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Regulation of public bus services: The Israeli experience

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ABSTRACT

The present research discusses structural reforms in the regulation of public bus services in Israel. In 2000, the market underwent a significant change; as a result, some of the bus services on fixed routes that were previously provided by two monopolistic operators are currently provided by means of competitive tendering. The research examined the reasons for this change, the measures taken in order to implement it, and the outcomes from the perspective of time. The findings indicated that, as in other countries, competitive tenders in Israel have succeeded in reducing costs, compared with the past, and this has led to a reduction in the related subsidies required of the government. At the same time, there was a general rise in the level of service provided to the public and a decline in fares. It seems that the government succeeded in improving its degree of control over the provision of bus services, but frequent changes in the structure of the tenders and their characteristics might reflect difficulties in the implementation of competition in the bus services in Israel.

1. Introduction

Public transportation has typically come to be considered one of the most important basic public services. The strong impact of effective services – both directly, on the welfare of the people who use them, and indirectly, on the social welfare in the economy as a whole – is a result of their effect on accessibility to population groups, traffic congestion, air and noise pollution, the labor market, efficient land use, and more.

The high public expenditure of providing bus services and the burden of the subsidies, which increased over time despite the continual decline in demand in most countries, indicated a notable lack of efficiency in this industry (Berechman, 1993). In time, the need for market-oriented reforms (such as privatization) that would increase the efficiency in the public transportation market (Gomez-Ibanez and Meyer, 1997), reduce costs and the public expenditure required, and encourage potential consumers to use public transportation became evident.

In most countries in which tenders were introduced, the governments were interested primarily in preserving a good level of bus service and encouraging the use of this mode of transportation. Consequently, the main concern was that full elimination of supervision would lead to the limitation of service to profitable routes only, and unprofitable routes, which the transportation authorities considered essential to the population, would be left without appropriate service. For this reason, most countries in western Europe chose the competitive tender method (Hensher, 2004), where the transportation authority regulates the service providers and retains some control over the provision of the services. The use of this instrument has increased over time, and the competitive tendering is now the most common method for the supply of public transportation services in the world, and particularly in western Europe.

Examination of the state of public transportation in Israel prior to the introduction of reforms in 2000 has produced a similar picture to that described in other countries. Bus services constitute the main means of public transportation in Israel; on any given workday, approximately 2.2 million traveler journeys, accounting for 75% of the journeys by public transportation in this country, are made on buses (Shiftan and Sharaby, 2006). The public sector in Israel has never been involved in the bus service industry as an owner, but has only functioned as a regulator. Until 2000, two cooperatives – Dan,[1] which provided services in the Tel Aviv metropolitan area only, and Egged,[2] which provided service throughout the country but mainly outside of

[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.

[2] 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.

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Tel Aviv – supplied the majority of the public bus services in Israel. The lack of competition in the industry rendered these two cooperatives extremely powerful, creating strong dependence of the public and the state alike on these operators. At the same time, the inefficiency in service provision was reflected in high costs of the industry and a heavy subsidy burden, along with a continual trend of declining consumption of public bus services (Ida, 2009). Since 2000, a reform has been implemented in public bus services, including the award of clusters of bus routes for operation by means of competitive tenders.

Academic research in the field of competitive tendering for bus routes has dealt mainly with specific aspects, such as the optimal size of a bus network (Cambini and Filippini, 2003), economics (Iseki, 2004), service quality index (Hensher and Prioni, 2002), and socioeconomic implications (Pucher and Renne, 2003). The present research examined government regulation with a focus on the impact of different tender characteristics on the transport authority's ability to achieve the goals set in the policy design stage. It had two main purposes. The first was to present the experience gained in Israel regarding its implementation of bus service reform from 2000 to 2012, compared with other places in world where similar reforms have been implemented. The second was to use a test case in Israel in order to analyze and discuss the effects of the characteristics of different types of tenders on the effectiveness of regulation, in general, and on the outcomes of competitive tenders, in particular. We examined these issues in terms of reduction of costs and subsidies, level (volume and quality) of service, fares, and number of passengers. At the present time, many places in the world employ competitive tenders as the basis for provision of public transportation services. Therefore, the main contribution of the research is an updated addition to the cumulative experience and knowledge regarding such issues and dilemmas, which transportation authorities throughout the world face in their regulation of tenders for the provision of public bus services.

We begin the present article with a brief review of the reforms in public transportation that have been introduced in different countries, including the types of tenders and the different methods for evaluating their economic and operational efficiency at different stages. This is followed by presentation of the results of the tenders in Israel for choosing operators of public buses, and a discussion that combines the theoretical aspects with the actual outcomes of the tenders. We sum up the article with conclusions based on the findings, and recommendations for regulation that could help improve the level of service and increase the number of passengers.

2. Competitive tenders for the supply of bus services: an international comparison

Many countries have instituted reforms in their public bus services. The reform is necessitated by two main reasons: (a) increased costs of supplying the services and (b) growth in the government subsidy required to maintain a satisfactory level of service, along with a decline over time in the number of users, mainly due to the increasing use of private vehicles. The purpose of the reforms was to provide the required transportation services with greater economic efficiency, and improve the level of service, thereby attracting passengers to use public transportation (Berechman, 1993). In competitive tenders, the state or transportation authority organizes a contest for a service, route, or cluster of defined and predetermined routes. The state grants the operator awarded the tender exclusive rights to operate the service for a defined time-limited period. The operator undertakes to meet certain standards and conditions determined in its contract, and in return, it is protected against competition, particularly from other bus services and competitive pricing that could impair its profitability. Thus the competition takes place with the tender mechanism (off-the-road competition), and is not a contest for passengers "on the road." In this way, the state or regulator maintains some control over the provision of these services throughout the operating period.

The provision of public transportation services by means of competitive tenders can be described as a three-stage process. In the first stage, before the tender is announced, the authorities determine the characteristics of the tender (the division of authority between the regulator and the operators, the scope of services to be tendered, the type of contract, and the contract period). The second stage is the tender competition. Its principle characteristics concern the method of choosing the operator (early-selection tenders, mechanisms for disqualifying unsuitable offers, and the criteria for selecting the operator). In the third stage, the period of operation and the supervision and control mechanisms by which the regulator tries to ensure that the operator meets its obligations in terms of level of service supplied are the central characteristics. In Table 1, we present a summary of the reforms in public bus services in different countries.

One of the characteristics determined in the first stage is the division of regulatory authority. Research on the division of regulatory authority in systems that use competitive tenders has indicated that the integration and management of several modes of transit together in a regional or metropolitan framework, as in London, for example, enables greater efficiency and empowerment of public transportation (Hensher, 2004; White, 1997). In areas in Britain outside of London, the centralization of authority by the operators led to significant savings in public expenditure. However, the fares increased and the scope and quality of the services declined significantly; together, these developments led to a drop in the number of passengers (White, 1997). However, costs have been increasing since 2000 and some have suggested that the era of full deregulation is coming to an end. The 2000, Transport Act made provisions for statutory quality partnerships and quality contracts in Great Britain, and the 2008 Local Transport Act reinforced the provisions for quality contracts (van de Velde and Preston, 2013).

With regard to granting the operators some of the authority, research on the allocation of tactical powers to the operators in the Netherlands revealed that some systems that initially gave substantial freedom of service design to their operators decided in a their second set of tenders to take this power away from the operators, confirming a trend observed elsewhere in the country. This was partly due to lack of the knowledge and qualities needed to organize competitive tendering properly. In contrast, other transportation systems decided to give operators more freedom regarding service design in their second tenders compared with the first (van de Velde et al., 2008). However, it seems that overall, some inclusion of operators at the tactical level (determining routes, fares, and/or frequency) may have led to improved service and an increased number of passengers (Hensher and Stanley, 2010).

With regard to the optimal scope of services and fleet size to be tendered, inclusion of the entire network in one contract ensures integration and continuity of the network for users. It can also be expected to create economies of scale for the operators, though this is not always true. Based on experience, the optimum fleet size to achieve this goal is in the range of 500–800, depending on local conditions and operator characteristics. The main disadvantage of tendering a single contract is the difficulty for small- and medium-sized operators to participate, and the consequent reduction in competition. Therefore, tendering by route or cluster of routes is considered to be more competitive, and thus, more productive and cost-efficient (Panagiotis et al., 2014).