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Competitive Contracting of Bus Services: The International Experience

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Key Findings

- During the early 20th century, throughout the Western world, public mass transit was largely the domain of the private sector, with a number of competing operators providing services in major United States cities, such as Pittsburgh and Philadelphia. However, in the name of greater cost savings and enhanced efficiency, from 1930 to 1970, private urban transit systems were taken over by the government—and the promised cost savings and efficiency gains never materialized.

- In response to the spiraling costs of public transit, many Western governments have sought to introduce competition into the provision of public transit services. While American cities such as Denver, San Diego, Las Vegas, and Los Angeles have been leaders in using the competitive model to reduce costs and improve service, the United States lags behind much of the rest of the world in terms of using market forces to improve public transit costs and service quality.

- Competitive contracting (or "tendering") has been utilized in began in Great Britain in the mid-1980s and has since spread to much of the rest of Europe, including Sweden, Denmark, Finland, Norway, France, Belgium, Poland, Germany and Italy. Australia and New Zealand have also made much use of competitive contracting for transit services in recent years, and in Japan, Hong Kong, Korea and South America, private companies still provide most public transit services.

- Successful international competitive contracting programs have generally maintained "separation of policy from operations"—meaning that government retains control of the services to be provided, but does not operate the transit system itself. Contracts to provide transit services can include single routes, a package of routes, designated service areas, or entire systems. Both public and private operators are both eligible to bid, with the contract awarded to the lowest bidder with the "financial and technical capability" to do the work.

- Where competitive contracting has been implemented internationally, costs have generally decreased, and service quality and productivity have increased. During the past two decades, European cities such as London, Copenhagen, Stockholm, and Helsinki have experienced cost savings exceeding 20 percent, while realizing similar gains in productivity.

- The experience of the Australian city of Adelaide with competitive contracting illustrates the evolution and continuous refinement that is necessary for a successful competitive contracting program. Between 1994 and 2001, annual Adelaide service costs per bus kilometer dropped by 38 percent, and overall Adelaide bus ridership, which had been in long-term decline, has declined at a slower rate since 1995.

Introduction

In the early part of the 20th century, public transit in the United States (and most of the rest of the Western world) was largely a private sector enterprise, with a number of competing operators in the nation's major markets, including Pittsburgh and Philadelphia. However, during the period from 1930 to 1970, private urban transit systems throughout the West were taken over by government (as happened in Pittsburgh with the creation of Port Authority Transit (PAT), and in the Philadelphia region with the formation of the Southeastern Pennsylvania Transportation Authority (SEPTA)). The theory underlying the public sector takeover of theretofore private businesses was that publicly run transit, freed from the necessity of earning a profit, would be cheaper and more efficiently run than it had been under private sector management.[1]

In practice, the results of public sector transit operation have been the opposite of those theorized. Public transit's monopoly position in most major cities has led to continually rising costs, as the promised efficiency gains have failed to materialize. In response, governments around the world have introduced competition into the provision of a number of transit services. Several American cities, such as Denver, San Diego, Las Vegas, and Los Angeles, have followed this policy model, but for the most part, the United States lags behind the rest of the Western world in terms of injecting competition into the provision of public transit.

The use of competitive contracting (or, as it is commonly referred to outside the United States, "competitive tendering") for public transit services began in Great Britain in the mid-1980s and has since spread to much of the rest of Europe, including Sweden, Denmark, Finland, Norway, France, Belgium, Poland, Germany and Italy. In fact, the European Union is developing regulations that would mandate competitive contracting for transit services. Australia and New Zealand have also made much use of competitive contracting for transit services in recent years, and in Japan, Hong Kong, Korea and South America, private companies still provide most public transit services.[2]

The following is an overview of the international experience with competitive contracting of public transit services. It first examines the general structure found in most international competitive contracting programs, and then presents data on the results of some of the most extensive and successful international forays into competitive contracting. It concludes with an extended presentation of the evolution of competitive contracting in the Australian city of Adelaide, which illustrates how continually evaluating and adapting to market conditions can produce positive results for taxpayers and commuters alike.

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[1] Wendell Cox, "Competitive Tendering of Public Transport," Presentation to the Urban Road and Public Transit Symposium "Who Must Pay," Centre Jacques Cartier, Montreal, October 7, 2004.
[2] *Ibid.*

General Principles of Successful Competitive Contracting Programs

One of the primary objectives of many government transportation agencies was "system integration"—the "desire for common, coordinated fares and services."[3] Competitive contracting allows government to keep control of these factors—but it does not require that the government operate transit services itself. The most successful competitive contracting programs have generally followed the principle of separating transit policy from transit operations.

Under a system that separates policy from operations, the transit agency retains policy control of the transit network, making all decisions with regard to route alignments and timetables, setting fares, and determining vehicle and safety standards. Services, however, are provided through a competitive process, with contracts typically offered for 5 years or less. A new bid process usually begins late in the contract, and contracts can be for single routes, a package of routes, designated service areas, or entire systems. Both public and private operators are both eligible to bid, with the contract awarded to the lowest bidder with the "financial and technical capability" to do the work.[4]

Fares received under competitive contracting remain with the public transit agency, and contractors are usually paid per hour or per unit of distance (mile/kilometer) of service. As competition takes hold, service quality tends to rise, and ridership may rise as well (often because savings from contracting can be used to provide increased service). These savings manifest themselves in two ways—directly (in terms of the difference between the price of contracted service and the price under the former monopoly system) and indirectly (in the form of the "ripple effect" savings that often results in services not subject to bid, as public employees become more efficient in response to the threat of competition). Contracting programs can be sweeping (contracting an entire system at once) or gradual (bidding out service over time within the rate of employee attrition).[5]

The following section examines the experience with competitive contracting in a number of Western nations and cities and, where available, provides details on the results achieved in terms of costs and productivity.

International Snapshots of Competitive Contracting

Canada

While Canada has not utilized competitive contracting to the degree that some of its Western counterparts have, it is important to note that several of its public transportation systems are competitively bid, including systems in its western provinces,

[3] Wendell Cox, "Competitive Tendering of Public Transport," Presentation to the Urban Road and Public Transit Symposium "Who Must Pay," Centre Jacques Cartier, Montreal, October 7, 2004.
[4] *Ibid.*
[5] *Ibid.*

in the Montreal suburbs, and in the Toronto area.[6] And according to the Ontario Motor Coach Association, "private sector competitive contracting of transit services has been highly successful in 20 municipalities across Ontario, such as Vaughan, Richmond Hill, Newmarket, Whitby, Markham, and Chatham" (which has used a private contractor for 48 years).[7]

In addition to the aforementioned public transit services, 80 percent of Canadian school bus services are competitively contracted. Daily ridership on school days is estimated to be about one-half of the combined urban public transit and school bus ridership.[8]

Great Britain

London has the largest public transportation bus system in the world, operating more than 6,000 buses. Between 1970 and 1985, real bus costs per vehicle kilometer rose 79 percent. In response, the British Parliament enacted legislation that ultimately led to the conversion of the entire system to competitive contracting—a process that was completed by 1999.[9]

For the period encompassing 1985 to 2001, real costs per vehicle kilometer for London's bus system fell by 48 percent in real terms—and at the same time, service was expanded by 26 percent and productivity (in terms of service levels per unit of currency) went up by 91 percent (or 4.1 percent annually). Ridership increased by 30 percent since the beginning of the competitive contracting program, and reached its highest point since the 1960s. Overall, it is estimated that in the absence of contracting, costs for London Transport would have been $15 billion higher between 1985 and 2001.[10]

In Great Britain outside London, the public transportation market was also reformed, but in a different manner. Since 1986, 80 percent of all public transit in those areas has been planned and operated by private, independent competitors who set their own fares. Any operator who wants to operate public transit services makes his intention known to the "Traffic Commissioners" and specifies route alignments, timetables and fares. The remaining 20 percent of services are contracted out by the local Public Transport Executive.[11]

Denmark

The Danish Parliament required the conversion of Copenhagen's bus services competitive contracting, beginning in 1989. Copenhagen operated a fleet of 1,200 buses

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[6] *Ibid.*
[7] Ontario Motor Coach Association, "Standing Committee on Finance and Economic Affairs Pre-Budget Consultation Submission," February 13, 2004.
[8] Wendell Cox, "Competitive Tendering of Public Transport," Presentation to the Urban Road and Public Transit Symposium "Who Must Pay," Centre Jacques Cartier, Montreal, October 7, 2004.
[9] *Ibid.*
[10] *Ibid.*
[11] Kjell Jansson, "Organization and Procurement of Public Transport," September 2002.

and had an annual ridership of 260 million. The law mandating contracting originally prohibited the government from participating in contracting, as lawmakers were concerned that the transit agency could not objectively administer a process in which it was also a bidder. However, once the public bus operating division was sold to a private company, the prohibition was lifted. Copenhagen's bus services were converted to competitive contracting by 1995.[12]

Between 1989 and 1999, Copenhagen's real bus costs per vehicle kilometer fell by 24 percent. Real overall capital and operating expenses were down by 8 percent from 1990, and service increased by 14 percent. Through 1999, estimated savings from contracting stood at an estimated $250 million, and productivity increased by 32.2 percent. Ridership in Copenhagen also increased by 9 percent, and management attributes this increases to expanded service levels that were made possible by more cost-efficient operations, as well as improved service quality.[13]

Sweden

An act of the Swedish Parliament led to the eventual conversion of almost all public transit services in the country to competitive contracting. In Stockholm, where 1,700 buses and 1,200 rail cars were in operation, all such service was converted to competitive contracting during the 1990s.[14]

Between 1991 and 1999, overall costs per vehicle kilometer for Stockholm transit fell by 20 percent in real terms, while overall capital and operating costs shrank by a real 7 percent and service was expanded by 16 percent. Operating costs alone fell by 25 percent since 1991—and this occurred despite the fact that the government mandated that contractors hire all existing workers at their existing wage rates. During the 1991-1999 period, costs were $900 million lower than they would have been if costs had simply risen at the rate of inflation. Stockholm transit productivity also went up by 25 percent.[15]

Finland

In the early 1990s, the Helsinki Metropolitan Area Council (YTV) competitively contracted its bus services in the 4-city capital area. The City of Helsinki continued to own and operate its own municipal bus system, but YTV's regional services (which comprised approximately 40 percent of regional transit service) were operated by 14 private firms. The contracting firms were chosen on the basis of price and the following quality factors: fleet condition, customer service, quality assurance programs, garage location and contractor experience. Bids were then evaluated on a 100-point scale (75 points for price, 15 points for fleet quality, and 10 points for other factors).[16]

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[12] Wendell Cox, "Competitive Tendering of Public Transport," Presentation to the Urban Road and Public Transit Symposium "Who Must Pay," Centre Jacques Cartier, Montreal, October 7, 2004.
[13] *Ibid.*
[14] *Ibid.*
[15] *Ibid.*
[16] Shirley A. DeLibero, "Transit Study Mission Examines Scandinavian Models of Contracting Out Bus, Rail Services," American Public Transit Association, August 18, 1997.

In 1994, YTV put 20 percent of the regional services up for competitive bid. 23 companies responded to the request, and the result was a 33.2 percent decrease in costs (which translated to annual savings of 16.2 million FIM). The winning bidders received 3-year contracts for the service, and for the first time, regional fares were reduced (by an average of 3 percent). Encouraged by these results, YTV contracted out the remaining regional service in three rounds, completing the process in 1996. The result in this case was an annual cost savings of 29.2 percent (105 million FIM), and the price of a 30-day regional fare was reduced by 6 percent. In addition, vehicle quality also improved after the implementation of competitive contracting, with the average age of buses dropping from 4.9 years to 3.2 years (and newer buses also met the more stringent Euro II emissions standards).[17]

Chile

At the end of 1977, public transit in Santiago, Chile was provided by the public sector (utilizing 710 large buses and a number of other vehicles) and a number of "strictly regulated private associations."[18] All fares, routes, frequencies and bus imports were strictly controlled. But in November 1979, entry to the public transit market was deregulated, with the result that fares were gradually decontrolled and became completely unregulated by June 1983. The public sector operator was eventually driven from the market, and total capacity more than doubled over the next decade.[19]

Some negative impacts were observed in Santiago, namely large fare increases that were the product of collusion among operators and an aging bus fleet. However, reforms in the late 1980s addressed these problems, and a plan that competitively contracted bus licenses also improved the situation. Bus licenses were awarded according to, among other factors, vehicle cleanliness, quality and service price. In this way, competitive pressure was maintained, along with the ability to promote service quality and environmental quality.[20]

New Zealand and Australia

In New Zealand, a national conversion to competitive contracting was implemented in 1991.[21] Passenger transportation services are mainly under private ownership and operation, but regional councils define services and fares, contract for and subsidize provision of local public transport services in larger population centers. Some subsidies are provided to urban passenger transport through competitive contracting processes that provide exclusive operating rights for the contract period. There are no

[17] Yrjo Venna, "Case Study: Public Transport in Helsinki Metropolitan Area," Working Paper 99/W/01, European Institute of Public Administration.
[18] Ian Thomson, "Urban Bus Deregulation in Chile," *Journal of Transport Economics and Policy,* 1992, Vol. 26, No. 3.
[19] *Ibid.*
[20] *Ibid.*
[21] Wendell Cox, "Competitive Tendering of Public Transport," Presentation to the Urban Road and Public Transit Symposium "Who Must Pay," Centre Jacques Cartier, Montreal, October 7, 2004.

price controls or entry restrictions (other than basic health and safety requirements) for privately operated transit services.[22]

In Australia, the city of Melbourne has contracted for both its bus and rail services, while Perth and Adelaide competitively contract for bus services. The experience of Adelaide in particular demonstrates the evolution and continuous refinement that is necessary for a successful competitive contracting program, and that experience is discussed at length in the following section.

Competitive Contracting of Bus Services in Adelaide

Overview

The private bus services in Adelaide, South Australia were taken over by government between 1973 and 1975 and consolidated into a single agency responsible for several modes of public transportation. This regime was in effect until 1995, at which time bus services were competitively contracted. 760 buses were contracted to private operators in two stages. During Stage 1, which lasted from 1995 to 1997, half of all bus services were contracted out in two rounds. During Stage 2, which took place from 1999 to 2000, all bus services were contracted out, including the re-contracting of those contracted in Stage 1. The Adelaide experience represents a case of using incentives and offering responsibilities to contractors in order to improve services and help government achieve "patronage-related objectives for public transportation."[23]

At the time of the conversion to competitive contracting, Adelaide had a population of 1.1 million and was a relatively low-density city with low rates of population growth, high car ownership rates and relatively low congestion. Public transit usage had been in steady decline during the latter half of the 20th century, from 240 trips per capita in 1950, to 90 in 1970, to 42 in 2001. Bus services accounted for 80 percent of public transit trips, with 47 million passengers annually using 760 buses. Public transit's market share for trips to the central business district was 20 percent, and just 5 percent for all trips. Adelaide's transit system included the Northeast O-Bahn, the largest full-scale guided busway in the world, on which (and in the surrounding area) 108 buses carried 20,000 passengers per weekday.[24]

In the pre-1995 period, the State Transport Authority (STA), formed in 1975, operated all public transit in Adelaide, including bus and tram services, suburban train services, and bus services (which, as previously noted, were taken over from private companies). Bus services were heavily subsidized, with the average fare per journey standing at $1.15 (in Australian dollars) in June 2001, and as of 1997-98, farebox revenue

[22] Ministry of Transport, New Zealand, "Surface Transport Costs and Charges Study," Main Report, March 2005.
[23] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[24] *Ibid.*

covered 28 percent of operating costs and 18 percent of the total cost of providing public transit (a figure that includes the opportunity cost of capital).[25]

The Conversion to Contracting

In 1994, the newly elected state government of South Australia passed the Passenger Transport Act (PTA). The PTA created a Passenger Transport Board (PTB) to fund, plan, commission, and regulate passenger transport in South Australia. The STA was converted to a statutory operating body called TransAdelaide (TA), which was no longer responsible for policy functions. The PTA also required all land passenger services in the state—bus, trams, and trains—to be operated under service contracts to the PTB, and it also mandated the continuance of a common, multi-modal fare structure across the Adelaide metro area. The old STA was abolished, with its activities divided between the PTB and TA, and all government assets were transferred to Transport South Australia (a separate government agency responsible for asset management).[26]

Once all of the above was accomplished, competitive contracting was introduced, beginning with bus services. Contracts were originally to be for a maximum of 5 years and were capped at 100 buses, and the contracts were to be phased-in in such a manner as to allow TA to remain in control of at least 50 percent of bus services until March of 1997. These policies were set up in order to provide short-term protection for TA, minimize the chance that one operator would obtain a monopoly, and give smaller operators the chance to compete. The model and process that the PTB developed for contracting was designed to address the following issues:

- How to make the transition from government monopoly to competitive market.
- How to create conditions that would allow a brand-new supplier market to develop and continue in existence.
- How to encourage service provider innovation and reverse ridership declines, while still keeping parts of the system that were seen as desirable in place (such as the integrated fare and ticketing system and centralized passenger information).
- How to develop policies for future ownership and use of bus system assets owned by the government.[27]

The model that was ultimately adopted had the following key features:

- The entire service area was divided into 10 areas, in each of which contractors would have exclusive operating rights (except for long-distance routes that crossed area boundaries). Also, 4 separate route-based contracts were offered.
- The 100-bus maximum for contracts was incorporated (actual contract sizes ranged from 10 to 94 buses).

[25] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[26] *Ibid.*
[27] *Ibid.*

- Contracts were initially to be two years long, to be bid in 4 rounds at 6-month intervals, with the length of the contracts to increase during the 4 rounds from 2.5 years to 4.5 years. All contracts were then to be re-bid for 5 years, with the goal of establishing a long-term contracting cycle.
- An important goal of the contracting process was to encourage service innovations on the part of the contractors. Contractors were required to meet a set of minimum service standards set by the government (based on previous service levels) that would apply for the entire metro area and each specific contract area. Bids were to be based on these standards, with contractors proposing to exceed those standards receiving more points in bid evaluations. Bus operators were also to be responsible for proposing service enhancements and variations (and for paying for them through service cost savings and additional revenues generated), with PTB retaining the right approve such changes.
- Contractors would be paid in two ways—via a fixed monthly sum based on the contract price bid, and an amount linked to ridership and calculated according to the change in ridership from the "base year." Originally, this was 50 cents per passenger boarding plus 10 cents per passenger kilometer. All fare revenue was returned to PTB and was not part of operator funding. The payment system was designed to reward operators for attracting extra passengers (outcomes), not for providing extra services (inputs).
- Prior to contracting, all Adelaide buses and depots were government-owned. The original contracting process was based on the assumption that contractors would lease those buses and depots (with bidders having the option to present alternative proposals). This policy had the advantage of reducing barriers to entry and increasing the level of competition, but also had the effect of reducing the opportunity for contractors to offer services with smaller vehicles.
- The government proposed to meet its goal of maintaining "system integration" by including, within its set of minimum service standards, criteria for timetable coordination between modes, routes and operators (including conditions for bus operators that crossed contract boundaries). It maintained the previous system of integrated fares and ticketing, with off-bus ticket sales remaining the responsibility of the PTB and with contractors required to 1) lease on-bus ticketing equipment from PTB; 2) minimize fare evasion; and 3) reconcile and pay to PTB all revenue collected. PTB retained responsibility for passenger information, with operators required to prepare timetable leaflets according to a PTB-approved format. The overarching goal of PTB was to maintain the "market perception" of "an integrated, seamless metropolitan-wide system."[28]

The Contracting and Evaluation Process: Stage 1

The Stage 1 process was open to all parties. Interested contractors were able to present conforming (complying with all government requirements) and non-conforming (not required to meet certain requirements) tenders. The overall objective was to select

[28] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001..

the bidder offering the "best value for money"—which did not necessarily mean the lowest-priced bid. The bids were reviewed by a Tender Evaluation Committee (TEC), headed by an independent chair and assisted by external experts, which judged proposals according to the following criteria:[29]

- Compliance with stated requirements, with a detailed evaluation of those that qualified in the areas of service quality, competency, demonstrated financial capacity, and base price.
- Normal commercial checks of contractors' financial status.
- Assessment of contractors' past performance in terms of service delivery.
- Total budgetary costs to government for each proposal.
- Comparison of bid prices against "best practice" benchmarks.
- Scoring of contract bids against all evaluation criteria, including the "trade-offs" between quality and price criteria.
- Evaluation of broader implications of bids (economic development, environmental impact).
- Preparing detailed proposal evaluation reports.[30]

Bids that did not meet essential minimum requirements set by the government were eliminated. Points were given for bids exceeding the minimum requirement for a given criterion. Weighted totals were calculated and translated into an equivalent price adjustment, according to a pre-determined scale, which resulted in a "quality-adjusted" price. The lowest such price would win the contract. TA, as the existing government operator, was allowed to bid, subject to several conditions imposed to keep the competition fair, including: 1) All bids had to fully reflect TA's service costs; 2) PTB, TA and Treasury would have to agree before a cost could be omitted from the bid price; and 3) PTB must treat all bids equally.[31]

Stage 1 Contracting Results

Stage 1 consisted of two rounds of contracting (accounting for 43 percent of all bus service in Adelaide). Round 1 was conducted in late 1995, with two contracts accounting for 165 buses up for bid. Five bidders competed for the first contract, while 4 bid for the second. Round 2, conducted in mid-1996, consisted of 3 contracts accounting for 190 buses. Three bidders (two of which already operated bus services in Adelaide) competed for each contract. Of the 5 contracts, TA won three and Serco, which had no previous bus contracts in Australia, won the other two.[32]

The Stage 1 contracting process was relatively smooth and led to an annual savings of $14.9 million (Australian dollars). Most of the savings was associated with fewer staff, greater productivity, and lower pay rates than those associated with the

[29] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[30] *Ibid.*
[31] *Ibid.*
[32] *Ibid.*

previous government-provided service. At the time, it was thought that more impressive results could have been obtained if the contracting program had been more aggressive.[33]

Originally, all Adelaide bus services were to have been contracted out by the end of 1997, but in 1996, the government put the program on hold and, on an interim basis, negotiated with TA in a non-competitive process on the 8 remaining bus contracts. The contracting "pause" was undertaken for the following reasons:

- TA had agreed with its workforce on a number of initiatives to provide savings.
- There were concerns that continuing the competitive process would cause TA employees to lose more work.
- Political considerations, related to controversies in contracting for other government services, were a factor.
- The Passenger Transport Act (PTA), which precipitated the contracting program, was to be reviewed in 1998, and it was thought that delaying contracting would allow the program to be resumed under an updated version of the Act.[34]

Review of the Contracting and Evaluation Process

A review of the competitive contracting process, coupled with the review of the PTA, led to a number of changes in the Adelaide contracting program. The review of the contracting process found that it had not been entirely successful at encouraging a competitive supplier market or at encouraging innovation and service enhancement to better serve passengers. An integral part of this review was market research, conducted among potential bidders and existing contractors, which revealed the following:

- Contractors preferred longer contracts (ranging from 7 to 12 years in length), which were thought to better encourage investment, service development, and better innovation and pricing.
- The preferred contract sizes were 50 to 100 buses.
- Contract areas should be determined by "logical route structures," depot availability, and operational efficiency considerations.
- High vehicle standards were important to contractors, whether the buses were leased or contractor-owned. In fact, some contractors wanted the option to upgrade government buses or using their own.
- The lack of suitable depots was thought to constrain competition, and the optimal size for a depot was for 60 to 80 buses.
- The maximum market share that any one competitor could attain should be set in advance.
- The Stage 1 contracting process was thought, in view of bus operators, to constrain service development and innovation, rather than promote it. This was surmised to be a product of differing expectations on the part of government and

[33] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[34] *Ibid.*

the operators as to whose responsibility meeting these goals was to be, as well as being inhibited by the short contract periods.
- Some contractors expressed a preference for all contracts to be bid at once, rather than on a phased-in basis.[35]

The review took the above contractor observations into account and then examined how well the Stage 1 contracting regime had promoted a competitive supplier market, as well as the issues of contract relationships and obligations, how to reduce the risks faced by contractors in bid pricing, government budgetary issues and uncertainties, how to ensure competitive neutrality between TA and the private operators, and the design of contractor incentives and payment structures.[36]

In reviewing the PTA, it was found that, in relation to contracting, that the 100-bus limit for contracts had not necessarily promoted competition of efficiency, and that contracts had been too short and did not allow for enough operator flexibility. In addition, it was determined that the link between contract payments and ridership did not encourage innovation or service integration, and that the complexity, prescriptive nature and volume of contract documentation in Stage 1 inhibited potential bidders. In fact, the review found that the limited number of contract bids—caused by the factors discussed previously—had itself reduced the amount of competition and innovation. Also, the scoring and weighting system used to evaluate bids was seen as not allowing for proper comparisons, and the adversarial nature of the relationship that had developed between TA and the contractors was not seen as a positive. Finally, the review also considered the potential negative impacts of losing contracts on TA and its staff.[37]

The outcome of the review was that in late 1998, it was decided that the PTA would be amended, and that competitive contracting of Adelaide bus services would resume, with the 100-bus limit removed and with PTB now required to make contract determinations according to the following four principles:

- No operator was to be able to obtain a monopoly (or a near-monopoly) as a result of competitive contracting.
- "Sustainable competition" was to be developed and maintained in the provision of public transportation.
- Integration of public transit services was to be encouraged and enhanced.
- Service contracts should support the efficient operation of passenger transport services and promote innovation in customer service.[38]

PTB was also required to submit a report to the Minister of Transport within 14 days of awarding a service contract. The report was to describe the contract and how the four principles described above were applied in the contracting process.[39]

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[35] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[36] *Ibid.*
[37] *Ibid.*
[38] *Ibid.*

The new Adelaide contracting model reflected both the legislative amendments and other changes proposed in the reviews. For example, all contracts were to be let at one time, with new contracts to begin in April 2000 and existing contracts varied by negotiation to expire at that time. Contracts were to be for 5 years initially, with the possibility of a 5-year renewal if performance was satisfactory and the contractor and the government were able to agree on a price. The number of contracts was reduced from 14 to 7 (6 area contracts and 1 route contract).[40]

The Contracting and Evaluation Process: Stage 2

The new contracting model for Adelaide bus service now included a two-stage selection process, consisting of a Registration of Interest and a Request for Proposals (RFP). This process was thought to allow for greater flexibility, to avoid the perception that cost was the primary selection criterion, to reinforce the expectation of innovative service provision, to allow respondents to better present their capabilities and proposals for service and infrastructure improvements, and to allow a wider variety of factors to be considered in proposal evaluation.[41]

TA was permitted to bid (under a set of pre-defined conditions), and all bidders faced simpler documentation requirements and less costly tender/contract documents in Stage 2. All bidders were required to submit conforming bids for any one or all of the 7 contracts, and they had the option of submitting proposals for combinations of contract areas. Conforming proposals were to be based on operation of then-current services for the first year of the contract, and bidders were required to also bid variable unit cost rates (costs per kilometer and peak bus) to apply in case of service adjustments.[42]

Service specification and development was to be undertaken by a "partnership" between PTB and the contractors. Contractors were to be responsible for initiating service changes (including annual service reviews), and PTB was to provide more information on passenger demand to operators (in order to encourage them to re-allocate resources from underperforming services) and retain the ability to direct changes in services. The purpose of greater PTB involvement in service planning was to alleviate the need for detailed services standards. With regard to marketing, PTB was to have a larger overall role, while operators were to focus on local marketing.[43]

On the issue of contract payment, the variable payment rate linked to changes in ridership was reduced, and an input-related variable payment rate was introduced for agreed service changes. Contractor penalties for early and late running and missed services were increased substantially. Operators were held harmless from patronage

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[39] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[40] *Ibid.*
[41] *Ibid.*
[42] *Ibid.*
[43] *Ibid.*

decline in the first year of the contract (but were paid an incentive for ridership increases), with first-year ridership being the basis for future incentive payments.[44]

It was thought that the new payment structure, with its emphasis on both service inputs and outputs, was an improvement over the previous output-based incentive plan in that it reduced the risks associated with innovation and service enhancement, while at the same time better reflecting the notion that service changes were a combined decision by PTB and the operator. The "partnership" between PTB and the operators was also strengthened by PTB initiatives that gave those operators more information on service demand (such as the creation of a centralized database on bus runs and an automatic bus location and scheduling system). [45]

Proposals were to be assessed by a Proposal Evaluation Committee (PEC) that developed an overall assessment plan, determined assessment factors, integrated proposal evaluation, and recommended a preferred contractor to the PTB board. The PEC was assisted by five Evaluation Teams, each responsible for assessing a specific aspect of a proposal (service design, customer service, infrastructure and security, implementation and management, and finance and corporate capability).[46]

Stage 2 Contracting Results

Under the new contracting model, 24 operators expressed interest, and all of those operators were invited to submit proposals by September 1999. 87 separate proposals were ultimately received from 16 companies and consortia from Australia and overseas. Each contract received 6 to 8 proposals—a much higher level of interest than seen in Stage 1. In January 2000, four winning bidders were announced—Serco (395 buses, representing 53 percent of patronage), Torrens Transit (255 buses, 36 percent of patronage), Australian Transit Enterprises (82 buses, 8 percent of patronage) and Transitplus (33 buses, 3 percent of patronage).[47]

All of the winning bidders were either current operators in Adelaide or Australian-owned companies with interstate bus operations (despite numerous proposals from international bus operators). TA did not win any of the contracts (it did participate, along with Australian Transit Enterprises, in the winning Transitplus bid), and shortly "wound up" its remaining bus business. Overall, it was thought that the bids in Stage 2 were much more competitive, in terms of both price and service quality, than those received in Stage 1.[48]

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[44] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[45] *Ibid.*
[46] *Ibid.*
[47] *Ibid.*
[48] *Ibid.*

Results of Competitive Contracting in Adelaide

An examination of Adelaide public transit costs since 1992 reveals the impact that competitive contracting—or the mere threat of it—can have in controlling those costs. Costs changed very little during the early 1990s, but during the time period immediately preceding Stage 1 of the contracting process, more dramatic cost reductions began to occur—likely as a result of budgetary constraints and the government (TransAdelaide) transit agency's anticipation of the contracting process. In 1997, the total cost of bus service fell sharply in 1997 as the first two rounds of contracting took effect (including the contracts negotiated non-competitively with TA, which were based on the competitively contracted prices).[49]

Between 1997 and 1999 (the period of the contracting "pause," during which the program and underlying legislation were evaluated), total bus service costs rose, largely due to a 4.5 percent increase in bus service provided. Costs then fell marginally in 2000 (as the newly awarded contracts began in April) and then much further in 2001, as the annual cost of re-contracted services dropped by 5 percent and the cost of services contracted for the first time fell by 20 percent. After taking into account the effects of inflation and changes in fuel prices, it was estimated that the initial savings from the Stage 2 contracts were approximately $24 million (Australian dollars).[50]

For the entire period from 1994 to 2001, annual bus service costs in Adelaide fell by an estimated $60 million (Australian dollars), or 33 percent. At the same time, total bus kilometers rose by nearly 8 percent, meaning that the cost per bus kilometer dropped by 38 percent. It is also interesting to note that the average cost of tram and train services changed little in real terms between 1994 and 2001.[51]

With regard to employment levels and conditions, it was expected that, at the time of the new contracts, total bus service employment would fall by 17 percent—but driver friendliness has been observed to be increasing. Greater service enhancements also seem to have followed the Stage 2 changes to the contracting model, in the form of improved bus frequency, better evening and weekend services, route extensions, and re-allocation of bus trips to times more popular with riders. A March 2001 passenger survey revealed that 40 percent of respondents believed that service had improved, as opposed to the 15 percent who believed there had been no change and 9 percent who thought service had worsened. Overall Adelaide bus ridership, which had been in long-term decline, has declined at a slower rate since 1995.[52]

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[49] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[50] *Ibid.*
[51] *Ibid.*
[52] *Ibid.*

Conclusions

The 38 percent savings observed for Adelaide's competitive contracting program is consistent with the experiences of other international cities, as well as with previous studies of cost differences between public and private operators in Australia. At the same time that cost savings have been achieved, no deterioration of service quality has been observed.[53] In 2003, the Statutory Authorities Review Committee of the Parliament of South Australia reported that the PTB's competitive contracting program has saved at least $7 million (Australian dollars) per year.[54]

The international experience with competitive contracting for bus services shows that the mere establishment of a contracting program does not guarantee success. However, if such a program is designed in a manner that encourages a competitive supplier market, separates transit policy from transit operations, is consistent with the overall transportation goals of the government, and has strong support (preferably in the form of a legislative mandate) from government leaders, there is strong evidence from international cities that competitive contracting of bus services can and does succeed at saving taxpayer dollars while maintaining (and often improving) passenger service quality.

[53] Ian Wallis and David Bray, "Competitive Tendering of Bus Services: The Improved Adelaide Model," 7th International Conference on Competition and Ownership in Land Passenger Transportation, June 2001.
[54] Parliament of South Australia, *Annual Report of the Statutory Authorities Review Committee*, 2002-03.