
Competitive Tendering - The London Experience

Nick Newton

(formerly) Competitive Tendering Division, London Transport
London, England

When the Government deregulated the rest of the UK, they specifically excluded London, because it was "not yet ready." It had only recently emerged from the 1984 LRT act, which included a number of significant changes. London Transport was restructured into the main operating functions, and competitive tendering for bus services was encouraged.

The original objectives of competitive tendering were:

- To reduce costs,
- Maintain service performance, and
- Involve new independent operators.

These objectives suggest that at that time London's buses were:

- Monopolistic and
- Too costly, but
- Performance was acceptable.

In 1984, few objective observers would have disagreed with this assessment.

The tendering process then devised has remained largely unchanged despite a growth to cover broadly half the total bus network. It contains all the key elements of a successful competitive tendering process:

- Clear specification;
- Firm, but fair, contract terms;
- High integrity evaluation and award process;
- Demanding performance standards;
- Good quality monitoring;
- Clearly understood penalties for failure to meet standards — and a demonstrated preparedness to implement them; and
- A policy of building long term relationships with good quality operators on keen commercial terms.

The Broad Process

- LT specifies the service,
- LT sets the fares,
- LT takes the revenue risk, and
- LT monitors performance and applies remedies

Details of the Process

For the process to be effective, real competition needs to exist. Key features are specifically designed to encourage participation by, in particular, private sector operators.

Choice of Services to Tender

Until recently a number of criteria have been used to select routes:

- Poor financial performance,
- Poor operational performance,
- Likelihood of attracting genuine competition,
- Resources needed, and
- Location.

These generally apply to individual routes.

Separately, LT's bus service planning have been running a program of area route network reviews (ARNS) with the objective of restructuring service levels and patterns based on comprehensive assessment of passenger journey patterns and demands. Networks thus restructured are implemented wholly or partly as contracted services following competitive tendering.

Generally, the tendering program for the next fiscal year has been established in the autumn. This program covered the routes involved, the related mileage and the planned time for start of contracted services.

Most recently the tendering program has been directly associated with the process of privatization of the London buses operating subsidiaries.

Specification of Selected Services

Services are specified precisely in terms of:

- Routing (to, from and via),
- First and last journeys,
- Frequencies by time of day and day of week, and
- Size and type of vehicle for specified frequencies.

This level of specification is necessary to maintain and enhance the integrated nature of the network.

Tenderers must submit a bid which complies with the specification, they are then free to offer alternatives such as smaller buses at higher frequencies or different routings.

In establishing the route specifications, the service pattern is reviewed in conjunction with LT bus service planning.

Tendering Process

Tender opportunities are advertised in the trade press. All respondents are forwarded full invitation to tender documentation. Sealed bids are required to be returned by a specified time on a specified day. Failure to meet this requirement precludes the bid from consideration. Tenders are opened by the LT assistant secretary and an independent senior manager.

Contract Form

The contract is a 'cost contract,' that is, tenderers quote their firm price for providing the specified service (or any quoted variant) reflecting their costs and required margin. Revenue is collected on behalf of it and paid to LT. LT takes the revenue risk.

The choice of contract form reflects:-

The duty to integrate and co-ordinate the network and fares - and the related importance of avoiding 'on the road' revenue driven competition.

The need to encourage competition and new market entrants by reducing risks.

The need to avoid complex and protracted negotiations on the apportionment of off-bus revenues. (It is an LT policy to encourage increased use of prepaid tickets/passes).

To facilitate proper accountability, electronic ticket equipment is free issued to contractors.

Contract Length

Generally tenders are requested for three year contracts. Occasionally tenders are requested for shorter periods depending on the nature of the service.

Vehicle Specification

Only public service vehicles (buses) are permitted. The service specification identifies size and general vehicle type (e.g., midi, single or double deck). A schedule of particular accessibility features (schedule x) is included in tender invitations. Tenderers are required to submit a statement of compliance with their tenders.

Tender Evaluation and Selection of Contractors

Bids are checked for compliance. They must include, among other things, a valid operator's license, insurance certificates, and an acceptable health and safety policy statement. Selection of contractors is based on 'value for money' criteria. Lowest price is not always chosen. Criteria applied include:

Level of quoted price.

Adequacy of proposed level of resources.

Competitiveness of wages and conditions proposals vis a vis recruitment and retention.

Operational feasibility (remoteness from depot).

Control and supervision proposals.

Suitability of vehicles.

Recent operational and safety performance.

Track record and experience.

A comprehensive evaluation report is prepared including a recommended choice of contractor. This is submitted to the Tendered Bus Division management board, which is the ultimate approval body.

Contract Payments

The contract price (fixed for 12 months and then adjusted annually for inflation by a national Government index based formula) is translated into a price per four weekly accounting period. At the end of the second week of each accounting period, 75 percent of the contract price is paid by direct transfer into the contractor's bank. The balance payment is made against invoice reflecting contractual deductions (see below).

Contract Penalties/Incentives

The annual scheduled contract mileage and the annual fixed contract price produce an average price per mile. A deduction is made from contract payments at this average price per mile for each mile not operated (based on contractors' returns and other data sources - see below). Losses due to 'force majeure' - typically traffic lost miles - are not penalized in this way. Deductions are also made for inefficient revenue collection. Deductions are calculated using data from revenue inspection monitoring (see below). Detected transgressions are valued and grossed up by the sampling rate. These arrangements only apply where at least one percent of passenger journeys have been monitored.

Monitoring

Monitoring is carried out to ensure effective service provision by operators. The areas covered are safety, operational performance, and revenue collection.

Safety

Government vehicle inspection details are provided by contractors.

Workshop and vehicle safety inspections are carried out by an independent professional agency under contract.

All accidents are reported by contractors identified by various established categories.

Information is analyzed to identify trends and underlying accident causes. Accident potential is assessed.

Operational Performance

Monitoring is conducted from a passenger's viewpoint whenever possible, giving a picture of the service in terms of what is demanded by users rather than what is thought reasonable by suppliers. Standards are set and used to highlight areas where improvement is necessary. The areas monitored are:

Volume - using weekly lost mileage returns provided by contractors;

Reliability - using a network wide survey using roadside recorders;

Drivers - using a team of market research staff who assess attitude, appearance and quality of ride;

Presentation of vehicles - using a team of market research staff looking at cleanliness, accuracy of blind displays, seat condition etc.

Public correspondence is analyzed for relevant information.

Revenue

Revenue inspectors check on the bus. Uniformed and plain clothes officials are used. A minimum of one percent of passenger journeys are checked.

Data from electronic ticket machines are analyzed. The machines record every transaction.

Contract Variations

Cost inflation is dealt with by an established contract formula using a Government index. Other variations to contract are dealt with by negotiation. Initially, consideration was given to the use of a simple formula, based, for example, on the average price per mile, but this was rejected due to its crudeness and inability to reflect the real implications on costs of changes in the level of activity.

All contract variation negotiations have been successfully concluded. They have generally involved enhancements to cater for increased demand resulting from improved service quality.

Contract Termination

Monitoring against standards highlights consistently poor performance. If operators are unable to meet standards within a given time period, this consistently poor performance is penalized by contract termination via 'breach' provisions in the contract. In such circumstances, temporary contracts are arranged to maintain the service pending re-tendering.

Contract Extension

As expiry of contracts approaches, service performance is reviewed. Specific criteria for the percentage of schedule operated over the previous 52 and most recent 12 weeks need to be met before a contract extension is considered.

Once these service performance criteria have been satisfied, the contract price is reviewed in relation to the perceived prevailing market rate. If savings can be anticipated, re-tendering is undertaken; otherwise, contract extension negotiations are based on:

First extensions - a minimum real price reduction of 2½ percent.

Second and subsequent extensions - a minimum real price reduction of 5 percent.

The length of extension is generally two years, although a three year extension may be considered in return for added value items, eg new vehicles, In addition to the price reductions above.

What Has Been Achieved

Costs

Cost reductions or 'savings' fluctuate but have broadly averaged 15-20 percent of previous gross operating costs.

Service Performance

Clear specification of what is required together with "incentives" to provide have certainly improved the quantity of what is operated.

Improvements in quality have been apparent but less significant.

Where quality and quantity meet, for example, in the management of the effects of traffic congestion then performance and passengers benefit.

Of course, cost is also a key element here - greater cost efficiency provides the opportunity to choose to reinvest in resources to ameliorate the effects of congestion.

A lot of congestion is predictable and the effects identifiable. In such circumstances, the cost of reducing the effects can be evaluated and committed.

Operators

When tendering started in 1984/5 there were probably three bus operators in and around London. The organizational changes made to these since then have caused the three to become 17. 1985's 17 is now 32.

In my view, this represents a reasonably successful level of competition. We have an average of five bids for each tendering opportunity and there are a number of keen but as yet unsatisfied additional operators. Current operators of London Transport bus service contracts represent a comprehensive cross section of the industry:

Big and small
Independent and members of groups.

Since its inception in 1985, London's Bus Service Tendering has grown and improved consistently. It now provides some 50 percent of the network. To summarize where we are in terms of volumes and structure:

Number of operators.
Volume of service.
Quality - performance.
Costs - much more efficient.

Is it therefore all good news? I believe there is still considerable scope for improvement. In simple terms, I feel we have established a sound structure involving cost efficiency and clear key performance standards. We have a reasonable number of cost effective and experienced bus operators. We, hopefully, have demonstrated the value of good quality bus services to operators and politicians and hopefully we would have persuaded the public that travel by bus is an enjoyable, intelligent, and practical thing to do.