



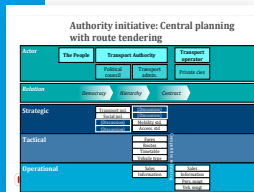
Contracting in Urban Public Transport

Content of the presentation

1. What are the **alternatives** and what do we observe? A quick reminder
2. Network tendering: the **process** that leads to the contract, or "reality behind utopia"
3. Should the tendered **operator** be made **responsible** for the (wider) marketing of whole urban networks?
4. More fundamentally: **which regime should we prefer?**

1

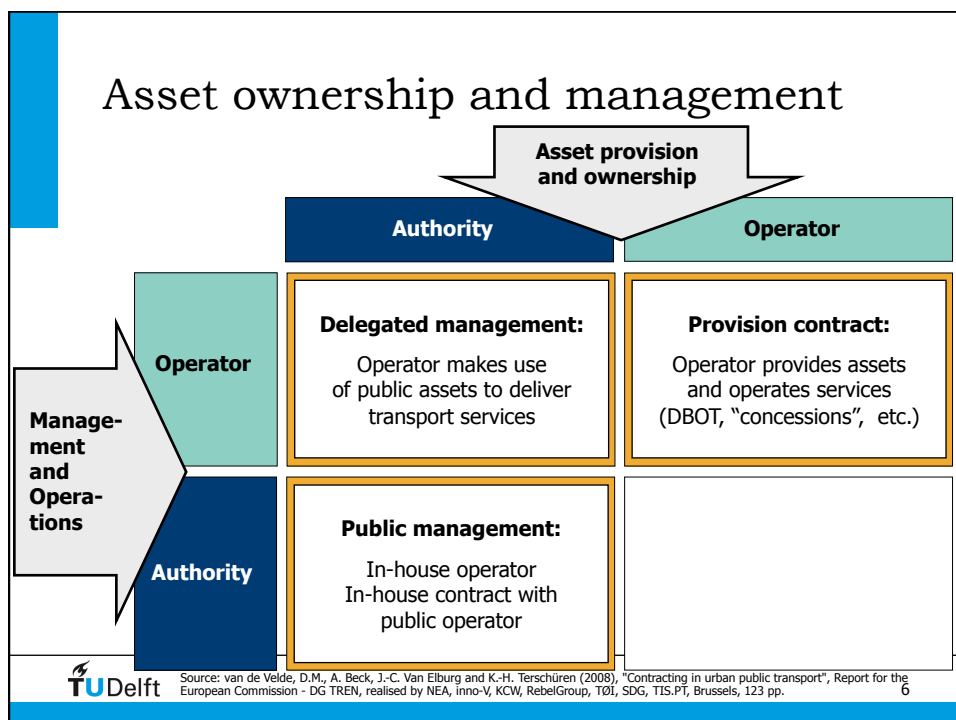
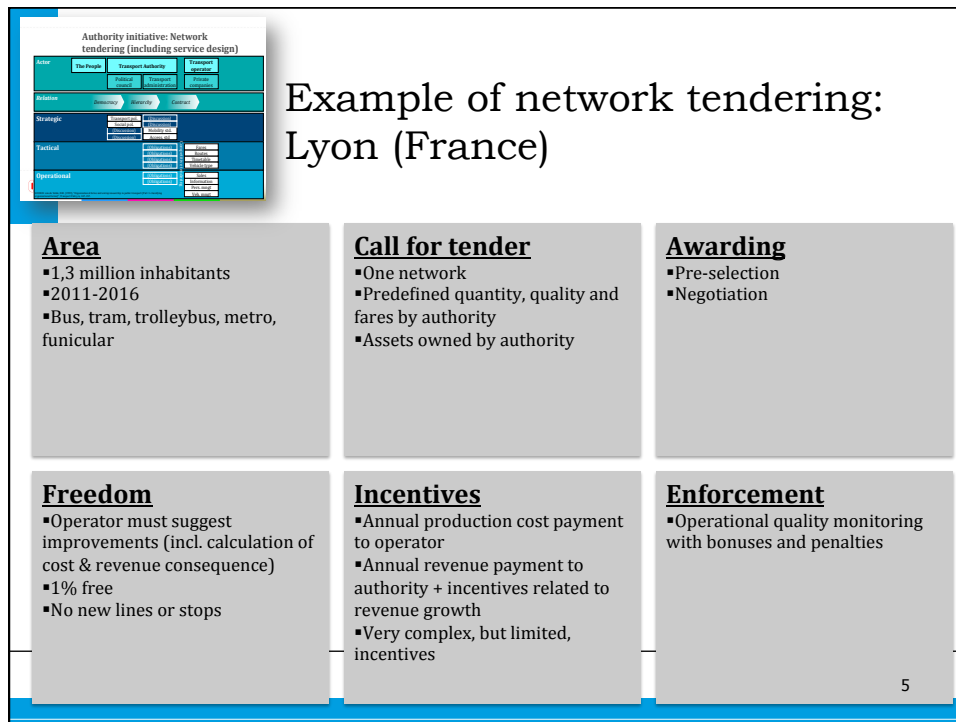
What are the alternatives and what do we observe?
A quick reminder

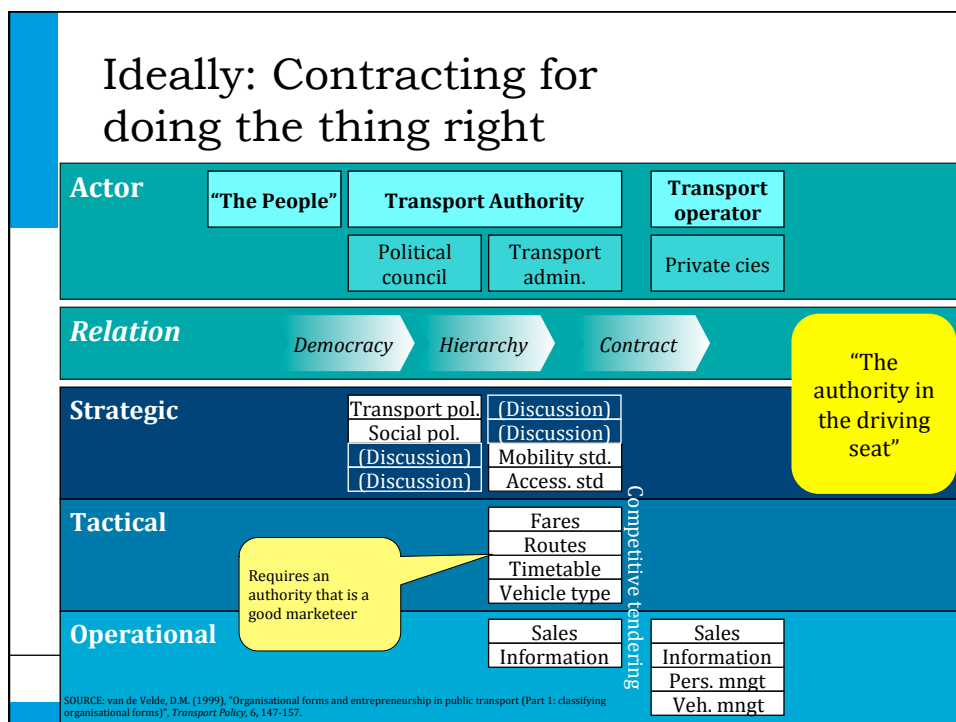
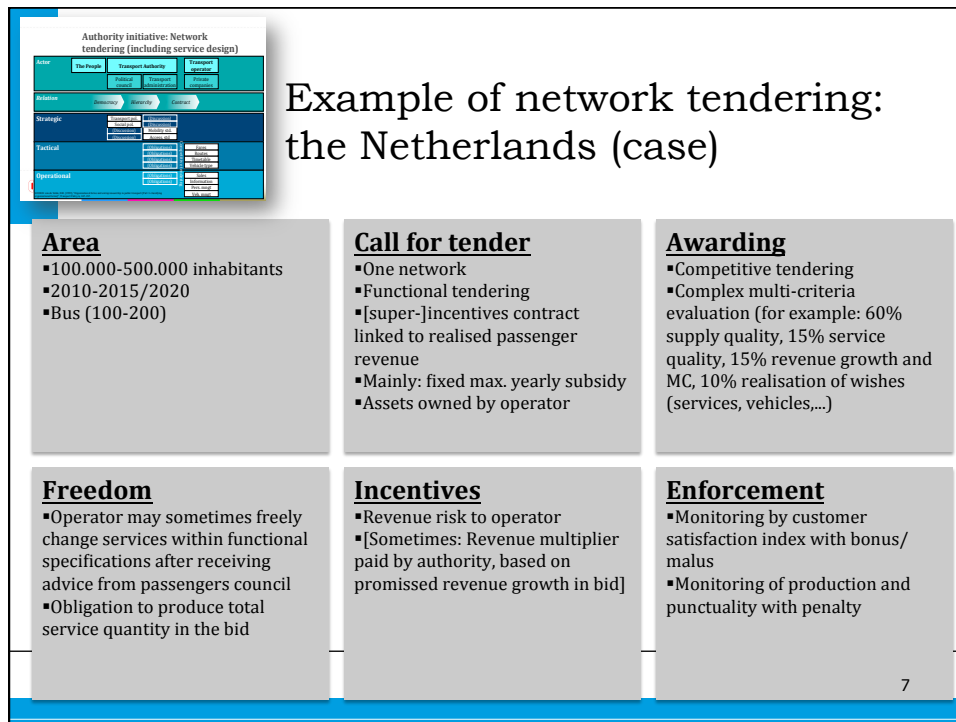


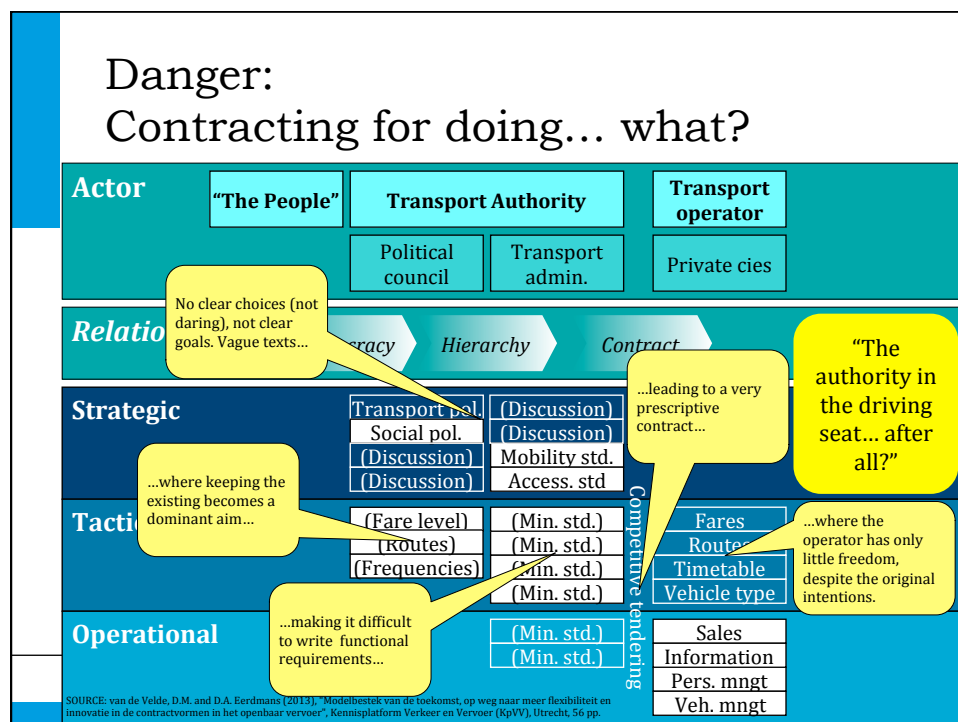
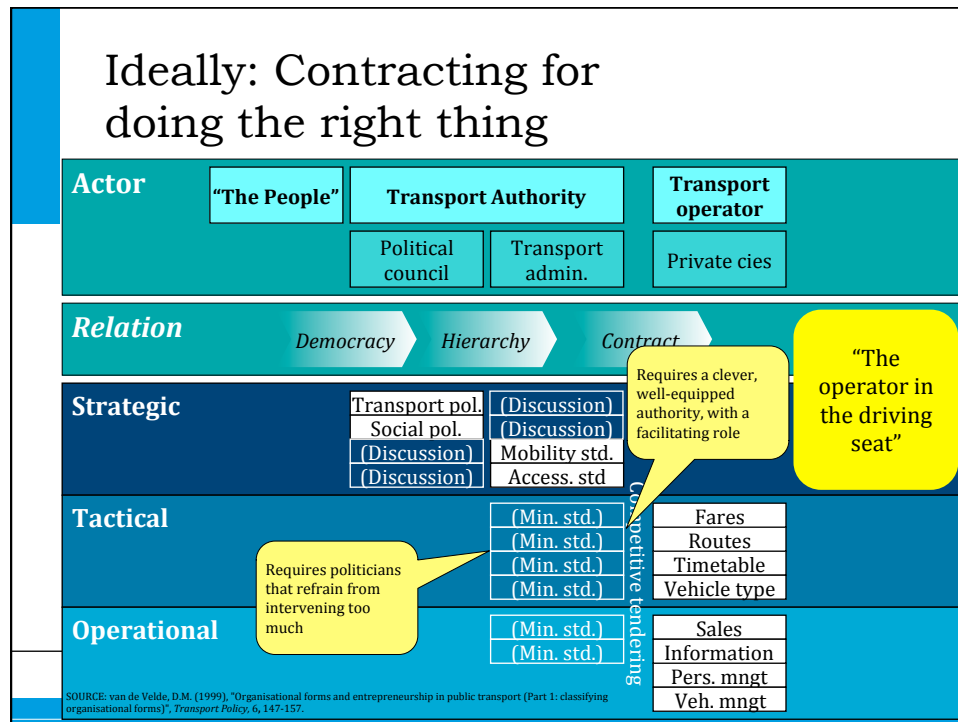
Authority initiative: Central planning with route tendering

Example of route tendering: London (UK)

| | | |
|--|--|---|
| <p><u>Area</u></p> <ul style="list-style-type: none"> Greater London Area 8 million inhabitants 20% of contracts (700) each year, 5+2 year contracts Urban bus | <p><u>Call for tender</u></p> <ul style="list-style-type: none"> One route = one contract Service and vehicle specified Assets owned (or leased) by operator | <p><u>Awarding</u></p> <ul style="list-style-type: none"> Competitive tendering Award on best overall value |
| <p><u>Freedom</u></p> <ul style="list-style-type: none"> Authority responsible for developing the public transport product (routes, frequencies, fares) Operator responsible for timing Operator has no freedom to change the product on its own | <p><u>Incentives</u></p> <ul style="list-style-type: none"> Revenue risk for Authority Extension if above targets | <p><u>Enforcement</u></p> <ul style="list-style-type: none"> Self-assurance, roadside timing Bonus/penalty related to reliability against targets Customer satisfaction, mystery traveller, audits, assessments (driving, engineering, environment,...) |

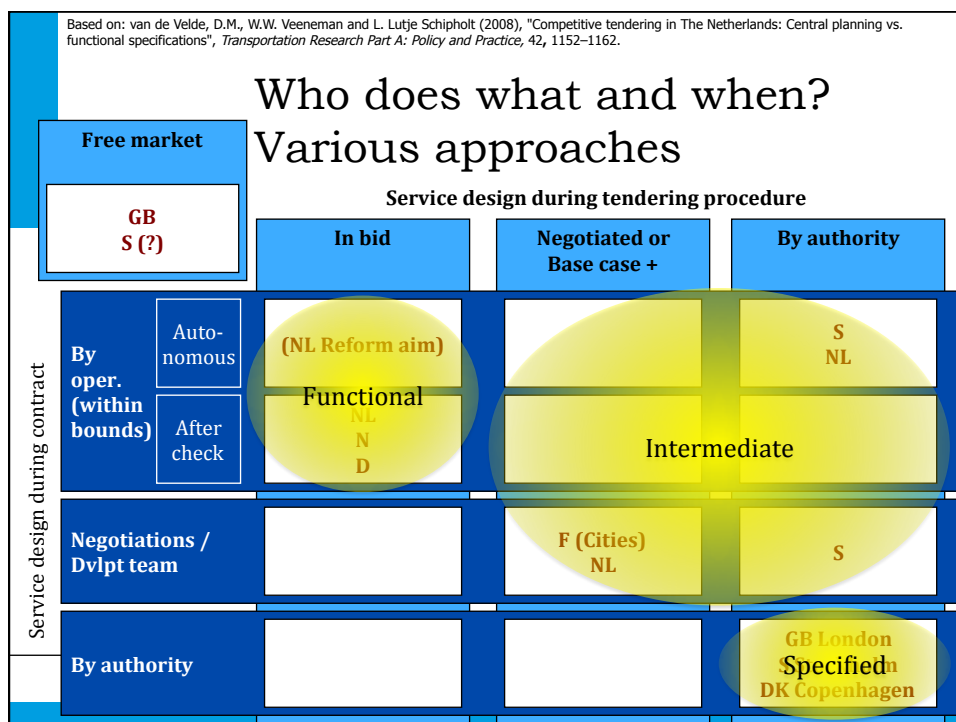


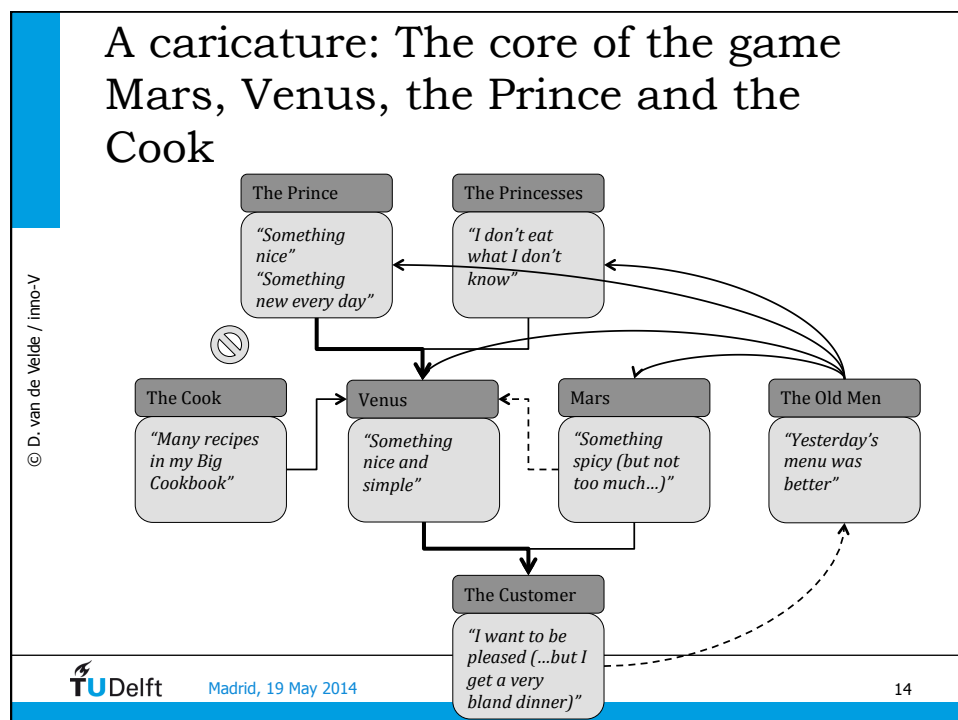
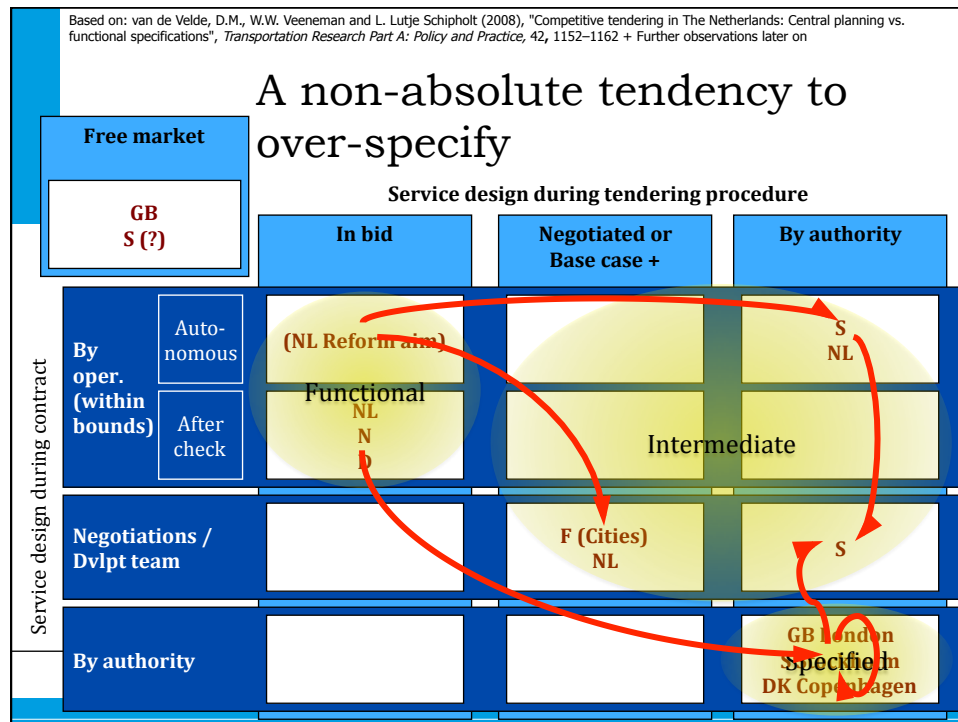


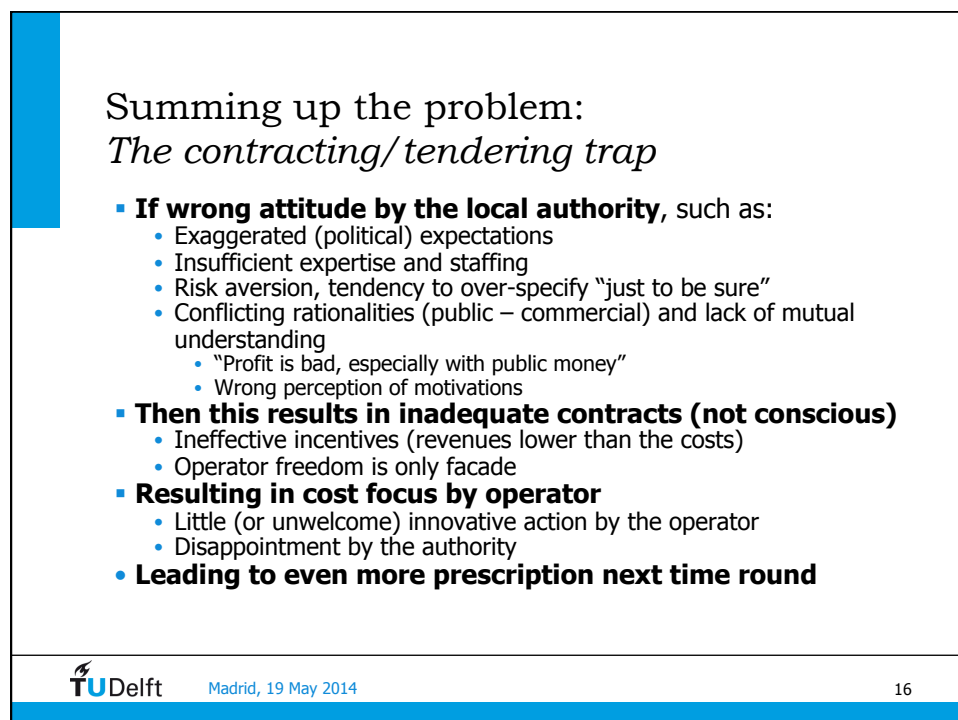
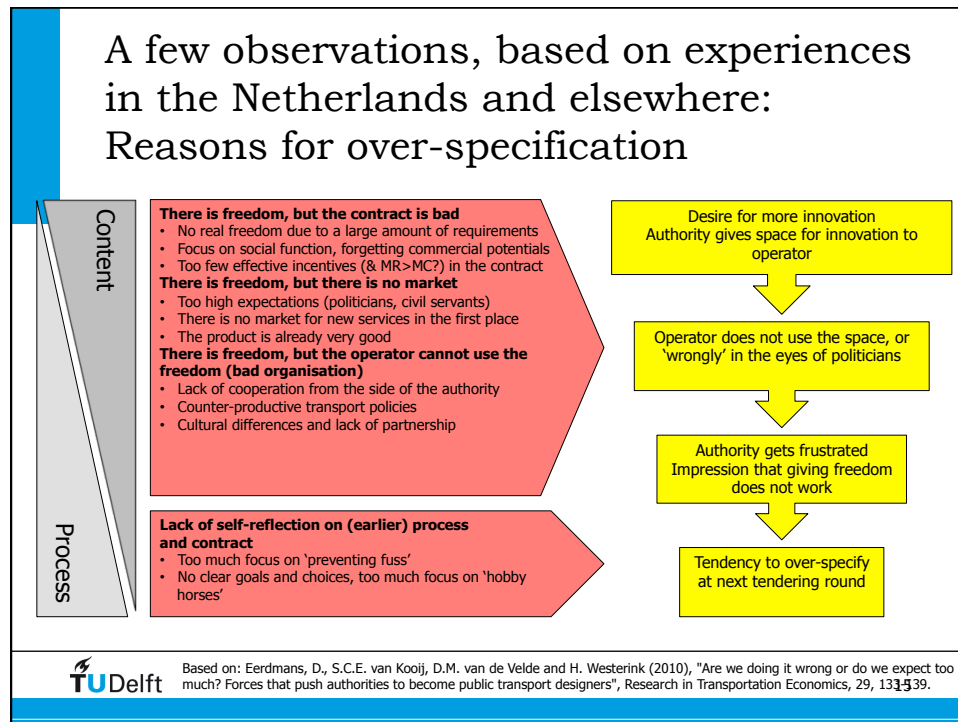


2

Network tendering: the process that leads to the contract, or “reality behind utopia”



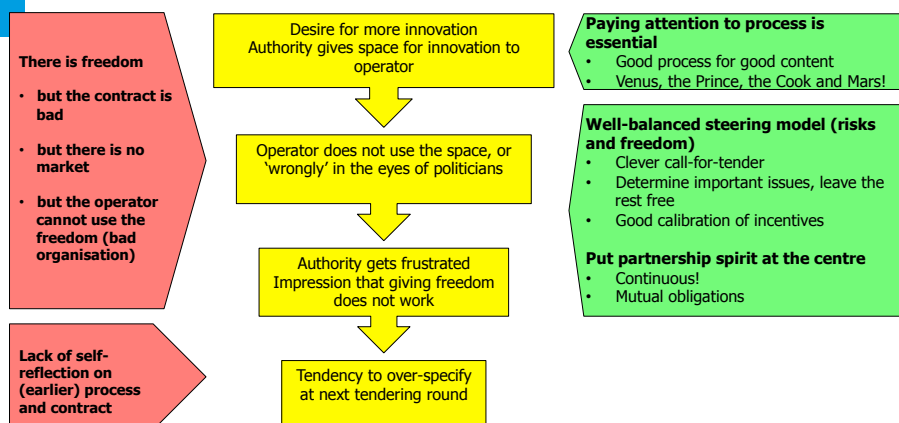




What is needed, and what can (or does) go wrong?

| Requirements | Threats |
|--|---|
| Incentivising, well-balanced contracts (risks/freedom) | Contracts excessively based on political rather than economic rationality |
| Balanced view between competitive services and social services | Exaggerated focus on social policy, lack of focus on other general aims |
| Non-selfish, benevolent politicians, perfect local democracy | Some prestige or hobby-led politicians, lack of democratic control |
| Professional, skilful tendering process | Sub-optimal and unduly prescriptive tendering |
| Fair contract monitoring | Lack of appropriate contract monitoring |
| Forward-looking, open-minded planners | Conservative planners |
| Facilitating authority | Inactive authority |
| Partnership arrangements | Hostile stance |

A few observations, based on experiences in the Netherlands and elsewhere: Reasons for over-specification



Necessary factors for a successful tendering of urban networks

Assuming the operator is to be responsible for (wide) marketing!

- **Adequate tendering and contracting process leading to good contractual content**
 - Acknowledge that this is the core of the problem
 - Reconcile Venus and Mars!
 - Restrict political influence at the tactical level!
- **Contract with balanced risk and freedom**
 - Functional contracts with a proper contractual balance (roles, incentives, freedom)
 - Operator may use relevant instruments (services, branding, fares, promotion,...)
 - Properly calibrated awarding mechanisms and contractual incentives
- **A shared trusting partnership spirit**
 - Non-collusive partnerships with duties for both/all parties
 - Authorities addressing cooperation failures between operators and/or authorities
 - Proper process agreement for continuous cooperation
- **Transport authorities as system stimulators**
 - Focus on stimulating the appearance of professional marketing
 - Foster innovation, foster new combinations
 - Coordinate with other transport issues and with land-use planning
 - Develop adequate transport infrastructure (long-term focus)

3

So should tendered operators be made responsible for the (wider) marketing of whole urban networks?

The challenge of tendering complete urban public transport networks

- **Technically, it can be done, but...**
 - It is not easy and self-evident
 - Experience shows there is a high probability of
 - Non-recognition of problems
 - Failure to solve them
 - Few authorities want to use this regime
- **What are the main issues?**
 - Generating a sufficient level of competition
 - Preventing the "winner's curse"
 - Knowledge building when tendering every 10 years
 - Sufficient 'introspection' and evaluation of past processes
 - Required distance between politics and service definition
 - Authorities' ability and readiness to become 'system stimulators'

The challenge of tendering complete urban public transport networks

- **So: should it be done?**
 - Does it deliver better results than route/bundle/area tendering?
 - In terms of innovation and entrepreneurship?
 - In terms of 'sustainable' competition?
 - Does it perform better than alternative arrangements?
 - Regulated public operator?
 - Cleverly regulated 'deregulated' regime?

Summarising: Lessons from past experiences of tendering of urban public services

Route / Bundles

- London, GB*, DK, S, N, B^{VL}, (D)
- Mostly gross-cost
- Often organised by (former) public operator
- Planning flexibility to authority

Evaluation

- (++) Productive and cost efficiency
- (0) Allocative efficiency (marketing)
- (!) Requires prof. planning body
- (!) Incent. & monit. of planner?
- (+) Easy learning
- (+) Stronger competitive pressure
- (?) More suited for large urban areas

Network / Area

- Large urban multimodal: F
- Bus: F, NL, S, (I), (E), (D)
- Often net-cost(-ish)
- Mostly organised by authority
- (Some) planning freedom to operator

Evaluation

- (+) Productive and cost efficiency
- (0/+) Allocative efficiency (marketing)
- (!) Requires clever authorities and clever contracting
- (!) Incent. & monit. of authority?
- (-) Difficult tool, easily hampered by political logic, slow learning
- (-) Danger of 'winner's curse'
- (?) Relevant for smaller urban areas
- Problematic in larger urban areas

Summarising: Promoting which efficiency with contracting and competitive tendering?

Productive efficiency

Yes

Cost efficiency

Yes

- But political interferences reduce the potential

Allocative efficiency

If gross cost: ?

- Who is monitoring the planner?

If net-cost (etc): yes/no

- (Is there a market?)
- Is the contract good?
- Is the system 'in balance'?
- Any freedom left?
- Not too much political interferences?

4

*More fundamentally:
Which regime should we prefer?*

Is contracting and tendering the only way?

- Contracting approach is a traditional, centralistic, administrative approach
- What about free market initiative?
 - The British regime (1986)
 - But this is not the only way to involve the free market
- The authority as facilitator of (integrated) market initiative = Towards a clever (de)regulation
 - The British regime (2008) is a step towards such a regime
 - See Sweden after January 2012
 - But there are potentially other ways to deregulate
- By the way:
 - 1. Contracting and tendering will also continue to play an additional role in these regimes
 - 2. Look at what is happening in rail and in coach! (free market)
 - 3. Remember: Reduced readiness to subsidise PT!
 - 4. Remember: Development of intermediate modes!

Main options: What are they?

- **Competitive tendering by route**
 - 'London' -style (= 'Scandinavian' -style)
 - The operator has no power to determine the transport services
- **Competitive tendering by network**
 - 'Dutch' -style or 'French' -style
 - The operator has to determine the transport services (NL), or should help to do so (NL, F)
- **Deregulation**
 - Great Britain (outside London)
 - The operator is free to provide whatever services are profitable
 - The authority orders additional (non-profitable) services via competitive tendering
- **Direct award**
 - (Many) municipal operations
 - The operator needs to be incentivised for efficiency by other means than direct competitive pressure
- **A combination of the above?**

Main options: Deciding on an appropriate regime

Institutional levels

| | | |
|--------------------------|----------------------------------|---|
| 1 Customs traditions | Embeddedness | Informal institutions, customs, traditions, ... |
| 2.1 Legal regime | Institutional environment | Formal rules of the game |
| 2.2 Regulatory regime | | |
| 3 Governance | Governance | The play of the game |
| 4 Contracts | Resource allocation | Decisions on contracts, etc |

- **Ideally**
 - Well-informed decision makers
 - Welfare maximisation as aim
- **More realistically**
 - Ill-informed politicians (in the worst case dogmatic or hobbyistic)
 - Planners not always inclined to change approaches
 - Operators often lobbying for one specific model, or (even more often) for status-quo

One utopia against the other? A few provocative points for the discussion

Perfect markets

- Contestable markets
- Effective regulators
- Appropriate regulation addressing market failure (especially network effects)
- Clever authorities
- Innovative operators

Reality (exaggerated for the purpose of the argumentation!)

- Dogmatic regulation (no recognition of network effects)
- Ill-equipped regulators
- Barriers to entry
- Regulation not implemented
- Unwilling authorities
- Disappointing operators

Perfect authorities

- Optimal contracts
- Professional tendering
- Fair monitoring
- Forward looking, excellent planners
- Balanced view between competitive services and social services
- Non-selfish, benevolent politicians
- Perfect local democracy

Reality (exaggerated for the purpose of the argumentation!)

- Contracts based on political rather than economic rationality
- Unduly prescriptive tendering and inadequate contracts
- Lack of contract monitoring
- Conservative planners
- Exaggerated focus on social policy
- Prestige and hobby-led demagogic politicians

Thank you for your attention!

Discussion