Public Transport – the Real Cost of Privatisation

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Right wing politicians and free-market economists together made some pretty bold claims for the benefits of privatisation of our public transport system. Few if any of those claims were realised. But rather than acknowledge the failure of their ideologically driven reforms, they invariably continued to champion their success. They do this by carefully selecting statistics which justify their argument – and you sometimes have to look very carefully at their figures to discover the distortions they convey. After all the standard-bearers of privatisation and deregulation, in transport as elsewhere, are waging a propaganda war against the post-1945 culture of public sector, non-profit-making municipal and state-owned services. And they do not want the truth to get in the way!

UK Deregulation of Bus Services outside London (1986)

(Bus services in London were never de-regulated but were privatised nevertheless in 1994 under a separate route tendering system, but the route network itself remains under public planning control with fares and timetables set by Transport for London).

The Tory Government under Margaret Thatcher claimed that publicly owned bus services are expensive, inefficient and unresponsive to the needs of the travelling public. In 1985, Nicholas Ridley, then Secretary of State for Transport in Mrs Thatcher's Government, stated that;

> "The introduction of competition into local bus services will put the emphasis on the customer rather than the operator. It will bring the opportunity for lower fares, new services, more passengers and better value for money for the ratepayer and taxpayer. The present system of regulation ….. has stifled the flexible and innovative approach."

Actually fares rose significantly well above inflation, and certainly at a higher rate than had been the case prior to 1986 (See table p.11 Select Committee Report September 2002 "The Bus Industry" 2001-2002). Indeed bus fares rose slightly and then fell in real terms in the period 1980-1985 before beginning their inexorable rise from 1986 to present day (DETR Transport Trends 2000 p.96) Fares levels in the UK are amongst the highest in Europe at around 85% of operating costs, compared to a European average of 47%.

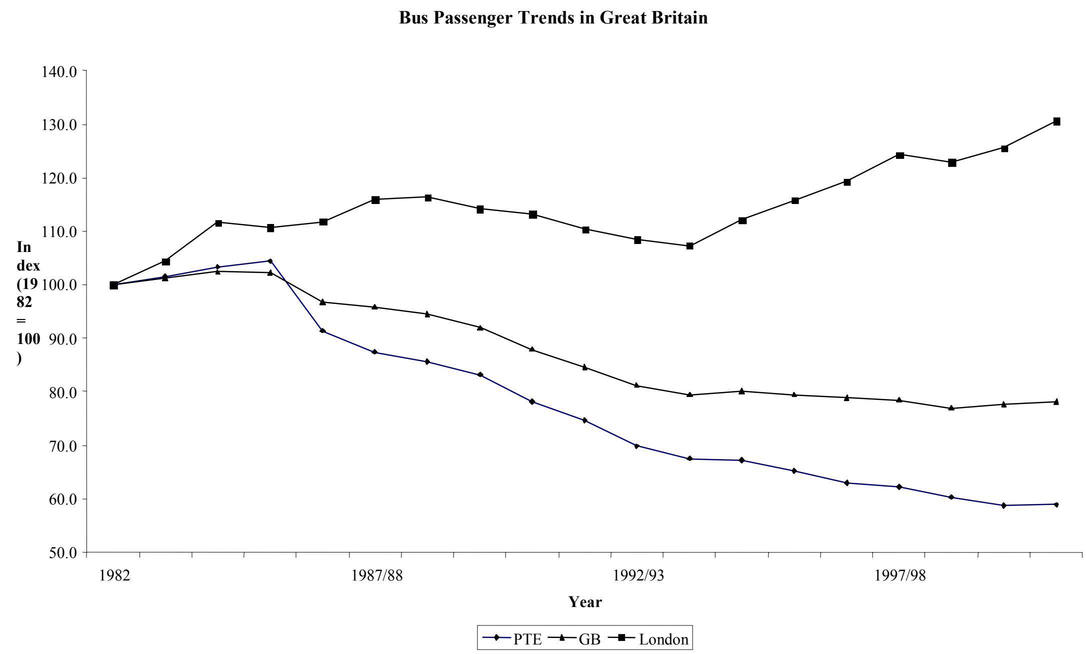
Much more dramatic was the passenger decline (outside London) which slumped by around 30% in the five or so years following deregulation (see figure 1). The decline was much more marked in the larger conurbations outside London where around 40% declines were typical. Worst still, passenger levels in South Yorkshire, which had peaked at 350M in 1986, fell by 50% in the first five years after deregulation.

Nevertheless this disastrous ideologically driven experiment was still hailed as a success by its proponents on several fronts:

1. It was claimed that that competition had stimulated a tremendous growth in services, with new routes and innovative changes introduced.
It is true that total bus mileage did increase initially as new operators began competing on the high frequency main bus corridors. However this led to destructive over-bussing, which was reversed during the 1990's as private monopolies emerged to end the competitive free-for-all. However those early bus wars on the main profitable routes undermined the principle of cross-subsidisation. This directly led to the severe cutback in mileage on evening and Sunday services, plus frequency reductions in the more marginal routes

2. The drop in cost per mile was hailed as a good example of efficiency savings by the private sector. Costs typically reduced from over £2 per mile to approx. £1.70p.
However this was mainly achieved through a major attack on bus drivers' wages and conditions. Prior to 1986, bus drivers' wages were 7% above the average for all manual occupations. By 1995 their wages were 13% below that average – See New Earnings Survey Part D Table 54 1990 SOC for Bus and Coach drivers. There were other labour productivity savings as well, and a reduction in investment in new vehicles. Britain's bus fleet doubled in age from an average 6 or 7 years prior to 1986 to over 12 years old by the early 1990's.

Figure 1 Bus passenger trends 1982-2000/1



Source: A Bulletin of Public Transport Statistics: Great Britain 2002 Edition Table 10.

3. The massive drop in passengers caused by deregulation was denied. Instead Tory Ministers and their supporters claimed that passenger decline was no different to the long-term trend since the 1950's

Indeed if you look at a small-scale graph of the period from 1952 to present that appears to be true. But a larger scale graph (see above) will show an absolute increase in passengers between 1982 and 1986 (DETR Transport Trends 2000 p.86). This is followed by a decline from a peak of nearly 6 billion passengers per year in the mid-1980s to around 4.5 Billion by 1992. However if you then remove the figures for London, which was not deregulated but accounted for over 1 Billion passengers per year, the decline caused by deregulation is even more marked. Since 1986 (when the buses were deregulated outside London) bus use outside London has declined markedly, whereas bus use in London has risen. Between 1986 and 2001/2 bus use in London increased by nearly 19% and decreased outside London by nearly 30%. Last year the Minister of Transport Tony McNulty told Parliament "Between 1987/88 and 1999/00 there has been a 27.2 per cent decline in bus patronage outside of London"

Railway Privatisation in 1995

John Major's Conservative government decided to split British Rail into as many as 92 separate companies for transfer to the private sector (Department of Transport 1996). The rationale underpinning this decision was that the rail market – which had been monopolised by BR – should be liberalised to 'see better use made of the railways, greater responsiveness to the customer and a higher quality of service and better value for money for the public who travel by rail' (Department of Transport 1992: 1).

In spite of the irrefutable evidence of lower safety standards, higher fares and lower standards of service reliability, the defenders of privatisation have never failed to remind us that passenger levels have increased greatly since privatisation. At first sight this is puzzling to say the least! Economic growth since the mid-1990's and the reduction in unemployment must be a factor, as must the more or less total saturation of our motorway network.

Jon Shaw Department of Geography University of Aberdeen in his article on 'Competition in the British passenger railway industry: prospects and problems' (Shaw 2001 p.6) points out that the Department of the Environment and Transport (DETR) published passenger journey figures do not allow a direct comparison of trends before and after privatisation. Passenger journeys are estimated from ticket sales and the post-privatisation figures include an element of double counting; a journey involving more than one operator is now scored against each operator, whereas for BR a through-ticketed journey was counted only once, irrespective of any changes made (DETR 1999). Furthermore can the current rate of growth be attributed to the effects of privatisation when the 'revival' of the railway industry began around 18 months before the franchising process started (DETR 1999).

Meanwhile customer complaints to Rail Users' Consultative Committees have risen to record levels and media reporting of railway issues has frequently been negative (Central Rail Users' Consultative Committee (CRUCC) 1999). Fares regulation, whilst protecting four key ticket types, does not control popular SuperSaver and 'unrestricted' return tickets and some operators, particularly Virgin, have increased the cost of these fares significantly in relation to regulated ones. Virgin's full fare return from London to Manchester, for example, has risen from £96 at the time of privatisation to £141 less than three years later.

Financially it has been a heavy burden on the public purse to privatise British Rail! Total state aid to the network doubled from £1B in the last year of public ownership to £2B in the first year of private ownership, in that

> " Pre-privatisation subsidy levels averaged around £1 billion per year, but the gross subsidy almost doubled following BR's restructuring in 1994 (net subsidy did not increase substantially until all of BR's successor companies had been sold and their profits were transferred to the private sector)." (Shaw 2003)

See also graph Figure 2. Gross public support for passenger rail services, 1997/98 – 2002/03 (Shaw "A 'new deal' for the railways? The SRA's refranchising programme" 2003).

That subsidy level was supposed to decline year on year after that but in 2000 John Prescott had to offer to bail out Railtrack to the tune of £14.9B over 5 years - to finance the investment which the new private owners failed to deliver in their first five years. This ignores the £3B rescue plan (from public funds) for the Channel Tunnel Rail Link.

Just a point on Railtrack's negligence towards the rail infrastructure: under British Rail, every single stretch of track was given a notional life span of between one and forty years depending on use. For example the most heavily used rail junctions might need replacing every year whilst the least used single-track line might be replaced only every 40 years. Overnight Railtrack doubled the life expectancy of the track in its care – and therefore massively reduced its investment commitments. In addition, it is worth noting that the contracting out of maintenance and repair of permanent way has tripled in cost. Before privatisation it cost £5M to refurbish a single mile of track compared to £15M today (Wolmar "Broken Rails" 2001).

Things then only got worse! The replacement of Railtrack with Network Rail was only re-nationalisation by another name – and cost the British taxpayer around £9B. The huge re-investment needed in the rail infrastructure to make-up the years' of negligence under Railtrack, plus the increased subsidies to keep the Train Operating Companies afloat, has led to a total estimated annual cost of running Britain's railways to over £9B per year (Strategic Rail Authority 2003). But with revenues only achieving around half of that figure, a massive funding gap has now appeared. Government spending on the railways now exceed £3 billion per year (that's three times as much as pre-nationalisation) and it now seems inevitable that the Government will force Network Rail to cut back on its investment plans and allow the Train operating Companies much more freedom to increase fares.

With £60B earmarked for the rail network over 10 years as part of John Prescott's 10-year Transport Plan, it is clear that the privatised railway is costing the taxpayer much more than it did under public ownership.

The Labour Government defends competition

The Labour Government has gone back on its word to reverse bus deregulation outside London and instead, like their Tory predecessors, claims that competition brings benefits. Indeed it has eagerly pointed out that in the last 5 years there has actually been a reversal in the decline in bus passengers across the nation with increases of around 1%-1.5% per annum since 1998.

However that growth has been entirely due to the steady increase in passengers in London's regulated bus market, which if removed would leave an absolute decline in bus passengers year on year in the rest of the UK. There are a very few exceptions of limited growth in Britain's deregulated bus markets. But this is only where pro-active Local Authorities have intervened, often with significant infrastructure funding, with pro-bus policies such as bus priority measures, car restrictions and park and ride schemes (Edinburgh, Nottingham, Oxford, Brighton, York & Cambridge are often cited as examples where passenger growth has occurred, mainly due to Local Authority funding and pro-public transport policies. Incidentally, Edinburgh and Nottingham are two of the remaining seventeen municipally owned companies in the UK, whilst in the other cities competition is very limited, and in the case of Brighton almost non-existent).

One third of bus journeys are now made in London, compared with one fifth prior to deregulation (A Bulletin of Public Transport Statistics: Great Britain 2002 Edition Table 10 and DfT 2004 Press Release). The figures for 2002/2003 show bus use up in London by nearly 8% and down in the rest of England by a third of one per cent.

The Government's proposals for the bus industry are no doubt the most positive for over 20 years but they nevertheless represent only a modest start to the mammoth job of transforming the "Workhorse" into a "Thoroughbred" in the next 10 years. The very fact that the Government is predicting only a 10% increase in bus use by 2010/2011 confirms this analysis. This will only restore passenger levels to those prevailing in the early 1990's some 5 years after deregulation had already taken its toll.

The Government's 10-year £180B transport spending review earmarks almost £60B for local transport (DETR 2000). But this includes £9B projected private investment. It also includes some expenditure on local roads as well as proposals to introduce up to 25 new light rail projects. Nevertheless there will be a steady annual increase in money made available to Local Authorities for their Public Transport Plans so we can expect to see more bus lanes and other priority measures, more and better timetable information and investment in bus stops and bus stations. To put this in context total public spending on local transport is due to rise from £3.0B in 1999/2000 to £3.4B in 2000/2001 and incremental annual increases rising to £5.9B in 2010/2011, which represents only very modest growth in spending.

Europe distorts the case for introducing competition in public transport

In 2000, the European Commission announced its proposals for "liberalising" public transport. It launched its proposed Regulation on Public Service Requirements and the Award of Public Service Contracts in Passenger Transport by Rail, Road and Inland Waterway. In its preamble, the Commission identifies three models for the operation of public transport:

a) Closed markets i.e. monopoly ownership and control by a local authority
b) Controlled markets i.e. contracted out networks following competitive tendering
c) Deregulated markets i.e. UK Bus deregulation outside London

The Commission's preferred model is b) (controlled markets) which it believes will deliver more growth in passenger use than publicly owned systems (closed markets). However the TGWU successfully challenged the statistical evidence it produced to support this contention ("European Union Proposals for Forced Competitive Tendering in Public Transport" Martin Mayer TGWU March 2001).

The Commission based its finding on highly selective (and inaccurate use) of the highly flawed 1997 ISOTOPE study which selectively examined 34 public transport systems in Europe during the 1990's. The Commission uncritically adopted its conclusions that "controlled markets" achieved most success at lower cost. However it also accepted the report's conclusion that significantly reduced costs achieved by deregulation (solely in the UK) were more than offset by the decline in quality and a big reduction in passengers.

The Commission has further embellished these findings by unattributable conclusions that are not drawn from the ISOTOPE study. It claims that between 1990 and 1997, the number of passenger-kilometres increased by just 5% in the member states where "closed markets" predominantly applied (Austria, Belgium, Germany, Greece, Ireland, Italy, Luxembourg and Netherlands) yet in those members states where "controlled competition" predominantly applied (Denmark, Finland, France, Portugal, Spain and Sweden) a 14% increase in passenger kilometres was recorded. Meanwhile in the UK, the only example of deregulation, it claims a 6% reduction.

These findings are highly questionable. For example, the ISOTOPE study considered Spain and Portugal to be of the "closed market" model, but the Commission switched these lower cost examples to the "controlled competition" group to improve the figures! And most analysts would argue that passenger loss in the UK was far greater than 6% in this period. The ISOTOPE study used France and the Nordic countries for examples of "controlled competition" and although unit costs in France were higher than the average costs of the "closed market" group of countries, the lower costs of the largely rural and provincial tendered networks in the Nordic countries, gave an unrealistically low reading to this group. Indeed one very significant feature of the findings which was conveniently overlooked was that average passenger loadings per bus (surely a sign of successful operation) were significantly higher in examples of "closed markets" (27 passengers per bus) than in "deregulated markets" which in turn were twice as well loaded as the examples of "controlled markets" at a mere 7.5 passengers per bus!

More seriously, obvious analytical obstacles were ignored i.e. higher average costs of operation in urban areas than in rural areas (due mainly to lower speeds of operation, 24-hour 7 days a week operation etc.) and in member states where higher costs of living and higher wages apply (the majority of the examples of "closed markets"). Comparative standards of reliability and frequency were not studied, nor were levels of investment in new vehicles, the quality of maintenance and cleanliness, employment conditions, fare levels or the availability of integrated ticketing etc. The effect of different public transport policies were ignored; for example positive pro-public transport policies were introduced in France during the period studied, such as employer levies and improved state subsidies and investment, which have had more of an impact on ridership than the highly regulated and limited form of “controlled competition” which was introduced during this period. In many French cities the buses and depots remain in the public sector, with only the management of the operations tendered out. In some cases the employees are transferred as well but in other cases they remain under public sector employment; in all cases they remained protected in terms of wages and conditions.

A recent study by Colin Buchanan & Partners (2003) “Study in Good Practice in Contracts for Public Passenger Transport” significantly qualified the Commission’s figures. Of the cities selected for study, it did agree with the Commission that on average passenger growth was slightly higher where “controlled competition” had been introduced, than where “closed markets” still applied. However a remarkable 6.6% growth in just one city (Strasbourg) significantly boosted the average growth figure for “controlled markets”, and conversely a 5.5% decline in Bologna and 3.1% decline in Genoa clearly reduced the average growth figure for “closed markets”. Most cities in both categories varied between about –1% and +2% growth. And it acknowledged that many factors other than the model of ownership could affect the results. For instance big increases in subsidy in London in recent years achieved a marked increase in growth in passengers. More significantly though demand for public transport is at its highest in areas of “closed markets”, at around 350 journeys per head of population, whilst average demand falls to 270 journeys per head in “controlled competition” and just 150 trips per head in UK “deregulated markets”.

It is clear therefore that the EU has “used” flawed research to give justification to its ideologically preferred option of controlled competition as the model for public transport operation in Europe.

Conclusion

Beware the false prophets who espouse the cause of privatisation of our public transport systems, wherever they may be! They are not averse to misusing statistics to win the propaganda war for private profit over public need. Our job must be to expose their lies and deception!

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