



Some Gems from Thredbo 11

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Highlights

- Building and using Trust is not a vacuous construct but one with pre-conditions (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



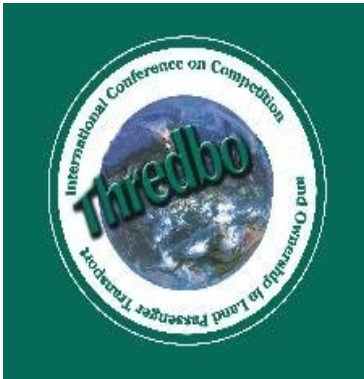
Who does (should do) the Planning?

- 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 boundsand 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 contracting 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



Highlights

- 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