The case for the privatisation of Dublin Bus

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For anyone who has ever wasted hours waiting at a bus stop, or wondered why buses on certain routes seem to travel in threes, Conor O'Toole's paper on the need for dramatic reform of Dublin Bus is a treat. The central premise of this article is that a more efficient service of a higher quality could be achieved for Dublin's many commuters if the market were to take over the provision of the bus services for the capital. Although there has been resistance to such a step from many quarters, O'Toole argues that privatisation need not signal higher fares, more limited services and a lack of concern for the environment.

Introduction

Dublin Bus has been an established government-run body of inefficient transport since its inception in 1987. This article will attempt to outline those aspects of Dublin Bus's operating core that need severe and urgent reform, paying particular attention to four areas in particular need of consideration: the general state of the bus system in Dublin; efficiency regarding timetabling issues and integration with other public transport systems; cost and revenue issues and finally, a brief look at the structure of Dublin Bus' fleet. The option of part-privatisation for the joint benefit of both the customer base and the service supplier will also be examined.

The bus network in Ireland consists of 8,500 vehicles, of which 1,200 accrue to Dublin Bus and 700 to Bus Éireann, which leaves 78 per cent of the national fleet, 6,600 buses, in the control of private operators (Barrett, 2009). There has been a significant amount of national level deregulation in the industry with an overall positive effect; "the evidence is that the new operators reduce fares, increase frequencies, improve services, operate higher standards of vehicles, add capacity, seek new routes, compete rather than collude and do not receive State subsidies"(Barrett, 2009). However, this privatisation has not extended to the localised Dublin Bus service largely due to the company's fear that changes will be met with public resistance and they will be unable to fulfil 'social obligations'. These obligations include offering bus services along remote and often loss-making

routes. Unconditional privatisation would, perhaps, eliminate these routes all together, but this argument fails to recognise the obligation to provide a reliable, cost-effective and comprehensive service to those residents of the Dublin area who currently avail of the service.

It is already evident that the Irish government gives very little monetary assistance to Dublin Bus in the form of Public Service Obligations (PSO) in comparison with other EU countries. In fact, "[g]overnment PSO payments including capital payments... are relatively low. In 2007, Dublin Bus received €80.1[million] operational subvention to cover its PSO" (Deloitte Report, 2009: 9). This same 2009 report by the consultancy firm goes on to identify that Dublin Bus receives only 29 per cent of revenue in the form of PSO payments from the government, whilst counterparts in London receive 38 per cent, Brussels, 68 per cent, Lyon 79 per cent and Amsterdam, 62 per cent. With this limited budget, it is clear to see how the service falls short of its perceived responsibilities.

A ramshackle service and potential solutions

In terms of efficiency, Dublin Bus is underperforming and the frequency of 'bus bunching' and 'out-of-service' cases is overwhelming. The introduction of bus lanes was a meagre attempt to curb these problems but given the rising number of cars on our roads, the social costs they impose in terms of congestion and on the environment far outweigh the benefits (Walters, 1961). An overhaul of the entire bus network is required with specific attention being paid to improving timetables and the amalgamation of information with that of other public transport services.

The Public Transport Regulation Act (2009) reserves the right for Dublin Bus to publish its timetables in any format, including electronic. However, the current system publishes exactly the same timetable at every stop on that route, giving merely the departure time of the relevant service from the terminus. At the minimum, Dublin Bus could invest in an Automatic Vehicle Location (AVL) System, or implement intermediate timing points along routes, the use of which would result in any "deviations from the core service at certain times of the day [being] kept to a minimum" (Deloitte Report, 2009: 11). Other simple steps which could be undertaken include onboard stop announcements and the physical publication of location names on every bus stop; two steps which would greatly enhance users' service experience, particularly that of tourists. This would also pave the way for the introduction of a LUAS type system of "Real Time Passenger Information" (RTPI) (Deloitte Report, 2009: 11), which can provide stop specific electronic updates of services due. These steps would greatly enhance customer satisfaction by providing a reliable and co-ordinated service at very little long-run

cost; estimated at a mere €11 million (Dublin Bus Annual Report and Financial Statements, 2008) for fleet wide AVL installation.

The Dublin Bus network has remained largely unchanged since its foundation in 1987, aside from a few additional routes and minor modifications. The fact is Dublin is now a different city and its people have different needs. Dublin Bus, however, has not adjusted its network sufficiently in response to the fall in demand along routes already served by other more efficient, and often cheaper, alternatives. A recent report by Deloitte (2009: 46) calls for a "thorough review of the whole network". The report describes the current system as "overly complex with a significant amount of service duplication" (Deloitte Report, 2009: 35). This overhaul should eliminate services no longer needed and introduce routes, which connect the bus system to other public transport systems. Shuttle buses, for example, running from points in the greater Dublin area to either of the rail services could greatly reduce running costs (e.g. fuel), congestion and overall travel times.

Privatisation as a potential solution to Dublin Bus' inefficiencies

Cost minimisation, and by extension profit maximisation, are of vital importance to any business and the bus industry is no exception. It is a well-known economic fact that monopolies are wasteful, both in terms of fiscal and human resources (Varian, 1992). Dublin Bus holds a virtual monopoly over intra-city bus transport and therefore, has no incentive to improve its service, as there is intrinsically very low price elasticity of demand in its transit services. The only competition faced by Dublin Bus is of that offered by the fixed line DART and LUAS services, the introduction of the latter in 2005 caused a fall in demand of 3 per cent (Deloitte Report, 2009). Costs could be greatly minimised in the long run by the introduction of the efficiency enhancing measures discussed above, but there are further arguments that privatisation of the industry could greatly reduce costs both for the companies and the consumer through the introduction of greater competition.

In order to assess the potential benefits of privatisation, an analysis of London Bus will be considered. London operates a franchise type system with the city's bus operators, called competitive tendering. Introduced during the Thatcher-era, this system has brought about substantial changes to the transit system within the city. Since deregulation, the London Bus industry has experienced "very large unit cost reductions – of over 40 per cent (in terms of the real operating cost per bus-kilometre)" (White, 2000: 29). London Bus, a subsidiary of London Transport, is responsible for planning routes, maintaining and creating bus stops, stations and support services, whilst also acting as a regulator and monitor of service quality. However, the actual services are undertaken by private bus companies which are prevented from colluding by strict competition laws. Since this deregulation, "cost

per bus-km on routes subject to competitive tendering [has fallen] by about 18 per cent in real terms, while service quality [has] improved through a greatly reduced proportion of lost mileage" (White, 2000: 31-2), "the number of bus kilometres run by operators, i.e. services and/or their frequency, has [also] increased by around a quarter" (Parr, 2000: 63). This has led to "substantial public expenditure savings [being] obtained, while users [have] also benefited" (White 2000: 31-2).

During the period 2004-07, revenue at Dublin Bus increased 12.8 per cent, but operating costs, in contrast to London, also soared by 19.5 per cent. This net fall in profits should be an area of great concern to company management, but as is the case with any monopoly, there is little drive to address these problems and the industry sees no need to improve. The London case was not an easy overhaul as "real fare levels... increased by a quarter over the period" (Parr, 2000: 63) as companies had to find a way to deal with their costs without the individualised aid of a government subsidy. However, the maximum price paid for a single bus fare in London today is £1.20[1], which is still significantly cheaper than Dublin, where inner-city fares can be as high as €2.20[2]. It is clear that there is scope for improvement in terms of both efficiency and price through privatisation. Although, a significant upheaval of operations will be required; as White (2000: 41) points out, "it will not be an easy ride, as jobs will have to be cut and the real earnings of those remaining will undoubtedly fall as they did post-deregulation in the UK." This will, undoubtedly, be subject to public criticism and strikes may be inevitable but these steps could potentially benefit the expanding population of Dublin over the coming years.

To comprehensively analyse the possibility of privatisation, it is essential to discuss the factors which directly affect prices and thus the revenue stream. Small (1992: 128) recognises that the "setting [of] prices for transit service involves three issues: the average fare level, the fare structure, and the incentive effects of transit subsidy programs". As previously mentioned, Dublin's average fare is higher than that of other comparable countries and this could be partly due to the low level of PSO that Dublin Bus receives. The possible rise in fares post-deregulation could be largely negated by a rise in service usage following increased customer satisfaction brought about by projected service expansion and efficiency improvements. The fare structure is an area upon which the bus companies should concentrate, with a particular focus on price discrimination in terms of time-of-day pricing. In most countries "time-of-day and trip distance are normally considered as potential bases for price differentials [but] they are often ignored for simplicity" (Small, 1992: 129).

[1] http://www.tfl.gov.uk/tickets/faresandtickets/singlefares/2901.aspx. Price quoted with oyster card. £2 with cash.

[2] http://www.dublinbus.ie/en/Fares--Tickets/Fare-Information/Fares/

In fact, Cervero (1986: 348) points out that "time-of-day pricing of adult transit markets is relatively scarce outside the US[A]". The price inelasticity of public transit, especially during peak-periods, means there is great scope for charging a peak-premium without incurring a fall in demand. Cervero (1986) also points out that it can cause an increase in off-peak demand if presented to the public in the correct format (such as an off-peak discount). Furthermore, "the overarching economic rationale for differentiating transit fares by hours of the weekday is that both unit and marginal costs, whether measured on a 'per passenger' or 'per kilometre' basis, are higher during peak than off-peak periods" (Cervero, 1986: 351). In essence, this provides an excuse beyond mere profit maximisation to discriminate in such a way; as it is more expensive to provide a transit service during peak hours given unavoidable increases in time spent collecting money, fuel costs, traffic delays, etc. The generally-accepted view is that this type of differential pricing can greatly benefit bus operators, especially in cities (Barrett, 1982).

Preserving the social obligations of Dublin Bus

Dublin Bus has many problems; amongst them is the limited scope and foresight for future growth. One of the company's biggest difficulties is running services with low numbers of passengers on board. One of the company's social obligations is to provide a comprehensive service to the Dublin area, which results in the waste of resources on some routes with very little demand. The logical answer is to use smaller buses on these routes, and to possibly incorporate commuter or mini-buses into the fleet, which use less fuel and take up less space on both the roads and in garages. Such commuters can even be used on proposed short-haul services to connect with other public transport systems at very little cost. At the moment, Dublin Bus' fleet largely consists of diesel run double-deckers (991) and a grand total of only 52 midi- and single-deck buses[3], which are still too big for many of the more barren routes.

An area of vital importance to the future of the bus industry will be the integration of green buses. With the ultimate goal of zero-emission public transport, Dublin Bus should take steps towards achieving this goal by investing in a hybrid fleet. Over 70 per cent of Dublin Bus' operational expenses in 2007 can be attributed to wages and fuel costs (Deloitte Report, 2009), which is significant by any business' standards. Currently Dublin Bus operates only one hybrid bus in its entire fleet[4] but these buses are used extensively in the USA (notably in New York and San Francisco) and have proven to be effective on a number of levels. In terms

[3] http://www.dublinbus.ie/en/About-Us/Dublin-Bus-Fleet/
[4] http://www.dublinbus.ie/en/About-Us/Dublin-Bus-Fleet/

of fuel efficiency, tests have shown up to a 48 per cent fuel economy over the average diesel equivalent (FTA Report, 2005).

The foremost problem with investment in green transit services is that these services are initially capital intensive. In the extreme case of battery electric buses, the initial outlay for a single 22-foot bus can be upwards of $580,000, whilst similarly sized pure fuel cell buses have been priced between $1-3 million due to the lack of production-induced economies of scale and market demand (FTA Report, 2005). This does not take into account the maintenance costs that these vehicles require for essential items such as replacement batteries. However, with the ever-growing use of hybrid buses, they are more viable in terms of price with "a 40-foot hybrid bus today typically cost[ing] between $450,000 and $530,000" (FTA Report, 2005: 16-7) which represents a 60-80 per cent premium over a comparable diesel bus. If smaller buses were also incorporated into the fleet, this would again be cheaper on a unit level. The latent long-run cost savings are impossible to ignore and the potential incentives that these vehicles offer people to switch to public transport should incite Dublin Bus to consider proceeding down this route.

Conclusion

Although privatisation of the Dublin Bus network may seem like a major step, it is a necessary one. The logical first step is to follow in London's wake or go one step further, as Ireland has comprehensively shown in the airline industry, and become the global torch-bearers when it comes to full deregulation. The evidence suggests the existing system is unreliable, inefficient, wasteful and costly (Deloitte Report, 2009). A number of areas in need of improvement have been discussed, which include a re-think of critical areas including the route structure, timetabling, profit enhancement and fleet composition all of which will require fiscal investment of differing proportions.

Dublin Bus has already embarked upon a gradual development project, but whether they possess the necessary capital or human resources to undertake this mammoth task alone is uncertain. As a state-owned enterprise, the industry will always be subject to the whims of public uncertainty and politicians' fleeting desires. In particular, the concern of the government is the public outcry that would follow a loss of jobs. However, if fairly regulated, the benefits could potentially far outweigh the costs, and many of these benefits could come to fruition in the near future.

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