

# **BEST's Decision to Contract-Out Bus Services Will Not Save Money, and Is Harmful**

## **-- Research Unit for Political Economy**

*Summary: The management of BEST, which runs the city's bus transport, has claimed that its policy of contracting out bus services to private firms will yield large savings and reduce BEST's financial deficit.*

*(i) On the face of it, it appears that, by contracting out, BEST's total expenditure per midi bus would fall by 26 per cent.*

*(ii) Where are the 'savings' coming from? As a break-up of contractor costs is unavailable, we have carried out an exercise to see where these savings can come from. Even providing generously for savings on overheads and fuel, these heads can account for only a small part of the claimed savings. Savings in fact are to be achieved overwhelmingly out of wage costs. That is, the purported greater efficiency of contracting is simply reduction in wages.*

*(iii) Even so, how sustainable are the terms of the contract for the contractor? Despite assuming such drastic cost reductions, the rates of the winning bids leave very little room for profit, casting doubt on their sustainability. Given the low rate of the winning bids, contractors may in future lobby for a revision in rates; or they may cut expenditures on wages or on maintenance even further, at the cost of the safety, reliability and quality of services.*

*(iv) Moreover, the claim of large savings in expenditures turns out to be based on a wrong comparison. Contract buses are to run 160 km/day. If we look at the costs of existing BEST buses running 160 km or more a day, it emerges that the cost of contracting out would be only 5-6 per cent lower than the cost of the comparable BEST buses. This is a trivial saving for which to destroy a long-established public transport institution with an experienced employee base.*

*(v) Further, if the purpose is to reduce BEST's financial deficit, we must take into account not only expenditures, but earnings as well. The wet-leased buses are smaller, and hence their earnings will be lower. The gap between earnings and expenditures would in fact expand. It is quite possible, then, that the deficit will actually rise with the wet-leasing of midi and mini buses in place of the existing standard buses.*

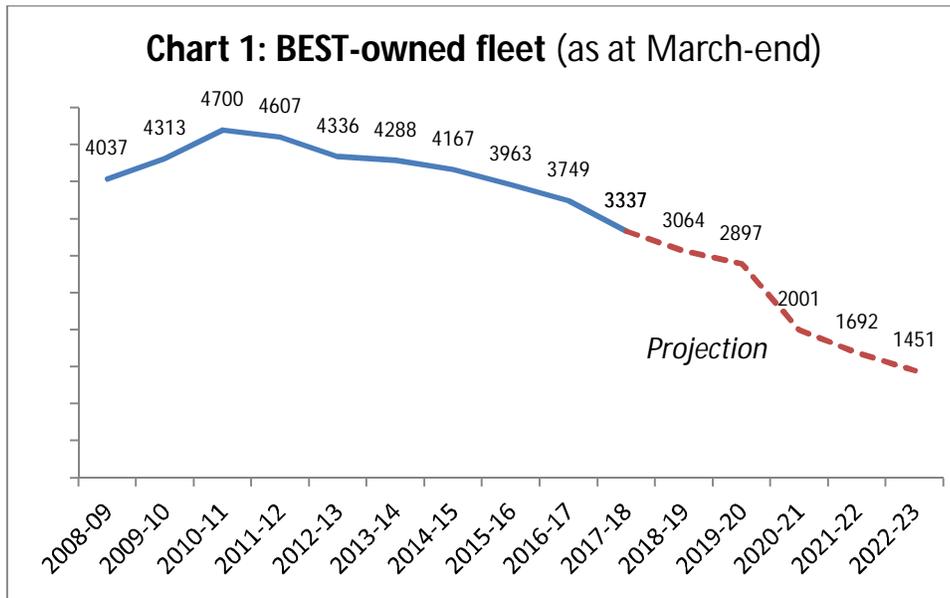
*(vi) Finally, we look at some other Indian cities which have contracted out some part of their bus services. Contracting does not appear to prevent falling ridership or rising losses. Bangalore's performance alone was better till 2014-15, but has since sharply deteriorated. Pune shows that multiple problems can arise with contracting out. The subsidies to Delhi's private buses in the cluster system amount to Rs 10/passenger; a similar subsidy to BEST would eliminate its present annual deficit.*

Recently, under pressure from Mumbai's Municipal Commissioner, the city's public transport service, the Brihanmumbai Electric Supply and Transport (BEST) Undertaking, decided to engage contractors to run buses on 'wet-lease'. In this arrangement, the contractor is to supply the bus and driver, and will be responsible for maintenance of the bus. The BEST will place its own conductors with the wet-

leased buses, and will supply the tickets. BEST will collect all the revenue, whether from tickets, passes, advertisements, or any other, and pay the contractor a fixed rate per kilometre. The contractor is guaranteed a certain minimum number of kilometres per month per bus.

Although the BMC and the BEST management have declared that the existing services will not be affected, in fact BEST’s fleet was shrunk from 4,245 in 2013-14 to around 3,337 as on April 1, 2018, [which the management declared to be the “optimum” strength](#). Almost [one-fifth of the routes have been cancelled](#). Hereafter, all new buses are to be introduced through wet-leasing. In December 2017, the BEST proposed to [abolish almost 5,000 posts](#). As the BEST bus division has put a stop to recruitment, the workforce is declining steadily, at the rate of about 1900 a year for the last four years (the June 2018 level is 29,429).

BEST has also stopped purchasing buses, even as it continues to scrap buses once they complete 15 years of service. As a result, the number of BEST-owned buses, which has already fallen steadily for the past seven years, is set to go down even more steeply in coming years. Chart 1 shows the total BEST fleet up to the end of 2017-18, and projects the future size of BEST’s own fleet on the basis of the age of the existing fleet.<sup>1</sup>



Note: See footnote 1. Source: BEST data.

However, BEST plans to replace some of the scrapped buses by engaging contractors on a ‘wet-lease’ basis. It plans to introduce 993 buses, almost all on ‘wet-lease’, during 2018-19 and 2019-20. On this basis, the BEST budget presented in October 2018 projected an increase in the fleet to 4,050 in 2019-20.<sup>2</sup> Looking down the road, it is probable that by 2023, BEST services will be run largely by private contractors.

The latest announcement only underlines the urgency of looking closely at the ‘wet-lease’ scheme. Below we take a closer look at the data available regarding this scheme.

<sup>1</sup> Total effective fleet on March 31, 2018 is shown as 3,410 in some sources, but is shown as 3,337 in the BEST Budget for 2019-20.

<sup>2</sup> This appears to be a partial reversal from its earlier position that 3,337 is the “optimum strength”.

### **BEST management's arguments**

It should be noted that when this proposal was first placed before the BEST Committee, the Committee rejected it. However, the Municipal Commissioner then threatened to have the Committee set aside and get an administrator appointed to run the undertaking. As a result, when the proposal was presented afresh, the Committee tamely gave its consent. However, the BEST Workers' Union has legally challenged the wet-leasing scheme, and the scheme is stayed awaiting the decision of the court.

Initially, in 2016, the BEST tendered a wet-lease of ordinary single-decker 50 buses, and the tender was awarded to the firm Prasanna Purple Mobility Solutions Pvt Ltd (PPMS). However, this was set aside thereafter. A fresh tender was issued in November 2017 for 450 buses in all: 200 AC mini-buses, 200 non-AC mini-buses, and 50 non-AC midi-buses. These are divided into two packages of equal size. (We have laid out the major terms of the packages in **Annexure Table 1.**) Only three firms bid, of which two firms were awarded the contract. Antony Garages Pvt Ltd (AG) made the lowest bid, and later Shree Krupa Services Pvt Ltd (SKS) matched its bid.

The BEST management has justified wet-leasing with different arguments on different occasions. For example, it says:

- (1) Wet-leasing will enable the BEST to introduce new mini-buses on feeder routes to and from train stations, thus drawing the public away from taxis and autos.
- (2) BEST lacks the funds to purchase new buses; whereas under wet-leasing, it is the contractors who will purchase the new buses.
- (3) Wet-leasing will bring down BEST's costs. The Municipal Commissioner (MC) [claims](#): "The tenders suggest that acquiring of buses through private players is far cheaper than the present prices. I am willing to subsidise the BEST system as long as I'm not subsidising the inefficiencies." The tender for wet-leasing states: "The mainreason for the huge deficit of Transport Wing is very high operating and administrative cost. Toreduce this cost, one of the options available is hiring of buses from the outside contractors. Private Sector has inherent advantages of low overheads and closer supervision."

The first two reasons are clearly untenable.

- (1) There is no reason BEST cannot introduce its own mini-buses, with its own staff, on feeder routes, if such buses are indeed needed and desirable.
- (2) Whether the BEST purchases a bus, or its contractor does so, the costs of capital will have to be paid. Either the BEST incurs interest and depreciation, or the payment to the contractor would have to allow for interest and depreciation. (Indeed, other things being equal, a public sector unit ought to be able to borrow at a lower interest rate than a private firm, since there is a greater risk of the private firm defaulting.)

However, it is possible that, as the MC says, wet-leasing will bring down operating costs. What we have to see is how much in fact it does so, at what cost to the quality, extent, and stability of services. Financial cost is not the *sole* criterion by which we should decide the form of provision of public transport. Moreover, we need to see if the cost reduction would be on account of lower overheads and closer supervision, as is claimed.

Further, we need to see whether the proposed wet-leased buses will also bring down BEST's *income*, and to what extent. If the reduction in income is sizeable enough, it may cast into doubt the entire rationale for wet-leasing.

### **How much would BEST save through contracting out?**

To determine how much the BEST would save, we begin by examining the winning bids. How do the contractors' rates compare with the costs of running BEST's own buses? As BEST has no mini-buses in its fleet at present, we are restricted to comparing costs for non-AC midi-buses.

In making these calculations, it is necessary to keep in mind that BEST is outsourcing certain jobs, while retaining other jobs. For example, while the contractor will supply the bus, the driver, and the fuel, BEST will be supplying the conductor and the ticket blocks. Some costs are to be split between the two: e.g., BEST will supply its own conductors, but the contractor will supply the driver. Similarly, traffic miscellaneous expenses and general administration costs are to be split between the two.

In order to compare costs, we must look at BEST's costs for the outsourced jobs, and compare them to the contractors' rates for the same jobs. First we take BEST's own version of its costs, which it uses to justify contracting out. (Later, we will present a more appropriate measure of BEST's costs.)

BEST has provided a break-up of the costs of running a midi-bus (for the month of September 2017), in paise per km (**Annexure Table 2**). We have also calculated these costs on a monthly basis (**Annexure Table 3**).<sup>3</sup> To clarify:

**Total cost of bus operation under wet-leasing = Operating expenses remaining with BEST + Payment to the contractor.**

**Savings due to wet-leasing = Total cost of bus operation under BEST ownership – Total cost of bus operation under wet-leasing.**

BEST's figures for average costs of running midi-buses are nearly Rs 120/km. Of these costs, the activities to be retained by BEST amount to Rs 43/km, and the activities to be outsourced amount to Rs 76/km (see **Annexure Table 2**).

Taking these costs on a monthly basis, of BEST's total costs per midi bus of Rs 4.8 lakh/month, the activities to be retained amount to Rs 1.7 lakh and the activities to be outsourced amount to Rs 3.1 lakh (see **Annexure Table 3**).

The tender has been won by firms which bid Rs 45/km for the specified heads.<sup>4</sup> That appears to be Rs 31/km less than what BEST spends for the same jobs. It thus appears that BEST's total costs per bus would fall 26 per cent (i.e. from Rs 119.8 to Rs 88.5).

At first glance, then, from the comparison of the contractor bid and BEST costs, there seem to be large savings for BEST in wet-leasing.

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<sup>3</sup> We base our estimates on a running of 160 km/day (the figure for November 2017). As the contractors will not be asked to run their buses on Sundays or public holidays, implying that they would run 25 or less days a month, we have calculated the monthly costs assuming the buses run 160 km/day for 25 days.

<sup>4</sup>At 160 km/day, 25 days/month, the buses will run 4,000 km/mth.

## Questions

However, a closer look at the winning bid raises serious questions about the entire deal.

The BEST received three bids for the two packages offered for outsourcing (as mentioned earlier, each package consisted of 100 mini AC buses, 100 mini non-AC buses, 25 midi non-AC buses). The two packages were to be awarded to two different parties. The figures bid for the midi buses were Rs 62.31 (SKS), Rs 56.56 (PPMS), and Rs 45 (AG).<sup>5</sup> After the first round of bidding, Shree Krupa Services agreed to reduce its bid by 28 per cent in order to match the bid of Anthony Garages, and the two firms were awarded the two packages.

Once the techno-commercial bids were opened and the list of bidders who met the technical and commercial requirements was prepared, the contract was awarded on the basis of lowest price. However, the BEST management should also have considered whether the firm is capable of fulfilling the contract, and whether the bid is reasonable.

That is, if the bid is unreasonably low, it may not be sustainable, whereupon the private firm may default on the expected quality of services, default altogether on providing services, or demand a revision in rates. Such disputes are not uncommon in public-private partnerships. For example, the L&T-Scomi consortium is demanding higher compensation per trip to run the Mumbai monorail, and Reliance Infrastructure is demanding a multiple of the existing fares to run the Mumbai Metro. Pune's bus service has been wracked by disputes with bus contractors, and there have been disruptions of service on this count. Nationally, many PPPs have been left hanging after winning bidders backed out, and some have had to be re-negotiated, making a mockery of the auction process. Failure to evaluate the viability/sustainability of a bid may land BEST in a crisis at a later date.

### Estimating contractor costs

How sustainable is the winning bid in BEST's tender? One difficulty in making an evaluation is that the contractor's bid is not broken up by heads of expenditure. We are forced to work backwards to arrive at possible figures.

**Table 1: Break-up of heads of expenditure to be wet-leased**

Type of expense	share of total wet-leased expenses
Variable material costs (fuel, lubricants, tyres, garage/workshop materials)	24%
Wage costs (driver, transport engg. estab., garaging & workshop)	52%
Overheads (engg. misc. expenses; traffic misc. expenses; and general and administrative expenses)	11%
Costs of capital (interest and depreciation)	13%

<sup>5</sup> The bids for mini AC buses and mini non-AC buses were Rs 57.57 and Rs 53.53 (PPMS); Rs 59.00 and Rs 51.72 (SKS); and Rs 48 and 41 (AG).

In order to make the drastic reduction of 42 per cent required by the winning bid, the contractor must attack the major costs, namely, material (mainly fuel) and wage costs. These account for 24 and 52 per cent of the costs of the heads to be outsourced. Overheads account for only 11 per cent.

We have attempted a guesstimate of the break-up of contractor costs, involving drastic reduction of most heads of expenditure. In making this calculation, we have made the following rough and ready adjustments, based on discussions with knowledgeable persons.

1. Fuel costs are taken at 4.5 km per litre.<sup>6</sup>
2. The combined cost of tyres, lubricants, and garage and workshop materials has been reduced by 40 per cent.
3. Labour costs are taken as follows: Two drivers/bus, and one maintenance person per bus, at Rs 18,000 per worker. No allowance is made for paid leave or other benefits. We have also provided for one supervisor for every 25 buses, for two shifts, at a salary of Rs 25,000 per month. We further provide for one officer for every 50 buses, at a salary of Rs 50,000 per month, in a single shift. In all, the wage bill of the contractor for the contracted jobs is 64 per cent less than that of BEST.
4. Some overheads, such as transport engineering establishment and engineering miscellaneous expenses, are completely eliminated. General and administrative expenses have been taken at Rs 4,000 per bus, or Rs 1/km. This amounts to a little over 2 per cent of total costs.<sup>7</sup>
5. The capital cost of the midi-bus, taken at Rs 28 lakh, has been depreciated over 7 years.
6. The interest rate has been taken at 10 per cent.
7. We have taken two alternative rates of profit: 10 per cent, and 20 per cent. Although it is not credible that a contractor would be willing to work for the former rate of profit (which would yield him little over the bank deposit rate), it is useful as a benchmark.

The above assumptions are quite generous to the contractor.

### **What are the savings on account of?**

The results of this exercise can be seen in **Annexure Table 4**. In Table 2 below, we show the savings made on different heads as a percentage of total savings made. From this it is evident that, despite eliminating various overhead costs, the savings on overheads would make up a small share of the required savings.

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<sup>6</sup> According to the *Review of Performance of State Road Transport Undertakings for 2015-16*, Ministry of Road Transport and Highways, the best fuel efficiency among metropolitan bus services is that of Chennai, at 4.4 km/litre.

<sup>7</sup> The buses are to be washed, cleaned and disinfected daily before putting them into operation. BEST will provide parking space for the buses in open plots adjacent to certain depots. But the contractor will have to arrange infrastructure such as rest rooms, toilet facilities, bus washing pads, pits, water storage tanks and pumps, as well as security services. The contractor will also be responsible for attending to breakdowns.

The overwhelming bulk (71 per cent) of the savings is the reduction in wage costs, not any improvements in efficiency as such. This is only to be expected, since wages are the bulk of the total heads being contracted out.

**Table 2: Contribution of different heads to total operational savings by contractor**

Broad heads of expenditure	share of opnl. savings
Variable material costs (fuel, lubes, tyres, garage)	8%
Wages	71%
Overheads (engg misc exp, traffic misc. exp, general admin exp.)	21%
Total	100%

Source: Annexure Table 4.

### **Is this arrangement sustainable?**

Despite having made the very large adjustments described above, including a 64 per cent slashing of the wage bill, the arrangement does not appear sustainable. To recall, BEST is to pay the contractor Rs 45/km. However, the contractor's costs in our calculation come to more than Rs 42/km (see **Annexure Table 4**). In order to earn a profit of just 10 per cent, the contractor requires a rate of more than Rs 46/km. A more credible profit rate of 20 per cent would require a rate of nearly Rs 51/km. That is nearly Rs 6 more than the contractor is to be paid. How can this gap be bridged? Either the contractor will cut costs even further, at the expense of quality and safety (for example, by hiring drivers at even lower wages), or he will press for an upward revision of rates from BEST.

What would happen if a wet-leased bus were unable to run 160 km/day, due to traffic congestion or any other reason?<sup>8</sup> By the terms of the contract, the contractor would be paid for any shortfall in kms at 45 per cent of the full rate. Let us take the example of a bus route that completes only 120 km/day. The contractor's total monthly costs would fall to Rs 1.54 lakh; whereas the payment he would receive from BEST would fall to Rs 1.55 lakh. In other words, he would merely break even, and make no profit at all. No contractor would be interested in running on these terms. Hence the contractors may be given routes which average 160 or more km/day, which is a form of cherry-picking.

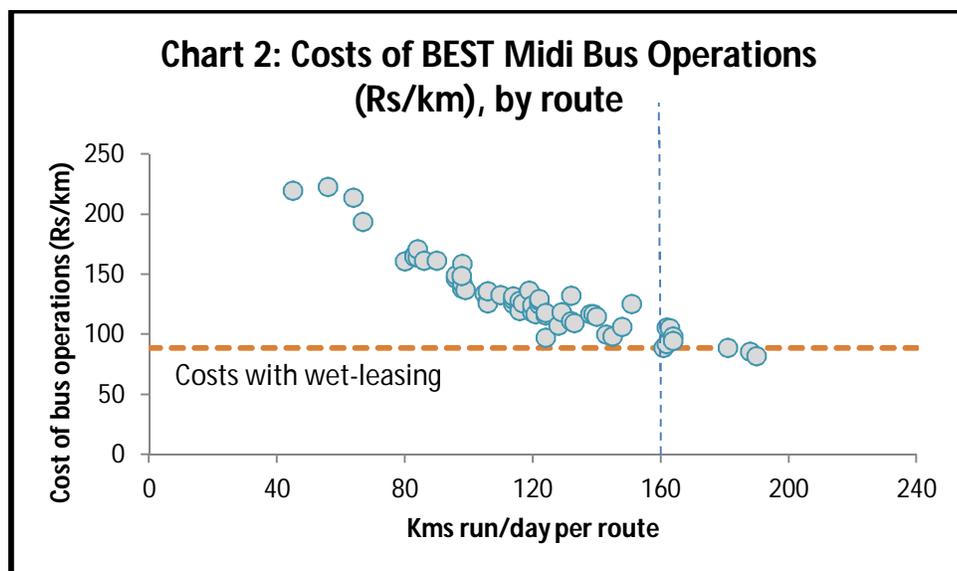
### **How much does BEST save? Flaws in the official version**

Further, there are two serious flaws in the calculation of savings above.

(i) The contractors of wet-leased buses are to be paid on the basis of a distance of 160 km/day, with downward and upward adjustments for completing lower and higher distances. Hence, to make a proper comparison, *we need to look at BEST midi-buses that run 160 km/day or more*. In Chart 2 below, we show the distance covered per day by all BEST midi-bus routes, and the cost per km on each of these routes.

<sup>8</sup> In fact, the average run of existing BEST midi buses is only 78 km/day (June 2018 data).

The chart shows that, the longer the distance run, the lower the cost per km. This is not surprising, as wages have to be paid irrespective of whether a bus runs 1 km or 200 km. What is interesting is that, for distances of 160 km and above, BEST's costs are nearly the same as that of the costs with wet-leasing.



Source: BEST data for June 2018.

In Table 3 below, we find that the average cost/km for BEST midi bus routes running 160 km or more day is Rs 93. By comparison, the total cost/km to BEST of a wet-leased bus running 160 km/day or more is only 5-6 per cent less.<sup>9</sup> *These data merely underline the need for the BMC and BEST to ensure that each BEST bus is able to complete a longer distance every day. This can be done by reducing traffic congestion and providing BEST right of way/adequate access. If that is done, the cost per km will automatically fall.*

**Table 3: Average Km, Earnings/km, Cost/km, and Loss/km**

Type of buses	Veh utiln (km/day)	Earnings/km (Rs)	Cost/km (Rs)	Loss/km (Rs)
BEST average (all bus sizes)	160	57	110	54
Avg for BEST midi bus routes	78	46	176	130
Avg for BEST midi bus routes running >160 km	174	33	93	60
Wet-leased buses	160		88	

Source: BEST data for June 2018.

<sup>9</sup>At exactly 160 km/day, the difference is 5 per cent. The hypothetical wet-leased costs can also be calculated for each existing BEST midi bus covering more than 160 km/day. The average of such routes is Rs 87/km, as compared to Rs 93/km for BEST, i.e. a difference of 6 per cent.

(ii) The second flaw is that *the ultimate cost to BEST is not merely the total expenditure on bus operations. It is expenditure minus earnings*. This elementary point has been entirely missed by the Municipal Commissioner and the BEST management when they tout mini- and midi-buses as a means of reducing costs. Mini- and midi-buses carry fewer passengers, but their costs are not proportionately lower. For example, a typical mini-bus carries half the passengers of a standard single-decker bus, but the price of a mini-bus is only one-third less than that of a standard bus. Moreover, its staff requirement is the same as a standard bus. As a result, *the cost per passenger-km offered will be substantially higher for a midi- or mini-bus than for a standard bus*. In other words, the smaller the bus, the more it costs to transport each passenger. One study of Delhi buses finds that total cost of operations of midi-buses and mini-buses is 32 per cent and 60 per cent higher, respectively, than for standard buses.<sup>10</sup>

This results in a larger gap between earnings and expenditures. In Table 3 above, we lay out the earnings, costs and loss per km of all BEST buses and of BEST midi-buses. Since they carry fewer passengers, the average earnings/km of midi-buses are much lower than for all buses. As a result, the losses of midi-buses are higher. The losses/passenger-km of *mini-buses* will be higher still (although BEST does not yet have any mini-buses for the purpose of comparison). This defeats the stated purpose of wet-leasing, which is to reduce BEST's deficit.

Moreover, half the mini-buses (200 out of 400) are to be air conditioned. Demand for AC buses has been poor in Mumbai, presumably since fares are higher than for non-AC buses. As a result they have resulted in heavy losses for BEST in the past. In Bengaluru, too, it is AC buses that incur heavier losses. Will there be sufficient demand for the new AC mini-buses proposed to be introduced in Mumbai? This question calls for a consumer survey, at the least. BEST has not carried out any survey to determine demand for AC buses, and fare sensitivity for such buses. It is merely firing in the dark. As a result, the new AC buses may turn out to be one more financial disaster for the BEST.

Finally, it is important to note that, to the extent that BEST replaces its existing fleet with mini-buses and midi-buses, its real capacity would shrink. Take the present wet-lease contract for 400 mini buses and 50 midi buses. The total capacity of these buses (seating and standing) would be at best 14,000. The same capacity is represented by about half that number of standard single-decker buses. Unless BEST introduces smaller buses at twice the pace at which it retires standard buses, its capacity would shrink.

The BMC and BEST have justified the deployment of mini-buses on the ground that these will have greater manoeuvrability in Mumbai's traffic conditions. Although they will run on the same routes on which the existing buses run, the smaller width and wheel base of mini-buses will allow them to negotiate the roads better. However, as we have seen above, this is an expensive solution, which will bring about a continuing drain on BEST finances. It would be better and less expensive for the BMC to first do the following: (i) ensure better management of traffic (including parking), at least on selected routes; (ii) remove encroachments on the routes; (iii) make minor modifications of roads and routes.<sup>11</sup> These measures can provide more space for the existing buses. Without exhausting such options, it is wasteful to reduce the size of the buses.

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<sup>10</sup> Centre for Science and Environment (CSE), *Waiting for a Bus*, 2017, p. 68.

<sup>11</sup> *Ibid.*, p. 67.

It should be noted that there is nothing new to BEST feeder services as such: 38 per cent of BEST buses are run on feeder routes, and over half of existing BEST routes are feeder routes (within 10 km).<sup>12</sup> BEST passengers traveling distances of 8 km or less account for around 80 per cent of tickets, a proportion that appears to have remained more or less steady since at least 2010.<sup>13</sup>

The problem is that the BEST, by replacing standard buses with mini-buses, is in effect shrinking capacity even on feeder routes. There has been a fall of around 40 per cent in the total number of BEST passengers since 2010. The aim of public transport planning ought to be to draw these passengers back to public transport. Accordingly, if the BEST wishes to introduce smaller buses, it would need to ensure that capacity at least matched the earlier levels, drawing back passengers by ensuring greater frequency and lower fares. Instead, BEST seems to be planning to shrink its capacity in line with the fall of passengers.

### **What has been the record of contracting-out bus services in other cities?**

According to the BEST management, the policy of outsourcing has been successfully implemented in other Indian cities such as Ahmedabad, Delhi, Bangalore, Hyderabad, and Pune. What exactly is meant by successful implementation in this context? One meaning could be simply that the implementation process has gone through smoothly, and that outsourcing is in operation. However, going by such a definition, the existing in-house operations of BEST are also 'successful', simply because they are in operation.

Rather, 'success' should be measured by whether, and to what extent, it tackles the main problems being faced by BEST. Public transport activists identify the principal problem of public bus services as one of *falling ridership*; state and municipal authorities identify the principal problem as one of *mounting losses*. Using either of these criteria, how have the bus services fared in cities where outsourcing has been adopted?

As it happens, data regarding these cities indicate that outsourcing is not a solution either to the problem of falling ridership or that of mounting losses.

One must exercise caution in comparing figures across different cities, since the conditions differ widely. For example, in Mumbai, inexpensive local train services are the main mode of public transport; in Bangalore buses have not faced similar competition, so commuters are compelled to travel by bus even if fares are high (the recent introduction of Metro services, albeit relatively expensive, is said to have led to some fall in bus ridership). The extent of traffic congestion may vary from city to city, and may grow faster over time in some cities compared to others; all this has an impact on both operation costs and ridership. Delhi Transport Corporation is burdened with very large debts, and debt-servicing thus constitutes a large proportion of its costs. Bangalore's bus service pays higher rates of motor vehicles tax than other undertakings. Hence it is more useful to look at the trends over time for different cities, rather than compare the absolute figures as such.

With these cautions in mind, let us look at the data from the publication *Review of the Performance of State Road Transport Undertakings for 2015-16* for Bangalore, Ahmedabad, Pune and Mumbai. Barring Mumbai, all three others have employed private contractors for provision of bus services. (We were unable to locate disaggregated data for Hyderabad, which is under the Telangana State Road

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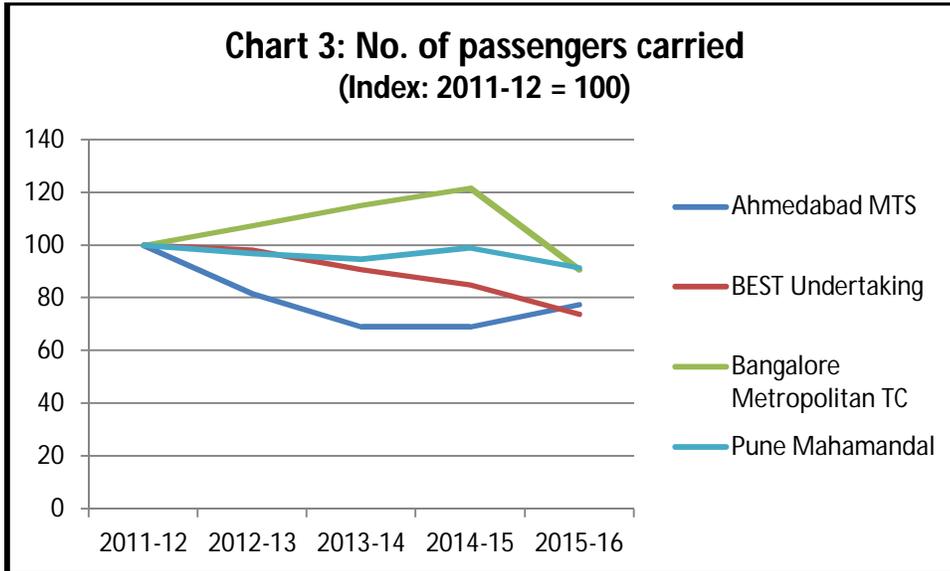
<sup>12</sup> Embarq India, WRI India, *Bus Karo 2.0: Case Studies from India*, 2014, citing a BEST discussion paper of 2014.

<sup>13</sup> Calculated from *Monthly Statistical Review*, BEST, different issues.

Transport Corporation.) We have dealt with Delhi separately, as the above publication does not include data for the contract buses ('cluster buses') scheme in that city.

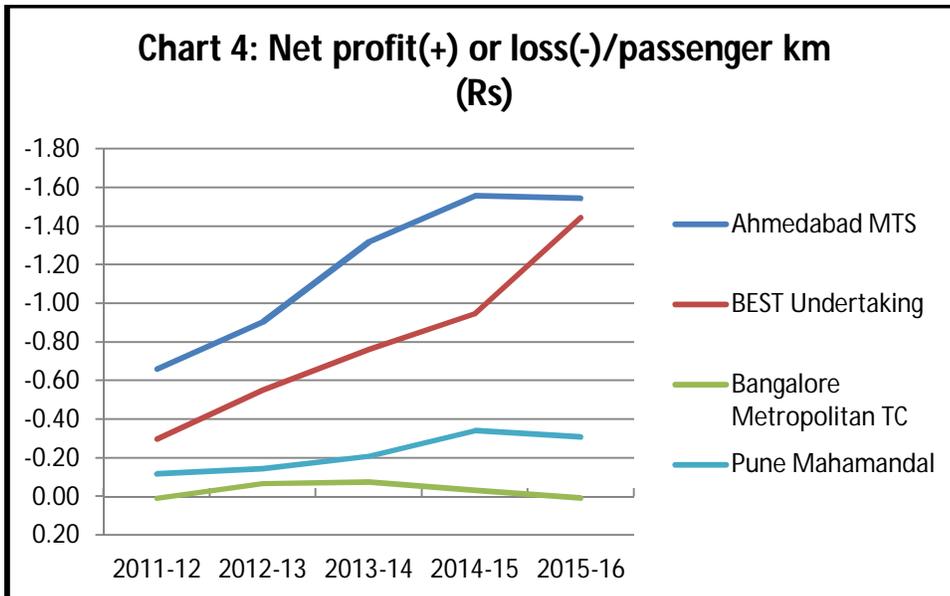
The data show the following:

(i) All four cities experienced declines in ridership. Bangalore's BMTC alone experienced a rise in ridership till 2014-15, but this was followed by a sharp fall (25 per cent) the following year. While Mumbai's BEST witnessed the sharpest fall over the four-year period, Ahmedabad was close behind.



Source: Review of the Performance of State Road Transport Undertakings for 2015-16

(ii) Barring BMTC, the remaining three undertakings experienced a rise in losses and in losses per passenger in this period. BMTC earned profits in two of the five years, and made very low losses in the other three years. Thus two out of the three undertakings which resorted to outsourcing experienced rising losses/passenger.



Source: Review of the Performance of State Road Transport Undertakings for 2015-16

From the above charts, **Bangalore** appears to be a model performer. However, BMTC’s performance deteriorated sharply in the subsequent two years.<sup>14</sup> BMTC’s marginal profit of Rs 14 crore in 2015-16 turned into a loss of Rs 261 crore in 2016-17, followed by a loss of Rs 217 crore in 2017-18. BMTC was carrying a debt load of Rs 617 crore at end-March 2017, and this reportedly has risen to Rs 850 crore. Meanwhile, ridership reportedly continued to fall in 2017-18.

In an effort to reduce losses, the BMTC has resorted to measures similar to those being adopted by the BEST: cutting routes and raising fares. The number of routes was reduced 14 per cent between 2013-14 and 2016-17, and further drastic cuts are being made in the current year. Although BMTC’s fares were already steep in 2015-16, it has asked for an 18.5 per cent hike in fares in the current year, aiming thereby to bridge its deficit. This is likely to reduce ridership further.

**Pune**’s experience is instructive of some of the problems that can arise in wet-leasing.

Pune Mahanagar Parivahan Mahamandal Ltd (PMPML) owns more than two-thirds of its fleet, and engages private contractors for the remaining. However, PMPML’s losses have grown for the last six years at a compound annual growth rate of nearly 29 per cent. Meanwhile, ridership declined in 2015-16 and 2016-17, and is reported to have declined further in 2017-18.

**Table 4: PMPML Losses, Passengers Carried, Losses/Passenger**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Loss (Rs lakh)	-4495	-6262	-9941	-16769	-15181	-21042	-20400*
Passengers carried (lakhs)	4296	3829	4249	4442	4103	3938	
Loss/passenger (Rs)	-1.05	-1.64	-2.34	-3.78	-3.70	-5.34	

Source: *Maharashtra Economic Survey*, different years.<sup>15</sup> \* press reports

According to a recent [press report](#), PMPML owns 1,438 buses, and 653 are owned by its private contractors. However, according to the website of PMPML, only 1,708 buses are scheduled to be on the road, and 1,303 are actually on the road.<sup>16</sup> That is, only 62 per cent of the fleet is on the road. Actual trips are 24 per cent less than scheduled trips.

PMPML has had serious problems with its six contractors for reasons such as skipping of stops, breakdowns, failure to provide buses in time, and speeding. The previous CEO, Tukaram Mundhe, cracked down on the contractors, fining them Rs 5,000 per breakdown and Rs 100 per skipped stop. Compared to a total of Rs 20.1 crore in fines in 2016-17, contractors were made to pay Rs 26.54 crore during just the first quarter of 2017-18. (Antony Garages, which has won the BEST tender examined above, paid PMPML fines of Rs 2.1 crore in 2016-17, and Rs 3.3 crore in April-June 2017, for

<sup>14</sup>Sources for the following two paragraphs: Bengaluru Metropolitan Transport Corporation, *20<sup>th</sup> Annual Administration Report, 2016-17*; Bangalore Mirror Bureau, “BMTC revenue lowest in 5 years”, *Bangalore Mirror*, January 23, 2018; Naveen Menezes, “BMTC seeks 18% jump in ticket fare”, *Economic Times*, July 23, 2018; Naveen Menezes, “BMTC cancels 2,000 routes to reduce losses”, *Economic Times*, August 6, 2018; Chiranjeevi Kulkarni, “Losses mount, BMTC seeks 18.5% fare hike”, *Deccan Herald*, August 6, 2018.

<sup>15</sup> These figures are slightly, but not significantly, different from those given in the *Review of Performance of State Road Transport Undertakings*, which we have used for Charts 1 and 2. For Table 3, we have taken the figures from *Maharashtra Economic Survey* because they provide data for 2016-17 as well.

<sup>16</sup> PMPML website, accessed September 13, 2018.

violations.) Contractors [declared](#) in October 2017: “At this rate, we are not in a position to run buses. We will stop operations by this weekend.”

When one of the contractors failed to pay his workers salaries in November 2017, workers were forced to strike, and 200 buses went off the roads, inconveniencing thousands of commuters. In response, the PMPML cancelled the contract of the contractor. Contractors had the last laugh, however, and Mundhe was removed in February 2018, after less than 11 months in the post.

The high rate of breakdowns is on account of poor maintenance. In this, both PMPML and its contractors are at fault, but it appears that maintenance by the contractors is poorer. Particularly alarming are the frequent instances of fires on PMPML buses. After four cases took place in three months, the present CEO, Nayana Gunde, [acknowledged](#) the seriousness of the issue last March. She claimed that the main cause was the failure of contractors to maintain the buses properly, and called a meeting of the contractors. However, fires and explosions [continue](#) to occur in PMPML buses with disturbing regularity.

Under Mundhe’s tenure, breakdowns had fallen from 3,893 in 2016-17 to 2,523 in 2017-18; however, they have [risen sharply](#) again since then. No less than the public relations officer of the PMPML [told the press](#) that “there has been a plunge in the income as people are refraining from using the services to their maximum capacity due to the fear of breakdowns.”

It could be argued that, had these other cities not opted for contracting out, their losses would have been even larger, and their ridership even lower. We do not have enough information to enter into this question, even assuming it can be answered. But the data we have cited indicate that there are forces at work driving down ridership and increasing the losses of bus services in all these cities, whether services are publicly owned or contracted out. As such, priority must be accorded to countering those forces (principally, growing use of private vehicles, and consequent traffic congestion). In the absence of such basic measures, contracting out will be unable to overcome the problem of rising losses or that of falling ridership, but it may affect the quality and stability of services.

**Delhi** has been virtually a laboratory of neoliberal ‘liberalisation’ in public bus transport since the 1990s. It was the first city to introduce private buses on a large scale, in the name of ensuring adequate supply. While public outrage at the reckless driving of the private bus drivers led to the phasing out of Redline buses, their successors, the ‘Blueline’ buses, turned out to be no better.

In 1996, the Delhi government introduced a public-private partnership, the ‘Under DTC Kilometre Scheme’. This partly resembled the scheme BEST plans to introduce in Mumbai now. Blueline buses were expected to follow the DTC timetable. While the drivers would be employed by the private bus owner, each bus would have a DTC conductor on board. Private bus owners would receive a fixed amount depending on the distance covered by the bus in a day. Public discontent with this scheme, however, continued, as the private bus contractors resorted to malpractices (such as overspeeding) in an effort to maximise their revenues. The scheme was discontinued in 2002, and privately operated Blueline buses returned to the roads.<sup>17</sup> In 2002, two consultancy reports, by Tata Consultancy Services (TCS) and The Energy and Resources Institute (TERI), recommended greater involvement of the

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<sup>17</sup> P.S. Randhawa, “From Citizen’s Right to Consumer Choice: Delhi’s Transport Revolution (1990-2004)”, Ph.D. thesis, Jawaharlal Nehru University, July 2008.

private sector and reduction of labour costs. Accordingly, permanent drivers were removed by a voluntary retirement scheme, and DTC employed 'temporary' drivers at much lower wages.

A December 2006 study by Hazards Centre (in collaboration with DTC Workers Unity) found that the contract workforce was patently more insecure, worked longer hours, and got much less pay. Employees, therefore, were forced to take on additional driving jobs, making them less efficient, less alert, less motivated to improve performance, and prone to occupational injuries from sheer fatigue. Secondly, when the current batch of permanent drivers retired, DTC would be left with only a large contingent of younger, relatively inexperienced, and underpaid contract workers who would have no stake in the continuity of the DTC. Thirdly, even with all this restructuring, DTC was still making losses.<sup>18</sup> The depressed wages of contract workers of DTC have compelled them to declare a strike on October 29, 2018.

Finally, in 2010, the Delhi government abolished the notorious Blueline buses. It reorganised private buses as 'cluster' buses, which bid for the right to operate in specific clusters, designated areas of the city. As of May 2018, the Delhi Transport Corporation owned about 3,781 buses, while the Delhi Integrated Multimodal Transport Scheme (DIMTS) operates 1,648 buses under the cluster scheme. Not only DTC, but the cluster buses too, although run by contractors, require very sizeable subsidies. The cluster bus scheme's revenues cover only 58 per cent of costs.<sup>19</sup> The Delhi transport budget for 2018-19 has allocated Rs [450 crore 'viability gap funding'](#) (i.e., subsidy) for a targeted cluster bus ridership of 12 lakh/day. This comes to a subsidy per passenger of over Rs 10. A similar subsidy for BEST's existing services would cover the entire deficit of its bus division.

### **Instead of contracting out, fund public transport and discourage private automobile use**

From the above description, it is clear that contracting out is not a ready solution to the problems of losses of public bus transport, and even less to the problem of falling ridership. The underlying causes of falling bus ridership lie in Government policy favouring private modes of transport, such as cars and two-wheelers. This policy needs to be reversed. Instead the municipal authorities are building mega-road projects to promote automobile use.

At the same time, it needs to be recognised that bus transport the world over is subsidised, as it confers positive externalities to the whole city – reduced congestion, reduced pollution, enhanced public welfare, and greater economic vitality. These benefits have long been recognised, and earlier were embedded in public sector institutions, which built their capabilities over decades.

Today those institutional capabilities are being denigrated in favour of financial contracts with various private parties. The above analysis shows that such a shift does not even make sense in narrow financial terms, let alone broader conceptions of development. The fact that the authorities are nevertheless foisting such a scheme on the public shows that privatisation often has little to do with its stated purposes.

One of the arguments made in support of wet-leasing is that it has been used successfully in developed countries along with a substantial expansion of services. What this argument fails to note is that the actual policy package being implemented in India is for a *shrinking* of BEST.

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<sup>18</sup> *Ibid.*

<sup>19</sup> Centre for Science and Environment (CSE), *op. cit.*, p. 23.

**Annexure Table 1: Terms of Wet-Lease**

	<b>AC mini</b>	<b>Non-AC mini</b>	<b>Non-AC midi</b>
Number of buses per package	100	100	25
Assured km/mth	3500	3500	4000
Minimum seating capacity	22+1 (driver)	22+1 (driver)	31+1 (driver)
Hiring charges in 1st yr (Rs/km)	48	41	45
Payment for shortfall in km (% of full rate)	45%	45%	45%
Payment for excess km (% of full rate)	75%	75%	75%

**Notes:**

1. The tender consists of two packages of 225 buses each, i.e. 450 in all.
2. Buses need not be run on Sundays and public holidays.
3. From the 3<sup>rd</sup> year of the contract, the basic rate will be revised upward by 1 per cent per annum.
4. Increases in fuel price will be compensated for from the 1<sup>st</sup> yr itself through fortnightly revisions.
5. Excess km (actual km minus assured km) will be paid for at 75 per cent of the full rate. Any shortfall in km (assured km minus actual km) will be paid for at 45 per cent of the full rate.
6. BEST will provide parking space for the buses in open plots adjacent to certain depots.
7. The buses are to be washed, cleaned and disinfected daily before putting them into operation.
8. Infrastructure for rest rooms, toilet facilities, bus washing pads, pits, water storage tanks and pumps etc. are to be arranged by the contractor. Security is to be arranged by the contractor.
9. The contractor will be responsible for attending to breakdowns.
10. BEST will provide one week's training for the drivers.
11. The contractor will be fined Rs 5,000/day per bus for failure to make the bus available.
12. The tenderer should have an annual turnover of at least Rs 15 crore for the past three years, and should have undertaken atleast one project of operation of 50 or more buses, or atleast two projects of 35 or more buses, in any part of India during the past three years.

**Annexure Table 2: Break-up of Existing BEST Costs per Midi Bus, and Division of Costs under Wet-Lease** (in paise/km, September 2017)

Heads of Expenditure	Undertaking cost	percentage of total Undertaking costs	Costs to be borne by Undertaking in wet-lease	Costs not reqd to be borne by the Undertaking in wet-lease
<b>Variable cost</b>				
1. Fuel cost	1323	11%	0	1323
2. Lubricating oil	34	0%	0	34
3. Tyres and tubes	111	1%	0	111
4. Materials (Garaging & Workshops)	327	3%	0	327
5. Cost of Ticket Blocks	41	0%	41	0
6. Conductors & Drivers	5220	44%	2610	2610
7. Passenger tax	0	0%	0	0
<b>Total variable costs</b>	<b>7057</b>	<b>59%</b>	<b>2651</b>	<b>4405</b>
<b>Fixed cost</b>				
1. Trans. Engg estb. (Salary, wages, DA, PF, Ex-gratia, Gratuity & LTA)	71	1%	0	71
2. Salaries, Wages, DA, PF, Ex-gratia, Gratuity & LTA (Garaging & Workshop)	1280	11%	0	1280
3. Engineering Misc. Expenses	248	2%	0	248
4. Registration & Licence fees	31	0%	0	31
5. Traffic General, Officers, Outdoor Staff (Salaries, Wages, DA, PF, Ex-gratia, Gratuity & LTA)	897	7%	897	0
6. Ticket & Cash staff	210	2%	210	0
7. Traffic Misc. Expenses	588	5%	294	294
8. General Adm Expenses/Other Cost	587	5%	294	294
9. Depreciation	311	3%	0	311
10. Interest Charges etc	696	6%	0	696
<b>Total fixed costs</b>	<b>4918</b>	<b>41%</b>	<b>1694</b>	<b>3224</b>
<b>Grand Total (variable+fixed)</b>	<b>11975</b>	<b>100%</b>	<b>4346</b>	<b>7629</b>

Source: Annexure A, BEST management proposal placed before the BEST Committee on December 18, 2017.

**Annexure Table 3: Annexure Table 1: Break-up of Existing BEST Monthly Costs per Midi Bus, and Division of Costs under Wet-Lease(Rs/month, @ 160 km/day, 25 days/month)**

Heads of Expenditure	Undertaking cost (Rs/mth)	Costs to be borne by Undertaking in wet-lease (Rs/mth)	Costs not borne by the Undertaking in wet lease (Rs mth)	As % of total wet-leased costs
<b>(A) Variable cost</b>				
1. Fuel cost	52910	0	52910	17%
2. Lubricating oil	1358	0	1358	0%
3. Tyres and tubes	4450	0	4450	1%
4. Materials (Garaging & Workshops)	13090	0	13090	4%
5. Cost of Ticket Blocks	1643	1643	0	0%
6. Conductors & Drivers	208814	104407	104407	34%
7. Passenger tax	0	0	0	0%
<b>Total variable costs</b>	<b>282266</b>	<b>106050</b>	<b>176217</b>	<b>58%</b>
<b>(B) Fixed cost</b>				
1. Trans. Engg estb. (Salary, wages, DA, PF, Ex-gratia, Gratuity & LTA)	2860	0	2860	1%
2. Salaries, Wages, DA, PF, Ex-gratia, Gratuity & LTA (Garaging & Workshop)	51191	0	51191	17%
3. Engineering Misc. Expenses	9904	0	9904	3%
4. Registration & Licence fees	1232	0	1232	0%
5. Traffic General, Officers, Outdoor Staff (Salaries, Wages, DA, PF, Ex-gratia, Gratuity & LTA)	35876	35876	0	0%
6. Ticket & Cash staff	8392	8392	0	0%
7. Traffic Misc. Expenses	23520	11760	11760	4%
8. General Adm Expenses/Other Cost	23484	11742	11742	4%
9. Depreciation	12451	0	12451	4%
10. Interest Charges etc	27822	0	27822	9%
<b>Total fixed costs</b>	<b>196732</b>	<b>67771</b>	<b>128962</b>	<b>42%</b>
<b>Grand Total (A+B)</b>	<b>478999</b>	<b>173821</b>	<b>305179</b>	<b>100%</b>

Source: Annexure Table 2, and our calculations

**Annexure Table 4: Possible Break-up of Contractor Costs for Running Midi Bus (Rs/mth, @160 km/day, 25 days/mth)**

	Possible contractor cost break-up (Rs/km)	Possible contractor cost break-up (Rs/mth)	Notes re contractor cost break-up
<b>(A) Variable cost</b>			
1. Fuel cost	12.2	48800	<i>Rs61/litre, 4.5kmpl</i>
2. Lubricating oil	2.83	11339	<i>40% saving on lubes, tyres, materials</i>
3. Tyres and tubes			
4. Materials (Garaging & Workshops)			
5. Cost of Ticket Blocks	0	0	
6. Conductors & Drivers	9	36000	<i>2 drivers@Rs18000/mth</i>
6B. Supervisors* & officers**	0.75	3000	
7. Passenger tax	0	0	
<b>Total variable costs (A)</b>	<b>24.78</b>	<b>99139</b>	
<b>(B) Fixed cost</b>			
1. Trans. Engg estb. (Salary, wages, DA, PF, Ex-gratia, Gratuity & LTA)	0	0	
2. Salaries, Wages, DA, PF, Ex-gratia, Gratuity & LTA (Garaging & Workshop)	4.5	18000	<i>1 maintenance staff</i>
3. Engineering Misc. Expenses	0	0	
4. Registration & Licence fees	0.32	1286	
5. Traffic General, Officers, Outdoor Staff (Salaries, Wages, DA, PF, Ex-gratia, Gratuity & LTA)	0	0	
6. Ticket & Cash staff	0	0	
7. Traffic Misc. Expenses			
8. General & Adm Expenses/Other Cost	1	4000	
9. Depreciation	8.33	33333	<i>Rs 28 lakh/84 months</i>
10. Interest Charges etc	3.29	13150	<i>Rs 28 lakh @10% 7yrs</i>
<b>Total fixed costs (B)</b>	<b>17.44</b>	<b>69769</b>	
<b>Total Costs (A+B)</b>	<b>42.22</b>	<b>168908</b>	
Alt. 1: Profit @ 10%	4.22	16891	
<b>Alt. 1 Total</b>	<b>46.44</b>	<b>185799</b>	
Alt. 2: Profit @ 20%	8.44	33782	
<b>Alt. 2 Total</b>	<b>50.66</b>	<b>202690</b>	

\*1 supervisor/shift for 25 buses @ Rs 25,000/month = Rs 0.50/km. \*\* 1 officer for 50 buses @ Rs 50,000/month = Rs 0.25/km. Price of diesel at September 2017 rates. Source: Our estimates.

**Annexure Table 5: Savings Due to Wet-Leasing – Uncorrected and Corrected Versions (Rs/mth)**

*1. Taking average costs for all BEST midi buses*

1	BEST monthly costs of midi bus @ 160 km/day	478999
2	Costs to be borne by Undertaking in wet lease	173821
3	Wet lease payment for midi bus @160 km/day	180000
4	Total costs of Undertaking per midi bus under wet lease (Rs/mth) (2+3)	353821
5	Savings per bus (Rs/mth) (1-4)	125178
6	Savings (%) (5/1)	26%

*2. Taking average costs of BEST midi routes running 160 or more km per day*

1	Corrected BEST monthly costs of midi buses @ 160 km/day	372360
2	Costs to be borne by Undertaking in wet lease	173821
3	Wet lease payment for midi bus @160 km/day	180000
4	Total costs of Undertaking per midi bus under wet lease (Rs/mth) (2+3)	353821
5	Savings per bus (Rs/mth) (1-4)	18539
6	Savings (%) (5/1)	5%