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"Costs, Competition and Deregulation:
Some UK Evidence and Implications for Australia"

by

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COSTS, COMPETITION AND DEREGULATION
- SOME UK EVIDENCE AND IMPLICATIONS FOR AUSTRALASIA

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1. INTRODUCTION

Australia, and to a rather lesser extent New Zealand, has an extensive private bus sector providing urban route services. Previous analyses by this author and others have demonstrated the lower unit costs for provision of such services by private sector operators compared with public sector operators.

This evidence was cited in the UK 1984 'Buses' White Paper as one element of the argument that the introduction of competitive conditions and the encouragement of smaller private (independent) operators would substantially improve the efficiency of bus service provision through the reduction of unit input costs. This was a major component of the UK Government's arguments in favour of deregulation.

Some 2 1/2 years after the introduction of deregulation in the UK, it is now appropriate to examine the evidence available on the effects of deregulation, competitive tendering and associated changes on unit costs in the UK bus industry, and thereby to assess the extent to which the efficiency aims of the White Paper have been met.

From the Australasian perspective, this assessment is particularly pertinent. In **Australia**, debate has continued for a number of years about whether the apparent cost advantages of private sector operators are real, or largely due to their different operating environments from the public sector services. More recently there have been State Government moves to offer private bus services in Melbourne (but not public sector services) to competitive tender, with the stated objective of securing improvements in efficiency (these moves have so far been resisted by the private operators). There have also been moves by some States to deregulate longer-distances route services, but this approach has not yet been extended to urban route services.

In **New Zealand**, the Government has announced its intention to deregulate scheduled services (by bus and other modes) from mid-1991, broadly following the UK (except London) model. The pursuit of improved technical efficiency is one of the major objectives of this policy. As was the case in the UK, the New Zealand scene is currently dominated by relatively large municipal operators, but a substantial proportion of services are provided by private operators, particularly in the smaller urban areas and the outer parts of the larger cities. These private operators generally have lower unit costs. The UK experience in relation to unit cost levels seems likely to provide a good guide to the sort of changes which might occur in New Zealand under deregulation, and the action which the higher-cost municipal operators in particular may have to take over the next two years if they are to compete successfully.

The remainder of this paper therefore:

- * summarises evidence from Australia and New Zealand over the last few years on the unit cost relativities of different operator types (Section 2);

- * examines the UK evidence since deregulation on the extent of changes in the cost efficiency of different types of bus operators, and on the factors contributing to these changes (Section 3);
- * discusses the likely implications of the UK evidence for urban route service operators in Australia, and more particularly in New Zealand in the context of the forthcoming deregulation (Section 4).

The paper is concerned with only one of the many issues arising from deregulation and associated moves to increase competition in the provision of urban bus services. It makes no attempt to draw overall conclusions on the merits of deregulatory and similar policies, in either the UK or Australasian contexts.

2. THE CURRENT AUSTRALASIAN SITUATION: PUBLIC AND PRIVATE OPERATOR COST LEVELS

2.1 Australia

This author first became interested in the economics of the private and bus public sectors in Australia some ten years ago. At that time, there were some 480 private operators providing route services in Australian urban areas (i.e. centres of over 10,000 population). These operators used some 4,200 buses on their urban services, which was 46% of the total (public plus private) buses used on all urban services. (While these statistics are somewhat dated, aggregate changes over the last 10 years have been only slight).

Out of the 68 urban areas with populations over 10,000:

- * 55 (combined population 1.5 million) were solely dependent on private services;
- * 6 (combined population 6.4 million) had both private and public operator services);
- * 7 (combined population 1.8 million) were almost completely dependent on public sector services.

Of the State/Territory capital cities:

- * the two largest (Sydney, Melbourne) have a mix of private and public sector services, with the private sector being dominant (c. 1,000 buses) in Melbourne;
- * Brisbane also has a mix of private and public sector services;
- * the other cities (Perth, Adelaide, Canberra, Hobart, Darwin) have predominantly public sector services, with takeovers of private operators by the public sector having occurred in some cities at various times up to the mid-1970's.

Thus it is evident that the private sector continues to play a major role in providing urban route services in Australia, and this presents the opportunity to compare the economics of the private and public sectors in providing similar services in broadly similar conditions.

My early research on this topic (Wallis, 1980) concluded that:

"Private operators have a major advantage over the public operators in Australia in that their operating costs to provide a given service are typically about 50-70 per cent of those of the public operator. The major respects in which their costs are lower are in:

- i. greater flexibility and efficiency in use of labour;
- ii. relatively small proportions of maintenance and administrative staff;
- iii. lower basic rates of pay; and
- iv. lower wage/salary on-costs."

In the analysis undertaken to reach this conclusion, it was recognised that private and public operators in Australia typically provide services in rather different conditions: typically private operators serve the outer parts of urban areas, with less severe traffic conditions and higher speeds, than are experienced by public operators. However, due allowance was made for such differences in making the cost comparisons.

Detailed analysis of the items contributing to the cost differences between the two sectors highlighted the following factors:

- * **Driver wage rates.** Driver wages typically account for over 40% of total operating costs. Basic rates in the private sector were on average some 11% lower than for the public sector.
- * **Driver utilisation.** Typically private operators achieve 20-30% higher utilisation of driver time than do public operators. This is achieved by having shorter sign-on/off periods and less slack time (partly because private sector drivers often also perform non-driving duties).
- * **Bus maintenance.** Typically private sector unit maintenance costs are around half those for the public sector. This is achieved through:
 - higher productivity in maintenance work;
 - less specialised mechanics and more mixing of duties in the private sector (typical public sector operators have one mechanic for 2-3 buses, while private operators have one specialised mechanic for every 5-10 buses).
- * **Administration and flexibility of duties.** Administrative costs are generally lower in the private sector, with management typically working long hours for relatively low salaries. Substantial cost savings also arise from the multi-skilling of most private operator staff, with almost all staff being available to drive buses as required.
- * **Labour on-costs.** Typically private operator costs in this area (superannuation, retirement gratuities, sick leave, long service leave, etc) have been much less than those in the public sector, although this gap has probably closed in recent years.
- * **Capital facilities.** Typically private operators have older and cheaper buses and less elaborate depot/workshop facilities than public operators, with consequently lower capital, depreciation etc charges.

Since 1980, a number of other analyses have been undertaken (by myself and others) into the relative cost levels of the two sectors in Australia.

Studies undertaken by Travers Morgan in Sydney in 1985 into the relative costs of suburban route services by the two sectors indicated that private sector costs would be 50-60% of public sector costs to provide the same services (Bus and Coach Association, NSW, 1985).

David Hensher has also examined the cost structures and productivity levels of various private operators in New South Wales and compared these with public sector operators throughout Australia (Hensher, 1987). His work attempted to isolate the effects of ownership on efficiency: he concluded that private ownership per se appeared to give an efficiency advantage of between 1% and 9% over public ownership (in the Australian situation of regulated spatial monopoly supply).

Other factors which were identified as contributing to the much larger cost differences measured between Australian public and private sector operators included:

- * the size of the operating unit (providing support for dismembering the large public operators into smaller units);
- * differences in work practices, relating to the different awards and union representation in the two sectors;
- * differences in operating environments (which have been adjusted for in my work above).

A number of in-depth analyses of the relative costs of the two sectors in Melbourne have been carried out over the last few years: Melbourne has about 300 government buses and 1,000 private buses providing route services. These analyses have gone to considerable lengths to adjust for differences in the operating environments of services in the two sectors. The most recent analyses indicate that the costs of the private sector providing a typical operation in Melbourne would be approximately 70% of those for the government sector to provide the same service.

In summary, most of the Australian evidence over the last 10 years indicates that, in the larger cities, the costs of providing a given urban route service by the private bus sector are between 50% and 75% of those of the public bus sector. The cost advantages of the private sector arise principally through:

- * better driver utilisation
- * higher maintenance and administrative staff productivity
- * more flexible deployment of staff
- * somewhat lower wage rates and lower labour on-costs.

There is some evidence, in Victoria at least, that the cost gap between the two sectors has decreased slightly over the last decade (mainly due to employment provisions in the private sector becoming more generous, such as superannuation). However the gap remains substantial.

2.2 New Zealand

In New Zealand, there are some 1,700 buses used for urban route services. Of these:

- * about 66% are operated by the 10 municipal operators in the larger centres, with fleet sizes ranging from about 550 to under 10 vehicles;
- * about 10% are operated by the NZ Railways Corporation, operating in some 10 centres;
- * the remaining 24% are operated by a large number of private operators, with fleet sizes ranging between 1 and about 50 buses.

In the three largest cities (Auckland, Wellington, Christchurch), the main operator is the municipal operator with, in each case, NZ Railways and/or private operators providing some services in the outer and semi-rural areas. Most of the medium-size cities are also served predominantly by municipal operators, and the smaller centres generally by private operators.

This broad disposition of operators has been relatively stable for some years, although there have been a number of instances of municipal operators taking over outer urban services from private operators that have experienced financial difficulties.

As in Australia, workers in different sectors of the industry are generally members of different unions and work under different awards. As a simplification, New Zealand bus drivers are employed under one of three awards:

- * Municipal operators' award (but with some different conditions in the different centres). Until recently this was a national award, but is now negotiated separately in each centre.
- * Private operators' award.
- * NZ Railways' award, which is a modified version of the private operator award.

In 1983, the Auckland Regional Authority (ARA) carried out research on the relative cost levels of its own (municipal) bus services, services provided by NZ Railways and those provided by private operators in the Auckland region (Auckland Regional Authority, 1983). This research followed along similar lines to the author's 1980 work in Australia, summarised earlier.

This work found that:

- * Private operator unit costs (per bus kilometre) were between 65% and 76% of ARA (municipal) costs. A comparison of costs for private operators and ARA to provide a typical service gave a ratio of 66%, based on the average cost levels of the four largest private operators.
- * NZ Railways unit costs were 76% - 85% of ARA costs. The NZ Railways cost structure in many respects resembles that of the private operators.

The principal factors contributing to the higher costs of the ARA operation were stated as:

- * higher driver wage rates
- * less flexibility in labour use (inflexible award conditions, strict job demarcation)
- * higher administration costs
- * higher labour on-costs
- * higher direct running costs
- * higher depreciation.

The report commented that ARA operations suffered from "diseconomies of size without economies of scale".

The results of this research are very similar to those obtained in the 1980 Australian research: while the New Zealand cost differentials are slightly lower than those found in Australia, the causes of these differentials are very similar in the two countries. This conclusion is fully consistent with our general experience from working with operators on both sides of the Tasman, as we find very strong similarities between the same sectors in the two countries.

Other studies we have carried out in New Zealand over the last three years have also given results generally consistent with the 1983 Auckland work:

- * In 1985/86, the ratio of NZ Railways unit costs to the municipal operator's unit costs was estimated at 74% in Auckland, 85% in Wellington (Travers Morgan, 1985).
- * Recent work in Wellington has indicated unit costs for both NZ Railways operations and private operations of around NZ\$2.00 per bus kilometre (excluding capital charges), whereas the corresponding costs for the major municipal operators are in the range of about \$2.50 (25% higher) to \$3.50 (75% higher) (Travers Morgan, 1989a and 1989b).

3. RECENT UK EVIDENCE ON COST-EFFICIENCY CHANGES

3.1 UK Deregulation and the 'Buses' White Paper

In 1984 the UK Government decided to deregulate all local bus services outside London. In support of this decision it argued that:

- . Deregulation would create competition.
- . Competition would increase efficiency and reduce costs.
- . Competition would stimulate innovation and would produce services better matched to consumer demand, thereby increasing revenue.
- . Internal cross-subsidy would be eliminated by competition on profitable routes.
- . External subsidies would be reduced.

'Deregulation' was to be achieved by abolition of the previous system of route licensing. However, to achieve its prime objective of creating a competitive market, the Government also had to:

- . Restructure the industry to reduce the dominance of the market by large operators.

- . Change the financing of the industry to prevent subsidies being used to create barriers to entry.
- . Separate operation from co-ordination and allocation of subsidy.

The resulting proposals for bus services outside London put forward in the 'Buses' White Paper (Department of Transport, 1984) meant, in summary, that:

- . There would be freedom of entry into and exit from the market.
- . Operators could decide which services to run commercially (i.e. without subsidy).
- . The commercial services could be supplemented by subsidised socially-necessary services, which would be awarded on the basis of competitive tenders.

The Government regarded the likely reductions in input costs, through competition, as one of the major benefits of the White Paper proposals:

"After careful review of all the evidence, the Government has concluded that the potential exists for cost reductions of up to 30 per cent of total costs of public operators. Competition is the only way to secure and sustain these efficiency gains." (Section 4.10).

The White Paper view that public (municipal) operators could achieve unit cost reductions of up to 30% was formed in the light of three strands of evidence (parts of which have been criticised by some opponents of deregulation):

- * Comparison of the costs of PTE and NBC operators in the metropolitan counties showed that NBC's average costs per vehicle kilometre were more than 20% below the PTE average.
- * In the Hereford trial area, the pressure of competition led the management of the local NBC subsidiary to negotiate changes in agreements which led to a productivity improvement of 25-30%.
- * Evidence that costs of private sector operators in a variety of situations have been found to be below those of public sector operators, maybe by 30-40% (Section 5.8).

This last strand of evidence drew heavily on the information on the relative costs of public and private sector urban route operations in Australia, which was reported in my 1980 paper discussed earlier (Wallis, 1980).

The remainder of this section of the paper examines the evidence on changes in unit costs in the UK bus industry since deregulation in October 1986: it first examines the overall extent of the changes, and then looks further at the factors contributing to these changes. For this evidence I draw freely from the work of others - particularly various reports by or for the Transport and Road Research Laboratory on the monitoring of deregulation and a paper by Peter White being presented at this conference.

3.2 The Overall Picture

Deregulation in the UK introduced competition in two ways:

- * On the road - through provision of any services nominated by the operator, on a commercial basis.
- * Off the road - by competitive tendering for subsidised services specified by the local authority.

There is good evidence that both kinds of competition have resulted in significant decreases in unit input costs (increases in 'technical efficiency').

Much of the recent evidence is summarised in a paper presented to this conference (White, 1989). Inter alia, White examines the changes in unit costs per bus kilometre and bus kilometres per employee of British bus operators between 1985/86 (last complete year pre-deregulation) and 1987/88 (first complete year post-deregulation): this examination, which uses unpublished data from the Department of Transport, looks at changes both by area and by operator type. The following reductions in (real) unit costs, excluding capital charges, over the period were derived:

By Area:

Metropolitan counties	26%
English shires	21%
Scotland	14%
Wales	14%
All GB excluding London	22%
London	11%

By Operator Type:

Metropolitan PTCs	26%
Municipal PTCs	21%
Scottish Bus Group	14%
NBC Group	22%
Independents	N/A
London Buses Ltd	11%

These cost reductions look impressive, and tend to support the White Paper view that "the potential exists for cost reductions of up to 30% of total costs of public operators". This is especially so as the cost reductions achieved over the two year period may not tell the full story: it is likely that some cost saving initiatives got under way before 1985/86, in preparation for deregulation, privatisation and formation of Passenger Transport Companies (PTCs) and further cost savings may well be continuing in the current financial year (Clough, 1988).

The above statistics on costs per bus kilometre are unadjusted for the 'minibus effect'. White estimates that the contribution of minibuses to total bus kilometres on local services rose from a negligible amount in late 1985 to about 20% by the end of 1987. This alone would reduce the average weighted cost per bus kilometre by about 8%. Thus the 'underlying' decline in unit costs per bus kilometre for GB local services (excluding London) should be reduced from 22% to about 14%.

With the possible exception of London, the cost reductions made by the various operator types are in much the order expected, with the highest cost operators (the metropolitan PTCs) making the greatest savings. The overall trend is that there has been a rapid compression of the range of costs between different operator types: the cost levels of the previously higher-cost operators have been brought down towards those of the lowest-cost operators; while the cost levels of these lowest-cost operators have probably not changed markedly, although there is some evidence of slight cost increases among a number of independent operators.

One of the UK Government's other objectives for deregulation was to reduce the requirements for Government subsidies. White's data also indicates some success in this respect. Between 1985/86 and 1987/88, total public expenditure on local buses outside London was estimated to have fallen by 15% in real terms; while in London the corresponding fall was 34%. White discusses in more detail the reasons for the greater reduction in London (which has not been deregulated) than in the rest of the country, and the implications of the different trends in and outside the capital.

3.3 The Components of Increased Efficiency

Staff related costs (including on-costs) comprise about 75% of total operating costs, and not surprisingly reduction in these costs accounts for the largest part of the total unit cost reductions noted above. The changes in these costs are considered in two groups:

- staff levels and productivity;
- unit costs per staff member.

Staff productivity rose very rapidly in association with deregulation. White's figures for bus kilometres: staff ratios show an overall increase between 1985/86 and 1987/88 of 23%. As expected, the increase was greatest (34%) in the case of the metropolitan PTCs. (As noted above, these figures are not adjusted for the 'minibus effect'). This productivity increase resulted from a fall in staff numbers (average about 9%), together with an increase in bus kilometres operated.

Other deregulation monitoring studies by TRRL also provide examples of increased staff productivity, as reflected in reductions in staff:bus ratios (Clough 1988 and other references):

* Trent:	reduction from 3.65 to 3.22
* Nottingham City Transport:	reduction from 3.42 to 3.14
* Badgerline (Wiltshire):	reduction from 2.2 to 1.8
* Burnley and Pendle Transport:	reduction from 3.2 to 2.8
* Blackburn Area:	reduction from 1.4-3.2 to 1.0-1.7

Many of the larger operators totally renegotiated their labour agreements in preparation for deregulation. This led in various cases to:

- increases in mixed duties (e.g. maintenance staff driving in the peaks, drivers assisting in fuelling, cleaning and minor maintenance);
- reductions in specialist depot/maintenance staff;
- reductions in numbers of inspectors;

- reductions in the extent of two-person-operation;
- abolition of paid meal breaks for platform staff.

Total staff employed fell by some 9% overall between 1985/86 and 1987/88, representing a net loss of some 15,000 staff. Many of the larger companies made considerable numbers of staff redundant in the period leading up to and following deregulation.

Staff reductions were particularly marked for non-platform staff (White, 1989): maintenance staff fell by 20% and administrative, etc staff fell by 18%. This greater than average reduction on the maintenance side was not unexpected in the light of evidence indicating that maintenance cost proportions had increased in previous years in the UK: probably the same is true in Australasia.

Platform staff fell by 2% overall, in the face of a 12% increase in bus kilometres. For the metropolitan PTCs, platform staff fell by 26%, against a 1% fall in bus kilometres. Even after adjusting for the 'minibus effect', this represents substantial productivity improvements, particularly among those operators (such as PTCs) which previously had lowest staff productivity.

The increase in bus kilometres per platform staff member arises from a range of changes in working practices, including:

- shorter sign-on/sign-off times;
- shorter (sometimes unpaid) meal breaks;
- more efficient rosters, with less slack time;
- reductions in absenteeism; and
- longer shifts.

Thus improved productivity per person has resulted from:

- * improved utilisation of shifts (i.e. increase in the bus hours: worked hours ratio);
- * increased number of days worked per year (largely due to reduced absenteeism); and
- * increased worked hours per shift.

The first two of these components may be regarded as improvements in 'technical efficiency', with the third being a disguised cut in unit rates of pay.

Unit wage costs per member of staff do not appear to have fallen significantly overall (aside from the 'minibus effect'), according to White. However this overall finding undoubtedly masks a variety of changes for different groups of staff and different operators in various parts of the country.

In regard to platform staff, in particular, there is plenty of evidence that they are being paid less in many cases (and working harder and longer for their pay). The pay reductions have particularly occurred in those areas where national wage agreements were above local market rates (the previous national wage agreements no longer being applied). The reductions have often not been on the basic rates, but more on over-award payments, penalty payments, sickness and holiday pay, paid meal breaks, etc. In a number of cases new staff have been taken on at less generous rates than existing staff.

There have also been many cases where major operators have paid up to 40% lower rates for drivers of tendered services compared with commercial services, so as to be able to compete with operators with lower cost structures.

Some examples of these pay reductions are as follows:

- * South Yorkshire Transport - paid typical drivers 10/week less, new drivers 46/week less.
- * Burnley and Pendle Transport - abolished paid meal breaks, reduced sickness and holiday pay, and paid 35% less for working on subsidised services.
- * Northern (Tyneside) - eliminated 'parity' payments (up to 50/week), but compensated by longer hours to maintain total pay packets.

Overall staff-related costs per bus kilometre fell by 19% (real terms) between 1985/86 and 1987/88: this would account for a 14% overall cost reduction, out of the overall observed cost reduction of about 20%. Some 3% of this 14% figure is explained by the lower wages paid to minibus drivers.

The non-driver elements of the 'minibus effect' account for a further 3-4% of the overall unit cost reduction. The remainder of the observed cost reduction is due to changes in **input costs** (external to the industry). The major element here is fuel: fuel prices fell by about 38% over the period, representing a reduction of about 3% in total costs (White, 1989).

3.4 Overview of UK Evidence

My principal conclusions on the evidence on the effects of deregulation and associated legislation on the cost efficiency of local bus operations in Britain are as follows:

- * The White Paper expectation of cost reductions of "up to 30% of total costs of public operators" has been partly achieved.
- * Between 1985/86 and 1987/88, the average reduction in unit operating costs (excluding capital charges) per bus kilometre was 22% outside London, 11% in London. The greatest savings were achieved by the metropolitan PTCs (the highest cost operators), with a reduction of 26%.
- * About 8% (average) of these overall cost reductions was due to the minibus effect (at least partly related to deregulation) and a further 2-3% due to reductions in the input costs of fuel (unrelated to deregulation).
- * The remainder of the cost reductions were due mainly to increased productivity per member of staff. Overall the bus kilometres: staff ratio increased by 23%, while in the metropolitan PTCs it increased by 34%.
- * Staff reductions were particularly marked among maintenance and administrative staff.
- * There were also substantial productivity improvements among platform staff. These resulted from improved shift utilisation, reduced absenteeism and longer shifts.
- * Overall there was little change in real wage costs per staff member, although there are many cases where driver wages have been reduced (aside from minibus drivers). Generally drivers are working harder and longer for similar total pay (but sometimes reduced pay).

- * Unit costs of the ex-public sector operators still appear, in general, to be significantly above those of the independent (ex-private) operators, although the gap has certainly reduced substantially.

4. IMPLICATIONS FOR AUSTRALASIA

Having reviewed the evidence on the impacts of deregulation and competition on the cost-efficiency of local bus operations in Britain, I now examine the likely implications of this evidence for bus operations in Australia and New Zealand. This is more particularly relevant to the New Zealand situation, where deregulation is expected to occur (based broadly on the UK model) in mid-1991. The conclusions applicable to New Zealand may also, broadly, be applicable in Australia if/when greater competition is introduced (through deregulation or otherwise), given the similarities in operator and cost structures, awards and industrial conditions in the two countries.

It is apparent from Sections 2 and 3 of this paper that the range of operators and their range of cost structures is somewhat similar in Australia/New Zealand to the UK:

- * Prior to UK deregulation, large municipal operators dominated in the provision of urban route services in both the UK and Australasia (in Australia these operators are State-owned);
- * There was a small private (independent) sector in UK, a moderately large one in New Zealand and a larger one in Australia: this sector generally comprises small operators, but some in Australia operate over 100 buses.
- * There are some intermediate cost operators in both UK (NBC group) and New Zealand (NZ Railways Corporation).

The evidence available also suggests that the range of cost differences between these sectors, and the causes of these differences, are generally similar in the three countries. In each case, the private (independent) operator unit cost levels are in the order of 60-70% of those of the municipal operators, while the intermediate operators typically have costs 75-85% of the municipal operators.

The largest single cause of these cost differences in each country is the differences in labour productivity across all parts of the operations: the lower cost operators benefit from less restrictive award conditions, more multi-skilling (mixed functions) and a greater commercial incentive. The second largest difference is the lower pay rates and labour on-costs among the lower cost operators.

Given these similarities between the countries, will the UK experience be transferable, more or less, to the situation of deregulation in New Zealand in particular? My judgement would be a qualified yes.

A number of qualifications should be made, reflecting some of the major differences between the New Zealand and UK situations. These qualifications essentially relate to the lesser extent of competition expected in the 'thinner' market and the greater restraints on competition that may be present:

- * New Zealand offers a 'thinner' market, both in terms of demand and supply, with fewer operators in each centre and with longer distances between significant centres. This will tend to reduce the degree of competition. (The same comment would apply in Australia except in the major cities).
- * Existing New Zealand local bus services have a lower overall cost recovery than did UK services prior to deregulation. Typical cost recoveries of the New Zealand municipal operators are in the range 45-60% (even lower in Australia). This suggests that, even allowing for possible cost reductions, only a small minority of services would be offered commercially, and the majority would need to be tendered.
- * Due to the 'thinner' market noted above, there is likely to be less competition than in the UK for tendered services. In several of the major New Zealand centres, the municipal operators currently dominate the market and it is not expected that they will be required to be split up under deregulation. In Christchurch for instance (area population 320,000), the municipal operator has about 180 buses, while there are only a few other local operators, mainly providing school services with a few, generally old, vehicles and part time drivers. The next nearest major centre is over 100 kilometres away. In these circumstances it is difficult to see serious competition for many of the tendered services. (In the Australian context, similar situations would probably occur in Adelaide and Perth unless the State-owned operators were split up).
- * The unions representing staff in the New Zealand bus industry could well be less flexible in re-negotiating award conditions than was the case in the UK. However this remains to be established.
- * The current somewhat depressed state of the New Zealand economy may, if it continues, inhibit risk-taking, innovation and new entrants to the industry. (It may also, of course, influence attitudes in union negotiations).

Despite these qualifications, I expect a broadly similar pattern of cost-efficiency improvements to occur in New Zealand with deregulation as occurred in the UK. For the municipal operators in particular, I would expect:

- * Renegotiations of award agreements, to enable improved staff utilisation (e.g. reduced driver sign-on/sign-off times), increased multi-skilling (e.g. drivers assist in fuelling and cleaning), and maybe reduced driver penalty payments (for overtime, unsocial hours, etc).
- * Increased efforts to reduce absenteeism.
- * Major efforts to improve efficiency in bus maintenance areas.
- * Slimmed-down supervisory and management structures, with more decentralisation and maybe greater responsibilities at the depot/area level for the larger operators.

- * Restraint on basic pay rates and labour on-costs.
- * Some reductions in staff numbers, through attrition and possibly redundancy.
- * Moves to reduce capital asset bases, through minimising new bus purchases, at least in the short-term (with some increase in fleet ages), plus consideration being given to moving out of valuable central area premises where applicable.

Such moves might be expected to result in unit cost reductions in the order of 15-25% among the major New Zealand municipal operators. These will be necessary if they are to be able to compete with reasonable success, both on the road and for tendered services, with private sector operators.

The New Zealand Government has already announced its intention to corporatise the municipal operators, thus freeing them from political inputs to day-to-day decisions, and giving more scope to managements to operate in a more commercially-oriented way. However, the above appraisal suggests that it may also be desirable to split up the larger municipal operators in order to increase the degree of competition in some major centres and ensure that the potential efficiency benefits of deregulation and increased competition are maximised.

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