1. Introduction

During the past 20 years successive transport Ministers have promised to reform the bus transport market in Ireland. Bus passengers are still waiting for such reforms to be delivered. In September 2006 the current Minister announced proposals for the introduction of competitive tendering but only in respect of “new routes” in Dublin City with Dublin Bus being allowed retain its monopoly in respect of all existing routes. Private operators will exclusively be permitted to tender for new services up to a limit of 100 buses. Any further new services will be subject to open tender. While no formal announcement has been made regarding services outside Dublin, it appears that the Government favours retaining Bus Eireann’s monopoly with private operators being largely confined to acting as sub contractors for the State company. The Minister’s announcement suggests that meaningful reform has been postponed yet again. The current regulatory regime for bus transport in Ireland has been widely criticised for preventing competition. (See, for example, Barrett, 1982, 2000, 2004; Competition Authority, 2000; Massey and Daly, 2003; Forfás, 2004;
The present paper argues that the existing regulatory regime is anti-competitive, results in significant inefficiencies and provides poor value for money for bus users and taxpayers. It suggests that a more radical reform programme would benefit bus passengers and provide better value for money for taxpayers.

Bus transport in Ireland is still largely governed by the Road Transport Act, 1932, which prohibits the operation of scheduled road passenger services except under licence. The majority of scheduled bus services in the Dublin City area are operated by Dublin Bus, a wholly owned subsidiary of the State owned CIE. A second CIE subsidiary, Bus Eireann, provides bus services throughout the rest of the State. Goodbody (2005) reported that there were around 125 private bus firms with five or more buses operating scheduled services and estimated that private bus operators held licences in respect of 518 routes. Many of the routes licensed to private operators are for limited types of services, e.g. late night services; once weekly or restricted mid-week services; school term only or weekend university/college services with just over 100 being for scheduled daily services. (See Figure 1).

**Figure 1: Estimates of Privately Held Bus Route Licences in Ireland in 2002**

![Figure 1: Estimates of Privately Held Bus Route Licences in Ireland in 2002](image)

Source: SDG, 2002.

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2 The focus of the paper is on bus services in urban areas and local rural services. Studies in other countries frequently distinguish between such services and long-distance or inter-urban services with the latter being classed as coach services. The issue of competition in coach services has been extensively addressed by Barrett (1982), (2000) and (2004).

3 Steer Davies Gleave (SDG, 2002) estimated the number of route licences held by private operators at 571, although it conceded that some of these were not actively used.
3. Performance of the State Bus Companies

Table 1 provides some performance indicators for Dublin Bus. Since 1998 passenger numbers have increased by over 8 per cent, although they have fallen since 2003. Operating costs have increased twice as fast as revenue with the result that Dublin Bus’s operating deficit has increased from just under €9 million in 1998 to almost €63 million in 2005. Government subsidies have increased from €11 million in 1998 to €65 million in 2005.

Table 1: Performance Indicators for Dublin Bus

<table>
<thead>
<tr>
<th>Year</th>
<th>Passengers</th>
<th>Revenue</th>
<th>Operating Costs</th>
<th>Deficit</th>
<th>Subsidy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>134.4</td>
<td>133.5</td>
<td>142.0</td>
<td>8.8</td>
<td>11.3</td>
</tr>
<tr>
<td>1999</td>
<td>139.1</td>
<td>136.4</td>
<td>149.4</td>
<td>13.5</td>
<td>16.8</td>
</tr>
<tr>
<td>2000</td>
<td>134.2</td>
<td>143.3</td>
<td>175.4</td>
<td>32.2</td>
<td>41.2</td>
</tr>
<tr>
<td>2001</td>
<td>142.9</td>
<td>153.4</td>
<td>204.2</td>
<td>51.2</td>
<td>52.4</td>
</tr>
<tr>
<td>2002</td>
<td>146.6</td>
<td>159.3</td>
<td>214.3</td>
<td>52.6</td>
<td>56.1</td>
</tr>
<tr>
<td>2003</td>
<td>149.9</td>
<td>172.9</td>
<td>221.2</td>
<td>46.5</td>
<td>53.9</td>
</tr>
<tr>
<td>2004</td>
<td>149.9</td>
<td>177.6</td>
<td>239.9</td>
<td>59.7</td>
<td>61.8</td>
</tr>
<tr>
<td>2005</td>
<td>145.7</td>
<td>181.5</td>
<td>245.8</td>
<td>62.9</td>
<td>64.9</td>
</tr>
</tbody>
</table>

Per Cent Change

<table>
<thead>
<tr>
<th>1998</th>
<th>+8.4</th>
<th>+35.9</th>
<th>+73.1</th>
<th>+614.8</th>
<th>+474.3</th>
</tr>
</thead>
</table>

Source: CSO Statistical Yearbook and Dublin Bus Annual Reports.

Similar performance indicators for Bus Eireann provincial city services are given in Table 2.

Table 2: Performance Indicators for Bus Eireann Provincial City Services

<table>
<thead>
<tr>
<th>Year</th>
<th>Passengers</th>
<th>Revenue</th>
<th>Operating Costs</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>18.9</td>
<td>11.7</td>
<td>14.6</td>
<td>2.9</td>
</tr>
<tr>
<td>1999</td>
<td>18.7</td>
<td>11.7</td>
<td>15.7</td>
<td>4.0</td>
</tr>
<tr>
<td>2000</td>
<td>19.2</td>
<td>15.8</td>
<td>23.5</td>
<td>7.7</td>
</tr>
<tr>
<td>2001</td>
<td>20.1</td>
<td>17.3</td>
<td>30.5</td>
<td>13.3</td>
</tr>
<tr>
<td>2002</td>
<td>21.0</td>
<td>18.6</td>
<td>30.6</td>
<td>12.0</td>
</tr>
<tr>
<td>2003</td>
<td>20.4</td>
<td>20.7</td>
<td>30.3</td>
<td>9.6</td>
</tr>
<tr>
<td>2004</td>
<td>21.1</td>
<td>22.7</td>
<td>33.2</td>
<td>10.5</td>
</tr>
<tr>
<td>2005</td>
<td>21.6</td>
<td>23.4</td>
<td>33.4</td>
<td>10.0</td>
</tr>
</tbody>
</table>

Per Cent Change

<table>
<thead>
<tr>
<th>1998</th>
<th>+14.2</th>
<th>+100.6</th>
<th>+129.0</th>
<th>+442.0</th>
</tr>
</thead>
</table>

Source: CSO Statistical Yearbook and Bus Eireann Annual Reports.

Bus Eireann provincial city network has recorded a 14 per cent increase in passenger numbers since 1998. Revenues have doubled but costs have risen even faster so that the operating deficit has increased from €2.9 million to €10 million. Operating costs doubled in a four year period between 1998 and 2001 before being partially scaled back.

4 A breakdown of the subvention paid to Bus Eireann distinguishing between city and other services is not available. The total subvention to Bus Eireann in 2005 amounted to €35 million. This relates to all services except Expressway and school transport.
State subsidies to Dublin Bus and Bus Eireann have increased from €18 million in 1998 to €90 million in 2005. It should be noted that this figure excludes payments of more than €100 million to Bus Eireann in respect of the school transport service. Serious questions need to be asked as to whether taxpayers are receiving value for money for such payments.

In the case of Dublin Bus subsidies as a proportion of operating costs increased from 8 per cent in 1998 to 26 per cent in 2005. Mackie (2001) notes that a significant portion of subsidies are lost in x-inefficiencies and cites studies of the UK bus industry prior to deregulation which indicated that every 10 per cent increase in the proportion of operating costs covered by subsidy raised average operating costs by 4.5-5 per cent. He also points out that bus operating costs in Britain fell by around 40 per cent following reform of the industry and argues that this figure gives an indication of the level of x-inefficiencies that existed under the former regulated monopoly system.\(^5\)

Table 3 gives details of staff numbers, pay costs and productivity for Dublin Bus. Staff numbers increased while productivity per employee declined with bus kilometres per employee dropping by 4 per cent and passengers per employee down 8 per cent over the period. MVA (2006) reported that increased congestion only partly accounts for the decline in productivity. Pay increased from 52 per cent to almost 60 per cent of total operating costs over the same period. In part this reflects the increase in staff numbers but it also reflects the fact that average earnings in Dublin Bus have risen relative to average industrial earnings as illustrated in Figure 2.

**Table 3: Dublin Bus Staffing, Wage Costs and Productivity**

<table>
<thead>
<tr>
<th>Year</th>
<th>Staff</th>
<th>Pay as Per Cent Operating Costs</th>
<th>Productivity Per Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Bus Km</td>
</tr>
<tr>
<td>1998</td>
<td>2,901</td>
<td>52.4</td>
<td>18,228</td>
</tr>
<tr>
<td>1999</td>
<td>3,004</td>
<td>53.9</td>
<td>17,742</td>
</tr>
<tr>
<td>2000</td>
<td>3,093</td>
<td>55.4</td>
<td>17,500</td>
</tr>
<tr>
<td>2001</td>
<td>3,332</td>
<td>56.4</td>
<td>17,069</td>
</tr>
<tr>
<td>2002</td>
<td>3,319</td>
<td>57.9</td>
<td>17,355</td>
</tr>
<tr>
<td>2003</td>
<td>3,367</td>
<td>58.8</td>
<td>17,197</td>
</tr>
<tr>
<td>2004</td>
<td>3,408</td>
<td>58.5</td>
<td>17,102</td>
</tr>
<tr>
<td>2005</td>
<td>3,407</td>
<td>59.5</td>
<td>17,537</td>
</tr>
<tr>
<td>Per Cent</td>
<td>+17.4</td>
<td></td>
<td>-3.8</td>
</tr>
</tbody>
</table>

Source: CSO Statistical Yearbook and Dublin Bus Annual Reports.

\(^5\) Heseltine and Silcock (1990) and White (2001) estimate that the bulk of the cost reductions (60-70 per cent) were due to increased productivity, although part was also due to a fall in average real wages of bus industry staff which declined by around 6 per cent between 1986 and 1999.
Between 1998 and 2005 average earnings of Dublin Bus employees increased by 68 per cent compared with an increase in average industrial earnings of 53 per cent over the same period. Average earnings in Dublin Bus were 10 per cent above average industrial earnings in 1998 but by 2005 they were 21 per cent higher. In real terms average earnings of Dublin Bus staff have increased by 31 per cent in spite of falling productivity which suggest that higher subsidies are, to some extent, absorbed by rising costs.

Table 4 compares vehicle operating costs for Dublin Bus and Bus Eireann provincial city services with those of British bus operators.

**Table 4: Bus Operating Costs 2004 (cents)**

<table>
<thead>
<tr>
<th></th>
<th>Per vehicle km</th>
<th>Per passenger</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dublin Bus</td>
<td>411.7 (328.0)</td>
<td>160.1 (127.4)</td>
</tr>
<tr>
<td>Bus Eireann (Provincial City Services)</td>
<td>413.5</td>
<td>157.5</td>
</tr>
<tr>
<td>London</td>
<td>325.6</td>
<td>85.5</td>
</tr>
<tr>
<td>English PTE areas</td>
<td>173.9</td>
<td>92.8</td>
</tr>
<tr>
<td>English non-PTE areas</td>
<td>138.5</td>
<td>129.7</td>
</tr>
<tr>
<td>Scotland</td>
<td>126.7</td>
<td>100.2</td>
</tr>
<tr>
<td>Wales</td>
<td>120.8</td>
<td>123.8</td>
</tr>
<tr>
<td>GB</td>
<td>176.8</td>
<td>100.2</td>
</tr>
</tbody>
</table>

*Note: Figures for UK regions are for 2004/5 while Dublin Bus and Bus Eireann figures are for the year to end December 2004. Figures in parentheses exclude Dublin Bus estimates of the excess costs imposed by congestion. Source: CSO, Statistical Yearbook, Dublin Bus and Bus Eireann Annual Reports and UK Department for Transport (2006).*
Bus Eireann’s provincial city services recorded the highest operating costs per vehicle kilometre at 413.5 cents, while Dublin Bus operating costs were 411.7 cents per vehicle kilometre. These figures are more than 25 per cent higher than bus operating costs in London, and are far greater than operating costs in other British regions. For example, bus operating costs in English Public Transport Executive (PTE) areas, which correspond to the large urban areas outside of London, were just 173.9 cents per vehicle kilometre. The excess costs cannot be attributed to congestion. Excluding congestions costs would give operating costs per vehicle kilometre of 328 cent for Dublin Bus in 2004, still (just) above those in London, although presumably services there also incur some congestion costs.\(^6\) If Dublin Bus could reduce its operating costs per vehicle kilometre to London levels, its operating costs would have been around €50 million lower in 2004. (Corresponding savings in the case of Bus Eireann would amount to €7 million.)

Dublin Bus and Bus Eireann operating costs per passenger are also high by British standards. Dublin Bus operating costs per passenger were 160.1 cents in 2004, while Bus Eireann’s provincial city services had operating costs of 157.5 cents per passenger. This compares 85.5 cents in London and 92.8 cents in English PTE areas.

Figure 3 compares trends in real bus operating costs for Dublin Bus and Bus Eireann provincial city services with those for selected British regions. The State bus companies’ real operating costs have increased faster than those in Britain and significantly faster than those in English PTE regions.

The high operating costs of Dublin Bus and Bus Eireann relative to British operators are an indication of significant inefficiencies in both firms. Further evidence of inefficiencies is provided by Barrett (2004) who has shown that costs of private bus operators are lower than those of Dublin Bus and Bus Eireann. CIE’s Annual Report 2003 (p.4) records that losses on Bus Eireann services were reduced significantly “…without the withdrawal of existing services or a reduction in customer service quality. It coincided, in fact, with the introduction of new services.” This lends further support for the view that there is scope for improved efficiencies in the State bus companies.

\(^6\) According to the Dublin Bus Annual Report for 2004 traffic congestion increased its operating costs for that year by €49 million.
The current regime for the payment of subsidies to Dublin Bus and Bus Eireann is fundamentally flawed. Both companies receive a block allocation and define all of their services as non-commercial public service obligation (PSO) routes.\(^7\) In other words, no attempt is made to identify which services are commercial and which are not. The arrangement fails to ensure value for money; and provides both firms with an unfair competitive advantage in the limited number of cases where they compete with private operators.

EU regulations provide that only services which an undertaking acting in its own commercial interests would not provide or would not provide to the same extent as it does can be classified as PSO services. There is considerable evidence to suggest that many of the

\(^7\) Dublin Bus define all services except private hire and coach tours as PSO routes in its Annual Reports while Bus Eireann classes all services except Expressway and, somewhat bizarrely, the school transport service as PSO routes. A further issue arises in the case of the school transport service due to the failure to put the contract for the service out to tender. Cases currently before the European Court of Justice regarding the award of contracts for the payment of welfare benefits to An Post without a tender would appear likely to have implications for such arrangements.
existing Dublin Bus and Bus Eireann city routes are commercially viable and do not satisfy the definition of PSO.\(^8\)

There are examples in Dublin and elsewhere of private operators competing with the State companies without any subsidy. Private firms also provide local services outside of the main urban centres without subsidy. SDG (2002) reported that private sector operators were particularly active in the local non-urban services market, despite the absence of financial support.\(^9\) Barrett (2004) cites a number of services in thinly populated rural areas as well as city/town services in Waterford, Carlow, and Naas/Newbridge/Sallins, which are operated by private operators without any public subsidy. It is difficult to reconcile the fact that private operators can operate urban and rural services, in many instances in sparsely populated areas, without any public subsidy with Bus Eireann’s classification of all such services as social services in its accounts.

SDG (2002, para 7.5) commenting on the Government subvention to Bus Eireann, states: “…it would appear from discussions with the company that the relatively limited funds are principally allocated to urban areas and commuter services”.\(^10\) This statement would indicate that local non-urban services do not absorb any significant proportion of the subvention paid to Bus Eireann. The Bus Eireann website under the heading “Our Social Role” states:

> A level of State funding ensures the continued operation of many routes, which are not profitable on a commercial basis.\(^{11}\) (Emphasis added.)

Dublin Bus, in its 2001 Annual Report, referred to “…the need to formalise Public Service Contracts on a route by route basis clearly identifying those routes which serve a social need.” (p.2, emphasis added).

MVA (2006, p.67) reported that Dublin Bus operates a number of cross-city services, which “…are amongst the most profitable services in the network.” According to SDG (2002), Bus Eireann had a 74 per cent cost recovery rate on its provincial city services during 1999. They concluded:

> If a constant cost base is assumed, the viability in individual cities would range from around 50 per cent to approximately breakeven.

The fact some of the provincial city service networks operated on a break-even basis indicates that a number of the individual routes are profitable.\(^{12}\)

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\(^8\) For a discussion on EU requirements regarding payment of subsidies for public transport services see Burke (2004).

\(^9\) They reported that private operators had licences for 255 regional services of which 110 operated on a daily (Monday-Friday) basis. Mackie (2001) reports how bus services in areas such as Merseyside and South Yorkshire which had been heavily subsidised have become more or less commercial since deregulation.

\(^10\) Commuter services are services to and from Dublin City from surrounding satellite towns.

\(^11\) Downloaded 14 January 2005.
Over 20 years ago, the National Planning Board (1984) recommended the introduction of tendering in the case of loss making routes, in order to ensure that such services are provided at the lowest possible cost to the Exchequer. Mackie (2001) argues that the way subsidies for bus services are administered is arguably more important than their level and reports that *ex ante* payments for specific services are superior to blanket payments of a deficit financing nature. In December 1996 the then Minister informed the Dail that “…with effect from 1997 it is proposed to replace the existing State subvention for socially necessary, non-commercial services with public service contracts which will be transparent, objective and performance based.”

As previously noted Dublin Bus called for public service contracts for individual routes in its 2001 Annual Report. No such public service contracts have been put in place.

The practice of simply providing a block subsidy also means that there is no mechanism for evaluating whether expenditure on individual routes is justified on social grounds. SDG (2002) reported that:

Bus Eireann would welcome guidelines from the Department of Transport to provide an objective basis for deciding what services can and cannot be removed. (Para 4.32)

More recently MVA (2006, p.88) in its report on the Dublin Bus Network suggested that:

It might be beneficial to establish criteria by which socially desirable services can be judged to ensure that an equitable trade-off between high demand and low demand services is achieved.

As a first step in any regulatory reform, a full audit of all existing Dublin Bus and Bus Eireann services should be undertaken to identify those that are commercial and those which genuinely satisfy the PSO definition.

Under the 1932 Road Transport Act, a licence is required to operate a scheduled bus service. The existing regime for licensing bus services suffers from a number of serious shortcomings. These include:

- A lack of transparency in the licensing process;
- Lengthy delays in decision making;
- No objective mechanism for evaluating the merits of licence applications;
- Where licences are granted, they are frequently subject to restrictions which may impede the development of services; and
- Allegations of favourable treatment toward Dublin Bus and Bus Eireann.

Even though the cost recovery rate has fallen to 70 per cent in 2005, it would still appear to be the case that a number of Bus Eireann’s provincial city routes are not PSO services.

Dail Debates.
At the very least there is considerable potential for conflicts of interest, given the dual role of the Department of Transport which is the owner of Dublin Bus and Bus Éireann, while simultaneously being responsible for dealing with licence applications by their competitors.

The record shows that private bus operators have persistently been refused licenses to operate on routes serviced by CIE or its various subsidiaries. In 1979, the Minister for Transport informed the Dail that 11 licence applications had been refused in the previous two years, following consultation with CIE in each case, on the grounds that existing services were deemed adequate, and he did not consider that there was any need for an independent appeal mechanism. (Barrett, 2000). The Department of Public Enterprise (2001) reported that:

…the policy adopted in implementing the licensing provisions of the 1932 Act up to 1990 was extremely restrictive and designed to ensure that the position of CIE as the major State transport provider was not eroded.

Clear evidence of favourable treatment of State operators can be seen in a January 2004 statement to the Dail by then Minister, Seamus Brennan T.D.

Let us be clear about delays and giving out licences. The people who are waiting for the licences are almost exclusively, with the odd exception, private operators. The people we are holding up are the private sector by not giving them the licences they are demanding. There are substantial companies, including international, multi-national and local companies being held up. We are not holding back Bus Éireann, Dublin Bus and others.14 (Emphasis added.)

The Competition Authority (2000) reported that the time taken to decide on a licence application varied from 14 days to 2 years. SDG (2002) reported that licensing procedures had been strongly criticised by private operators, both in terms of time taken to receive a decision, and the lack of transparency in the decision making criteria. Forfás (2004) reported that, in some cases, it had taken several years before operators received a response to a licence application (successful or otherwise). They also pointed out that the practice of licensing routes on an individual basis made it more difficult for operators to establish networks of inter-related bus services. Goodbody (2005) reported that in spite of efforts by the Department to speed up the decision making process, delays were still considerable. Out of 196 applications for new and/or amended licences received in 2003, 57 (29 per cent) were carried over into 2004. In one case, where it was reported that a firm was threatened with prosecution by the Department for operating without a licence, a decision on its licence application had been outstanding for ten months.15

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14 Dail Debates.
Documentation prepared by the then Department of Public Enterprise (2001) indicated that no public interest test was carried out when assessing applications for bus licences. It states:

...we do not have any means of assessing actual or potential passenger numbers, public demand or the reliability of the operator concerned. Consequently we are not concerned with whether the service is actually needed or of use to the travelling public but whether someone else has/had a historical interest in acquiring a licence for a similar service.

Goodbody (2005) reported a lack of transparency in the licence application process and found that the extent to which decisions are evidence or research based was unclear. It also reported that very little information was provided on reasons for refusing licence applications, with comments from the Department largely restricted to general references to the 1932 Road Transport Act.

Where licences are granted they often include restrictions which may impede the licensee’s ability to develop the service. The High Court was told in the Nestor case, for example, that the Department, at one point, offered to grant it a licence to operate a service between Dublin and Galway, subject to a requirement that it could only pick-up or set-down passengers west of Enfield, and only on the Westbound leg of the service.16 Another private operator, Aircoach, claimed that it had been offered licences to run a number of services in Dublin City but with restrictions which made such services unviable.17

Restrictions on the extent to which bus operators can pick up and set down passengers along a route may undermine the viability of the service. The apparent lack of any objective mechanism for deciding whether there is a need for an additional service means no objective basis exists for establishing whether such restrictions are necessary or whether they represent a means of protecting Bus Eireann from competition by hindering the ability of new firms to enter the market. Such restrictions must be based on an objective independent assessment of whether or not they are necessary.

The Exchequer has provided Dublin Bus and Bus Eireann with funds for the purchase of new buses. Obvious questions arise as to whether such funding constitutes an illegal State aid, while such a policy is also questionable on other grounds.

Article 87(1) of the EC Treaty provides:

Save as otherwise provided in this Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the Common Market.

16 Competition, 10(6).
Regulation 1191/69EC provides for the payment of operating subsidies to bus companies for public service obligation (PSO) routes.\(^{18}\) The European Court of Justice in its judgment in the \textit{Altmark} case clearly stated that payment of subsidies to bus operators, even in respect of local services affected trade between Member States.\(^{19}\) The judgment also set out clear criteria which must be satisfied for the payment of operating subsidies that fall outside the provisions of Regulation 1191/69. The provision of Exchequer funding to the State bus companies for the purchase of vehicles does not appear to come within the provisions of Regulation 1191/69EC or the criteria set out in the \textit{Altmark} case.\(^{20}\)

Providing funds for new buses provides little incentive for operators to use buses efficiently and effectively to satisfy the needs of passengers. As Hibbs (2003, p.18) observed:

> Ultimately, having to pay for your own productive capital and make a decent return on it, is the most powerful motive for satisfying customers.

In its \textit{1999 Annual Report}, Dublin Bus indicated that it had received 150 new buses funded by the Exchequer and stated:

> As these buses are primarily for peak-only operation, the company is pursuing the need for increased revenue support from the Department of Public Enterprise, to offset the shortfall due to the sub-optimal utilisation of these vehicles.

In its \textit{2002 Annual Report} CIE stated:

> The need to purchase extra buses to address peak traffic needs only is the main reason for the growth in subvention received by Bus Atha Cliath. In this regard the company is implementing the Government backed strategy to fast-forward the purchase of peak only buses. (p. 2)

It is recognised that in any network with time varying demand, the required level of capacity is determined by peak demand. (Armstrong \textit{et al.}, 1994). An argument sometimes advanced against competition in bus services is that private operators would “cherry-pick” by operating only on more profitable routes and/or only at peak times. Ponsonby (1958) showed such behaviour benefited incumbent operators, as they needed fewer vehicles which would otherwise be underutilised at other times of the day. The obvious question is whether it makes sense for the State to undertake increased capital expenditure to meet peak load demand, when such investment is unprofitable, when the capacity shortfall at peak periods could be made up by private operators. Ironically, the Government has exacerbated the peak load problem by abolishing the restrictions on free bus travel for social welfare recipients.

\(^{18}\) Regulation 1191/69, OJ L156/1, 28.6.1969. The Regulation lays down strict criteria which must be satisfied before a route can be deemed a PSO route.


\(^{20}\) It is believed that a formal complaint has been lodged with the EU Commission in respect of such payments and a decision is awaited.
Opponents of bus competition claim that it has been an unmitigated disaster in the UK. Casey (2005), for example, dismisses deregulation and franchising as having failed. Such arguments are flawed on two counts.

- They ignore the experience from many other countries which shows that bus competition has been a success.
- Evidence from the UK suggests that, while there were undoubted problems, the results have been nothing like as bad as some critics have claimed.

International experience suggests that competition is preferable to a public sector monopoly in urban bus services. Cox and Duthion (2001) report that urban bus services in the US, which are predominantly public sector monopolies, performed poorly, while cities such as Las Vegas, San Diego and Denver, which had introduced competitive tendering, recorded considerable improvements in bus service performance. They also found that competitive tendering had produced major improvements in Copenhagen, Stockholm and a number of other cities throughout the world and conclude that it increased the amount of service provided per unit of expenditure. Bayliss (2002) concluded that, in the bus industry:

> Public monopolies are, almost always, less efficient than competitive regimes.

Gulibon (2006) notes that, although the justification for state ownership of bus services was that they would be cheaper and more efficiently run than under private ownership which sought to earn profits, experience showed that public monopolies in urban areas had led to continually rising costs and promised efficiency gains had failed to materialise.

The UK adopted two different models for reform of bus transport in the mid-1980s. Outside of London, the bus market was opened up to on street competition with anyone who wanted to operate a bus service free to do so, subject to vehicles meeting certain safety standards and a requirement to give a minimum period of notice before commencing or altering service schedules. A different model was applied to London Transport, which was broken up into a number of different bus companies that were subsequently privatised and routes were put out to competitive tender, with the successful bidder being given a monopoly on a particular route.

Analysis of UK experience is complicated by the fact that the introduction of competition outside London coincided with the privatisation of state owned bus companies and a decision to cut subsidies to public transport in the context of the overall fiscal policy objective of reducing public expenditure. It is difficult to disentangle the effects of these different measures and some commentators have argued that some parts of the process were not handled particularly well. (TAS, 2006). It is fair to say that the

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21 The relevant authorities may invite tenders for the provision of non-commercial services.
outcome of deregulation of the bus market outside of London has differed considerably from the predictions in the Government’s 1984 White Paper on liberalisation.

Initially, in some urban centres there was a large influx of competitors, filling the streets with buses, resulting in considerable confusion with services being introduced and subsequently withdrawn (Hibbs and Bradley, 1997). Wolmar (1999) reported that there were over 80 bus companies operating services in Manchester in the early 1990s. Some changes in route networks, many of which were based on old tram routes, was inevitable following liberalisation, while new operators invariably had to engage in some degree of experimentation in order to identify routes where there was sufficient demand for services. Much of the criticism of bus deregulation in Britain focused on the short-term disruption experienced following deregulation. Winston (1998) points out that industry adjustment to deregulation can take up to 20 years to work through fully so that focusing on short-term effects provides a misleading picture. There was also evidence of predatory behaviour which the competition agencies were too slow to respond to.\footnote{For an example of one such case, see Monopolies and Mergers Commission (1995). Dodgson et al. (1992) and (1993) argue that some claimed examples of predation were probably examples of Stackleberg warfare rather than predation, although Hibbs (2005) concedes that predation did occur on a much wider level than advocates of liberalisation had anticipated. Wolmar (1999) claims that the mere indication by Stagecoach that it intended to enter a particular market was sufficient to cause incumbents to withdraw such was its reputation for predatory behaviour.}

Figure 4 illustrates the structure of the British bus industry in 2005. The big three groups (FirstGroup, Stagecoach and Ariva) between them accounted for 51 per cent of industry turnover with the largest, FirstGroup having almost 21 per cent of the market. The remaining 49 per cent was split between smaller groups, management owned companies, public sector operators and independents, with the latter group accounting for 15 per cent of the industry total. At an aggregate level the industry could be defined as moderately concentrated.\footnote{The usual measure of market concentration used in competition analysis is the Herfindahl-Hirschman Index (HHI) which is the sum of the squares of the market shares of all firms in an industry. A HHI of below 1,000 is normally equated with a low level of concentration. A value between 1,000 and 1,800 is regarded as denoting moderate levels of concentration, while a value above 1,800 is regarded as denoting a highly concentrated market. The data in Figure 4 imply a HHI for the bus industry of 1,350, although this overstates the true HHI case as the independents and smaller groups are treated as single entities.} The bus industry comprises a large number of local markets so that aggregate market share and concentration figures provide little information about the degree of competition in individual markets. Direct competition between the major groups has tended to be rare, although smaller operators do compete with the larger groups.\footnote{There have been frequent bus wars in some areas, Manchester being a key example.}
Since deregulation the long-run decline in bus travel in Britain dating back to the 1950s has slowed considerably as illustrated by Table 5.

**Table 5: Annual Per Cent Change in Bus Journeys in Britain**

<table>
<thead>
<tr>
<th>Period</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-1970</td>
<td>-3.5</td>
</tr>
<tr>
<td>1970-1974</td>
<td>-2.9</td>
</tr>
<tr>
<td>1974-1984</td>
<td>-3.0</td>
</tr>
<tr>
<td>1985/6-2004/5</td>
<td>-1.1</td>
</tr>
<tr>
<td>1999/00-2004/5</td>
<td>+1.5</td>
</tr>
</tbody>
</table>


For over 30 years prior to deregulation bus passenger numbers in Britain had fallen by 3-3.5 per cent per annum. The rate of decline has fallen to 1.1 per cent per annum since deregulation and the latest five-year period up to 2004/5 has seen an annual increase of 1.5 per cent. Table 6 illustrates trends in passenger numbers for different parts of Britain since 1985/6.

**Table 6: Annual Per Cent Change in Bus Journeys by Area**

<table>
<thead>
<tr>
<th></th>
<th>Britain</th>
<th>London</th>
<th>England Non-Metropolitan Areas</th>
<th>England Metropolitan Areas</th>
<th>Scotland</th>
<th>Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985/86-2004/05</td>
<td>-1.1</td>
<td>2.3</td>
<td>-1.6</td>
<td>-3.3</td>
<td>-1.9</td>
<td>-1.9</td>
</tr>
<tr>
<td>1985/86-1994/95</td>
<td>-2.7</td>
<td>0.0</td>
<td>-2.4</td>
<td>-4.8</td>
<td>-2.9</td>
<td>-2.3</td>
</tr>
<tr>
<td>1994/95-2004/05</td>
<td>0.5</td>
<td>4.4</td>
<td>-0.9</td>
<td>-2.0</td>
<td>-1.0</td>
<td>-1.6</td>
</tr>
<tr>
<td>1999/00-2004/05</td>
<td>1.5</td>
<td>6.6</td>
<td>-1.4</td>
<td>-1.7</td>
<td>1.1</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

The table shows a significant divergence in bus patronage between different areas since deregulation. Over the entire period since 1985/86 London has recorded an increase while other areas have experienced a decline. There is also a marked contrast between the periods before and after 1994/95 with bus patronage in all areas performing better in the second period than in the first. In the case of London, passenger numbers were static in the first period but have increased at an annual average rate of over 4 per cent since then. The annual rate of increase rose to almost 7 per cent in the most recent five-year period. All other areas showed a marked slowdown in the rate of passenger losses in the second period, while the most recent five-year period has seen an increase in bus passenger numbers in Scotland while numbers in Wales have stabilised. In the case of English non-metropolitan areas there is some indication that the rate of passenger losses have increased again in the most recent five years.

The House of Commons Transport Committee (2006) reported that, although passenger numbers outside London had declined overall, areas such as Oxford, Cambridge, York and Brighton had recorded increases under deregulation. It reported that witnesses had indicated that some decline in bus use was inevitable given structural changes in the economy, rising prosperity and increased car ownership, while others had pointed to factors such as declines in population as contributing to falling passenger numbers.

Overall the literature suggests that, after an initial period of considerable confusion, liberalisation has worked reasonably well. According to Nash (1993, p.1042) deregulation outside of London “…has proved neither as good as its proponents expected nor as bad as its opponents feared”. Hibbs and Bradley (1997, p.39) argue that:

It is blind prejudice to repeat the old slogan that ‘bus deregulation has been a disaster’ since the evidence now shows that it has in fact reversed the systematic decline of services over the three decades that preceded it.

Huntley (2001) reports that empirical analysis shows that the former regime “…failed miserably to check a substantial movement away from the bus.” Hibbs (2003) found that liberalisation outside of London has produced considerable benefits with bus services in many areas running closer to people’s homes than previously; increased frequency on urban services; many new routes and reduced subsidies, although he concedes fares have risen.25 TAS (2006, p.8) reports that, in terms of lost passenger journeys, “the deregulated regime has performed rather better than the previous systems”.

Table 7 provides some comparisons on customer satisfaction levels with bus services in Ireland and England.

25 The Department for Transport (2006) report that the proportion of British households within a 13 minute walk of a bus stop with a service at least hourly has increased from 77 per cent in 1992-94 to 89 per cent in 2004-05, while the percentage of scheduled mileage run excluding losses outside operators’ control was 99 per cent.
Table 7: Customer Satisfaction with Bus Services in Ireland and England

<table>
<thead>
<tr>
<th></th>
<th>Dublin Bus</th>
<th>Bus Eireann</th>
<th>London</th>
<th>England</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Satisfaction (per cent)</td>
<td>66</td>
<td>81</td>
<td>78 (74)</td>
<td>81 (79)</td>
</tr>
<tr>
<td>Service Reliability (per cent)</td>
<td>86</td>
<td>70 (65)</td>
<td>68 (63)</td>
<td></td>
</tr>
<tr>
<td>Vehicle Cleanliness (per cent)</td>
<td>61</td>
<td>75</td>
<td>79 (78)</td>
<td>77 (74)</td>
</tr>
<tr>
<td>Vehicle Comfort (per cent)</td>
<td>74</td>
<td>68</td>
<td>78</td>
<td>80</td>
</tr>
<tr>
<td>Driver Standards (per cent)</td>
<td>73</td>
<td>90</td>
<td>85</td>
<td>87</td>
</tr>
</tbody>
</table>


Survey results indicate that 81 per cent of bus passengers in England were satisfied with bus services. Interestingly satisfaction was lower in London. While Bus Eireann compares reasonably well on such measures, Dublin Bus performs poorly in terms of overall satisfaction, vehicle cleanliness and driver standards.

Since the mid-1990s many local authorities in Britain have entered into “Quality Bus Partnership” agreements with bus operators. The precise nature of these vary between areas but in general they involve the local authority investing in the development of bus priority measures with operators entering into commitments in respect of service levels and quality. Such measures are seen to have been successful in improving bus patronage. (Huntley, 2001) Many local authorities argue, however, that such arrangements do not go far enough. (House of Commons Transport Committee, 2006).

Despite evidence both that the decline in bus patronage has slowed considerably since deregulation and of high levels of customer satisfaction, politically deregulation is seen to have failed. The House of Commons Transport Committee (2006, p.37) reported that “…for many areas, including all of our major metropolitan areas outside London, the current regime is not working.” The Committee’s findings seem to have been largely influenced by the views of local councils and public transport authorities (PTA’s) and ignored contrary views. Representatives of authorities that had successfully achieved increases in bus patronage expressed the view that similar measures could be adopted in other areas. The Report dismisses such evidence in cavalier fashion.

We commend those cities and counties that have made the deregulated bus system work for them, we rather suspect that they have done so in spite of the arrangements they work within, not because of them. (p. 37)

Uni-Link, a joint venture between Southampton University and a bus operator, in its submission expressed the view that without deregulation it was highly unlikely that its highly successful service would have been created “…and the steady growth in patronage
would not have existed and we would still be served by a poor performing local bus service in decline”.26 One bus user’s group indicated that it was “…not convinced that regulation alone is the way forward.”27

There are ranges of possible policy options for the provision of local bus services. These include monopoly State provision, franchising with some form of centralised coordination of routes, full competition or a combination of competition on commercial routes and franchising of PSO services. In assessing these various options it is necessary to take into account their impact on service quality and efficiency as well as transaction and administration costs that arise under these various regimes. Questions about the viability and desirability of network coordination and integration are also important in assessing the relative merits of the different policy options.

The debate internationally is no longer about whether liberalisation is desirable but, particularly in the case of urban services, it is about the form that liberalisation should take, i.e. whether it should involve full on the road competition, as happened in most of Britain, or whether it should involve franchising/competitive tendering as in London. SDG (2002) report that an EU Commission survey of 30 large EU cities found that competitive tendering was more successful than complete deregulation, both in terms of attracting new passengers and financial performance.

Mathews et al. (2001) note that the arguments that competitive tendering has proved superior to on road competition are largely based on the fact that bus patronage in London has risen in contrast to other parts of Britain but notes that there are a number of other factors which tend to contribute to higher bus patronage in London and suggest that one cannot conclude that tendering is superior without taking such factors into account.28 For example, most UK regions with the exception of West Yorkshire and London experienced population declines in the years after deregulation. The number of households and household density is much higher in London than in other British cities. They also point to the fact that parking and other costs of using a car are much higher in London, which thus tends to have far lower levels of car ownership than other regions. Romily (2001) reports that the decline in passenger numbers outside of London largely reflects reductions in subsidies which more than offset the positive impact of deregulation on fares and passenger numbers. The House of Commons Transport

26 Transport Committee 2006, Ev 103, Submission by Uni-Link.
27 Transport Committee 2006, Ev 69, Submission by Bus Users UK. Similarly Transport 2000 a lobby group that advocates sustainable transport solutions indicated that re-regulation was not necessarily the solution.
28 Alexanderson et al. (1998) note that bus patronage in Sweden initially declined following the introduction of competitive tendering but attribute this to an economic downturn in the early 1990s.
Committee (2006) indicated that it was not clear that the London system could be transplanted wholesale into other metropolitan areas. In its submission to the Committee, Bus Users UK, an organisation representing bus passengers outside of London, attributed the growth in patronage in London to factors such as congestion charges and high car parking charges and expressed the view that:

If these measures were to be adopted across the UK the argument about regulation would be irrelevant.\(^{29}\)

Hibbs (1999) has pointed out that competitive tendering suffers from a number of shortcomings. First, in some cases, most notably London, it has involved establishing a large and expensive bureaucracy to oversee services. Second, it has proved to be highly inflexible making it difficult for operators to alter routes and timetables in response to changes in passenger demand. Third, it means that cutting costs is the only way operators can increase profits which can give rise to underinvestment and lead to poor quality vehicles being used. (In contrast, with on the road competition, innovation and marketing allow operators to increase revenues as with any other product). NERA (1997a) estimated that extending the competitive tendering system to the rest of Britain would cost GBP100 million in 1997 prices. Thus, while it avoids some of the short-term problems associated with full liberalisation, whether competitive tendering constitutes a better option over the medium term is another question. Cantillon and Pesendorfer (2006) confirm that competitive tendering in London had resulted in increased service quality and lower costs although they observe that it is not clear if the tender system used was the most appropriate. Competitive tendering would appear to have much to offer in the case of PSO services.

Another criticism of competition is that it undermines integration of the route network. Roberts (2003) notes that while integration tends to be regarded as important by policymakers, bus operators tend to have a different view. Wolmar (1999) notes that Stagecoach and First Group were able to reach agreement on a form of “slot allocation” arrangement akin to that used by airlines to allocate slots at airports in respect of Manchester’s Piccadilly Bus Station.

Hibbs and Bradley (1997) argue that advocates of integration seem to imply that passengers should change from bus to bus during the course of their journeys, something which passengers dislike. There is evidence of passenger reluctance to change in Dublin. In its Annual Report for 2000, Dublin Bus stated:

The cross-city network of services at peak times has proved very popular with good customer response and feedback. This type of service is tailored to customer travel patterns at peak periods in providing a quicker journey from one part of the city to another on one bus, thereby avoiding the need for transfer in the city. (p.2)

\(^{29}\) Transport Committee, 2006, Ev 68, Submission by Bus Users UK.
Similarly MVA (2006) reported that the extension of cross-city routes had improved the convenience of service offered to passengers and recommended a redesign of the Dublin route network involving increased cross-city routes which *inter alia* “…may also offer opportunities for new passenger journeys without inconvenient city centre interchange.” (p.62)

Hibbs (1999) reported that integrated ticketing developed in the UK without State intervention. In fact the development of integrated ticket systems was hindered by the Office of Fair Trading which “…stamped on any type of co-operation between bus operators on timetables, joint ticketing or fare arrangements, as it was considered anti-competitive.” (Wolmar, 1999, p.174). The Comptroller and Auditor General’s 2005 Annual Report raises questions about delays in the introduction of an integrated ticketing system in Dublin and highlights Dublin Bus’s decision to implement its own system.

Hensher and Stanley (2002) argue that performance based contracts which have been used in Norway and New Zealand, for example, are superior to traditional forms of competitive tendering. Operators are paid a subsidy per vehicle kilometre for the provision of minimum service levels with incentive payments for increasing passenger journeys beyond the minimum level. The contracts are tendered and leave issues such as route design in the hands of operators on the basis that they have a better understanding of what customers want than regulators. Such an approach has the benefit of reducing the sizeable bureaucratic costs involved in traditional competitive tendering regimes.

International experience clearly demonstrates that state monopoly bus operators are inefficient and provide poor value for money. In recent years Dublin Bus and Bus Eireann city services’ costs have increased much faster than revenues resulting in rising losses and an increased reliance on Government subsidy. Productivity has declined in the case of Dublin Bus. Both companies compare unfavourably with British operators in terms of operating costs and customer satisfaction. Despite all of this the Government remains opposed to genuine reform of the bus industry. The proposals announced by the Transport Minister in September 2006 essentially retain the existing Dublin Bus monopoly on all existing routes. Such proposals protect the existing inefficient Dublin Bus monopoly operation and would clearly give rise to serious competitive distortions as Dublin Bus would have two major advantages in any open tender due to:

- Exchequer funding of new buses; and
- The ring fencing of its existing monopoly which would give it considerable scope to cross subsidise new routes and undercut rival bids.

Similarly the indications are that the Government favours retaining Bus Eireann’s monopoly position outside of Dublin.

Rather than maintaining the existing State monopolies a more radical approach is required.

9. Conclusions

• A full audit of all Dublin Bus and Bus Éireann services (excluding coach tour and Expressway) to identify which services are commercial and which are genuine PSO routes.
• PSO routes should be put out to competitive tender with such tenders being phased in over a five-year period.
• There should be some liberalisation of the licensing regime to make markets more contestable and thus allow greater scope for competition and innovation. Rather than introducing full on-street competition it is proposed that:
  o The burden of proof should be reversed in respect of licence applications so that there would be a presumption that approval of applications was in the public interest with the onus being on objectors to prove otherwise.
  o Automatic approval of new licence applications on non-PSO routes where entrants commit to offering lower fares and/or higher service frequencies for a minimum period of time.\(^{30}\)
• The potential for performance based contracts as employed in Norway and New Zealand should be examined.

Speaking in the Dail in respect of the Ryanair bid for Aer Lingus, the Minister for Transport stated:

A monopoly is bad for business. It is bad for this country, the customer, the travelling public and tourism interests.\(^{31}\)

It is somewhat disappointing that the Minister has failed to apply the same logic in the case of bus services.

\(^{30}\) It is suggested that operators licensed on such grounds would be required to maintain such fare and service levels for a period of 2-3 years to avoid gaming of the system and to prevent predatory behaviour. Baumol (1979) suggested a credible commitment by firms to maintain lower prices should be regarded as proof that price cuts were not predatory. The OFT and MMC, in a number of cases of alleged predation in the bus industry sought and obtained undertakings from bus operators to maintain lower fares and service levels in a number of instances of alleged predation. For a review of such cases see NERA, (1997b).

\(^{31}\) Dail Debates.
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CIE, *Annual Reports*, various years.


DUBLIN BUS, *Annual Reports*, various years.


