



Reforms in the regulation of public bus service in Israel



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ABSTRACT

Regulation of public bus services in fixed routes is common worldwide. This article presents regulatory reforms instituted in Israel from 2000 to 2014, in which part of the public bus services are being provided through competitive tendering. The results generally indicate relative success in most of the variables examined: the average cost per vehicle kilometer, the level of service, fares and the number of passengers. However, the reform has also been accompanied by fairly frequent changes in the characteristics of the tenders. These changes may reflect difficulties in imposing regulation on the operators. The findings indicate that the existing regulation in Israel should be changed, both structurally and in terms of the organizations involved in the process. In addition, it is recommended that a new measure be developed to examine the quality of passenger service provided, which should also be included as a significant criterion in the selection of operators.

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1. Introduction

Public transportation in general and bus services in particular are considered an essential instrument for ensuring the physical mobility of residents. The ongoing and effective provision of these services, especially for those considered “transport-dependent” (disadvantaged, elderly, and physically disabled people, children, women, and different ethnic groups) is critical to people’s access to places of work, education, leisure activities, medical care, and other needs (Pucher and Renne, 2003). These services are also important because of the current rate of their replacement by private vehicles; this growing trend has led to increased traffic congestion and a rise in the related side effects, such as air pollution, noise, traffic accidents, land uses, and so forth (Sen et al., 2010; Wang et al., 2009).

In light of the view that public transportation is a social service that ensures the mobility of every resident, and that the public sector should therefore provide or regulate provision of this service, in most countries, the public sector closely supervises its provision. In the majority of cases, the public sector performs the supervision directly or by means of fully or partially government-

owned monopolies, and also ensures full subsidy of losses, if they occur, with public funds.

The constant rise in the cost of providing the services and the subsidies required to operate them, has led many governments in the world to institute reforms in the bus service industry. In light of its socioeconomic importance, most states have preferred to provide the service by means of competitive tendering. The transportation authority offers a cluster of bus lines, generally defined geographically, for competitive bidding. The authority stipulates several types of service parameters, and selects a winner based on pre-specified selection criteria. The main advantage of this method is that the transport authority maintains regulatory control of the service.

Results of reforms in bus services, mainly of competitive tenders, are comprehensively discussed in the literature. Examination of the outcome of reforms in different countries has shown that competitive tendering has generally resulted in considerable savings in the cost and subsidy level of this industry. This has proved particularly effective where services were previously provided by an inefficient monopoly operator. With respect to scope and quality of services, fares, and number of passengers, the results have varied among and within different places (Hensher and Wallis, 2005). However, once efficient cost levels have been established, the case for the continuing use of competitive tendering in subsequent contract rounds in preference to

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negotiation with an incumbent operator may be less clear-cut (Boitani and Cambini, 2006; Hensher and Stanley, 2008). Influencing issues include prior conditions, the nature of the supplier market, features of contracts, negotiating and competitive tendering strategies and practice, accountability and transparency, and long-term market implications (Wallis et al., 2010).

In recent years, the body of literature on the broad area of regulation has grown (Hood et al., 1998, 1999; Levi-Faur, 2005, 2011; Majone, 1994, 1997). Regulation of bus services is common in many countries, and the transportation authorities there have to handle diverse issues. In most locations, the reforms have been accompanied by changes in the structure of regulation, corresponding to the changes in the industry (Augustin and Walter, 2010; Estache and Gomez-Lobo, 2005; Hensher and Stanley, 2010; Hidson and Muller, 2003; Karlaftis, 2006; Walters, 2010; van de Velde and Wallis, 2013). However, the examination of regulation in the field of public transportation, in general, and bus service, in particular, is still underdeveloped.

In this article, we examine the impact of the reforms instituted in Israel from 2000 to 2014 on the quality of regulation on public bus service provision. The article includes a review of successes and failures in implementing the reforms and a discussion of the planned changes in this area. Since many countries are facing issues related to regulation of bus operators, the issues discussed in this study, combined with the Israeli experience in this field are likely to be relevant to other countries in which similar reforms have been implemented, and may help them develop effective policies.

The research was based on the analysis of official documents in order to understand the need for reform in the public transportation system in Israel, and to examine its achievements and problems. The documents reviewed included Israeli government decisions, tenders for operation of public bus services, periodic reports of the operators that won tenders, reviews of the operation of public transportation services, interviews with senior officials in the public and private sectors, and a specific State Comptroller report on the public transportation reform in Israel.

We begin with a presentation of the reform results in Israel, followed by presentation of regulatory issues. We then discuss the effect of the regulation structure and characteristics on the regulation efficiency and, in summary, offer conclusions and recommendations for improvement of the activity and future research.

2. Reforms in Israel – results and findings

Israel's size is approximately 20,000 sq km and its population is about eight million inhabitants. In 2014 the average per capita income of Israel was approximately \$35,000. The country is highly urbanized, with about 3.4 million people, over 40% of the population, in the Tel Aviv metropolitan area and another million each in Jerusalem, Haifa and Be'er-Sheva regions (CBS, 2014). The level of motorization has increased significantly between the years 2000–2014 from 225 to 296 private vehicles per 1000 people, which is relatively low in comparison with the developed countries.

Public transportation services in Israel are relatively low compared with other OECD countries in terms of variety and scope (Ida and Talit, 2010). Bus services are the main form of public transportation, accounting for 75% of all passenger trips on public transportation in the country (Shifan and Sharaby, 2006).

Until 2000 two cooperatives (Dan and Egged) provided most (96%) of the public bus services in Israel,¹ under a weak and inefficient regulation of the public transportation division of the Israeli Ministry of Transport on service provided. The lack of competition in the industry rendered these two cooperatives extremely powerful, creating strong dependence of both the public and the state on these operators. In recent years the Israeli bus sector suffered from a decline in the number of passengers, accompanied by a constant rise in the cost of service provision and required subsidies, mainly due to high wages paid to employees, specifically bus drivers.

In light of the situation described above, Israel introduced in 2000 a reform to increase competitiveness in the public bus services. In order to implement this reform the government established a Public Transportation Administration, to be operated by a private company selected by tender. The Administration's role is to provide management consulting services to the Ministry of Transport.

By 2012, there were 25 competitive tenders under which eight new operators join the market. 34% of the activity in the industry (in terms of bus kilometers) was transferred by 2012 to new private operators, the majority by means of competitive tendering (Public Transportation Administration, 2012).

So far, the results of the reform in Israel generally indicate relatively good success in most of the variables examined. The average cost per vehicle kilometer decreased between 37% and 50%. Most of this cost reduction was due to lowering the wages, mainly of the drivers. This resulted in a decrease in the level of government subsidies required (Ida and Talit, 2015). In most cases the level (scope and quality) of service increased, and in some cases, these were accompanied by a reduction in fares. In most cases, the number of passengers also increased. It should be noted that this increase may also derive from a population growth, such as in Elad and Betar Illit, which are relatively new ultra orthodox cities, with population growth rate much higher than the national average and a relatively young population composition (Ida and Talit, 2015). Table 1 presents changes in level of service, number of passengers and tariffs in Israel.

However, the reform has also been accompanied by fairly frequent changes in the characters of the tenders such as: type of contract, contract period, criteria of selection operator etc. and these may reflect difficulties in imposing regulation on the operators (Ida, 2009).

3. Regulation of public bus services

3.1. Common regulatory structures in the world: national versus metropolitan level

There are two main methods of regulation in the field of public transportation. One is national-level, state regulation, the other, regulation by a regional or metropolitan transportation authority. In most countries, the regulator is a regional or metropolitan transportation authority. On the one hand, regulation at the national level centralizes the powers in the hand of a single organization, thus enabling a high level of control and regulatory

¹ Dan was established in 1945, with the merger of two companies into one monopoly. Until 2002, Dan was a cooperative (an employee-owned firm); in that year it became a public company. The Egged Cooperative, the largest transportation operator in Israel, was established in 1933, when four local public transportation companies were merged into one. In 1951, with the encouragement of the Israeli minister of transportation, two other local cooperatives merged with Egged, creating one large cooperative. Until the reform, Egged operated almost all of the public transportation lines outside the Tel Aviv metropolitan area, which was operated by Dan.

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