



The contracting of urban bus services – Recent Australian developments



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ABSTRACT

Since 2011, very significant developments have occurred in the procurement and contracting of bus services in major Australian cities. After many years of ‘grandfathering’ (continuing rollover of negotiated contracts with long-established private operators), competitive tendering has been progressively implemented for bus services in Sydney and Melbourne, and is also planned for Brisbane. All bus services in Adelaide and some services in Perth, which were previously competitively tendered, have also been retendered.

The paper addresses the context for these changes, the events that have occurred and their outcomes. The empirical evidence assessed shows that procurement through competitive tendering has reduced the costs of service provision, very substantially so where the services were previously provided by government monopoly operators, and rather less so, but still significantly, where contracts were previously negotiated with incumbent private operators. In both cases, improvements in service quality and delivery have also been achieved, resulting in increased patronage. Our assessment reinforces the need for robust operator procurement processes, and for mechanisms and incentives for operators to develop their services to better match market needs.

The learnings from the recent experience are very relevant to further developments in procurement/contracting policy for urban bus services, in Australia and also internationally.

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1. Introduction

The initial competitive tendering of former government operated bus services that occurred in Australia in the mid to late 1990s was followed by almost 15 years of regulatory quiescence, despite its evident success in terms of reduced costs and improved quality of service. Over the last two to three years there has been a remarkable shift, with the introduction of competitive tendering of services hitherto provided by long-established private companies through negotiated contracts in the two largest urban bus markets in the country, and with a government decision to adopt competitive tendering in the third largest market. Expiring contracts for the provision of bus services in markets where competitive tendering had been introduced in the 1990s have also been re-tendered.

This paper describes and assesses recent developments in the procurement approaches used to select operators of metropolitan bus services and the performance of the contracts in terms of the

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quality of services that are provided. The findings shed some significant additional light on the long-running debate in Australia on the relative merits of competitive tendering (CT) and negotiated contracts (NC) as means for securing the provision of scheduled public bus services by private sector operators. The findings have implications for the remaining services which continue to be provided directly by government authorities and by private operators, and which have not been subject to open competition.

The remainder of this paper is structured as follows:

- The next section presents the historic context.
- Sections 3–7 cover developments in each of the five main state capital cities (in order Adelaide, Perth, Sydney, Melbourne and Brisbane). For each city we provide a brief context to its bus market and regulatory policies, outline recent procurement and contracting developments, and describe the outcomes.
- Sections 8 and 9 discuss and draw conclusions on apparent successes and failures, and comment on the significance of our findings for the ongoing debate (in Australia and elsewhere) on the relative merits of competitive tendering and negotiation as means of securing bus service contracts.

2. Historic context

In the mid/late 1990s, the transport authorities in Perth, Adelaide and Melbourne moved to outsource, through CT, the metropolitan bus services that they had previously operated directly through corporatised government entities. In all three cases, substantial cost savings were achieved, typically in the range 20%–30% or more. This level of saving is broadly consistent with international experience in situations where previously monopoly government bus operations have been outsourced to the private sector through a competitive process (Hensher & Wallis, 2005; Bray & Wallis, 2008).

Until recently, there had been only very limited regulatory change in the other major state capital cities: Sydney, Brisbane and Hobart have maintained their government operations, in the Sydney and Brisbane cases alongside significant private operations. The private operations in Sydney, Brisbane and Melbourne had continued largely on a 'grandfather' basis: while they were subject to formal contracts, these tended to be rolled over on a negotiated basis at the end of each contract term: only in exceptional (and very rare) cases of non-performance have state governments moved to terminate contracts and select a new operator.

Thus the metropolitan bus sector in Australia had evolved into 3 groups: (i) privately operated services (those previously operated by government authorities until the 1990s), that were now subject to periodic CT; (ii) privately operated 'grandfathered' services, that had typically been developed and operated by the same (generally family-based) operators for many years, and never subject to open competition; and (iii) the remaining government operated monopoly services.

In regard to the last of these, it is widely believed by those concerned with bus competition and ownership questions that significant cost savings could be secured with outsourcing, as has occurred elsewhere in Australia and internationally (as noted above); but such a change has been seen as being politically difficult to achieve. In regard to the second group, there has been ongoing debate in the sector about issues and merits of opening these services to competition, through competitive tendering. One view, which was probably the prevailing one, was that the operations were generally cost efficient, and any cost savings from competition were likely to be small (and possibly negative when the costs of tendering and transition were taken into account). Even if significant cost savings could be achieved, it was thought that these might be at the expense of quality (i.e. involving a 'race to the bottom'). The long-established and influential private bus industry in the states where negotiated contracts with private operators have been the norm has been a strong advocate of the status quo (e.g. Hensher & Stanley, 2003).

However, over the last 2–3 years there has been a significant shift in the government policies in the three largest state capital cities (i.e. Sydney, Melbourne and Brisbane). In Sydney, in a sudden change from previous policies, the government initiated competitive tendering for most of the metropolitan services that were previously provided by private operators through negotiated contracts. In Melbourne, the state government recently (in 2013) tendered approximately one-third of Melbourne's bus services through a single contract. In Brisbane, the state government has indicated its intention to redesign bus services and then open them to competitive tender.

Fig. 1 sets out the three phases of evolution over the last 20 years in the metropolitan bus markets in the five main state capital cities, viz:

- in the mid/late 1990s, the outsourcing, through CT, of the government operated bus services in three states;

- for some 15 years thereafter, the absence of further reforms to the metropolitan bus sector in terms of competition and ownership policies; and
- over the last 2–3 years, the start of a further phase of reforms with commencement of CT of privately operated bus services that were previously provided through NCs, in Sydney, Melbourne and (proposed) Brisbane.

3. Developments in Adelaide

3.1. Historic context

The public transport system in Adelaide, a city of 1.3 million people (2012), was provided by a government monopoly operator until 1994, when a process to competitively tender bus services commenced. In that year the government established a public transport planning, management and funding authority (called the Authority hereafter) and a separate government corporation that operated bus, train and tram services. Two rounds of competitive tendering of bus services resulted in private companies winning the rights to operate all bus services, with contracts commencing in 1996 and 2000. Competitive re-tendering of some contracts occurred in 2005 when one operator was unable to meet the conditions for an extension to its contracts. Prior to the recent tendering of contracts (discussed below), all the contracts were to expire in April 2010. The seven contracts were provided by three private operators: all were judged to be providing a good quality of performance, with rising patronage, and with contract prices that had been established following several rounds of competitive tendering and which could be reasonably judged to be cost-efficient.

The Adelaide CT bus service procurement model was originally developed in 1994/95, was subject to a major review and redesign in 1997/98 following initial experience and since then has been further fine-tuned. Its performance has been extensively appraised and documented, including papers at several past Thredbo conferences (Gargett & Wallis, 1995; Radbone, 1997; Haliday & Coleman, 1998; Wallis & Bray, 2001; and Bray & Wallis, 2008). The model has also been studied by others (e.g. World Bank 2005 and NERA & TIS.PT 2001). The Adelaide model has generally been considered to have been successful and a good example of a performance-based gross cost contract arrangement with strong patronage incentive payments and with a substantial role for the operators in service planning. CT in Adelaide reduced unit operating costs by between 26% and 31% (depending on the counterfactual) between the start of the CT process in 1994/95 and the

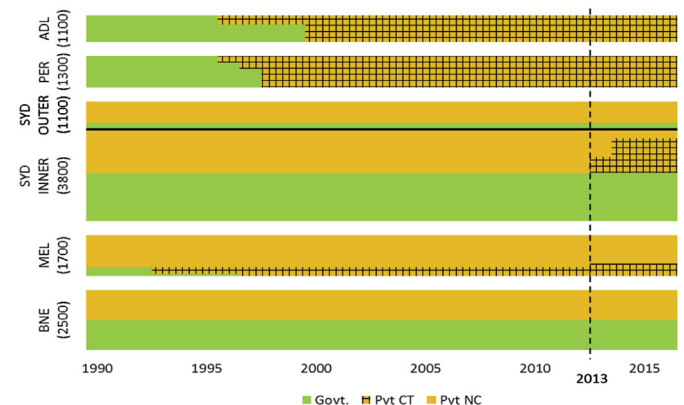


Fig. 1. Evolution of the Australian metropolitan bus market – overview.

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