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PAPER FOR WORKSHOP No.3: The Bidding Process

**"The Bidding Process
An Operator's Perspective"**

by

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THE BIDDING PROCESS - AN OPERATOR'S PERSPECTIVE

First a caveat. It is a fact of public transport life that the "why", "how" and "what" of public transport system is often politically skewed, not because of any transport related factor, but for reasons totally outside the transport area. One must be aware of this situation and as professionals clearly and honestly indicate the implications of such political decisions. The basic objective is to get quality transport on the street at a reasonable cost. Matters on a wider political agenda should be addressed separately.

The bidding process, by which I mean the total process undertaken to both select an operator to provide service and to develop the associated remuneration package (if any), cannot be considered in isolation. Many other factors have to be considered before deciding on the best process to follow in arranging contracted delivery of service to the market(s) it is intended to serve.

In deriving the bid process to suit a particular situation, the following should be considered:-

- the background and existing environment
- future perspectives
- outcomes to be achieved
- the standards to be applied to the bid assessment process, and to the resultant operation.

1. BACKGROUND AND ENVIRONMENT

The Melbourne experience has demonstrated that background and existing environmental factors have a great bearing on the outcome of a bidding system.

Pre-existing Licensed Operators

Where there are existing operators with pre-existing licensed routes, and with fleets and operational experience, the goodwill/grandfather rights factor introduces a very different starting position from one where, as was generally the case in the US and UK at least until recently, most private operators in the urban transport scene had already been taken over by public operations. In that situation there was a need to develop and attract private operators to provide service. In Melbourne, and in many cities in Australia, experienced operators, with generally a good range of equipment, are already in place operating routes and services licensed by the appropriate authority and with controlled fare scales. Despite the existence of operating, fare and capital support (not all of these are enjoyed by all operators), most of the revenue of these operators is still derived from the farebox.

In Melbourne, a variety of subsidy and revenue support schemes, while generally unsatisfactory in detail, had kept the industry to some degree independent of government until the total contracting of the industry on a negotiated basis, in 1986. By the time contracts were introduced, most operators were deriving about 50% of their revenue from subsidies and fare support, the latter associated with concessions provided and the introduction of a citywide Travelcard integrated ticket system.

Who Controls Revenue?

The final straw which led to the acceptance of a contract system in Melbourne, a system which in fact had been proposed for 10 years previously, was loss of control over the major portion of operator revenue, and this factor - the control or otherwise of farebox revenue, (that is the ability to set one's own fares whether or not subject to regulation), is an important background factor.

From an operator's point of view this is probably the most important variable to have control over. The implication of yielding control of this variable to others cannot effectively be overcome by allowing the operator control over service supply. In Melbourne when subsidies were first introduced in 1974, it was felt that, given the fares which the government were prepared to authorise, the amount of service supplied could not be further reduced without compromising the general utility of the network. This demonstrates that, given control over fares, it is possible for an outside party to affect the economics of a service in such a way as to compromise the total operation, ie. to raise fares to such a level as to ultimately eliminate the service, or on the other hand to hold fares at a level which threatens the existence of a private operation.

If an operator does have (or will have) control over the major portion of the farebox, and yet requires a subsidy to operate, a bid for minimal subsidy may be appropriate. At the other end of the spectrum, if the service to be contracted is part of an integrated ticket system, where the operator has no control over the farebox, the contract must be for the full cost of the operation.

The Goodwill/Grandfather Rights Problem

This important matter must be addressed early, as Melbourne developments show. That there is goodwill in licensed services I have no doubt. Even if such services have been subsidised over a fairly long period, at least part of the route and timetable framework developed by the operator locally will remain should that subsidy be withdrawn, as will the expertise and knowledge of the staff involved. The enterprise is a business with the aim of providing remuneration to its various members, employee and employer, in various forms. This remuneration rewards knowledge, experience, skills, entrepreneurial risk, company loyalty and so on - all intangible assets collectively called goodwill.

The premiums paid on privatisation of National Bus Company subsidiaries and the premiums paid on the sale of subsidised and contracted private bus operation in Australia demonstrate that considerable goodwill exists, even in significantly subsidised operations.

The existence of goodwill is not consistent with centrally imposed changes to fares or routes because of the resulting loss of revenue control mentioned previously. If it is decided that it is necessary to impose change rather than negotiate it, it is necessary to neutralise the goodwill factor, by buyout or other action related to compensation for licence loss. This will provide the precondition for market contestability, or if necessary, price competition, on the basis of a "level playing field".

On the other hand, if changes to operations can be mutually negotiated - with the responsible authority producing operational guidelines, and the operator working out the detail of the operations, it is appropriate that the goodwill factor remain.

The action to be taken on goodwill depends largely on the amount of immediate change seen to be necessary in fare and route structures, and the perceived need for future large changes. Given the certain future need for flexibility the safest course may be to dispose of goodwill altogether. This will maintain trust and make it easier to do business, as well as maintain important operating resources in the industry.

Role and Professionalism of Public Operator

Another relevant factor in this area is the role and professionalism of the public operator. If this organisation is both operator, competitor and contract administrator/bid assessor, the uncertainty of "fair play" remains a problem, particularly as in Melbourne where the authority and/or its unions have empire building aspirations.

It is essential that operational and contract administration responsibilities are totally separated and seen to be so, so that bidders have total confidence in the "fair play" of the system.

Given this precondition I see no problem under suitable circumstances, of public and private operators competing for the same market.

2. FUTURE PERSPECTIVES

As far as I know there has not been any analysis of future public transport requirements in Australia on a national basis, or even on a citywide basis. The year 2000 is only 11 years away and changes in demographic, residential and work patterns will have implications for the service required in the future. Public transport will have to provide services to this new population and its changed demands. There is therefore a certain and paramount need for future flexibility, in the operation and allocation of service, as the "Transit 2000" report indicates.

This report, of the American Public Transit Association, addresses the issues likely to determine the form of public transport operation over the next 10 years.

Because of suburbanisation, the changing nature of the work environment and the fragmentation of the transit market "... the transportation problem is becoming more complex and multifaceted." This "... highly scattered trip making ... cannot be accommodated economically by traditional transit services." (APTA1 P6)

If the basic mission of public transport is to "... enhance mobility and personal freedom of movement" ... "emerging markets and external forces beyond the control of transit managers require the availability of new types of effective, attractive and affordable services, and expansion of the mix of public transportation choices" (Ibid P16)

The report states "enhanced mobility, increased economic vitality and improved environmental quality can only be achieved by a strategy in which transit seeks to expand and diversify, match a more intelligent service design to changing customer demands and wider patterns of growth and development" (Ibid P15).

By the year 2000 it is anticipated only a few market segments: "... teenagers, the frail and non driving elderly, the poor and some central city dwellers will not have cars. Therefore "choice" riders will comprise most of the market." (Ibid P14 - Summary Report)

In this environment there is a need to:-

- "maintain, upgrade and adapt existing systems and services to meet the new needs.
- provide for increased experimentation, the introduction and integration of innovative cost effective service option in areas where mobility needs cannot be met by traditional transport services" (Ibid P17)

Obstacles to these developments including ".... the public service nature of transit due to public expectations and requirements for reasonable fares, broad coverage and frequent service" (Ibid P19), mean that management goals must include:-

- "performance based management, relating performance to national and local goals
- expanding research and experimentation
- an enhanced local role - there is strong support for the principle that priorities should be set and sources allocated at a local level to a great degree" (Ibid P19)

Given all this, a basic question to be addressed is just how essential is an integrated system in addressing this scenario. Will a laissez faire system (pun intended) provide the basics, and what is not provided commercially be specifically subsidised? The UK has obviously addressed these issues formally; some Australian cities informally, eg. Sydney and Brisbane. These cities have maintained a significant private operation not integrated into a metropolitan fare system. By contrast Melbourne appears to have followed the European/US model towards integration (perhaps because of its significant tram network!).

It seems to me that in Australia and possibly even in the US and Europe (excepting the UK), probably because of the political position which public transport seems to occupy, and perhaps because of the political power of the operators and operatives, no independent study has been made into the advantages and disadvantages of integrated fare systems, against the costs involved.

The "old" ^{system} where the suburban bus operator connected with the suburban tram at the local station, because that is where the passengers were, has much to commend it - not least the organisational and cost efficiencies involved.

3. OUTCOMES TO BE ACHIEVED

Many practical matters need to be considered here, which have impact on the bidding process, the more important including:-

Fare System

Is there to be an integrated fare system, and a tightly, centrally controlled metropolitan-wide operation, or will arrangements which give an operator scope to exercise some initiative in setting fares and designing and allocating service in a local area be more appropriate. It is possible to combine the two, having an integrated fare structure to cover journeys such as commuter trips across the metropolitan area, while allowing local fares to be set by the local operator. With the advent of more sophisticated ticket issuing systems, revenue allocation could be fairly easily achieved.

Incentives

Are there to be incentives, and are they to be positive - eg. linked to passenger growth; negative - eg. strictures in the contract (the Melbourne contract is a good example), or implied - eg. beating the standard allowance for maintenance costs, fuel consumption etc., which has obvious dangers for maintenance of high operational standards.

Service Design

The more important factors to be considered here include whether large or small vehicles are specified, whether the operation is to be on fixed routes, and whether partial or full demand responsive operation is to be provided. Is the timetable to be responsive to practical rostering implications or is rostering to be dependant on timetables and service span? Some other matters to be considered under this heading are listed as Appendix 1, and all need to be considered in formulating the approach to the bid process and the actual contract.

Cost Accountability

"When competitive bidding is not required (or inappropriate - my comment) market contestability - the availability of alternative service providers - provides the assurance that the public agency is recovering the service for a reasonable price." (UMTA P31) A contracting authority will be generally aware of costs involved against service and standard provided, and so long as it is able to negotiate with alternative operators this will provide an alternative means to controlling costs to a competitive tendering approach. This approach is that which is now accepted in the Melbourne situation.

One difficulty is identifying the reasons for significant cost differences between operators; are they due to inefficiencies, or are they due to differing operating conditions and requirements? Particularly in the areas of platform time and vehicle average speed, significant operational differences can impact on resulting direct costs.

In the administrative area relevant costs are not usually variable in linear terms, but in a stepped fashion, reflecting the actual performance in overhead costs with changes in fleet size.

Finally, for full cost contracted services it is appropriate that the contracting authority has reasonable audit access to the books of the operator, only to the extent that they reflect the operation of the contracted service, to verify expenditure.

Simple Administration

Generally, the more operational variations the contract document seeks to cover, the more complex the document, and the more difficult its negotiation. Likewise, the strength of the control which is attempted to be exerted over the way the operator performs the detail of the operation, the more complicated and detailed, and expensive, will be the control procedures, and I would suggest, the less responsive the operation.

Flexibility

It is important to consider the amount of latitude, or scope for variation to be built into the system to allow for changes in routes, and changes in fare structures required by the essential future need for flexibility, outlined earlier. If the operator is to be encouraged to put capital into the operation, this need to obtain flexibility needs to be related to security of tenure, and a fair return related to this security; to encourage investment in reasonable operating equipment, adequate staff training and other assets.

The decision between offering contracts for specific routes, as against a group of routes or even an "amount" of operation contained in a franchise area is largely conditioned by, firstly whether the route is a distinct operation, say across town or radial trunk service (which is basically self contained and established), or a feeder service in an area of developing or diminishing patronage, where some flexibility in route structure would be useful, and where local initiative in this area would be productive.

It is also reasonable to expect to contract separate routes in a situation where tight contract control is seen as important, and a franchise area arrangement when local operator initiative is sought.

It must be remembered that there are significant costs not directly related to the amount of service put on the street, such as administration and workshop overheads, staff and mechanic wages, and so on. These costs do not bear of fixed relation to operating outputs, and so any change in service delivered will have an uncertain effect on these overhead and fixed costs. One way to overcome this is to use short contracts, but this is counterproductive in encouraging investment. Negotiation is therefore essential, to obtain a reasonable compromise between desirable operational flexibility, and fair contract rates.

Publicity

The level at which publicity, particularly essential marketing items such as timetables and timetable information, is to be organised and provided, needs to be considered. After long experience with the Melbourne Metropolitan Transit Authority, I can categorically state that it is essential for timetable information and advice, and other local service information, to be provided by the local operator. Allowance for this should be included in the contract financial arrangements.

4. AGAINST WHAT PERFORMANCE STANDARDS ARE CONTRACTORS AND CONTRACT PERFORMANCE TO BE SET

The basic alternatives are between objective assessment against formal standards, and subjective assessment against generally held ideas of good operation and good performance, ie. subjective standards.

While performance standards covering efficiency and effectiveness have been postulated (for instance the APTA Transit Performance and Productivity Report); they are not generally agreed, and in the Australian environment generally not understood and not applied.

One important difficulty is setting citywide standards against the different operating conditions experienced in suburban against downtown areas, or type of operation most suited to low density as compared with high density population. For instance the standards to be observed on a CBD commuter service are likely to be different from those required for a local suburban operation.

While the assessment of potential operators against any number of standards may be useful - eg. number of buses per mechanic, number of buses per service bay, presence/type of radio system and so on, there is no guarantee that the most impressive standard in these areas will be translated into good reliable high standard operation, and there is no certainty that less extravagant facilities will result in poor operation.

I believe it is therefore difficult if not impossible to develop totally objective standards and adequate objective measures of performance for the assessment of operator potential.

As the purpose of the contract is to get quality service on the street, it is this aspect which needs to be the main consideration. I believe in the end result this must be a subjective assessment of performance variables against operating conditions.

Finally there is the question of assessment when the assessor is also a player in the field.

Because there is no way the whole process can be totally objective and because of the complexity of operational parameters, the bottom line to what ever process engaged in must be mutual trust and respect between the organisation letting contracts, awarding subsidies or whatever, and the contractor/franchisee or subsidised operator.

5. Observations

As an operator, with now 25 years experience in operating suburban bus services, with equipment ranging from articulated vehicles to 25 seaters and contracted taxis, on both fixed and demand service, I put forward the following observations:-

- Consistent with maintaining adequate future flexibility to reorganise service, the main aim of any bid system is to get quality transport which responds to specific market needs on the street at a reasonable cost. This should be the objective of any bidding and contracting system. The essentials are quality of service, flexibility to change service, and cost, probably in that order.
- Because there is no way in which the whole bid process can be totally objective and because of the complexity of operational parameters, mutual trust and respect between the parties is essential, in negotiating the resolution of the conflicting requirements of a bidding process.
- Also because of the complexity of the whole operation, a "market contestability" approach (the possibility of negotiation between alternative operators) is more important than price competition for contracting most operations, and particularly for local network services.
- Where there are existing licences the goodwill component should be paid out to provide a fair basis for necessary competition and flexibility.
- It is more appropriate to bid franchise areas for local suburban services and specific routes for commuter and cross town services.
- The bid system should encourage utilisation of operator initiative in franchise areas.
- The bid system should provide incentives for operators related to patronage, or other positive aspects of the operation.
- High and objective financial and operating qualifications should be established and used for pre-qualification of operators.

- An adequate number of objective vehicle and operating standards in the areas of maintenance, safety, fleet age, etc. and agreed operating performance standards, eg. trips on time, trips missed, etc. should be established to introduce as many objective standards into assessment and performance monitoring as possible.
 - Contracts should be negotiated on the basis of the above comments, with pre-qualified operators.
 - Suitable indexation must be included in the contract, using relevant indices, and covering all appropriate cost components.
 - Bid assessment must be demonstrably independent from any potential competitive operating entity, and where public and private operations are bidding for the same operation, it must be on an "apples and apples" basis, including proper and equal treatment of capital costs.
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APPENDIX 1Operational Matters To Be Considered In Developing A Bid Process

1. Efficient Rostering
 - related to route length, timetable and bus speed by time of day, against award conditions and relevant wage rates.
 - related also to spread of service.
2. Supply of operational equipment
 - vehicles, and responsibility for specification, purchase, and finance
 - tickets
 - specialised ticketing equipment
 - radios etc.
3. Publicity
 - overall concepts, marketing approach, and general design
 - printing and supply of timetables
 - information on services
4. Route furniture
 - supply, erection and maintenance of stop signs, shelters and route information
5. Vehicle Mix and Operation
 - vehicle ownership
 - vehicle size, and composition of fleet against markets to be served by time of day
 - conventional or demand responsive operation, or a mix
 - vehicle utilisation, against demand and markets
 - vehicle standards, specifications
 - operational supervision
6. Service Variations
 - notice required for service variations
 - procedure to be followed if re-negotiation required
 - arbitration arrangements
7. Licensing Conditions
 - licensing of vehicles and drivers
 - qualifications

