

# **11<sup>TH</sup> CONFERENCE ON COMPETITION AND OWNERSHIP IN LAND TRANSPORT**

## **“CONTINENTAL DRIFT: CONNECTING GREAT BRITAIN AND SCANDINAVIA”**

*Remco Bruijnes (AGV-Movares)*

### **INTRODUCTION**

In the Netherlands a second phase of more market oriented Public Transport has started. In the first phase the Public Transport Authorities (PTAs) had a difficult task of learning their new role and introducing competitive tendering as laid down in the new transport act (Wet Personenvervoer 2000).

Tendering in the Netherlands until this moment is not working as it is meant by Law. The new transport act has two goals for public transport. The first goal is to increase profitability and lower government spending on transport. Secondly, it aims to raise the number of passengers in public transport.

The processes are only focused on service quantities and costs. It doesn't concern passenger usage and satisfaction. This paper is a search for the balance between competition and market regulation and the appropriate method of tendering in this region, considering the goals as set by law.

First we will discuss the organization models as applied in Sweden and Great Britain. The Dutch tender system is comparable with the Scandinavian system, but there are facets we can learn from. Great Britain has changed their public transport organization system over the last two decades and is going to a process of regaining control over public transport.

The lessons learned will be summarized and a case study of the Netherlands latest tender will be presented next. In the conclusions we address the advantages of both organization models and the competitive dialogue.

## **SCANDINAVIAN ORGANIZATION MODEL**

In Denmark, Sweden and Norway most public transport services are organized through public tenders. PTAs were created in the early 80s to uniform the public transport environment and set tariffs, develop comprehensive bus networks and negotiate on economic compensation with the operator. The PTAs geographically covered the Swedish provinces or metropolitan areas and were governed by counselors of cities and districts.

Swedish state government had to cut the public transport budget as a result of the economic situation in the late eighties. Tendering seemed to be a solution to lower public spending. In 1989 the tender model was implemented by law and since 1990 the PTAs are also accountable for regional railways. In the beginning the PTAs formulated contracts with the existing operators. As of 1989 the PTAs took control through tendering. The PTAs determined the transport networks and frequencies, even timetables and appearance of the buses was laid down.

In recent years a shift of emphasis from price towards quality is recognized through Denmark and Sweden. Norway is lagging behind

In Sweden's capital Stockholm, the former transport company SL (StorStockholm Lokaltraffik) is now the PTA. International bus company's like Arriva and Veolia submit on the issued tenders and carry out the production. SL sets requirements for operating public transport through a tender document (Nielsen, 2008 and Bruijnes, 2006).

### **Comparison**

We can state that the most important characteristics of the Scandinavian tender model are (1) the dominant position of the PTA, (2) competition through tendering and (3) mainly private operators.

This model lowered costs initially and it did raise public transport use. From the nineteen nineties the PTAs started experimenting with tendering. Different from the Dutch situation, mobility goals were of less importance than cost reduction. Priority lay at control of expenditure instead of reduction of auto kilometers and changing modal split. Most recently Swedish PTAs encounter an increase of cost of public transport, while on the other hand passenger satisfaction is declining.

Because of the great set of rules the PTAs implied on the contracts, powers changed. PTAs were leading in the development of public transport networks and kept an eye on the performances of the operators through monitoring. In relation to Dutch practice of the regional governments in the Netherlands little or nothing seems to be left to the operators. They merely carry out the plans and schedules prepared by the PTAs. In the Dutch province of Noord-Brabant public transport is organized according to a gross-contract similar to many regions in Scandinavia. The province has taken control over public transport since failure in previous tenders.

In the Scandinavian countries Denmark and Sweden the operators are controlled by the PTAs through monitoring of the activities. Operators pay fines if they do not meet the imposed requirements of the PTE. This way the operators are bound to their contract.

## **BRITISH ORGANIZATION MODEL**

Until the nineteen eighties, Britain's public transport system developed like any other Western European transport market. Transport companies merged to cope with passenger usage decline and the Passenger Transport Authorities (PTA) and Passenger Transport Executives (PTE) – established by the Transport Act of 1968 – took more responsibilities in the field. The PTAs were the administrative bodies for the PTEs. The PTEs are bodies which are responsible for public transport within large urban areas

In 1985 the conservative government decided to introduce a free market system in public bus transport. Their goal was to take away hamperings for new companies, improve service levels and deregulation of the industry itself.

Through easy access to the market, competition and less regulations the goals of the 1985 Transport Act were less public funding and better quality in public transport.

### **Transport Act of 1985**

In Great Britain the Transport Act of 1985 has led to drastic privatization of the public transport industry. All government involvement regarding public transport was recalled. The public transport operators were given all liberties to develop, finance and operate transport networks. As operators concentrated on the routes which are commercially feasible, the Passenger Transport Executives (PTEs) are solely responsible to buy additional transport services which are socially necessary. The operators collect ticket revenue directly.

Bus services in Great Britain were, under the Transport Act of 1985 run under two different circumstances:

- *Commercial routes*, run by private operators with no intervention of the PTE. All routes and tariffs were set by private bus companies.
- *Social contracts* through tender by private operators. PTE buy extra services to complete the regional bus network with services which are not commercially feasible. Routes and frequencies are determined by the PTE;

This model hasn't been applied in any other European country so far. New Zealand has a liberal bus market similar to Britain's model.

London was singled out in the 1985 Transport Act because national authorities wanted to control traffic and transport in the national capital. In rural areas these functions are carried out by the County Councils.

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### **Regulations and the Transport Act 2000**

Bus service provision for public transport in England and Wales is regulated in several different ways. Bus transport in London is regulated by Transport for London. Bus transport in the large conurbations is regulated by the PTEs.

The PTAs and PTEs are funded by a combination of local tax and grants from national governments. The PTEs have four common challenges and goals:

- *improve economic performance by public transport*
- *Promote sustainable development*
- *Use public transport to avoid social exclusion*
- *Reversing the decline in bus use*

After the elections of 1997 the Labour Party gained the majority in the House of Commons and presented only one year later the White Paper “A new deal for Transport”. This Paper proclaimed more competences for the PTAs and PTEs and set aside the old policy.

It presented two possibilities to exercise these competences:

- *Quality Partnerships*, which allowed to come to voluntary agreements between local authority and the operator on quality of bus services. Authorities could commit themselves to improve infrastructure (like bus stops and bus lanes) and in return an operator was held to improve services. This led to more accessible busses for wheelchairs, more frequent services and better instructions to drivers;
- *Quality Contracts*, which allowed PTE's to tender a network of bus services to an operator. This was only allowed if there was no other way to make quality arrangements with the operator.

In all PTE-areas the goals are pursued in various ways. PTE's produce the strategies for the development of local public transport in the region. They plan and fund socially necessary bus routes, set up partnerships with private operators and invest in local transport by financing new bus stations and improving train stations.

### **Recent developments**

The 2007 Local Transport Act (LTA) proposes further possibilities for regulation regarding bus operators. The PTAs are now Integrated Transport Authorities and are fully responsible for local transport plans.

Among others, an ITA can own and lease buses, ITAs can set down voluntary agreements between operators in the region and prevent them from investigation by the competition authorities. By preserving the agreements the ITA increases the integration of different transport network from different operators.

The LTA provides the possibility for quality contracts to include maximum fares as well as maximum frequencies. But most important is, that the approval process for the quality contracts is locally determined. The ITA determines whether or not it is necessary to set up a quality contract.

### **Comparison**

Competition in public bus services has in some regions improved service levels and even reduces fares, but in most areas it has significantly reduced service. In rural areas bus services are only in peak-hours. It is not clear whether the decline in services is a result of competition in public bus services because services were already declining. It has certainly not stopped the decline in services and ridership.

Another result of competition is the increase in scale of the bus companies. In 1985 the two nation bus companies, NBC and SBG were divided in over 80 different companies to compete with one another. In the past ten years the bus market is dominated by the so called 'Big 5'. If operating scales of the bus companies will increase, competition will fall, as in the Netherlands with only three major bus companies left. With less competitors the treat comes that there will be lesser biddings in tendering and companies will consolidate in their regions.

Bus usages has increased in areas where the transport policies of the PTAs are well coordinated by PTE/ITEs through Quality Partnerships. Investments in infrastructure are prioritized and marketing, transport information and timetables are coordinated.

The private model has gained more finesses over the years. There are operators developing complete networks and realizing growth. Quality contracts are introduced for the development of infrastructure and operators guaranteeing extra services. The original goals weren't directly achieved. Though public funding stopped initially, socially desirable bus routes had to be tendered to maintain a integrated network. Passenger rates are increasing only recently since PTE/ITEs are improving the quality of bus services through Quality Partnerships.

## **LESSONS LEARNED**

The tender system has led to a decline of public funding in Swedish public transport. Because operators are merely carry out the schemes made up by the PTAs they are losing their commercial interest in their clients: the passengers. As a result, passenger satisfaction is falling.

The British privatization system has led at first to a decrease of passenger usage of public transport. Bus routes are run commercially, but couldn't make up a fully integrated network. In the Netherlands the British organization model can't be applied because it is impossible to separate the commercially attractive routes from the other routes.

The idea is that learning from both countries, a model can be developed with competitive tendering, professional principality and better public transport.

**What can we learn?**

Examining the Swedish organization model we learn that professional principalship is highly developed. Swedish PTAs are in control of the process as a whole and monitor the operators to adjust services if necessary.

Tendering keeps the operator focused on quality and price. In Sweden an operator always feels the threat of losing their business to a competitor in a next tender. During the concession period operators are kept focused through the system of penalties and awarding.

The British example teaches us that the main transport connections, i.e. the commercially feasible routes can be arranged differently than the socially necessary routes. Private operators can come up with an economically optimal plan for main connections, while the PTE fills in the socially required routes.

Also we see that when PTE and operators work together as partners with a common goal they can achieve both less public spending and increasing quality in public transport. Operators should be involved in the development of the bus network in an equal way, they must be given the possibilities to use the commercial knowledge of the local or regional market.

**CASE STUDY: STADSREGIO ARNHEM NIJMEGEN**

For the second tender of the local and regional public transport services in 2013, the Stadsregio Arnhem Nijmegen (SRAN, city-region) is looking for a way to avoid the risks of only a few interested operators and choosing an operator which cannot offer enough quality.

The city-region has chosen to consult possible operators in a competitive dialogue. They have advanced plans to discuss several subjects with private parties to sharpen their demands for public transport.

Besides their tender strategy, the city-region had chosen for transit oriented development. Since the regional spatial plan of 1998 the city-region has focused on situating the new developments in the region along the existing railways. Because of this it isn't surprising that in the next tender also spatial development is involved to attract new operators or consortiums of operators and real estate developers.

The city-region has selected several issues to discuss with interested operators. Such issues are:

- *Scale of the HOV network* (network of high-frequent bus routes); The city region wants to involve operators in creating the main network and leave the supporting routes to the market;
- *Expansion of infrastructure*; The city-region wants to discuss with operators on their interest to design, build and maintain new infrastructure;

- *Possibilities of new transport modes*; As the city-region is exploring a tramway connection in the City of Nijmegen, feasibility of this connection will be consulted with the interested operators;
- *Method of finance*; A consultation on financial compensations of contributions will be organized;
- *Spatial developments*; The interest of operators and consortiums in spatial development must be consulted in order to set the most optimal requirements for the procurement.

Also the city region want to discuss issues like marketing, branding, communication and transport management.

## **COMPETITIVE DIALOGUE**

Competitive dialogue is a form of procedure in the procurement process whereby potential operators are invited to participate in the formation of the requirements. Until recently local authorities had only three types of procurement available.

- *Public tendering*
- *Selected tendering*
- *Negotiation*

“In 2004 the competitive dialogue was introduced by the European Parliament and the Council. It was presented as a public sector procurement procedure for particularly complex contracts” (Hoezen and Dorree, 2008).

A competitive dialogue is different from a benchmark because it is a two way process. Both the authority as the operator give one another information to create the most optimal set of requirements and the best tender for public transport in a particular region. Benchmarking is, the authority gathering information and comparing operator’s interest to complete its set of requirements for tender.

The dialogue can be seen as a three-step cyclic process;

- 1) At first the PTE set its primary demand and goals and translating them in market challenges. The competitive dialogue must be prepared well. The PTE should consider what to discuss with possible operators;
- 2) Further on the PTE has to decide which subject are fit to discuss with private parties. What are the policy goals and what services are commercially attractive?
- 3) The PTE consults operators on possible network designs, infrastructural projects and other challenges for the future;
- 4) Finally, the PTE evaluates the bids and translates them in a second round of requirements. This can be repeated several times until the PTE and operators agree on the set of requirements that will be set in the market.

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We see the competitive dialogue in public transport as the process the UK bus market went through during the last 25 years. In a competitive dialogue this process will be experienced in a several bidding rounds. Each layer of challenge the PTE and operators come across will be defined in the phases of dialogue.

Operators must be approached and attracted to participate in the competitive dialogue. They won't easily deliberate on their experiences in public transport elsewhere and must be persuaded. We believe the competitive dialogue must be a part of the tendering process and the operators should be able to earn credits, discount in the offering stage or win money in a contest. This way more operators are willing to participate in the dialogue and their contributions will be of better quality.

## **CONCLUSIONS**

The PTA in the Netherlands should learn from the best practices in both Sweden and Great Britain. In the public transport sector we should use the competitive dialogue procedure more often. Tenders of public transport in the Netherlands are complex procedures which demand a flexible approach. The competitive dialogue procedure allows the contracting authority to make their initial demands in consultation with the possible operators with great knowledge in the field. The competitive dialogue improves the scheme.

The private bus operators should be seen more as partners to achieve a common goal. The operators have knowledge of passengers and their wishes and should be involved in setting up the network through consultation.

In every region must be searched for a market situation and a partner/operator that fits that particular region. In a creative region the authorities should look for a creative operator in public transport. One that willing to cooperate and share its goals with the region.

We consider the competitive dialogue as a way to experience the changes in organization in Great Britain in one tender. Through dialogue PTA and operators can, as equal partners, make choices in public transport and make up the requirements for good public transport in a region. In dialogue a region can find their partner for public transport.

In the first round the PTA and operator determine what routes are essential. Both parties make up which routes are 'commercial feasible' and can be left to the market. In a second round the social contract is being formulated. The PTA sets its requirements for the social routes, while the operators come with improvements. As a authority commits itself to improvement of the infrastructure the operator bid on higher quality in bus services and finally the PTA continues with the operator with the best interest in the region.

During the concession, flexibility must be conserved. The contract between PTA and operator is not a blue print that lasts for over 15 years. How can we focus the operator during the



period of time? In the Scandinavian countries the PTA challenge their operators with a penalty and awarding system and in Britain the operators are stimulates through passenger revenue. Is it possible to find a mixture of these instruments that varies through time during the concession?

## **LITERATURE**

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