies are quite stable.

**Question**
But it doesn’t happen in aviation?

**David Quarmby**
No, it does not, but somebody else can interpret that.

**Question**
I am not an economist but it seems to me there is a very big difference between long-distance passenger transport and local passenger transport, in that there does not seem to be any presumption in the public mind that there should be long-distance services more or less everywhere. Whereas there is a presumption in the public mind that in a city all neighbourhoods ought to be served, and people ought to be able to get around on a Sunday as well as during the week. So it seems to me that the context for the market simply to determine service provision, certainly in terms of long-distance coaches on the roads and airline services, is very much less constrained by public expectations than for local public transport.

**David Quarmby**
I think that is absolutely right. That is why most of my focus has actually been on local services because this is where the public policy interest is. There is less public policy dimension of longer distance services, either aviation or coach. There is for rail, of course, but that is because of the nature of the integrated rail network.

**Question**
The ticks in your slide (Figure 27) reflect the institutional changes that have taken place in the UK. How would it differ if you were to do a similar table for Europe, for instance? Have they had the same spectacular growth in public transport and in rail that we have, given that there is the same economic growth? And obviously the cost returns are very different as well, aren’t they? You pay the subsidy at a higher rate.

**David Quarmby**
I think that is a very interesting question. When I was planning this paper I thought, “Can I reference European experience?” I thought that I am not going to be able to get all that into one paper but maybe that is going to be the book I write. I also do not have a detailed knowledge of the European scene. My knowledge there is quite patchy: it is limited to the Netherlands, mostly because of my engagement with NedRailways (a subsidiary of Netherlands Railways), which also owns bus operations in the Czech Republic and Germany, and some knowledge about France. But certainly what we have in Great Britain is much more marketised and deregulated than you see anywhere else in Europe – not anywhere else in the world because there have been some countries like New Zealand that have actually deregulated their buses too.

My observation would be that, proud though many European countries are of their TGVs and Thalys-style services – and good for them, they are very good – the generality of French railway services outside the premium services is nothing like as good as what we have. And that, I think, is the consequence of having one state operator with the lack of market disciplines on them in the way that apply very strongly to our TOCs. It is those market disciplines and the drive for revenue that has driven quality up. With all the EFQM issues that force companies to be very good at management, it has all helped to drive passenger growth. Except on certain specific lines on continental Europe, I do not think you have seen anything like the growth that we have had on rail.

I do think, however, that they are better at organising their local services than we are outside London. They have a variety of models. Some have area franchises – they are quite popular in the Netherlands. Some have local regulated monopolies, which are not generally competed for. There are not many publicly owned operations left because with Regulation 1390/2007 the EU forced the laggards to arms-length their publicly owned operation. I happened to be involved in another study for Colin Buchanan, actually helping the Irish government get to grips with ensuring that Dublin Bus, Irish Rail (their rail system) and the rural bus services in Ireland (all owned by CIE) were sufficiently arms-lengthened from government in order to satisfy the needs of this EU regulation.

I would say that you have got quite a range of models in Europe, nearly all of them give better results than our local bus services do. None of them are quite as good as our London system, I think, but a lot of them do not cost as much as they do in London. I think it would be interesting for somebody – possibly me if I ever have the time – to do a systematic comparison between the market and regulatory arrangements for the different modes between different European countries.

**Question**
That was a very interesting and comprehensive presentation and I therefore hesitate to add anything, but I think when you come to write the book there is a topic you ought to add which you actually mentioned almost accidentally. At one point, you said, I think, that there were three particularly interesting and effective bus operations: Oxford, Brighton and Reading.

**David Quarmby**
Yes, I am sure there are others.

**Questioner**
There are others, but Oxford, Brighton and Reading have one big similarity and that is that in each case the local authority has devoted a huge amount of the road network to bus priority. I suspect it is that that is really the overwhelming reason for the success, rather than any of these other things. I think it would be interesting to look at that, and also to look at some of the towns themselves. I worked in Aberdeen years ago on the bus system, long before it was privatised, and I knew when Moir Lockheed moved there that that system would turn in huge profits every year because the town is laid out almost perfectly for bus operation. You start every bus in the suburbs, you run
it into the centre, down Union Street and out the other side, and it works like clockwork and it turns in huge revenues and surpluses. So when Moir got hold of that operation he was in exactly the right place at the right time, and he exploited it.

Another good example is Dublin. Again, it has the potential to be a hugely profitable operation. It is currently quite profitable, but with priority it could be a tremendously successful system; to some extent London is also in that category. Incidentally, Manchester is right out of that category: the Manchester authorities have done absolutely nothing to put in any effective bus priority, despite years and years of pressure from the operators. So many of the problems of Manchester, I suspect, are caused by the lack of priority. I would like to see all your thoughts on paper just enlarged to take that into account.

David Quarmby
I think that’s a very interesting point and I have not allowed for that in my thinking. Because I think what you described has affected a number of dimensions: I think, first, the willingness of the local authorities to invest in bus priorities in that way has created a much more positive atmosphere with the bus operators than you get in many other places. Second, I think because it has greatly improved the bus operating environment, it has made it possible for the local authorities to persuade and to partner the bus operators in doing more things than they would have done in other places because it is commercially reasonable or profitable for them to do so.

I still think that that is a necessary but not a sufficient condition for successful development of local bus services. I think those are the kind of towns where the ambition for the bus service, what you want it to do, how you want it to operate, is really quite manageable and deliverable because you are looking for high-frequency services made easy with bus priorities. Pedestrianisation means you have got to sit down with the bus operator and work out how the buses are going to operate, and I know that has caused some tensions recently in Oxford with the extension of the pedestrianisation there. But I guess it is done against an atmosphere in which they know they have a track record of cooperation. I am curious to know — and I do not know enough about what has happened in different towns, which is my problem in producing a lot of evidence here — whether there are towns that have invested in priorities and still have not been able to achieve much with their bus operators.

I still think that the challenge with the metropolitan areas is not simply that they have not done enough for bus priorities; I still think there is an order-of-magnitude issue. The ambition for the bus is greater, more radical, more strategic in a metropolitan area than it is in a free-standing town. Looking to have proper integration with the rail-based modes of transport, for sophisticated smart-card ticketing, for a lot of integrated marketing and looking for a lot of service coordination is very simple to do in a free-standing town, but more complicated in a big metropolitan area. It is that more ambitious agenda that my experience in Manchester suggests is very difficult to achieve in a partnership framework.

Also, of course, the Manchester experience was ambitious because, as you know only too well, it was part of the TIF bid and included the two congestion-charging rings. The local authorities and the PTE wanted really a step change in the quality, quantity and reliability of the bus service. They were half willing to do the bus priority work but, of course, it was very challenged by the governance arrangements because it is the districts who are the highway authorities, not the PTE. That is changing now with the conversion to the ITAs. It all became complicated because the PTE said putting congestion charging in is going to transfer several percentage points of demand to buses and deliver a windfall revenue, and so can they have a conversation about whether they can please have some of that windfall revenue back? The bus operator said, “Well, yes in principle, but how are we going to do it?” That is when we developed the revenue-sharing model, which was a model of the bus company’s finances without actually using their accounts, which the PTE could use as a basis for collaborative negotiation with the bus operators about what slice of revenue they could have.

Then there were conversations the other way round saying, “Perhaps we would like you to hold your fares down in order to achieve this or that objective.” The operator said, “Yes, but are you going to pay us?” The PTE said, “Yes in principle, and we can use this model to work out how much.” Then all of a sudden the lawyers started talking about state aid and non-tendered payments and that stuff. So I think it is the greater ambition of what you’re trying to do in the metropolitan areas where your partnership systems just fall apart. They cannot handle the complexity of what it is you are trying to do.

Questioner
I am not going to attempt to get into the complexities of Manchester, but just to take the simple example of Oxford. There the local authority has put in the bus lanes and there has been head-on competition between two operators that has been sustained for years and years, and the result is if you go to any bus stop you can see a bus coming.

David Quarmby
Yes, that is one place where there has been sustained on-road but quite stable competition. I think they have agreed, either implicitly or explicitly, to carve up the market in a stable way between them and not to be predatory on the other’s business. I would still argue that is potentially an unstable position because you might get a new management regime in one of the operators who might want to unravel the agreement, but it has not happened yet.

Neil Paulley, chairman and TRF Fellow
I am sure we could stay here for a long time and talk about these issues but I think we should draw it to a close. David, your absolutely unrivalled knowledge and involvement with the transport industry on all sides has given us a tremendously fascinating lecture this evening, posed some really quite challenging questions and observations, and given us some insights as to what the possible ways forward might be. So thank you very much for an excellent talk.
25+ years of marketisation and institutional change: are we getting a better deal from transport?

Of all countries in Europe, Great Britain has seen in the last 25 or so years the most radical changes in the regulatory and institutional arrangements for public transport – bus, tram, metro and rail. But the underlying thrusts of deregulation, privatisation and marketisation have been applied differently in London, in buses outside London, in tram development and in the national rail network. And the institutional arrangements have evolved differently, as between London, the metropolitan areas, counties and unitaries, and at national level in England, Wales and Scotland. How successful has this all been? Indeed what are the measures of success for our local, metropolitan and national transport systems? What objectives should they be trying to satisfy? Financial? Efficiency? Commercial? Economic? Public interest? Urban development and quality of life? Environmental? Are they in conflict?

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