

**Report for Workshop 1:
EXPERIENCE WITH COMPETITIVE TENDERING**

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INTRODUCTION

The purpose of Workshop 1 was to examine the use of competition by urban public transport systems and to identify the primary requirements to achieve the mobility and social goals of public transport for the lowest cost to the public and the passengers.

PAPERS

Workshop 1 included participants from Australia, Finland, Japan, New Zealand, Norway, South Africa, the Soviet Union, Sweden, and the United States.

The following papers were reviewed:

Jean Love and Jim Seal, "Competitive Tendering in the US: Overcoming Barriers."

Esa Mannisenmaki, "Alternatives in Bidding for Service Contracts - The Scandinavian Experience."

Ian Wallis, "Competitive Tendering in New Zealand: Evolving Policies and Experience."

Leon M. Luycx, Marthinius J. Vermeulen, and David Skinner, "The South African Experience with Special Reference to Competitive Tendering."

Wendell Cox and Jean Love, "International Experience in Competitive Tendering."

Authors from other workshops presented portions of their papers that were relevant to Workshop 1 including William Shughart (public choice economic analysis of transport subsidies) and Peter White (the cost differences of gross versus net tenders in competitive tendering of public transport services in London). In addition, the interests of the group, many of whom were not present at the First International Conference, resulted in a review of a paper presented in Australia in 1989.¹²

THE CONTEXT OF URBAN PUBLIC TRANSPORT

Over the last 60 years, the delivery of most public transport services was transferred from regulated private monopolies to public monopolies, although some regulated private services remain. Governments and analysts offered strong arguments for the conversion to unregulated, protected public monopoly.

1. Improved cost performance: Transit services produced by public monopolies would lower the costs of transport, because public transport monopolies would be exempt from taxation and would not have to earn a profit. Also, consolidation of multiple local area monopolies into regional public transport monopolies would result in lower costs through economies of scale.

2. A public ethic: Public servants would be committed to public service and not private gain. The managers and employees of public transport monopolies would give greater attention to customer service.

3. Public stewardship: As public transport costs and subsidies increased rapidly, governments sought more direct control over public expenditures. Governments believed that providing service through public monopoly would improve stewardship over the use of public funds.

Despite these worthy expectations, public transport's market share continually has declined in developed countries as a result of competition from the automobile and less dense urban development. Commercial and residential movement to the suburbs is most pronounced in the United States and Canada, yet there are similar trends in Europe, Australia, New Zealand, Japan and elsewhere. In many affluent nations with high public transport ridership, market share is declining even in public transport's best corridors. In Finland, for example, older women are far more dependent upon public transport than younger women, whose automobile driving profile is nearly indistinguishable from that of men. Changes in demographics and living patterns such as these suggest that the challenge of retaining public transport market share increasingly will become more difficult.

The extent of public transport's market share loss may have been unnecessarily high. The conversion to public monopolies did not result in lower public transit costs. Unit costs increased at an extraordinary rate and

consumed public funding that could have been used to expand transport services, provide other public services, or permit lower taxes.

Economies of scale were elusive. The largest public transport operators tended to have larger staff to revenue vehicle ratios than smaller operators. For example, Glavmosgotrans in Moscow requires 55,000 employees to operate 10,000 buses and trolley-buses, while the New York City Transit Authority requires 43,000 employees to operate 10,000 vehicles (4,000 buses and 6,000 rail cars).^{<2>} Smaller operators tend to have much smaller ratios of staff to vehicles.

The increase in public transport costs has not resulted from wrongly-inclined transport managers or employees; the incentives inherent in monopoly, public or private, have encouraged private gain at public expense. Promotion and financial gain for transport managers is attained by producing bigger budgets and larger staffs, and employee unions seek to gain as much of the subsidy as possible.

“Public sector decision makers confront an incentive structure that is less conducive to operational efficiency. ...If the public sector decision maker spends money unwisely ... the burden will fall on the taxpayer. The public sector is also not subject to the test of bankruptcy, which trends to eliminate inefficient operations in the private sector. Political finesse, which leads to large budgets, is far more important to success in the public sector than is operational efficiency, which would lead to a lower cost of production.”^{<3>}

Public employees are no more noble than private employees --- both are human beings. As a result, public transport monopoly has not produced a return in service that is commensurate with increases in public subsidies and fares. This phenomenon is not limited in public transport, it is characteristic of public monopolies in other fields and in national economies. Public monopoly has failed because its success requires a purity of behavior that is contrary to human nature. All in all, people tend to seek their own interests first and the interests of society second.

THE NEED FOR IMPROVED EFFICIENCY

Many governments want to improve transport efficiency and limit its drain on public resources. The new, critical interest in transport efficiency arises from two primary causes:

1. Inordinate public transport cost escalation. The cost escalation that has occurred among publicly owned public transport monopolies has resulted in higher than market costs. Monopolies tend to experience higher costs and larger cost increases than competitive industries. Cost escalation is exacerbated by the lack of outside regulation, since public monopolies tend not to be regulated, while private monopolies are routinely regulated. In addition, there are perverse internal incentives that accompany public monopoly (see above).

2. Public funding constraints: Governments are finding it increasingly difficult to raise taxes; yet, the number of public programs for which governments must find revenue is expanding. Public transport, with its demonstrably higher than market unit costs, is a public service with substantial potential for improved efficiency.

STRATEGIES FOR IMPROVED EFFICIENCY

Governments are using two fundamental strategies to improve the efficiency of public transport.

1. Limitation or reduction of public transport subsidies. Researchers have demonstrated a causal relationship between rising subsidies and inordinately escalating public transport unit costs.^{<4>} Some governments have attempted to control the rise in costs by controlling the rise in subsidies.^{<5>} This is an appropriate first step for governments to remove the counter-productive incentives for managers and employees of public transport organizations. But, as experience with tax limitation in the United States demonstrates,^{<6>} the mere limitation or reduction of subsidies may not accomplish the goal of improved efficiency if the public transport organization responds by providing lower levels of service or by increasing fares. This phenomenon has occurred in some nations that limited or reduced public transport subsidies, and the subsidy limitation programs were canceled as a result of ridership losses or the political power of the public transport monopolies.^{<7>}

Some governments have shifted the responsibility for subsidizing public transport services to the level of government closest to the service delivery. National and provincial funding programs have been reduced or canceled, and increased responsibility for funding has been placed upon local authorities.^{<8>} This is a result of findings that public resources are more productive when they are funded by local taxes.^{<9>} There is one caution: research indicates that local taxes that are “dedicated” or “earmarked” for exclusive use by the public transport monopoly tend to be spent less effectively than general revenue funding for which public transport must compete with other public services.^{<10>}

2. Conversion to organizational approaches that incorporate competition. These strategies assume that the required level of efficiency cannot be achieved unless the competitive market is replicated in public transport service delivery. Competitive incentives are more compatible with human nature than the incentives of monopoly.

“...insofar as this cruder instinct of man toward acquisitiveness, toward self-preservation, can be harnessed through the interactions of the market mechanism, the necessity for reliance on the nobler virtues, those of benevolence and self sacrifice, is minimized.”^{<11>}

Managers and employees in a competitive enterprise serve their own interest first by maintaining a competitive cost structure and by providing service of a quality that retains customers --- all of which works to the good of the riders and the taxpayers. There are various strategies for incorporating competitive incentives. The design of such strategies should correspond to the local and national values and objectives. One thing is clear, however. Regardless of the public transport organizational structure, financial performance (and in consequence social performance) will be compromised if public transport operators are not continually exposed to competition --- whether that competition is in the market (as in direct competition on commercial routes) or for the market (as in periodic competitive tendering or the genuine threat thereof).

Although there are differences in national and local public transport policy objectives, there is consensus that public monopoly is too flawed to be a serious model for the efficient and effective delivery of public transport services. It tends to be susceptible to the private interests of employees and managers.^{<12>} Competitive incentives should be applied to the operation of all public transport services.

DIFFERING PUBLIC POLICY AGENDAS

Public transport policy varies according to national and local needs and values. Some areas rely on public administrators to design transport services; other areas rely upon the competitive market to design services.

Policy service design: In some countries such as Sweden, Norway, Finland, Denmark, and areas of the United States, public transport policy is derived from social goals such as reduction of traffic congestion, air pollution, and energy consumption. The prevailing view among these nations is that the achievement of these social goals is best advanced by a coordinated and comprehensive public planning process in which a regional public provided, the fare and tariff schedules, and interchangeable ticketing arrangements, etc. The regional authority then competitively tenders for the services it has determined should be provided. Typically, fares are below the costs to operate services. The proponents of this approach believe that only centrally controlled systems can achieve the comprehensiveness and coordination required to retain and increase public transport ridership.

Competitive service design. In other nations such as the United Kingdom or (to a lesser extent) New Zealand, the reduction of public transport subsidies either is valued more highly than social goals, or policy makers believe the achievement of social goals is more likely where the competitive market designs services in response to customer demand. Primary responsibility for service design is maintained by private transportation companies operating commercially. Advocates of commercial planning believe that public transport can maintain or improve its market share only by providing customers with services that are tailored to their demands, and that passenger demands cannot be determined through a (non-market) policy process. In competitive service design, public subsidies are limited to concessionary fares for the elderly, the young, and the physically disabled. Most applications of market designed service rely on competitive tendering for the provision of services that are not provided by the competitive market, but which are deemed to be necessary by public authorities.

In the United Kingdom (outside London), ridership and customer satisfaction has increased in many small urban and suburban areas as a result of competitive service design. Critics, however, cite evidence of declining ridership in some of the larger urban areas.

At this time, it is unlikely that a public policy consensus will be achieved in the near future. Clearly, public transport organizational structures must be designed to meet national and local public policy objectives.

STRATEGIES FOR INCORPORATING COMPETITION

There are three primary strategies to inject competitive incentives into urban public transport.^{<13>}

1. Competitive Tendering: Competitively tendering for transport services permits competition for, but not in, the market. Competitive tendering is the provision of a public service through a competitively awarded contract. The public authority competitively tenders individual services or groups of services and awards a contract based upon evaluation criteria that (ideally) have been clearly specified in the request for tenders.^{<14>} The public authority retains policy control over the service, and the competitive market produces the service under

public scrutiny. Competitive tendering is used around the world for a variety of public services including public transport.

Proponents of competitive tendering claim that use of the competitive market minimizes costs, while public control provides a coordinated and comprehensive public transport system. Critics suggest that public administrators cannot effectively respond to changing markets, and that a competitively tendered system cannot produce increases in public transport ridership (though it can be expected that ridership will increase relative to public monopoly ridership, because higher levels of service can be funded due to improved efficiency).

2. Competitive Operation with Tendering: This strategy (called "deregulation" in the United Kingdom) permits the competitive market to provide services at market fares. Commercial operations are subject to little or no government intervention. Companies may enter or exit the market freely (with reasonable notice requirements), and no protection is provided to carriers from commercial competition. Government may intervene only to competitively tender services that are not provided by the competitive market. Competitive operation with tendering provides for competition in the market (commercial operations and secondarily by competition for the market (for the residual services that are competitively tendered). Competitive operation with tendering may offer significant advantages to the post communist nations of Europe, where demand for public transport service is great and where the fostering of entrepreneurship is essential to longer term economic progress.

Proponents claim that the market design of competitive operation with tendering holds the potential for greater increases in public transport ridership. Critics suggest that the evidence for increased ridership is theoretical and that the lack of coordination and comprehensiveness may render competitive operation with tendering unsustainable over the long term as a result of customer dissatisfaction. A further concern is the increasing concentration of ownership in the British bus industry, which some fear is detrimental to riders and on public costs.^{<15>}

3. Threatened Competition: Threatened competition is a new form of the private monopoly model implemented in New South Wales. A primary purpose is to inject competitive incentives into a non-competitive environment. This approach is intended to avoid the transitional stage of public monopoly with its loss of cost control. Operators are granted a monopoly franchise to provide to meet broad service and fare standards. Failure to meet these standards could cause services to be transferred to another franchisee.^{<16>} Franchises will be granted for at least five years. Threatened competition is characterized by neither competition in, nor competition for, the market; it relies on the threat of competition for the market (through loss of the franchise). To result in efficient, effective operation, this organizational model requires that the threat of competition be genuine.

Proponents of threatened competition anticipate higher levels of public transport ridership and high quality service. Critics fear that the threat of competition may not be sufficient to promote market-based costs, and subsidies will be needed. Critics also doubt that the complex regulation required to make threatened competition work can be accomplished, and that this model may be susceptible to "regulatory capture" characteristic of other private monopoly approaches. Finally, critics raise the concern cited by Professor Hayek:

"To make a monopolist charge the price that would rule under competition ... is impossible, because the competitive or necessary price cannot be known until there is competition."^{<17>}

COMPETITION IN PUBLIC TRANSPORT: INTERNATIONAL REVIEW

Competitive incentives have been incorporated into urban public transport in many countries.

New Zealand: New Zealand implemented regulatory reform of public transport in 1991. Patterned somewhat after the United Kingdom (Outside London), the New Zealand law permits a strong public planning focus, but also allows free entry of commercial operations (without protection from commercial competitors). Transport services that require public subsidies must be competitively tendered. Tendering authorities may deny commercial operations that divert riders from competitively tendered services. Competitive tendering is operated under the Competitive Pricing Procedure of the national government, which governs size of tender, length of contract, public information round of tendering ranged from 4 percent to 20 percent. The lower end of the savings range resulted from a transitional political directive that permitted preference for existing monopoly operators in Auckland.^{<18>} This provision deterred competitors and, combined with a relatively weak private sector, restricted the amount of savings that were achieved elsewhere in the nation.

Scandinavia: Virtually all of Scandinavia is converting to competitive tendering.^{<19>}

Sweden is converting to a competitively tendered system; 16 of the nation's 24 counties have completed the transition. Cost savings are reported in the range of 5 percent to 15 percent. Competitive tendering of rail corridor services also has begun.

Denmark has begun competitive contracting. Copenhagen is required by the Danish parliament to competitively tender 45 percent of its bus service over a four year period through 1994. There are plans to require competitive tendering of all Copenhagen bus services and allow the public operator to compete for tenders. Separation of policy from operations is anticipated. Outside Copenhagen, competitive tendering began in 1991 (in Ringkjobing).

Finland and Norway: Conversion to competitive tendering will begin within the next one to two years.

South Africa has conducted competitive tendering demonstration projects with savings estimated at 25 percent. Comprehensive national legislation is expected to be passed within the next year authorizing competitive tendering and requiring local governments to plan and subsidize those services they deem appropriate. In addition, South Africa permits private entrepreneurs to provide minibus service on a commercial basis (65,000 vehicles nation-wide). These services largely are provided by black owned firms, the most successful of which have diversified into other fields of investment with their profits from public transport.^{<20>}

United States: More than 50 percent of paratransit services, 30 percent of dedicated school bus services and 8 percent of bus services are competitively tendered. Strong labor protection provisions and federal pre-emption of public transport policy have combined with the normal monopoly incentives to produce perhaps the most serious cost escalation in the world and the highest per passenger subsidies. Special interests have used their influence to thwart conversion to competitive tendering; although, in four metropolitan areas more than 20 percent of bus service is competitively tendered. In this distorted market, public monopoly wages and benefits have mushroomed to double or more that of the competitive market (union or non-union). As a result, cost savings from competitive tendering have been higher than in other nations with an average of 30 percent and up to 50 percent, according to international auditing firms.^{<21>} Despite the considerable political barriers, one legislatively mandated program has begun (Denver, Colorado) and others have come close to passage (Illinois and Pennsylvania). While the general experience with competitive tendering has been successful, difficulties have occurred where public transport authorities retained an interest in providing services themselves, and as a result private provider groups are supporting efforts to separate policy from operations.^{<22>}

London: 40 percent of London Transport bus service is competitively tendered, and cost savings range from 15 to 20 percent. The former public monopoly, London Buses, has been a successful competitor in this process by lowering its costs to survive in the competitive environment. More than 1,500 buses of service are competitively tendered on 200 routes. An additional 5 percent is tendered annually. Contracts are held by 17 private companies and 12 subsidiaries of London Buses. The much improved cost performance of the London Transport bus system largely is attributable to the lower costs of tendered operations and the effect of competition ("ripple" effect) on the former public bus monopoly. The national government recently has announced plans to convert London bus operations to the model used outside London (Competitive operation with tendering).

United Kingdom outside London: Outside London, U.K. public transport services are provided by competitive operation with tendering. All public transport services that require (non-concessionary) subsidies must be competitively tendered. Within the first year of the program (1987), unit costs at the former public monopolies declined by 25 percent as a result of competition. Competitive tendering is limited to socially necessary services as determined by public authorities; otherwise, commercial operators are permitted to provide whatever services they like. More than 80 percent of the services are operated commercially (without general subsidy). Research indicates that, while ridership has increased in some areas, nationwide ridership has declined by 14 percent, and there are concerns that vehicle replacement has been unwisely deferred.

Canada: More than 50 percent of school bus transportation is competitively tendered. Competitive tendering is very limited and has occurred in smaller systems in British Columbia, Alberta, Saskatchewan, Ontario and Quebec. Competitive tendering has begun on a limited basis in the Toronto area, and initial savings reports are over 30 percent.

New South Wales is imposing strong service requirements on franchised private carriers, with the threat of competitively tendering the services of operators that fail to meet such standards. Subsidies are limited to concessionary fares. In addition, New South Wales has competitively tendered bus service that has replaced rail services (some intercity rail services and late night service in the Sydney area).

Elsewhere:

- Some bus services are competitively tendered by the Zurich Transport Authority.
- Competitive tendering has started in some cities in Germany, France, and Portugal.
- Other contracted services have been established in Santiago de Chile, Istanbul and Ankara
- Most public transport bus service in the free market Far East (Japan, South Korea, Hong Kong, Singapore, Malaysia) is commercially operated by private providers. Some rail and subway service in Japan is operated by private carriers without subsidy.

- A large percentage of public transport service in developing nations (that were not historically communist) is commercially operated without subsidy. In some places, publicly owned public transport systems have been closed (buses in Santiago de Chile, Caracas and Kingston, Jamaica for example). In many other places, subsidized public bus services have been reduced and unsubsidized private carriers now provide the largest share of transport services (Calcutta, Maracaibo, Karachi, Casablanca, etc.).

SEPARATION OF POLICY FROM OPERATIONS

Generally, competitively tendered systems are being developed under the control of public organizations that have no right or interest in operating services themselves. Separation of policy from operations requires that policy oversight and system design be the responsibility of a public trustee and has the advantage of removing any potential conflict of interest when awarding contracts. Separation of policy from operations has or will be implemented in the United Kingdom, New Zealand, South Africa, Sweden, Finland, Norway, Copenhagen and to a limited extent, in the United States. Separation of policy from operations can occur by the establishment of a new organization, transfer of public transport to a unit of general government, or corporatization of the operating division(s) of a former public transport monopoly.

GROSS V. NET REVENUE TENDERS

A gross revenue tender is one in which fare revenues are the property of the tendering authority and the private operator is paid the full cost of operations as specified in the contract. Various mechanisms are available to transfer the fare revenue to the tendering authority such as daily deposit or crediting against invoices. Net revenue tenders require tenderers to propose subsidy rates rather than cost rates. The operator must estimate the expected revenue and may gain or lose revenue based upon trends in passenger usage.

Net revenue tenders can create incentives for operators to improve service, and presumably ridership. Conversely, to the extent that a competitively tendered route is part of a larger system, an operator's potential to increase ridership may be limited. However, there is a greater risk to the private operator in net revenue contracts, which may cause operators to tender higher prices than otherwise would; there is evidence that this has occurred in the United Kingdom and in Denver.²³ Net tenders also can reduce competition (and increase costs), because incumbent operators are reluctant to provide accurate revenue and passenger information to a competitor.

Net revenue tenders may involve establishment of the fare structure by the tendering authority (London, Scandinavia, U.S., New Zealand, Canada, New South Wales) or with some limits, by the operator (United Kingdom and South Africa).

THE ROLE OF COMMERCIAL OPERATIONS

There are two general approaches to commercial (profitable) service operation within the framework of a competitively tendered system.

1. Commercial operation supplementing the competitively tendered system. Commercial operation should be permitted within a competitively tendered system so long as it is complementary to public objectives.
2. Tendering of commercial services: Transport authorities may competitively tender services on which fare revenues exceed operating costs, thus creating a subsidy to the balance of the public transport system. This may be accomplished by a gross revenue tender in which fare receipts above the cost of contractor operation accrue to the tendering authority or by negative tendering in net revenue contracts in which tenderers offer to pay for the right to operate commercial routes. Tendered commercial services require the same regulatory protection as other tendered services.

DESIGN OF COMPETITIVE TENDERING SYSTEMS

A high level of administrative control is retained through competitive tendering, yet tendering incorporates competitive incentives to produce required services most efficiently. Competitive tendering programs should be designed to maintain the policy control of the public authority while fostering the competitive market.

Considerations include:

1. Service quality should be considered: In establishing evaluation criteria and requests for tenders, tendering authorities should attempt to ensure that tenderers clearly understand the quality of service being sought. Tenderers that do not demonstrate an ability to provide the required level of quality and safety should not be awarded contracts.

2. Contract durations should be limited so that operators are subjected to periodic competition. The developing international standard is a maximum of five years. An alternative is to have a shorter contract duration with renewal options for subsequent years (for example, a three year contract with a renewal option for an additional two years).^{<24>} Transport operators often argue for a longer contract term so that more favorable depreciation schedules can be used and so that training expense can be minimized. However, vehicles and depots have residual value, and it is unreasonable for contracts to be long enough to fully recover capital costs. While vehicle capital costs are substantial, they represent only part of overall costs, and over the long term, less frequent competition is likely to result in higher costs and more than offset any gain from lower depreciation charges.

3. Tender size should be limited to maximize the extent of competition (permitting small and large operators alike can compete for contracts). This is important, because smaller operators frequently have lower cost structures despite the often cited economies of scale that should favor the larger operators. There is increasing evidence that above a certain size, diseconomies of scale occur, and that there are virtually no economies of scale for organizations with multiple operating facilities.

4. Prices should be indexed or specified for the entire contract duration. The terms of the contract should define prices or the manner of calculating prices throughout the contract term including any option periods (by specification of periodic indexation methods or actual prices by period). There is a trend toward indexation of contract prices and using price indexes that are beyond manipulation by the parties to the contract. Because public transport is a lower cost increases than the economy in general (because of the influence of monopoly industries), the indexes chosen should generally reflect a lower rate of inflation than the broad indexes of inflation.

One approach is to index based upon some percentage of a national price indicator such as 75 percent of the change in the Retail Price Index or Consumer Price Index. Multiple indexes can be used, and the extent of use specified in the contract. For example, X percent of the contract price may be subject to adjustment by index X', while Y percent of the contract price may be adjusted based upon the change in index Y'.

Another approach is to require the operators to propose their costs for the contract term either as a single rate or as rates for specific contract periods (years). Because of the uncertainty of future price trends, this approach is used less than in the past. Fuel represents a special case, because of its tendency for wide price swings in response to international events. Even where operators are required to specify prices for the contract term, fuel indexes are used to adjust the fuel component of cost. Prices may be adjusted on an annual, semi-annual, or monthly basis (where inflation is higher, a shorter interval is justified). Except for those costs that are indexed, prices should never be negotiated after the contract has been executed (not even for renewal option periods).

5. Labor arrangements should not be specified. Economists and governments have increasingly recognized that labor must be subjected to the same competitive incentives that apply to the rest of the economy, or economic outcomes become distorted.^{<25>} This is necessary for two reasons. First, all factors of production include labor at some point, and if labor costs in certain sectors are treated differently than in other sectors, the special treatment will be financed by transfers from the workers in the labor sector not protected. Second, artificially high labor rates put a nation at considerable disadvantage in the increasingly competitive world economy. For public transport, the implication is that public authorities should not specify special labor arrangements, such as wages, benefits, union representation, etc. Operators should simply be required to comply with applicable national or provincial labor law.

6. Tenders should conform to specifications. In many nations, tenders must be submitted according to the terms and conditions of the request for tender issued by the public authority, and any deviation results in disqualification of the tender. To permit exceptions corrupts the public procurement process and puts operators that do not have political power at a disadvantage.

Recent experience in New Zealand illustrates a potential difficulty that might occur where procurement laws have not established the principle of conformity. An operator may submit a tender for more service than was called for in the request for tender and structure its prices so that award of the contract based upon the request for tender would result in much higher public costs. Award of a contract to such a tenderer could contravene the public purpose of fostering competition as the large operator uses the political process to achieve its private ends at the expense of the public purpose.

Operators should be permitted to tender only on specified terms and conditions; non-complying tenders should be disqualified regardless of the nature of the deviation. Disqualification, however, would not occur where the deviation is in response to a specific call in the request proposals specified, tenderers also should be required to tender on the primary specification; alternative proposals should be limited to the scope of services specified in the particular request for tenders.

7. Multiple tenders should be carefully structured. While tender sizes should be limited, there may be justification for permitting multiple (combination) tenders. However, multiple tenders bring the potential for

abuse as an operator might price its service in such a way that there is no reasonable relationship between the multiple tender price and the individual tender prices, and in which multiple tender price are far lower than the individual prices to encourage award of the multiple tender. This is of particular concern where supplier markets are have not achieved maturity or where there are dominant operators --- conditions under which requests for tenders might sometimes attract only one tender.

One alternative may be to emulate the multiple tender system implemented for highway projects in New Zealand. There tenderers must apply their multiple tender discount percentage against each tender; the discount is not considered in the event that there is not a multiple tender award. Another approach may be to establish a maximum percentage of variation between the individual tender unit prices and the multiple tender unit prices with non-complying tenders disqualified. For example, the request for tenders might specify no more than a 10 percent maximum variation in costs per vehicle kilometer between the multiple tender price and individual tender prices.

8. Market share limitation should be considered. Tender authorities should ensure that no company gains too large a share of contracts. This may be difficult when an area is converting from public monopoly to a competitively tendered system. Limitation of market share can be an effective tool to encourage large public operators to be divided into smaller establishments to increase competition.

9. Full information. Tendering authorities should ensure that all potential tenderers receive timely notification of each request for tenders and that results of tender evaluations are available for public inspection.

10. Fairness. Tendering authorities should clearly delineate the basis of tender evaluation in the request for tenders and not deviate from the published procedure.

11. Tendering by publicly owned operators. If tendering is permitted by publicly owned operators, tendering authorities should ensure that their tender prices are based upon attributable fully allocated costs and that there is no cross-subsidy of tender prices from subsidy sources.

12. Single Tender Submissions. Sometimes, for a variety of reasons, there may be insufficient competition for a particular service. For example, there may be only one tender, or the tenders received may be considered to be above the market rate. The tendering authority has options to correct such a situation. It may negotiate a lower price with a single tenderer. Failing that, or where tenders appear to be above the market rate, it may seek new tenders. Finally, it may review its request for tenders to determine whether there are any adjustments that may be made to improve competition for the tender.

13. Tendering authorities should have regard for cash flow. Tendering authorities should structure contracts so that operators are paid promptly and frequently (at least monthly, or even semi-monthly).

CAPITAL DEVELOPMENT

In some nations, there is still a proclivity to fund high-cost transport improvements. Usually these are viewed as requiring monopoly approaches. For example, it has been assumed that service over rail corridors can only be provided by the owner of the railway.

However, the overwhelming evidence of inordinate cost escalation among public monopolies compels consideration of alternatives that can incorporate competition, otherwise the mobility and social objectives of public transport will be subordinated to those of the monopolist, public or private. Some programs are already being implemented:

- In Sweden, competitive tendering has begun for rail transport services; tenders are invited for the operation of particular rail corridors. Similar strategies are being employed in Boston (Massachusetts), Los Angeles and San Francisco, where rail vehicles are owned by the tendering authority and companies tender for operations and maintenance and lease the vehicles from the tendering authority.
- In the United Kingdom there are proposals to permit multiple operators to compete over publicly owned rail routes.

Moreover, new capital projects can be designed to minimize future operating expenses yet provide a high level of public transport service. Busways and guided busways (such as in Adelaide and Essen) offer the opportunity to provide service in ways that incorporate competitive incentives. Commercial operation and competitively tendered service can be operated over such facilities, which can provide a cost effective rapid transit alternative. The experience of Ottawa suggests that (lower cost) busways can be designed in such a way that capacities equal or exceed those that can be achieved by light rail facilities. Even in the United States, where public transport capital development is driven by the availability of massive federal construction grants for rail, the most successful busways carry more than double the number of passengers of any new light rail line and more than most new metro lines. <26>

CONCLUSIONS

Differences in opinion continue to exist between those who believe in administrative service design and market service design, but there is agreement on the following set of conclusions:

1. Competitive incentives should be incorporated into all public transport services.
2. Major capital facilities should be developed in such a manner that competitive incentives operate. Examples include competitive tendering of rail corridors and busways as an alternative to new rail facilities where similar or higher levels of passenger usage can be achieved.
3. Competitive incentives should be designed to foster expansion and maintenance of the competitive market --- neither public nor private monopoly should be permitted to develop.
4. The choice of competitive incentives should respond to the public policy objectives in the nation or locality in question.
5. Commercial operation of public transport services should be permitted so long as its operation complements public objectives.
6. Competitively tendered systems should be administered by organizations that are not permitted to compete for operations contracts themselves (separation of policy from operations).
7. Public monopoly should be abandoned, because it invariably serves the private interests of its management and employees and is inherently incapable of accomplishing the mobility and social objectives of public transport.

FUTURE RESEARCH

Two concepts were identified as warranting further research:

– User side subsidies as a strategy for applying competitive incentives. The theory is that by converting to a public transport system fully reliant on user side subsidies, it would be possible for the public transport system to be provided commercially. There may be significant problems with this approach, such as:

- Administrative determination of market rate fares and the resultant level of compensation provided per ride to the operators. Since all passengers would presumably be subsidized, there would be no true commercial fares. A significant body of economic thought would deem this to be unachievable.
- Public transport authorities may want services provided for which there is not sufficient demand. This would necessitate competitive tendering of such services.

Research would be useful to determine what, if any value there may be to general purpose user side subsidy programs.

The architectural competitive tendering model as a strategy to maximize public transport ridership through market oriented design. This would be a variation of the “threatened competition” model being developed in New South Wales. Unlike New South Wales, the architectural model might require general subsidy (non-concessionary subsidies). Operators would be invited to tender for large areas, proposing not only their costs invited to tender for large areas, proposing not only their costs but also the design of the system. This would be an application of a model used in land development, in which architects are invited to design buildings based upon broadly described requirements. The contract would be awarded to the operator demonstrating the best balance between public cost considerations and strategies expected to increase public transport ridership.

<^>Wendell Cox and Jean Love, “Designing Competitive Tendering Systems for the Public Good,” Transportation Planning and Technology, (Volume 15) 1991.

<^>Data from Chris Bushel (editor), Jane’s Urban Transport Systems: 1991, Jane’s Information Group (Coulsdon, Surrey: 1991) and National Urban Mass Transportation Statistics: 1989 Annual Report, US Department of Transportation Urban Mass Transportation Administration (Washington: 1990).

<^>James D. Gwartney and Richard Stroup, Microeconomics: Private and Public Choice, Academic Press (New York: 1983).

<^>See John Pucher, “Effects of Subsidies on Transit Costs,” Transportation Quarterly, October 1982 and Robert Cervero, “Effects of Operating Subsidies and Dedicated Funding on Transit Costs and Performance,” Urban America, 1984, Volume 8

<^>Examples include Moscow (elimination of federal subsidies), Toronto and the state of California (minimum fare recovery standard), Minneapolis-St. Paul (maximum deficit per passenger on specific services).

<^>Wendell Cox and Jean Love, “Controlling the Demand for Higher Taxes through Competitive Contracting,” Government Union Review, Public Service Research Council (Vienna, Virginia: Summer 1991).

<^>Examples include Amsterdam (relaxation of fare recovery standard) and the state of California

(elimination of cost performance requirement as a pre-requisite to obtaining additional subsidies).

<8>Examples include South Africa, Norway and the Soviet Union.

<9>William F. Shughart II and Mwangi S. Kimenyi, Public Choice, Public Subsidies and Public Transit, Report for the US Department of Transportation, University of Mississippi (Oxford, Mississippi: 1991).

<10>Ibid.

<11>James Buchanan, Forward in Gordon Tullock, The Politics of Bureaucracy, University Press (London: 1987).

<12>Shughart and Kimenyi, 1991.

<13>Cox and Love, 1991.

<14>A variety of evaluation methods have been used. It is generally agreed that companies that do not demonstrate financial and technical ability to provide the service (responsible) and understanding and compliance with the terms of the request for tenders (responsiveness) should not be considered for contract award. Contracts may be awarded based upon the lowest cost responsible and responsive tender, the tender deemed to convey the greatest benefit to the public, etc.

<15>Differing opinions about concentration of ownership reflect the economic debate about anti-monopoly (anti-trust) policy. Some analysts argue that government should not regulate the size of business enterprises so long as there is free entry to the industry. These analysts suggest that even if a firm gains an element of monopoly power, it will be lost in the long run as new entrants challenge the large firm are developed. Alternatively, advocates of anti-monopoly policies, while generally agreeing with the critics on the long run instability of monopolies in a free market, believe it necessary to structure markets so that even temporary exercise of monopoly power is constrained.

<16>This may or may not be accomplished through competitive tendering. Where competitive tendering is used, it may be based upon a price for the purchase of the franchise, or on service quality (system design) criteria.

<17>Frederick von Hayek, quoted in Arthur Seldon, Capitalism; Basil Blackwell (Oxford: 1990).

<18>Wallis, 1991.

<19>Mannisenmaki, 1991.

<20>Luycx, Vermeulen and Skinner, 1991.

<21>Price Waterhouse, Ernst and Young, Peat Marwick references

<22>Love and Seal, 1991.

<23>Peter White, "Three Years Experience of Bus Deregulation in Britain," paper presented at the conference.

<24>The five year maximum is not universal. In some localities contract lengths are as little as one year, even when the vehicles are provided by the transport operator. An example is dedicated school transportation services in Minneapolis-St. Paul, Minnesota, USA.

<25>This has most recently been recognized in New Zealand, which until very recently had among the most regulated labor environments in the world, but has enacted major reforms to subject the labor market to competitive incentives.

<26>Transportation Systems Center, US Department of Transportation, Urban Rail Transit Projects: Forecast Versus Actual Ridership and Costs (Cambridge: Urban Mass Transportation Administration, 1989.)