Some Gems from Thredbo 11
David A. Hensher

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Highlights

• Building and using Trust is not a vacuous construct but one with preconditions (Williamson model):
  – Stakeholder Competence, Confidence, Consistency, Commitment, Common core objectives
  – Contract Clarity (ex ante)
  – Clarity of ex post obligations

• Link between trusting partnership (TP) and contract design (CD)
  – TP precedes CD (e.g., Melbourne)
  – CD precedes TP (more common)

• Organisational and person trust
  – Dynamic and ongoing (reality)

• Greater clarity (not complexity) ex ante with ‘ex post Practice Notes’
  – Evidence that greatest challenge in terms of ex post ambiguity is on demand side
    • Service planning
    • Network design
    • Marketing etc.
Highlights

• Gross Cost Contracts (GCC) + Strong *and* effective incentives *and* (?) profit and loss sharing
  – Mindful of budget constraints of Treasury
• Dutch revenue-based contract with budget subsidy incentives
  • watch this space, too early to decide effectiveness
• Plain vanilla GCC per se – not good – incentive incompatible
• Net Cost – controversial
  – problem for authority is managing evidence on revenue, and operators not reinvesting super profits back
  – Operator often has little or no risk over fares, network and actual potential market (Europe view)
Highlights - Overijssel

- Lessons learnt from 1st round
  - Net cost CT
  - Inflexible
  - Operator essentially ignored patronage opportunities and focussed on cost reduction
- Response 2nd Round
  - Gross cost plus BIG incentives (hybrid) CT
  - Bonuses based on
    - Satisfaction of passenger
    - Satisfaction of authority (with operator)
    - Growth in patronage
    - Shared benefit (25%) of extra passenger revenue
    - Max. bonus can reach 1 million Euros p.a. (approx 4-5% of turnover)
  - Sensible Budget constraint (crucial issue often neglected – helps Treasury)
Highlights

• Linked to confusion about obligations in respect of planning priorities
  – In many countries there is poor understanding of link between strategic goals and on-the-ground deliverables
  – i.e., S-O via T
  – Strongly linked to expertise and politics
Highlights

• Up-skilling of all stakeholders but especially regulator/PT authority – Crucial in building trust
• Strategic Goals and disconnect of linkages down to deliverables on the road/track.
• The Bulgarian model – a new gem
• Competition for ideas
Who does (should do) the Planning?

- Intellectual Property concern if operator can contribute to T level:
  - Some argue this is a fatal flaw in CT and discourages significant improvements.
  - Under CT concern is about if lose in subsequent round
  - So public authority often ends up doing the planning which may or may not be appropriate
    - Dependent in part on expertise
    - But is a potential barrier to growing cooperation and trust
  - Raises question about focus on Revenue –Cost (R-C) vs. Benefit-Cost (B-C).
    - Greater prospects of B-C under negotiated PBC with competent operators under benchmarking.
Market Maturity

- Maturity of Markets
  - In some environments we still need to develop the market (operators, planners etc.)
  - So many of the ideas must be considered subject to maturity of market
    - Expertise/skills
    - Institutional integrity
    - Empowerment
  - Suggest that until setting is ready with competent principals and agents that we have strong central incentives to grow competence and commitment
  - Once a market is ‘ready’:
    - Gross Cost Contracts (GCC) + Strong and effective incentives + profit/loss sharing
Incentives

- Incentive Framework must at least deliver:
  - Real freedom
  - Right incentives
  - Unambiguous budgetary bounds

and recognise

the issue of no market growth potential in many situations

- These pre-conditions are essential to build mutual understanding and hence trust in partnership
Some Challenges for T12

• How much of patronage growth can be attributed to the specific contract design?
  – How much is due to other factors?
• Suggest a Thredbo led global performance review of all contacting regimes to establish relevance advice on what works and what does not, and under what conditions
  – Controlling for (explaining) mitigating factors that drive differences on some agreed high level performance indicators
• Why are
  – sceptics of a trusting partnership regime so sceptical?
  – fans of TP so believing?
• How difficult is it to grow a trusting partnership under CT?
  – Some would say – why do we need to?
  – Others would say – it is crucial
Some Challenges for T12

• There is a move in some contexts to:
  – negotiated PBCs with Benchmarking
  • Why?
    – Suggestion: CT max of 3 rounds from public monopoly:
      » Round 1 to get costs down (efficient)?
      » Rounds 2 and 3 to get quality right?
      » After that – what do we gain?
    – Hybrid CT models (e.g., in Holland) which may or may not be
      progressive strategies towards eventual Neg PBC

• Transition Arrangements need more careful emphasis
  under any circumstances
  – To minimise transactions costs
  – Essential to make changes on day new operator begins, since
    customers expect change and it is relatively easy to do.
Warning

• There is no one contractual regime that is ‘best’
  – Different countries/regions are at various stages in reform and experience

• Crucial issues in building desirable outcomes are:
  – Market maturity
  – Common core of objectives
  – Competence
  – Commitment
  – Confidence
  – Consistency

• However there is growing support for
  – Building trusting partnerships as a necessary but not sufficient condition
  – Embedded contract clarity *ex ante* through no over-prescription with *ex post* practice notes for change events that cannot adequately be prescribed *ex ante* in the contract
• Patronage Growth (PG)
  – Obvious really, but must be at the forefront of translation of strategic goals
  – We often see a continuing focus on supply side criteria

• Must link to Value for Money (VM)
  – NSB per $ outlaid
  – Patronage a proxy for NSB