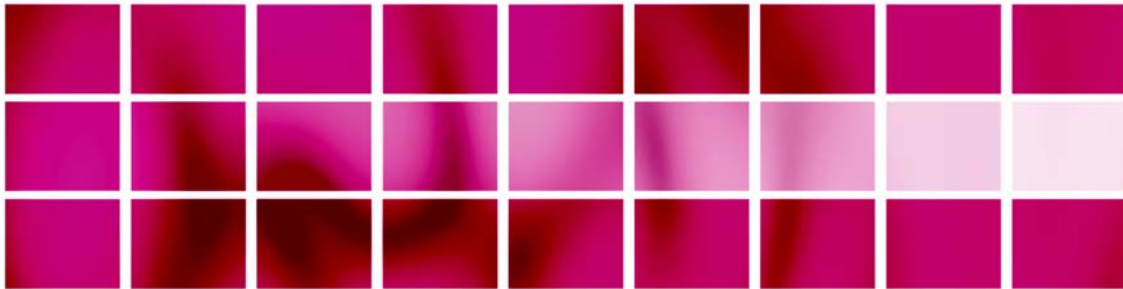


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**PRIVATISATION OF PUBLIC SERVICES AND THE IMPACT ON
QUALITY, EMPLOYMENT AND PRODUCTIVITY (PIQUE)**

***Liberalisation, privatisation and regulation
in the UK local public transport sector***

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Country report on liberalisation and privatisation processes and forms of
regulation

The project "Privatisation of Public Services and the Impact
on Quality, Employment and Productivity" (CIT5-2006-028478)
is funded by the European Commission's 6th Framework
programme.



November 2006

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INTRODUCTION

With 7.4 million inhabitants London is the largest capital city in Europe and by far the largest city in the UK – more than seven times the size of the next largest city, Birmingham. After three decades of decline and stagnation the population is forecast to increase to just over 8 million by 2016. The area covered by the Greater London Authority has a working population of 4.5 million with 706,000 (16%) travelling to the capital each day to work. Some 275,000 people live in the city but travel outside the area to work. London is also a major tourist destination with 13.4 million overseas visitors in 2004 placing an extra demand on local transport services. There are also an estimated 150 million tourism day trips made to London each year with a further 6.5 million trips to conferences and events.

Greater London covers 1,579 square kilometres and has 14,676 kilometres of roads. The rail network has 817 kilometres of track with 355 stations while London Underground routes cover 408 kilometres with 275 stations. The total length of bus routes is 450 kilometres. The main transport systems of rail, Underground and buses is supplemented by other services including the new tram system in the London Borough of Croydon (South East London), river services and taxis. There are 21,000 taxis licensed to operate in London along with 36,900 private hire vehicles (not permitted to pick people up in the street).

Use of the main forms of public transport – buses and Underground - has increased steadily over the last 10 years. In 2004-05 there was a total of 1.8 billion bus journeys (up 50% on 1994-95) covering 6.8 billion kilometres (up 75% on 1994-95). Figures for London Underground show a 28% rise in journeys to 976 million with a 26% increase in total passenger kilometres covered to 7.6 billion. Although rail journeys within the Greater London area have increased over the same period by 22% to 244 million trips, this mainly reflects growth between 1995 and 2000, since when there has been a small decline in the number of journeys.

Other parts of the transport network have also seen increased activity. The Docklands Light Railway was opened in 1987 and developed to serve the commercial and residential developments in the former dockyards of East London. Latest figures show a near five-fold increase in passenger journeys over the last 10 years to 50 million, covering 243 million kilometres. Croydon Tramlink has only been operating since 2001 and has shown a 17% increase in passenger journeys up to 21.8 million journeys (113 million passenger kilometres).

1. MARKET STRUCTURE

The 1933 *London Passenger Transport Act* created the London Passenger Transport Board and gave it monopoly control over bus and underground services in the capital as it took control of all municipal and private underground and bus companies operating there. The rail companies providing what are variously described as the mainline or overground services remained in private hands until after the Second World War when they were nationalised with the setting up of British Rail. However, a Standing Joint Committee was set up to co-ordinate the activities of the LPTB and the mainline operators. The Committee also put forward plans for improvements to London's transport system such as the electrification of mainline routes, modernisation and extension of the Underground and a switch from trams to trolleybuses.

The 1947 *Transport Act* created the British Transport Commission (BTC), which took overall control over the nationalised transport industries – rail, canals, road transport and London Transport. In effect this meant that the LPTB was transformed from an independent nationalised industry into the London Transport Executive under the control of the BTC. The Commission had financial control over all these transport services while and transport charges were regulated both by a Transport Tribunal and by directives from ministers.

The British Transport Commission was abolished in 1962 by the Transport Act of that year. But separate nationalised transport industries were maintained and the LTE became the London Transport Board (LTB) reporting directly to the Ministry of Transport. This arrangement lasted only until 1970 when responsibility for transport in London was handed over to the Greater London Council (GLC) and LTB became simply London Transport. GLC control lasted until 1984 and marks the period immediately before the processes of liberalisation and privatisation began to affect London's three main public transport systems.

When the Conservative Party came to power in 1979 it set out to “roll back the state” through the sale of state industries and the introduction of market forces into sectors that had been dominated by state monopolies. The aim was also to cut back public spending and this led the government to clash with the Labour-controlled metropolitan authorities in the major cities such as Sheffield and Manchester but also with the Greater London Council that were all implementing high-spending, interventionist policies in their local economies. The GLC also raised Conservative Party hackles specifically around its transport policies. The Council launched its “Fare Fair” campaign in 1980 cutting bus and Underground ticket prices by 32% and covering the cost by increasing the rates, the local property-based tax over which municipalities had control. The scale of the price cuts were even more dramatic bearing in mind that inflation at the time was running at nearly 20%. However, passenger traffic on the London Underground increased by only 9%, which was not enough to fund the fare reductions and the level of subsidy rose from 30% to 54%. The Conservative-led Bromley Council, one of the 33 London Borough Councils in the Greater London area, took the GLC to court, arguing that the additional rate demand was unfair as the borough was not covered by the Underground

network. The House of Lords ruled that the Fares Fair campaign was illegal and in March 1982 fares were increased by 96%, with a resulting drop in passengers using the Underground.

The Conservative government’s response to the political challenge from the GLC and the metropolitan authorities was to abolish them in 1984. No new London-wide strategic body was set up to take on the GLC’s responsibilities which were divided up among a range of different unelected boards and agencies. Under the *London Regional Transport Act 1984*, London Transport (LT) was again brought under central government control.

During this period rail services continued to be run by the single, nationalised rail company British Rail although the corporation did go through some restructuring. In 1960 a House of Commons Transport Select Committee criticised the government for intervening in the running of the railways without a clear perspective on the balance between commercial criteria and social needs (Glaister 1998). When the British Transport Commission was abolished in 1962, a government-appointed British Railways Board was re-established and given more commercial freedom and allowed to determine fares without the intervention of the Transport Tribunal. There were further changes during the 1960s with major route closures and a reorganisation into new divisions including Network South East with responsibility for London and all the main commuter groups into the capital.

Table 1: Market Structure

	Before privatisation and liberalisation	After privatisation and liberalisation*
Buses	All publicly owned and managed by London Transport	Over 80% of routes now run by six major companies – Arriva, Metroline, Go-Ahead, Transdev, Macquarie and First Group – there are a further 17 companies with a smaller share of the network, but seven of these are owned by four of the big six.
Underground	All publicly owned and managed by London Transport	Nationalised London Underground provides train services but track and infrastructure are run under a public-private partnership by two consortia of private companies – Metronet and Tubelines
Rail	All publicly owned and managed by British Rail	Train operating services nationally were divided up into 25 franchises, 10 of which provide local services in the Greater London area and which are run by five companies: Go Ahead, First Group, National Express, Stagecoach and Laing Rail

* Details of the companies listed here are given in the section on Actors and Ownership

2. PROCESSES OF LIBERALISATION AND PRIVATISATION

There have been several stages of liberalisation and privatisation affecting London Buses, London Underground and the rail services across London. London Bus routes were opened up to competition from 1985 and then London Bus companies sold off in 1994 and 1995. London Underground remains a nationalised company in terms of running the train services and stations but the track infrastructure and maintenance has been privatised in a public private partnership. British Rail was broken up and rail services divided up into regional franchises and opened to competition in 1994.

2.1. London Buses

On 1 April 1984, control of London Transport (LT) was passed back to the government, prior to the abolition of the GLC in 1986. The new authority, London Regional Transport (LRT), was essentially a holding company with newly established subsidiaries in control of buses and the Underground. Bus routes were put out to tender with both London Buses and private companies bidding for three-year renewable contracts.

In 1985, bus services outside London were completely deregulated. This meant that any licensed operator could apply to run a new route even if another company already ran a service along the same roads. Although London was exempted, it was intended that once bus services in the Capital had become less dependent on government assistance and steps had been taken to encourage greater competition between operators, deregulation should be extended to include it.

LT set up the Tendered Bus Division to begin the process of competitive tendering. This required LBL to compete against operators in the private sector for the opportunity to run individual bus routes on behalf of LT. The routes were awarded to the operator which could run the best service at the most cost-effective price, and several of the initial routes went to private companies rather than to LBL.

As a step towards the planned deregulation of services, LBL created 13 locally based subsidiary companies, each with its own commercial remit. These companies conducted their own wages negotiations, took appropriate steps to reduce their overheads and competed against each other, as well as private sector companies, for the contracts to run LT bus routes. In December 1992, the Conservative government announced that the LBL companies would be sold into the private sector ahead of deregulation and the sales took place in 1994 and 1995. The Conservatives' decision to delay deregulation of London Buses and not allow the free-for-all that had taken place in the rest of the country was so that the London Bus companies could be privatised at a more favourable rate as their value would have otherwise have been affected by greater level of competition. However, no further steps towards deregulation taken before the 1997 election when Labour came to power for the first time since 1979.

The Labour government elected that year was committed to reintroducing a strategic governing authority for London. In July 2000, London Transport was replaced by a new organisation called Transport for London (TfL), part of the Greater London Authority. The Mayor must also develop and implement a transport strategy for London, in consultation with the Greater London Assembly and the 33 London boroughs.

Transport for London (TfL) was set up to implement the Mayor's transport strategy and now manages the buses; London Underground; the Docklands Light Railway and Croydon Tramline; a 580km network of main roads; all of London's 4,600 traffic lights and has a strategic role in traffic management. TfL also runs London River Services, Victoria Coach station, regulates taxis and the private hire trade and runs the Dial-a-ride service for those who need door-to-door transport.

TfL has an annual budget of nearly £5 billion about half of which comes from central government grants. The remainder is funded by fare revenue, congestion charge income, the council tax (the property-based tax providing income for municipalities) and other smaller sources (e.g. advertising). The Government's transport grants to London have risen significantly and TfL's budget doubled between 2000/1 and 2004/5. In July 2004 the Government agreed a long-term funding settlement for TfL which provides for continued growth and certainty through to 2009/10. This means that TfL's total grant will rise to £2.65 billion by 2009/10, compared to £1.18 billion in 2000/1.

As part of TfL, London Buses is today responsible for one of the largest urban bus networks in the world. In addition to planning routes and monitoring service quality, it is responsible for bus stops, stations and other support services. The bus services themselves are operated under contract to London Buses, largely by private sector companies.

“While efficiency improved, the reliability of service to passengers also improved, partly because of enforceable quality clauses in the contracts with the services providers.” (Glaister 1998)

2.2. *National rail privatisation*

National rail privatisation had a substantial impact on London not just because of the major rail routes linking the capital to the rest of the country but also because of the millions of commuters that rely on rail services as well as or instead of bus and Underground to get to work. In fact, until the Dockland Light Railway was extended into South East London – Greenwich, Lewisham – this part of the capital was only served by mainline rail and bus services as the Underground stopped at New Cross in South East London and only provided a service to parts of South West London.

The *New opportunities for the railways* White Paper was published in July 1992 and in the four months from November 1992 to February 1993 stakeholders had a chance to express their views about the process to the House of Commons Select Committee on Transport. The White Paper proposed that rail operators – passenger or freight services – should have open access to the rail network. While this was supported by the freight

industry that had a certainly flexibility in timetabling this was rejected by the main companies interested in the rail franchises. These companies feared that open access would disrupt timetables and make it difficult to plan. They also thought it ran the risk of companies trying to cream off the most profitable routes at peak times.

Some of the big transport companies interested in the franchises also wanted vertical integration so the franchising company would control and maintain the track in its area. In the end the track was handed over to a separate company, Railtrack, to run and maintain.

The whole process was carried out very quickly often details lacking in the legislation. Announcements in the Commons in 1993 indicated that Railtrack would be a government-owned company but by November of the following year the government had decided to privatise it conscious of the income that could be generated from the sale of a company with such a large property portfolio (Glaister 1998).

On 1 April 1994, British Rail was split into two distinct parts: Railtrack PLC, which owned the rail network infrastructure (track, signalling, bridges, tunnels, stations and depots); and the service providers, which comprised: 25 train operators; domestic and international freight businesses; and a track renewal and maintenance division. Between 1994 and 1997 the service providers were turned into separate legal entities and transferred, either by franchising or trade sale, to the private sector. Railtrack was floated on the stock exchange in June 1996 and remained a listed company until it was placed in administration in October 2001. Railtrack's functions are now carried out by Network Rail Infrastructure Limited, a company limited by guarantee.

Excluding the franchises that cover intercity services there are 10 franchises where companies run trains into and across London bringing commuters in from the surrounding counties.

2.3. London Underground

The approach to London Underground has been different from that towards London Buses with no clear attempt by the Conservatives towards privatisation. In fact, it was the Labour government elected in 1997 that took the initiative, developing a public private partnership (PPP) to deal with maintenance of the Underground's infrastructure. The operation of train services remains with the nationalised London Underground that reports to Transport for London. Investment and maintenance of London Underground's structure is now run under a PPP by two private consortia. In preparation for the PPP London's 12 Underground lines were divided into three groups and the PPP tenders were advertised on this basis. The three groups of lines were: SSL (Sub-Surface Lines): Circle, District, Metropolitan, Hammersmith & City and East London Line; BCV: Bakerloo, Central, Victoria and Waterloo & City; and JNP: Jubilee, Northern and Piccadilly. In the event both the SSL and BCV PPP contracts were awarded to Metronet, a private sector consortium owned equally by Balfour Beatty, WS Atkins, Bombardier Transportation, Thames Water and Seeboard. The JNP PPP was awarded to

Tube Lines, a private sector consortium that was initially jointly owned by Bechtel, Jarvis and Amey but with Amey buying out Jarvis's stake in 2004 when the company hit financial problems. Metronet and Tube Lines have to raise the money to invest in the Underground network and carry out the maintenance and engineering work necessary for its regeneration and improvement.

3. *REGULATION*

3.1. *Before privatisation and liberalisation*

As nationalised industries London Transport and British Rail came under the scrutiny of the government and parliament and had to meet targets on cost reduction and investment returns set by the Treasury. In effect governments were supposed to set strategic objectives for the nationalised industries although in practice their interventions were more ad hoc and likely to be influenced by short-term political considerations and pressures of public sector finances rather than based on the long-term planning. "The unreliability of DETR's support, depending on political and macroeconomic considerations as much as transport-related criteria, makes the planning of service levels and investment very difficult for LRT managers, particularly as figures for the years ahead carry no guarantee." (Glaister 1998)

The Office of Fair Trading has had, and continues to, have a role in monitoring industries, including transport, to ensure fair competition. The Monopolies and Mergers Commission (now the Competition Commission) has a responsibility to examine takeovers and mergers that might be against the public interest but also to review the performance of public or private monopolies. In 1991, for example, the Monopolies and Merger Commission published a report on London Underground which called for much higher levels of investment in the network. A much earlier report on London Underground investigated its engineering services. The Commission also produced two reports on the former British Rail and the services it provided in and around the capital.

If an operator is found to be working against the public interest then the OFT or Competition Commission will come to an agreement about how that activity should change, for example, by the disposal of a subsidiary or division that contributes to the monopoly position. If it is a particular anti-competitive practice then again it may be that an agreement is reached to end or change the practice and if not the Secretary of State for Trade and Industry has the legal power to step in and issue an order to end the practice. The regime was toughened up with the *Competition Act 1998* which allows for fines of up to 10% of worldwide turnover and customers or competitors who suffer losses as a result of the anti-competitive behaviour can go to the High Court to win compensation.

3.2. *After privatisation and liberalisation*

3.2.1. *London Buses*

Transport for London (TfL) is the main body with responsibility for regulating bus operators in the capital and it does this through the performance criteria in the contracts for bus routes. It also checks the financial viability of potential bus operators which can only bid for contracts if they have been cleared to do so by TfL. The initial contracts were net cost which meant that bus operators could keep the fare revenue collected and bid for the contract on the basis of the lowest subsidy required. A report by the London Assembly says of this arrangement: “The system was deeply flawed. This was due largely to operators adding a premium to cover the risk of losing revenue due to circumstances outside their control, such as long-term road works. Another disadvantage was that operators’ revenues were affected by any changes to the bus network made by London Transport. Because the bus network constantly changes to match passenger demand patterns, a lot of effort was required to adjust contracts to take account of the effect on operator revenues.” (London Assembly 2006b)

Between 1995 and 2000, one of the key performance measures, excess waiting time increased steadily from 1.7 to 2.2 minutes. In 2001 TfL introduced a new contracting regime which included more specific quality criteria in bus route contracts. Performance assessment includes measurement of “lost mileage” when operators fail to cover the scheduled mileage agreed in their contract. If the reasons for this are considered to be within an operator’s control, then it is deductible lost mileage resulting in a financial penalty. Examples of problems include: staffing (eg insufficient staff cover); mechanical (eg no bus available to run the service); other (eg defective radio or bus running out of fuel). There is no penalty if the reasons are deemed to be outside of an operators’ control. Examples of this include: traffic (eg severe congestion due to road works or special events) and other events such as vandalism, exceptional weather, ticket machine failure or puncture.

Bus Quality of Service Indicators (QSIs) were actually first used from 1977. At the time, it was generally felt the amount of mileage being operated by a bus route was not giving a complete indication of how reliable or punctual bus routes were.

A team of approximately 120 part-time data collection staff is sent out to particular locations for shifts of up to three hours to a specific observation point to record buses using hand-held data-capture devices. An observation point will be surveyed 16 times during a 12-week period. London Buses then validates the data and matches the results against the timetable. It then reports on how much longer a passenger would have to wait than if the bus service ran exactly as expected. An observation point will be surveyed 16 times during a 12-week period.

Other monitoring also takes place, including:

- driver quality monitoring is carried out on behalf of London Buses by the government’s Driving Standards Agency with a large number of criteria are

examined during each assessment, including acceleration, cornering, braking, speed, anticipation, and how close to the kerb a bus stops;

- inspections of vehicle quality are carried out on behalf of London Buses by engineers from the Freight Transport Association;
- lost kilometres - operators submit their own returns of kilometres not operated due to reasons such as traffic, driver shortage and mechanical reasons. London Buses carries out detailed audits of operators to ensure the accuracy of the lost kilometres reporting procedure;
- wheelchair ramp availability – London Buses introduced surveys of wheelchair ramp availability to address public concerns about non-working ramps as well as using mystery travellers to assess successful implementation; and
- customer satisfaction surveys – passengers are asked to rate a number of categories of bus services similar to those assessed with mystery traveller surveys.

London Buses measures the performance of each route against minimum standards and benchmarks. These vary between routes in order to reflect the different operating environments in London. Factors taken into account include, for example, the number of major centres, congested corridors and other traffic hotspots served, together with the length of the route. Past performance is also taken into consideration when contracts are re-tendered. If the performance lines are above the minimum standard line the route has achieved or exceeded its set target.

Regular market research is undertaken to track customer satisfaction in key areas of bus service quality. A sample of passengers is interviewed each quarter to determine their satisfaction with a wide range of bus service features, based on the journey they have just made. The passengers interviewed are carefully selected to represent all bus passengers in London. Scores are rated out of 100. Performance data is available for individual routes and for all routes in a particular London borough. League tables of the main operators for each of the various performance criteria are also published.

3.2.2 London Underground

TfL is also the main body overseeing the performance of the London Underground. The contracts that cover the London Underground PPP include performance criteria against which the consortia, Metronet and Tube Lines, are assessed and which can lead to financial penalties depending on the extent to which the companies are below target. There are three main criteria relating to ‘ambience’, ‘capability’ and ‘availability’. A London Underground Final Assessment Report on the PPP explains that:

“Ambience is measured through mystery shoppers surveys which cover such attributes as staff helpfulness and availability, as well as condition measures such as cleanliness, litter and graffiti”.

Journey time capability relates to the speed that trains are able to achieve in test conditions: “There are contractually binding targets for improving capability scores through line upgrades. This incentivises continuous performance improvement by paying

bonuses in proportion to the capability delivered. However, performance below benchmark, or failure to meet targets by the latest implementation date for the specified line upgrade, will result in financial abatements”.

The availability measure covers how the PPP consortia are rewarded or penalised depending on the performance of each line relative to its benchmark. Performance better than benchmark results in a bonus of £3 per lost customer hour while performance below benchmark incurs an penalty of £6 per lost customer hour. Performance below a level defined as ‘unacceptable’ incurs an abatement of £9 per lost customer hour. There are various additional contractual remedies available to LUL should performance fall below the benchmark or unacceptable levels.

In practice, monitoring performance proved more of a challenge for TfL than first anticipated. The House of Commons Transport Committee identified some problems with the PPP contracts and London Underground’s ability to get the information it needs to assess contractor performance: “It has no public interest right to terminate the PPP contracts. It is responsible for the overall running of the Underground and for managing the performance of the infracos. It vital that it has the information it needs to do its job. It is astonishing that it took a year to negotiate access to the information London Underground needed.” (House of Commons 2005)

In its latest annual report TfL notes that: “despite an overall improving trend, day-to-day performance was inconsistent and there was an unacceptably high level of failures, many of which had severe impacts on customers.” Each contractor also had key challenges (Tube Lines to improve performance on the Northern Line and Metronet to get back on schedule with its station modernisation programme). The TfL report says: “LU issued Corrective Action Notices to both Metronet and Tube Lines for their repeated failure in these respective areas – a severe contractual measure requiring improved performance.” (TfL 2006)

3.2.3. Rail services

The *Railways Act 1993* which privatised British Rail, the nationalised rail company, created two new statutory officers - the Rail Regulator and the Director of Passenger Rail Franchising which set up support organisations – the Office of the Rail Regulator (ORR) and the Office of Passenger Rail Franchising (OPRAF). OPRAF's functions and duties were taken over by the former Strategic Rail Authority which has now subsumed into the Department for Transport.

The Office of the Rail Regulator's principal responsibility is the regulation of the monopoly and dominant elements of the railways with particular focus on the rail network infrastructure operator, now Network Rail. Initially, it had responsibility for a range of consumer benefit functions, including some aspects of fares, quality of passenger services, complaints handling and passenger complaint statistics, facilities for the disabled and the National Rail Enquiry Service. ORR was also responsible for the sponsorship of the Central Rail Users Consultative Committee and the regional Rail

Users Consultative Committees, which came into existence on 1 April 1994. In June 2000, these organisations were renamed the Rail Passengers Council and Rail Passengers Committees.

The Regulator's role was modified on 1 February 2001 by the *Transport Act 2000*, which also formally established the Strategic Rail Authority. This Act transferred consumer benefit functions and the sponsorship of the Rail Passengers Council and Committees from the Office of the Rail Regulator to the Strategic Rail Authority, as part of the government's policy of making the SRA the main organisation for dealing with customer-related issues. The Regulator also gained new powers under this Act enabling him to require enhancement of a network facility or to expand an operator's existing access rights. At the same time, an amendment to the *Competition Act 1998* common to all the utility regulators, conferred upon the Rail Regulator the powers of the Office of Fair Trading in relation to competition matters in the railway industry.

The *Railways and Transport Safety Act 2003* brought the railways into line with other regulated industries by replacing the individual regulator with a regulatory board, with effect from 5 July 2004. The Office of Rail Regulation consists of a board of six members, headed by a chairman and chief executive. The chairman and up to four members of the board are appointed by the Secretary of State for Transport, and the majority of the board will be non-executive.

The *Railways Act 2005* made a number of changes to the regulatory framework, including: a change to the statutory framework for periodic reviews of access charges; the creation of certain additional functions for ORR, including a role in dealing with closures, and the transfer of the responsibility for monitoring and enforcing the licence conditions concerning consumer protection from the SRA to ORR; and a duty to provide advice and assistance to the Secretary of State, the Scottish Ministers and the National Assembly of Wales. ORR assumed its new responsibilities as a combined safety and economic regulator on 1 April 2006.

Railway operations are regulated under two key pieces of legislation. The *Railway (Licensing of Railway Undertakings) Regulations 2005* cover railway undertakings providing passenger and/or freight goods services, and the *Railways Act 1993* covers operators of other passenger and non-passenger trains, stations, networks and light maintenance depots.

The Department for Transport consults over the service details of the franchise with the relevant bodies. In the case of London this will be Transport for London and the London Boroughs which are covered by the franchise's services. The statutory transport user groups also have to be consulted – Passenger Focus in terms of national rail services and London Travelwatch for the capital.

The key provisions of the franchise agreements include:

- the duration of the franchise;
- a schedule of the train services which the operator will run;

- the stations which the operator will manage, including opening hours for station booking offices; and
- required punctuality, with financial bonus and penalty provisions (there is an arrangement with Network Rail whereby it compensates the train operator for the delays it causes);
- requirements, possibly, to make specific investments, such as investment in passenger information systems, new trains, or a new train maintenance depot;
- requirements relating to the provision of information to government, the use of rolling stock, and the maintenance of quality standards and good management;
- financial provisions covering subsidy or premium payments, etc;
- requirements to be part of various multi-operator agreements, such as the one which requires that accurate and impartial information is available for passengers; and
- provisions to allow changes to the requirements on a “no gain, no loss” basis.

There is a qualification process before companies submit bids for the franchises. They have to be assessed in terms of their previous performance and financial management (70%-80% of the overall assessment) and in terms of quality of management and ability to deal with transitional arrangements (20%-30% of the overall assessment). The aim of the Department for Transport is to get between three and five bidders for each franchise who have passed this qualification process.

The performance of the successful company is monitored and financial penalties imposed if it fails to meet key performance indicators and the commitments it has made to improve efficiency and reliability. These commitments are made by the company when it bids for the franchise and are not set by the Department for Transport. There are revenue sharing arrangements which mean that a company will not be left to shoulder the burden of financial losses if they result from circumstances beyond its control.

Table 2: Regulatory actors and processes

	Before privatisation/liberalisation	After privatisation liberalisation
London Buses (London Transport)	Part of London Transport and regulated as nationalised industry with efficiency and investment objective set by Ministry/Department of Transport – also subject to scrutiny by the House of Commons Transport Select Committee, Office of Fair Trading and Monopolies and Mergers Commission	Regulated by Transport for London in terms of fitness to bid for contracts and then as bus operators by requirements in the contract
London Underground (London Transport)		Public private partnership sets range of financial and performance criteria which are monitored by Transport for London
Rail services in London (British Rail)		Regulated by Office of Rail Regulation which vets company suitability to bid for franchises and monitors their compliance with franchise requirements

4. STAKEHOLDERS

4.1. Central government

Glaister (1998) compares the approach of the Conservative government under John Major its successor, the Labour government that took over in 1997. In *The Government's Expenditure Plans for Transport 1993-94 to 1995-96* the then Department of Transport said it wanted to create an efficient and competitive transport market “to serve the interests of the economy and community, with maximum emphasis on safety and the environment” by: opening up new ways to make the best use of private sector skills, initiative and funds; substantial public sector investment where appropriate; getting better value for money from public expenditure on transport; increasing competitiveness; sustaining and improving both the environment and road safety; and using the price mechanism to give users and providers the right signals about the real costs to transport.

Following its election victory in 1997 the Labour government set up a new Department of the Environment, Transport and the Regions which produced a consultation paper on transport policy that emphasised how transport should contribute to: promoting environmental objectives; promoting economic development, across all parts of the country; promoting greater efficiency in the use of scarce resources, including road and rail capacity; enhancing the vitality of town and city centres; meeting the needs of rural areas; reducing social exclusion and taking account of the basic accessibility needs of all sectors of society, including disabled people; ensuring a high standard of safety across all modes, and promoting a travelling environment in which personal security is not compromised; and crucially, promoting greater awareness of the issues throughout society (DETR 1997).

There has been a perceptible shift in priorities following the change of government and the level of financial support for transport in London has increased significantly. However, Labour have not contemplated any significant change to the tendering or franchising arrangements for London Buses and rail services. The transformation of Railtrack, the national rail track and infrastructure company, from a quoted company to a “non-dividend-paying” company with members rather than shareholders, is the closest the government has come to re-nationalising any privatised company. Labour has, however, enthusiastically embraced the Private Finance Initiative (alternatively called Public Private Partnerships) and went ahead with the project to hand over maintenance of the Underground network to three private consortia.

The Labour government has also taken a much more interventionist approach particularly in the rail sector where it has wound up the Strategic Rail Authority and set up a rail division within the Department for Transport to take on the Authority's responsibilities. The government has also proved much more willing to support the

transport sector with public money. Government subsidies for bus services in the capital had disappeared by 1998 but are now running at £550 million.

4.2. Local government

The local government structure in London includes the London Assembly and the 33 London Boroughs. The London Assembly has a monitoring role over London Underground and London Buses and the Assembly's Transport Committee has investigated and reported on different issues such as the value for money of the London Buses contracting system and industrial relations problems in London Underground.

The 33 London Boroughs are responsible for the delivery of key elements of the Mayor's Transport Strategy. They are required to provide a Local Implementation Plan every five years setting out their strategy to deliver better transport in their boroughs. It is each borough's responsibility to deliver safer roads and improvements for the management of traffic and bus priority. A report by the two public spending watchdogs, the Audit Commission and National Audit Office, recognises the importance of co-ordination of between the boroughs, the Mayor and TfL as the boroughs are responsible for many of the capital's roads, bus lanes, traffic signals, for parking policy, planning and for funding concessionary fares for passengers (Audit Commission 2005).

4.3. Trade unions

There are eight trade unions that organise workers in London Underground, London Buses, Docklands Light Railway, the train operating companies that operate routes in and around London as well as the managerial and administrative staff that work on transport issues with Transport for London, the Greater London Authority and the Mayor's Office.

The main union organising train crews on London Underground is the RMT (National Union of Rail, Maritime and Transport Workers), while white-collar staff are covered by the Transport Salaried Staffs' Association (TSSA). The train drivers' union ASLEF also has members on London Underground but is the main union for drivers in the train operating companies that run the rail franchises. Engineering and other maintenance workers are organised by Amicus the technical and union and the TGWU general workers' union. The public service administrative and managerial unions UNISON, PCS and Prospect also represent members in Transport for London.

Most of these unions have at various times run or supported campaigns against privatisation of transport service. The RMT, ASLEF, TSSA have funded research by the Catalyst think tank into the rail industry, putting together arguments for some form of renationalisation in a series of reports looking at the impact of privatisation and the performance of the rail companies (Catalyst 2004, 2005a, 2005b). They have also campaigned against the PPP on London Underground arguing in particular about the enhanced risk to safety from splitting the maintenance work into three sections running

it as a separate business. The three unions also support the Capital Transport Campaign which lobbies for an improved, integrated and well-funded public transport system in London.

4.4. Customers

London TravelWatch (formal title - London Transport Users Committee) is the official watchdog organisation representing the interests of transport users in and around the capital and was established in July 2000. London TravelWatch is independent of the transport operators and is sponsored and funded by the London Assembly, part of the Greater London Authority. The Assembly appoints London TravelWatch members who are provided with professional staff. London TravelWatch promotes integrated transport policies and presses for better public transport, with higher standards of quality, performance and accessibility. The organisation carries out research and liaises with service operators, transport regulators and local authorities. Transport operators must consult London TravelWatch on any proposed changes to their services or closures of lines or stations. It can assist with complaints about transport services in London where the service provider has not satisfactorily resolved them. It deals with services operated, procured or licensed by Transport for London, which includes London Underground, London's buses, Docklands Light Railway, Croydon Tramlink, Dial-a-Ride services, London River Services, Woolwich Free Ferry, taxis, private hire cars and most of the major roads in Greater London. In addition, it deals with services operated by the national rail companies, Heathrow Express and Eurostar.

5. ACTORS AND OWNERSHIP

5.1. London Buses

The 10 bus operating divisions that existed prior to being sold off were: Centrewest – now owned by First Group; East London and Selkent – taken over by Stagecoach and sold in August 2006 to Macquarie; Leaside Buses and South London – now owned by Arriva; London Central and London General – now owned by Go-Ahead;

London Forest – merged with East London in the early 90s; London United – now owned by Transdev; and London Northern and Metroline – now owned by ComfortDelgro.

The six main companies currently have 21,900 employees between them.

Table 3: Six main bus operators in London

Company	Employees	Bus fleet	Market share
Arriva	4,000	1,400	18%
First Group	4,100	1,100	16%
Go Ahead	3,900	1,300	18%
Macquarie/Stagecoach	4,200	1,300	15%
Metroline	3,700	1,200	12%
Transdev	2,000	650	8%

5.1.1. London Central and London General – Go Ahead Group PLC

London Central was sold to its current owners the Go-Ahead Group in 1994. Go-Ahead is now a major bus and rail operator having been formed on the privatisation of Northern General Transport Ltd, previously part of the National Bus Company. London General was initially the subject of an employee/management buyout but was then bought by the Go-Ahead Group in 1996. In 1997 Go Ahead acquired the franchises to operate Thames Trains and Thameslink through joint ventures and in 2001 it bought South Central train operating company from Connex. In 2003 the company was also awarded the seven-year franchise for South Central. The Group's turnover is over £1 billion per annum. The London bus operation (London Central and London General) contributes over £160 million to that turnover.

5.1.2. Leaside Buses and South London Buses – Arriva

Arriva began as a motorcycle then automobile retailing company called Cowie and only began buying up bus companies in 1980. Its biggest acquisition was of the British Bus Group plc in 1996 making it one of the largest bus operators in the UK. The company changed its name to Arriva in 1997. It now has bus and train operations in the UK, Denmark, Germany and the Netherlands as well as bus operations in Italy, Portugal, Spain and Sweden. It will also begin operating train services in Sweden in 2007. Arriva is the capital's biggest bus operator, providing nearly 20 per cent of the network.

5.1.3. East London Bus and Selkent – Macquarie

East London and Selkent are the two trading names of the East London Bus Group Limited, which incorporates the East London Bus and Coach Company Limited and the South East London and Kent Bus Company Limited. The two companies were acquired by the Stagecoach Group in September 1994 which then sold the two companies to Macquarie Bank of Australia for £264 million in August 2006. The companies employ about 4200 staff and operate around 1300 buses.

5.1.4. Centrewest – First Group

First is the largest bus operator in the UK running more than one in five of all local bus services while also responsible for several rail franchises including regional, intercity and commuter services - First Great Western, First ScotRail, First Capital Connect, TransPennine Express and Hull Trains. First also operates the Croydon Tramlink network on behalf of Transport for London.

5.1.5. Transdev – London United

London United was taken over by Transdev group in 1997. Transdev operates 100 transport networks in more than 70 cities worldwide, including bus and coach services in France, Italy, Portugal and Australia. Transdev also has rail interests through its EuRailCo partnership with the Paris Metro operator RATP. EuRailCo recently entered the German rail market by taking a majority stake in Trans Regio, a passenger train operator.

5.1.6. London Northern and Metroline – Comfort/Delgro

Metroline was privatised in 1994 in the form of a management and employee buyout, and then floated on the stock exchange in 1997. The company was then taken over in March 2000 by DelGro Corporation, a Singaporean based investment company with interests in transport, which merged with Comfort Group in 2003 to form ComfortDelGro. In 2004 Metroline acquired two small companies, F E Thorpe and E H Mundy (trading as Armchair) both of which provides bus services London.

5.1.7. Other operators

There are a further 17 bus operators that have won a small number of routes across the capital. In some cases these are subsidiaries of the major six companies but operating separately from the main divisions or are companies that were taken over by larger groups after they had won contracts with TfL.

Table 4: London Bus Operators with less than 5% of the network

Bus operating company	Parent company
Armchair	Metroline (Comfort/Delgro, Singapore)
Arriva Kent Thameside	Arriva
Arriva The Shires	Arriva
Arriva Wandsworth	Arriva
Blue Triangle	Private company
CT Plus	Hackney Community Transport (social enterprise/charity)
Docklands Bus	Private company
East Thames Buses	Transport for London (operated at arms length)
ECT Bus	ECT Group (social enterprise/charity)
F.E Thorpe	Metroline (Comfort/Delgro, Singapore)
London Sovereign	Transdev
Metrobus	Go-Ahead
NCP Challenger	NCP (currently owned by 3i investment group)
Quality Line	Epsom coaches (private company)
Sullivan Buses	Private company
Travel London	National Express Group
Travel London (West)	National Express Group

5.2. London Underground PPP

The two consortia that are responsible for investing in and maintaining the infrastructure of the London Underground are Metronet and Tube Lines. The Metronet consortium consists Balfour Beatty, WS Atkins, Bombardier Transportation, Thames Water and Seaboard while Tube Lines includes Bechtel and Amey. The Tube Lines consortium originally also included Jarvis, the UK quoted construction services company which was heavily involved in a wide range of PPP projects. Jarvis had major financial problems and sold its stake in Tube Lines to Amey in 2004.

Table 5: London Underground Public Private Partnership Companies

Company	Background
Balfour Beatty	UK quoted company involved in construction and engineering services
WS Atkins	UK quoted engineering consultancy and support services company
Bombardier Transportation	Subsidiary of the Canadian quoted company Bombardier Corporation which is involved in aircraft and other transport equipment manufacture
Thames Water	Water and sewage company covering the London area which is currently being sold by RWE the German utilities company to Kemble Water, an investment consortium led by Macquarie Bank of Australia
Seeboard	Energy company, subsidiary of the state-owned EDF of France
Bechtel	US, private construction and project management company
Amey	Construction services company owned by Ferrovial, the Spanish quoted construction company

5.3. London rail services

There are 10 rail franchises which provide services into and out of the Greater London area. There is a further seven which cover more long-distance routes. The 10 franchises are currently run by five companies: First Group, National Express, Go Ahead, Stagecoach and Laing Rail. The first four are all quoted on the London stock exchange and run both bus (see above) and rail services. Laing Rail is a subsidiary of John Laing which is also quoted on the London stock exchange, although more than 70% of its shares are owned by a small group of institutional investors.

Table 6: Rail operators with franchises covering parts of Greater London

Franchise	Rail operator (and parent company where relevant)
c2c (London-Southend)	National Express PLC
Chiltern Railways	Laing Rail (John Laing PLC)
First Great Western	First Group PLC
ONE (Eastern England)	National Express PLC
Silverlink (North, South and West London)	National Express PLC
South Eastern	Go-Ahead Group PLC
South West Trains	Stagecoach PLC
Southern	Go-Ahead Group PLC
Thames Link	First Group PLC
WAGN	First Group PLC

CONCLUSIONS

Labour governments since 1997 have not tried to reverse the trends towards privatisation and deregulation of local transport begun by the Conservatives in the mid-1980s. In fact, in the case of the public private partnership on London Underground they have taken further steps towards private provision. However, Labour has had a more positive approach to developing a coherent transport strategy and providing higher levels of funding, particularly in London where a key decision was the reintroduction of a strategic metropolitan authority and the creation for the first time of a mayor for the Greater London area.

London bus services in particular have been expanded significantly as part of the current strategy developed by Mayor Ken Livingstone and Transport for London. Important powers rest with the Mayor and TfL, in particular control of key elements of transport policy such as pricing. Support from the government has also been important in terms of allowing the introduction of congestion charging which has significantly reduced traffic in central London and so not only cut delays for bus passengers but provided funds to invest in new buses and new routes. Transport for London's monitoring of private bus operators though the quality of service provisions in their contracts contrasts sharply with the almost complete deregulation of bus services in the rest of the UK where bus use has declined.

In contrast London Underground is more in state of flux. Use of the service has increased but the first few years of the public private partnership have proved difficult with the contractors facing penalties for poor performance. Meanwhile rail services across London are not under the overall control of TfL and many of the franchises that cover parts of London also cover other parts of neighbouring regions so there is not the same strategic overview and planning as there is for the buses and Underground.

The results among the private operators that have won these franchises has so far been patchy. Passenger use has failed to expand in line with that on London Buses and the Underground and there have some financial and performance problems with at least one operator, Connex, having to be financially supported by the Strategic Rail Authority before being removed from the franchise. However, changes have been taking which should begin to affect rail services in and around the capital a reorganisation of some of the franchises affecting London, the revision of franchising requirements coming into effect and the government taking a more direct role in strategy through integration of the Strategic Rail Authority into the Department for Transport's new rail unit.

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www.amicustheunion.org – engineering workers

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