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

Example of route tendering: London (UK)

Area
- Greater London Area
- 8 million inhabitants
- 20% of contracts (700) each year, 5+2 year contracts
- Urban bus

Call for tender
- One route = one contract
- Service and vehicle specified
- Assets owned (or leased) by operator

Awarding
- Competitive tendering
- Award on best overall value

Freedom
- 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

Incentives
- Revenue risk for Authority
- Extension if above targets

Enforcement
- Self-assurance, roadside timing
- Bonus/penalty related to reliability against targets
- Customer satisfaction, mystery traveller, audits, assessments (driving, engineering, environment,...)
Example of network tendering: Lyon (France)

**Area**
- 1.3 million inhabitants
- 2011-2016
- Bus, tram, trolleybus, metro, funicular

**Call for tender**
- One network
- Predefined quantity, quality and fares by authority
- Assets owned by authority

**Awarding**
- Pre-selection
- Negotiation

**Freedom**
- Operator must suggest improvements (incl. calculation of cost & revenue consequence)
- 1½ free
- No new lines or stops

**Incentives**
- Annual production cost payment to operator
- Annual revenue payment to authority + incentives related to revenue growth
- Very complex, but limited, incentives

**Enforcement**
- Operational quality monitoring with bonuses and penalties

**Area**
- 1,3 million inhabitants
- 2011-2016
- Bus, tram, trolleybus, metro, funicular

**Authority**

**Operator**

**Delegated management:**
Operator makes use of public assets to deliver transport services

**Provision contract:**
Operator provides assets and operates services (DBOT, “concessions”, etc.)

**Public management:**
In-house operator
In-house contract with public operator

Example of network tendering: the Netherlands (case)

<table>
<thead>
<tr>
<th>Area</th>
<th>Call for tender</th>
<th>Awarding</th>
<th>Enforcement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 100.000-500.000 inhabitants</td>
<td>• One network</td>
<td>• Competitive tendering</td>
<td>• Monitoring by customer satisfaction index with bonus/malus</td>
</tr>
<tr>
<td>• 2010-2015/2020</td>
<td>• Functional tendering</td>
<td>• Complex multi-criteria evaluation (for example: 60% supply quality, 15% service quality, 15% revenue growth and MC, 10% realisation of wishes (services, vehicles,...)</td>
<td></td>
</tr>
<tr>
<td>• Bus (100-200)</td>
<td>• [Super-]Incentives contract linked to realized passenger revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mainly: fixed max. yearly subsidy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Assets owned by operator</td>
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</tr>
</tbody>
</table>

Freedom

• Operator may sometimes freely change services within functional specifications after receiving advice from passengers council
• Obligation to produce total service quantity in the bid

Incentives

• Revenue risk to operator
• [Sometimes: Revenue multiplier paid by authority, based on promised revenue growth in bid]

Enforcement

• Monitoring by customer satisfaction index with bonus/malus
• Monitoring of production and punctuality with penalty

Area

100.000-500.000 inhabitants
2010-2015/2020
Bus (100-200)

Freedom

 Ideational:
Contracting for doing the thing right

<table>
<thead>
<tr>
<th>Actor</th>
<th>Transport Authority</th>
<th>Transport operator</th>
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</thead>
<tbody>
<tr>
<td>&quot;The People&quot;</td>
<td>Political council</td>
<td>Private cies</td>
</tr>
<tr>
<td></td>
<td>Transport admin.</td>
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Relation

<table>
<thead>
<tr>
<th>Democracy</th>
<th>Hierarchy</th>
<th>Contract</th>
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<td></td>
<td></td>
<td>&quot;The authority in the driving seat&quot;</td>
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Strategic

Transport pol
Social pol [(Discussion)]
Mobility std [(Discussion)]
Access std [(Discussion)]

Tactical

Fares
Routes
Timetable
Vehicle type

Operational

Sales
Information
Pers. mngt
Veh. mngt


Requires an authority that is a good marketer

"The People" (Discussion)
"The authority in the driving seat" (Discussion)
Ideally: Contracting for doing the right thing

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Relation

- **Democracy**
  - Strategic: Transport pol. (Discussion), Social pol. (Discussion), Mobility std. (Discussion), Access. std.
  - Requires politicians that refrain from intervening too much

- **Hierarchy**
  - Tactical: (Min. std.), (Min. std.), (Min. std.), (Min. std.)
    - Fares, Routes, Timetable, Vehicle type

- **Contract**
  - Operational: (Min. std.), (Min. std.)
    - Sales, Information, Pers. mngt, Veh. mngt

Danger: Contracting for doing... what?

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Relation

- **Democracy**
  - Strategic: Transport pol. (Discussion), Social pol. (Discussion), Mobility std. (Discussion), Access. std.
  - ...where keeping the existing becomes a dominant aim...

- **Hierarchy**
  - Tactical: (Min. std.), (Min. std.), (Min. std.), (Min. std.)
    - Fares, Routes, Timetable, Vehicle type

- **Contract**
  - Operational: (Min. std.), (Min. std.)
    - Sales, Information, Pers. mngt, Veh. mngt


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

Who does what and when?

Various approaches

Service design during tendering procedure

A non-absolute tendency to over-specify

Service design during tendering procedure

Free market
- By authority
- By oper. (within bounds)
- Negotiated or Base case +
- In bid

Service design during contract

Functional
- NL Reform
- N
- Intermediate

Negotiations / Dvlpt team

By authority
- NL
- S
- GB
- F (Cities)
- S

A caricature: The core of the game
Mars, Venus, the Prince and the Cook

The Prince
- "Something nice"
- "Something new every day"

The Princesses
- "I don't eat what I don't know"

The Cook
- "Many recipes in my Big Cookbook"

Venus
- "Something nice and simple"

Mars
- "Something spicy (but not too much...)

The Old Men
- "Yesterday's menu was better"

The Customer
- "I want to be pleased (...but I get a very bland dinner)"

A few observations, based on experiences in the Netherlands and elsewhere:

Reasons for over-specification

- Desire for more innovation
- Authority gives space for innovation to operator
- Operator does not use the space, or ‘wrongly’ in the eyes of politicians
- Authority gets frustrated
- Impression that giving freedom does not work
- Tendency to over-specify at next tendering round

There is freedom, but the contract is bad

- No real freedom due to a large amount of requirements
- Focus on social function, forgetting commercial potentials
- Too low effective incentives (MR > MC) in the contract

There is freedom, but there is no market

- Too high expectations (politicians, civil servants)
- There is no market for new services in the first place
- The product is already very good

There is freedom, but the operator cannot use the freedom (bad organisation)

- Lack of cooperation from the side of the authority
- Counter-productive transport policies
- Cultural differences and lack of partnership

Lack of self-reflection on (earlier) process and contract

- Too much focus on ‘preventing fuss’
- No clear goals and choices, too much focus on ‘hobby horses’

Summing up the problem:
The contracting/tendering trap

- If wrong attitude by the local authority, such as:
  - Exaggerated (political) expectations
  - Insufficient expertise and staffing
  - Risk aversion, tendency to over-specify “just to be sure”
  - Conflicting rationalities (public – commercial) and lack of mutual understanding
    - “Profit is bad, especially with public money”
    - Wrong perception of motivations
- Then this results in inadequate contracts (not conscious)
  - Ineffective incentives (revenues lower than the costs)
  - Operator freedom is only facade
- Resulting in cost focus by operator
  - Little (or unwelcome) innovative action by the operator
  - Disappointment by the authority
- Leading to even more prescription next time round
What is needed, and what can (or does) go wrong?

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

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- Tendency to over-specify at next tendering round

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)

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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*, (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/+ Allocated 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?
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

<table>
<thead>
<tr>
<th>Institutional levels</th>
<th>1</th>
<th>2.1</th>
<th>2.2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs traditions</td>
<td>Embeddedness</td>
<td>Informal institutions, customs, traditions, ...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal regime</td>
<td>Institutional environment</td>
<td>Formal rules of the game</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory regime</td>
<td>Governance</td>
<td>The play of the game</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance</td>
<td>Resource allocation</td>
<td>Decisions on contracts, etc</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**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

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

**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


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**Thank you for your attention!**

**Discussion**