

Public transport tendering and contracting arrangements in countries under regulatory transition: The case of Cyprus

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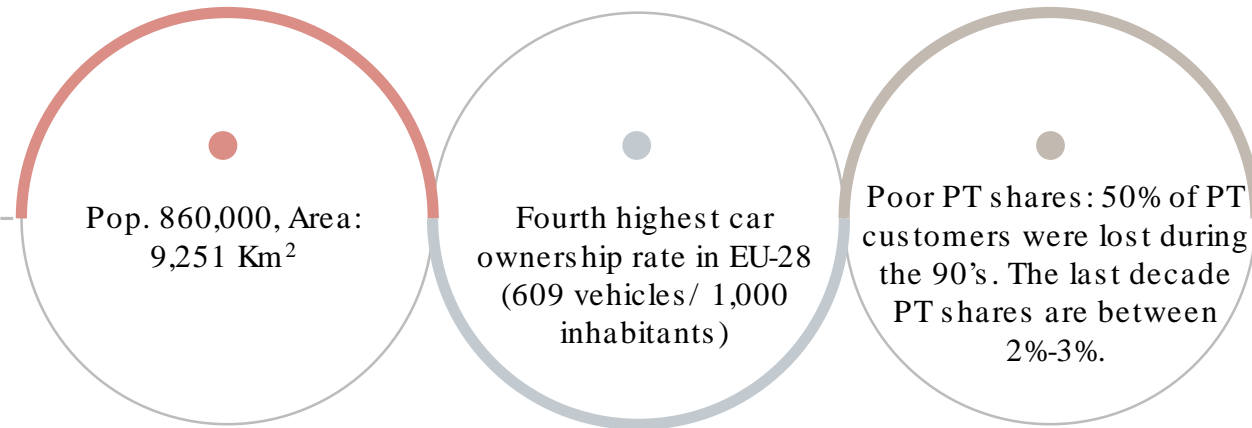
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Current status- Contract Areas

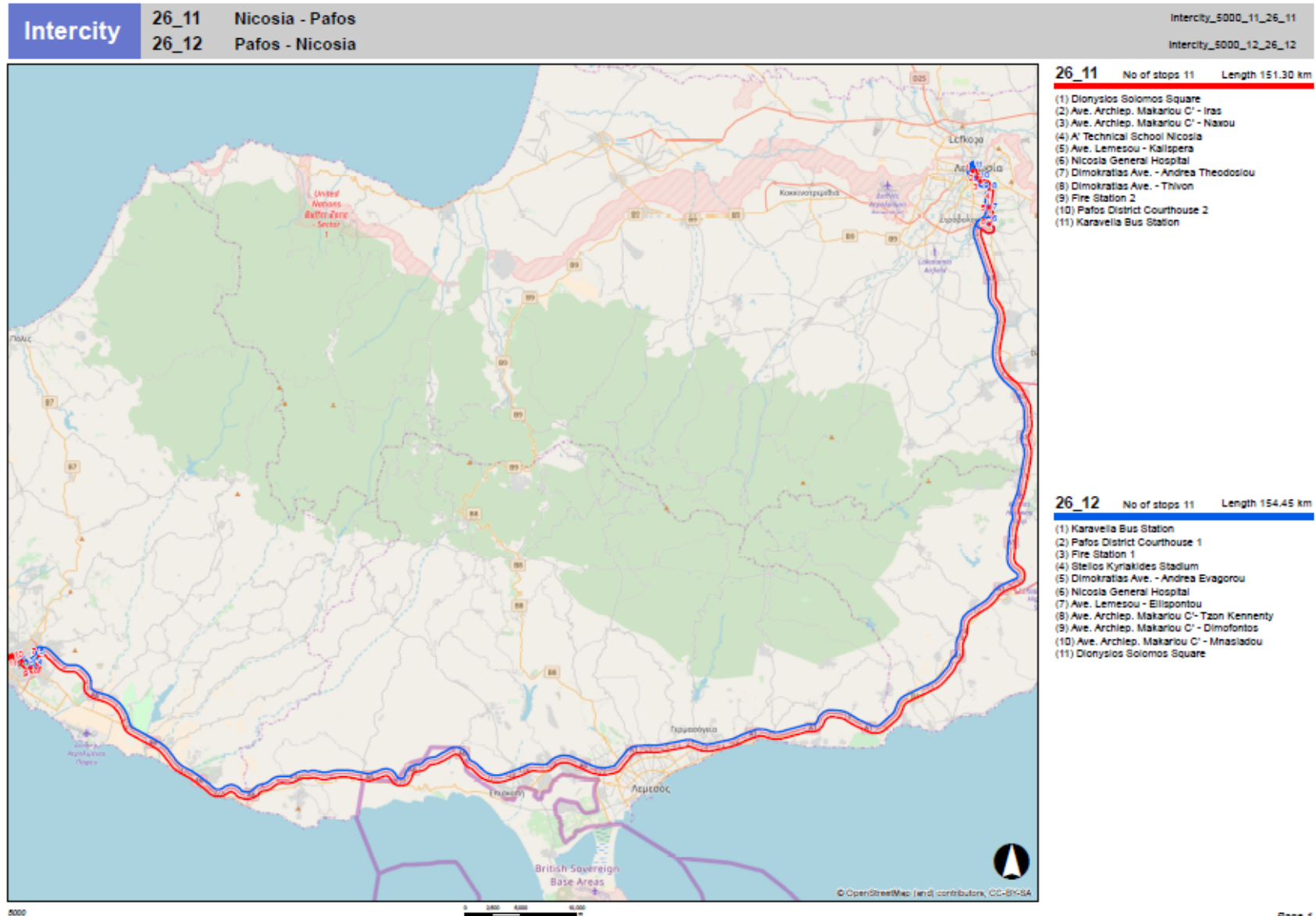


Current status- Basic Facts



Company Acronym	Full company name	Service area	Number of buses*	Annual veh-kms (millions) 2016
OSEL	Transportation Organization of Nicosia District	District of Nicosia	242	7.14
EMEL	Limassol Passengers Transport Company	District of Limassol	281	4.02
ZINON	Lamaca Buses	District of Lamaca	104	3.77
OSYP	Paphos Transport Organization	District of Paphos	102	3.85
OSEA	Famagusta District Transport Organisation	District of Famagusta	87	3.44
INTERCITY	Intercity Buses	Connecting all cities in Cyprus	52	4.23
*Fleet size serves to cover all regular PT services and part or all the student services. In districts of Limassol and Paphos the fleet size cover fully the school services offered.				

Current status- Example of Intercity Route

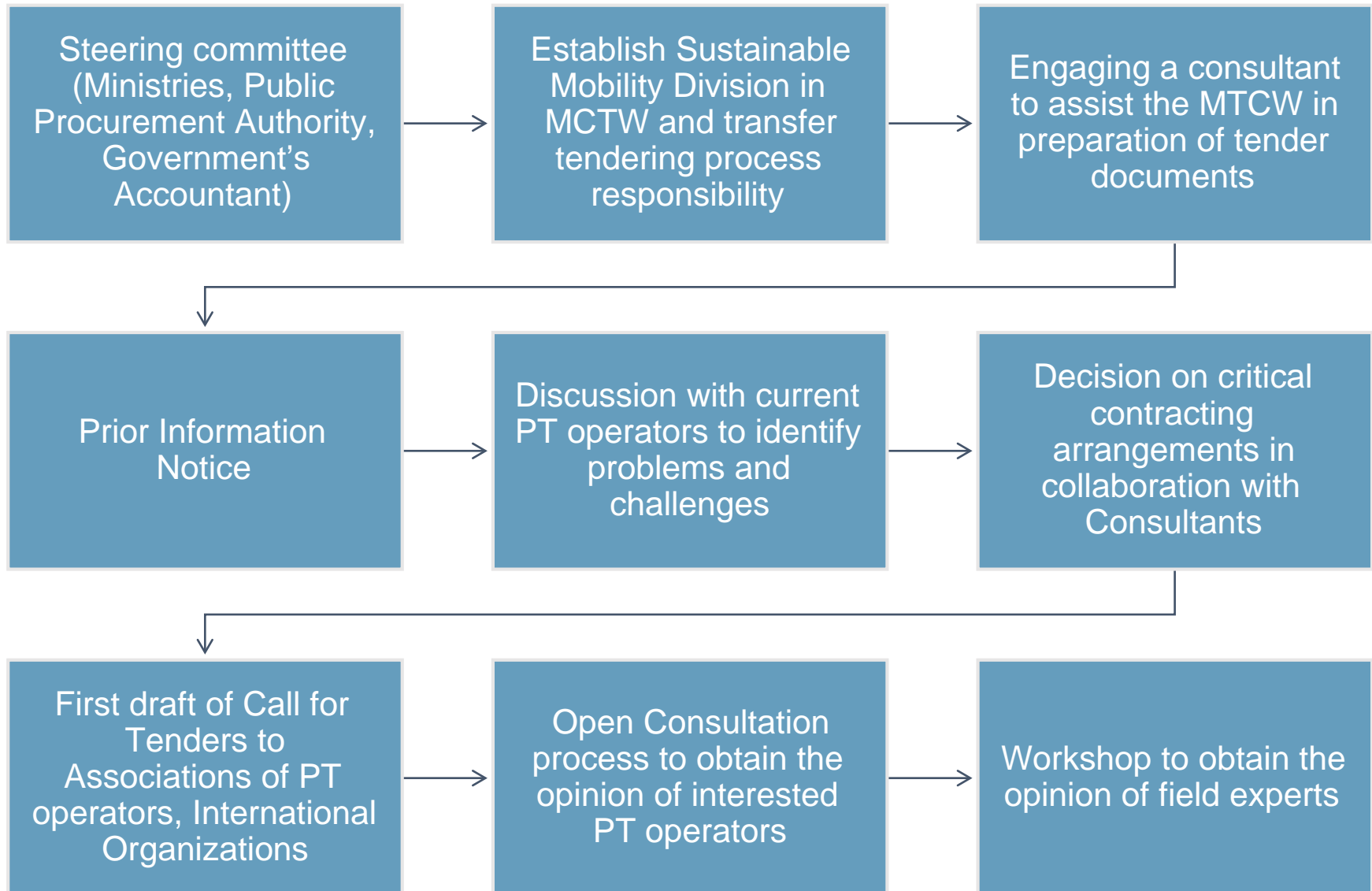


Early years and PT reform in 2009

- Period 1997-2009: 209 passenger transport providers of various sizes; incompatible bus fleet; poor availability and design; high fares and low farebox recovery ratios
- Objectives of 2009 PT Reform:
 - reduce private car use and increase PT share to 10% until 2020;
 - modernize bus fleet;
 - increase service frequency;
 - improve PT accessibility and availability
- The Government awarded gross-cost PT contracts for 10 years to six (6) private bus PT operators, five (5) to serve urban routes and one (1) to serve intercity links
- Service design and fare levels are decided by Government; Operators had to implement ITS apps (AVL, Passenger Info & EFC)
- Started well at the beginning- enthusiasm over modernizing bus fleet- but problems emerged over the amount of remuneration during PT contract period



Road-Map to the new Contracts



Main Issues to consider

In 2016, MTCW decided to launch a competitive tendering procedure for awarding new PT contracts in line with Reg. 1370/2007



Increase PT share by 10% through quality upgrade and transition from a monopolistic to a competitive PT market

Contract
Type?

Evaluation
of offers
(financial;
technical)?

Incentivize the
creation of bus
depots and
acquisition of
greener fleet?

Number of
contracts?

Incorporate
SUMP
objectives into
PT service
networks?

Eligibility
criteria for
equal
participation?

Main Features of Cyprus Tender

TYPE OF COMPETITION

- Six (6) concession contracts, one per district and one for intercity routes
- Lowest offer wins
- No direct technical evaluation
- Quality criteria are converted to financial offer reductions for evaluation purposes
- Priority on reducing public spending
- Difficulties to justify technical evaluation result

ELIGIBILITY AND SELECTION CRITERIA

- Very strict criteria on experience record, fleet size, ITS capabilities, fare integration, performance benchmarks
- Reflect hesitation of competent authority to trust domestic operators
- Allow the participation of local, international and corresponding consortia of operators

TYPE AND DURATION OF CONTRACT

- “Fee based on a net cost basis” contracts: Operators receive a monthly fee; revenues are kept by concessionaires; profits in case of additional services ordered by the Ministry are shared
- Maximum 10 years duration to enable business planning especially for foreign players

Main Features of Cyprus Tender

DIVISION IN CONTRACT AREAS

- Remained unchanged so as not to upset local communities (lesson learnt from Malta)
- Small contract areas allow the participation of small sized PT operators while economies of scale are possible since bidders can express interest for a combination of contract areas (under certain limitations)

SERVICE DESIGN

- Minimum service requirements per contract area are set by MTCW
- Operators can propose adjustments subject to MTCW's approval
- Limits opportunity to incorporate operators' know and innovation; No process to account for public opinion feedback

REMUNERATION

- The monthly State contribution to the Concessionaire is calculated on the basis of his offer plus the payable amount corresponding to additional services asked by the Contracting Authority minus the amount of contingent penalties
- 90% of the monthly state contribution of the Concessionaire offer is adjusted to take into account individual inflationary changes; The other 10% is considered as the Concessionaire profit

Main Features of Cyprus Tender

FLEET

- Specific obligations for the type, condition and age of the bus fleet into service
- Transition into a greener fleet is encouraged but without any motive during contract period or additional remuneration
- The contract protects foreign operators from purchasing/transferring right hand buses in Cyprus, i.e.: (a) permits the rental of buses up to 30%, (b) allows any EURO VI buses to be sold to the next concessionaire and (c) allows the concessionaires to set up a Bus Leasing company for scheduling extra buses during peak periods.

PERSONNEL

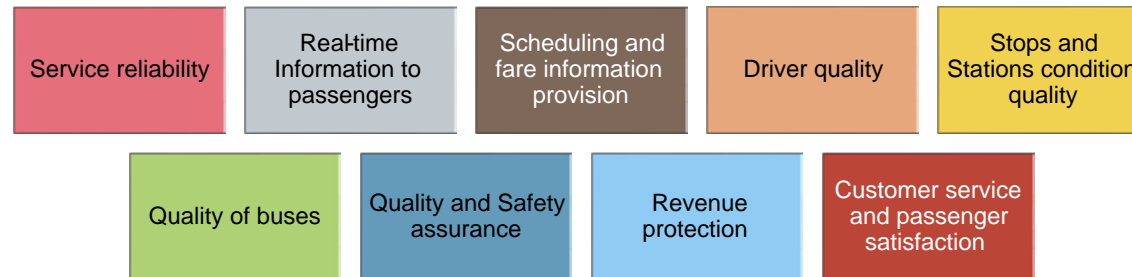
- Oblige the new Concessionaires to source the required employees from the concessionaire of the previous contract
- During first year the Concessionaire shall negotiate all subsequent collective agreements with the Employee Unions
- These safe-belt arrangements encourage the teaming up of foreign and local operators

FARES

- For all routes determination of maximum fares is made by the MTCW after consulting with the Concessionaires.
- Concessionaires may choose to charge lower fares, to utilize their experience into attracting more passengers, but only after MTCW's approval
- The fares may be increased biennially so as to incorporate any increases in the operating cost
- A clearing procedure for the case where customers use wallet and "all Cyprus zone" tickets
- Specific provisions for underprivileged groups of passengers

Main Features of Cyprus Tender

- Performance monitoring is established through a structured process which measures annually a set of pre-defined KPIs on 9 aspects



**Monitoring System
and penalties**



- Customer satisfaction and Mystery shopping surveys are required in line with the established EN13816/2002 standard
 - ✓ Fair benchmarking comparisons on local and international level
 - ✓ Enables foreign operators to transfer their in-house procedures
- KPIs reflect the intention of the Contracting Authority to secure the proper delivery and functioning of all the PT investments that wish to establish through this reform:
 - ✓ Penalties imposed when operators fall behind KPIs' benchmark levels and when they delay the delivery of promised PT investments
 - ✓ Penalties in the latter case are higher

Main Features of the Cyprus Tender

Incentives

- No incentives in the form of additional remuneration when Concessionaires present over-performance in certain aspects (e.g. ridership, quality improvements etc.)
- Incentives apply, in an indirect manner, during the selection process among bidders:
 - ✓ Technical and business capacity of tenderers is converted into discounts in their financial offers, thus resulting in new lower offer figures, but for comparison purposes only.

Technical Offer Element	Maximum reduction of Financial Offer
Investment on PT facilities (Stations, Multi-modal Hubs)	1.5%
Investment on Sales Network expansion using Telematics systems	1.0%
Formulating detailed procedures for operations and customer care and assuring quality	1.0%
Market research and PT promotion campaigns	1.0%
Transition Period and development of express services and/or demand responsive transport services	1.0%

Discussion and Conclusion

- The Contracting Authority attempts to satisfy several conflicting objectives namely, reduce public spending, increase service quality, improve performance, achieve investments on infrastructure and bus fleets from the Concessionaires' side and simplify monitoring effort.
- A critical objective of the reform was to attract major international PT players:
 - ✓ On the one hand, the eligibility and selection criteria, the contract duration and the opportunity to rent/lease buses seem to provide equal participation opportunities to both local and foreign PT companies.
 - ✓ On the other hand, the partition of a small-sized country into many contracting areas (that probably do not favour economies of scale), the relatively limited freedom on service design and fare policy, the lack of readily available depots and the requirement to provide an ambitious PT investment program are contracting arrangements that may be considered as entry barriers to the Cyprus PT market.
- The Cypriot authorities have not so far acquired the necessary experience to manage and supervise a foreign and experienced corporate scheme, and for this reason they have tried to maintain some rigid points on the degrees of freedom they will provide to the contract winner.

Discussion and Conclusion

Required prerequisites for a successful tender process and concession contract context:

- Relatively strong interest to participate in the competition both from the local market and from abroad. The option given to Concessionaires to form a joint bus leasing company may facilitate foreign operators to participate.
- The market and contract size and characteristics attract the interest of potential tenderers. This is not the case for Cyprus, unless tenderers win combinations of contracts.
- The Contracting Authority is capable of managing six (6) new contracts via the establishment of an Organizing Authority, properly structured and staffed, to undertake the role of managing complicated contracts and monitoring the performance of operations and services offered.
- There is an explicit intention of the MTCW and the persons representing Public Authorities, that PT is and will be a priority in any transport policy applied in the country. All transport related measures and actions taken, must be aligned with such policies



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Thank you for your attention!

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