A Comparative Study on Regulatory Reform and Service Contracts in Public Transport

Public transit, as an integral and important component of local transportation systems, plays a crucial role in meeting the need for transport to community. However, the availability of local public transport service as necessary is still being a problem in many countries. Among other things are the inefficiency of service operation, and poor service quality and quantity. The reform of their public transport sectors is one of significant measures to solve such problems.

Seeing that the regulatory reform is a process of change, it will bring about the institutional changes or rule of the game, even in public transport sector. The new institutional setting creates new roles for all actors. Consequently the functions of each stakeholder would probably be changed, including the structure of the public transport organization itself. In turn it will imply and influence to the way of providing of the public transport services. Thus, it becomes important to organize it within an efficient manner, in order to provide better service to users.

This paper intends to study the regulatory reform in the provision of local public bus transport. The discussion is constrained and more focused on the hybrid model, especially service contracts system, as one of growing trends recently. The experiences of some cities in conducting their public transport reform are examined as illustration. There are some research approaches which are conducted to collect data including the statutory system and the current operation of public bus transport in the cities. They are: the literature reviews concerning regulatory reform in the provision of public bus transport; some interviews with relevant stakeholders; and paper based questionnaire surveys to bus authorities. In addition, the relevant theory of the study is explained in chapter 2.

In the next chapter, the organizing of public bus transport under service contracts system is presented. This study aims to compare the regulatory reform in the provision of local public bus transport to withdraw lesson from them. The cases of London and Seoul are examined as illustration in this matter. It is preceded by the explanation of the backgrounds and processes of the
reforms which took effect in those cities. This is followed by explaining the new arrangement of organizational forms of their public bus transport, as a result of the reforms. Then, they are compared from viewpoints of planning, operation and management system including procurement and contract systems, and monitoring the service, as some important aspects under service contracts system. Some merits and demerits of the usage of the service contracts system as they have been implemented in those cities are presented then.

The processes of changes toward the service contracts system both in London and Seoul were highly concerned with the underlying acts or regulations. Moreover, the role of competent authority and the involvement of interested parties become significant in achieving mutual consensus for the reforms.

After the reform, both London and Seoul control their public bus transport services. Public authority or its agency takes active responsibility for planning and leaves the bus service delivery to some operators under service contract system. In London case, notwithstanding publicly owned company had been privatization, however the authority still maintains coordinated structure of its public transport services by managing entire routes network. Meanwhile the change of bus operation system in Seoul is actually intended to restore public responsibility in controlling the provision of its public bus services which was weak previously. The Seoul Metropolitan Government (SMG) as authority retains all routes as well thereafter, although their public bus services are still operated by private operators. By managing entire routes network, just like in London and Seoul, it permits authority to outline service specifications and performance targets. Thereby it allows for authorities to plan and achieve the goals of the provision of their public bus transport services easier.

In London, all routes have been put out for competitive tendering system. This is held by its public functional body, London Bus (LB), which is not only responsible for procuring but also planning and monitoring the service. The while in Seoul, the implementation of competitive tendering system still limited for trunk lines only, carried out by the team of SMG, and for feeder lines the bus services are still operated by private companies under permanent contract. Moreover, for the latter, the SMG coordinates routes planning, and bargains cost and transfer with Seoul Bus Association which represents bus operators. Contracts are awarded under negotiation procurement and automatically renewed. Operators are paid under standard cost model on the basis of their realized cost. It is institutionalizing non competitive supply system. In addition, as the service is left to the operators, it is important to monitor their performance to ensure the service is delivered as defined target. There are various monitoring methods which are applying for in London recently and most manually, whereas in Seoul, the SMG has introduced innovative monitoring system.

Under service contracts system, the availability of an appropriate and systematic organizational form becomes important. Thereby authority should consider a clear role and function of contracting parties in determining planning, operating and management activities, and
monitoring the service. Indeed in applying service contracts system, the solution adopted by one city cannot be directly transferred to another one. However, it is important to recognize that local circumstance of an area is different individually. Therefore it should be seen and put in particular situation of an area in question, including by linking it with policy objectives of the service provision, as is the case in London and Seoul. The information on service contracts system of their best practices should be developed and fitted with real situation by making the best use of the advantages, things like competitive tendering system, the utilizing of appropriate technology for planning, managing, and monitoring the service. It is coupled by considering obstacles to efficient implementation, like institutional capacity, and the availability of reasonably operators as well.

In the fourth chapter, some issues and challenges after privatization of public bus transport in Arao City, are presented. This is undertaken by evaluating the current state of the provision of its public bus transport service, including some challenges under new arrangement of its organizational form. This is then followed by proposing some strategies to increase the efficiency of its local public bus transport service.

It is acknowledged that the provision of public bus transport service in Arao city had shown the increasing of efficiency when privatization took effect. However, its public bus service is still confronting some challenges, like the decreasing trend of passenger number still, increasing of operating subsidy over the years, and non competitive procurement and contract systems of its public bus operation. Thus it needs further efforts accordingly.

Several actions and strategies could be implemented to overcome such problems. The monopoly operating right to provide public bus transport service in Arao city recently which is granted to the only private company, should be amended by involving some operators. Thus the introducing of competitive tendering is necessary in the long term. Moreover, the availability of an appropriate contract, and the regulatory rules of the contracting parties both operator and authority in the provision of the services, is important as well. Contracts should be designed in such a way that they effectively put pressure on service suppliers to achieve the required levels of service, and should be main instrument used to ensure the continuity and stability of services. For better result, it needs to conduct monitoring effectively.

However, the implementation of competitive tendering needs policy support, the availability of legal framework prescribed by the rule, institutional capacity, and expected bidders to take part or enter the market. In case of it still faces problems to be realized immediately, as the short term solution, the current subsidy scheme should be rearranged in order to reduce losses. Thus, the introducing of a clearer transfer standard becomes of great importance. It could be subject to appropriate benchmark. Key performance indicators in the event of inadequate performance, which could be in combination with penalties, assist the maintenance of efficient performance. It could reduce amount of subsidy in the end.