



To competitively tender or to negotiate – Weighing up the choices in a mature market

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A B S T R A C T

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A key attribute of competitive tendering for the periodic selection of operators of subsidised public transport services is to secure the provision of specified services at efficient cost levels. This has proved particularly effective where services were previously provided by an inefficient monopoly operator. The arguments for the adoption of competitive tendering in preference to negotiation with the incumbent operator may be less clear-cut in other cases.

Consideration is given to both theoretical and practical insights into the relative merits of competitive tendering and negotiation approaches in such situations. The limited literature on the topic is reviewed and insights and lessons identified. Influencing issues include prior conditions, the nature of the supplier market, features of contracts, negotiating and competitive tendering strategies and practice, accountability and transparency, and long-term market implications. The evidence suggests that 'one size does not fit all', and the choice will depend on specific circumstances.

The relative merits of the two approaches for renewal of bus contracts are considered with regard to Adelaide, for contracts which have previously been awarded through competitive tendering. The paper draws out the main factors that could influence the authority's choice between the options, and discusses the relevance of the findings to other situations.

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1. Introduction

Competitive tendering has become the preferred option in many cities for the selection of operators of subsidised public transport services. Its main merit is seen as securing the provision of services at efficient cost levels, particularly in cases where services were previously provided by an inefficient monopoly operator. Creativity in service design and improved management of the workforce may be other objectives.

However, once efficient cost levels have been established, the case for the continuing use of competitive tendering in subsequent contract rounds in preference to negotiation with an incumbent operator may be less clear-cut. Similarly, in cases where services have previously been provided through negotiation with an efficient (usually private) operator, albeit on a monopoly basis, the case for competitive tendering may also not be clear-cut.

This paper provides an assessment of the relative merits of competitive tendering (CT) or negotiated contracts (NC) for the provision of bus services in Adelaide (South Australia) following the expiry of the current (competitively tendered) contracts in April 2010. It is based on work undertaken by two of the authors (Ian Wallis and David Bray) working as consultants to the South Australian Department for Transport, Energy and Infrastructure, Public Transport Division (then headed by the third author, Heather Webster).

Surprisingly limited consideration has been given in the international literature (including past Thredbo series conferences) to the relative merits of competitive tendering and negotiation approaches for the procurement of public transport services. The paper reviews the limited relevant literature and identifies the insights and lessons that it provides. This review indicates 'that one size does not fit all', and it identifies a number of factors pertaining to the performance of the current contracts/operators and the likely market appetite that will influence the relative merits of the alternative approaches.

The paper then examines the Adelaide situation and assesses the extent to which the various influencing factors are present in Adelaide and hence the extent to which either a CT or NC strategy

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would be preferred. This assessment is supported by a complementary assessment that examines whether a CT or NC approach is likely to be more effective in addressing a range of SA Government objectives affected by the choice of procurement strategy.

The paper then draws conclusions on the preferred strategy for adoption in the Adelaide situation, and finally discusses the wider relevance of these findings to the procurement strategy choices that are likely to be faced in many other cities internationally.

2. Overview of bus contracting in Adelaide

2.1. Contracting model development

Adelaide's public transport system 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 and management 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 retendering of some contracts occurred in 2005, and all bus contracts were due to expire in April 2010.¹

The Adelaide bus service procurement (competitive tendering and contracting) model was originally developed in 1994/95, was subject to a major review and redesign in 1997/98 and has since then been further fine-tuned. Its performance has also 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 the World Bank (World Bank, 2005).

2.2. Contracting model features

In brief, key features of the current Adelaide bus contracting model are:

- Area-based contracts (with a few additional 'line-of-route' services).
- 7 contracts covering around 800 buses.
- Operators take primary responsibility for ongoing service planning and development in their contract areas, with final decisions on service changes made by the authority.
- Contract duration initially 5 years, with renewal provision for an additional 5 years (subject to satisfactory performance).
- Main operational assets (buses and depots) owned by the authority and leased to the operators for the duration of the contract.
- System of monitoring performance on operational aspects (involving operator self-reporting, authority monitoring, independent customer surveys, etc).
- Funding model comprising:
 - base bid price (gross cost) for operation of existing service levels;
 - incremental payment rates for operation of agreed additional services (bus km);
 - incremental payment rates for increases in patronage (relative to base year);

- bonus/penalty payments relating to operational performance relative to benchmark standards; and
- regular cost indexation for inflation-related unit cost movements.

2.3. Overview of operator/contract performance

Prior to considering the future service procurement strategy for Adelaide, and in particular the choice between CT and NC, it is important to understand the multiple objectives of the contracts, the performance of the existing contracts and the contribution to this of the current operators. Table 1 provides a summary of this performance appraisal. The general conclusions from the table are:

- The competitive tendering program has been very successful (relative to the previous government monopoly provider model) on almost all measures of performance.

Table 1
Adelaide bus contract/operator performance summary.

Aspect	Appraisal summary
Efficient contract pricing	Unit cost rates per bus km have declined (in real terms) by 26% since the start of CT. Current contract unit (gross cost) prices overall are comparable with or lower than those in other Australian metropolitan areas. The 'standardised' prices/bus km for each contract area have generally converged over successive rounds of CT to date, giving confidence that the current prices are close to efficient costs. ^a Evidence indicates that current profit margins being earned by the operators are close to or below normal margins.
Service quantity	Best estimates are that the overall quantity of service provided is around 15% higher than at the start of CT, with the increase largely financed from the CT cost savings.
Service design	The current operators have made extensive service redesign efforts, to better match services to market needs. The success of these efforts is reflected in increased patronage (refer below).
Service quality aspects	Service quality and operational performance (e.g. on-time running) has improved substantially since the introduction of the current monitoring system (year 2000). Fare evasion has also reduced. There has been little change in customer satisfaction and customer safety indicators, which remain at reasonably high levels.
Patronage	Patronage trends have changed from a long-term rate of decline of around 2%–3%pa to an increase of about this rate. It is estimated that current patronage is 15–25% higher than would have occurred without CT.
Authority and community relationships	Relationships between the current operators and the authority are generally regarded as good, with a substantial emphasis on working in partnership to address issues arising. The involvement of operators in forums with the local community, to discuss service issues and potential service changes, appears to be successful.
Contract structure and conditions	Over time, a number of issues have arisen relating to contract structure, funding models, cost indexation, service specification, service design, etc. Generally these would be addressed by the authority prior to any new round of tendering, but resolving some aspects might take significant time and resources. If a Negotiation strategy were to be followed, some of these issues may not be addressed until a subsequent round of tendering.

¹ Since the initial draft of this paper was prepared, the SA Government has negotiated with the incumbent operators to extend the current contracts to 30 June 2011.

^a One of the smaller contracts still appears to have substantially higher unit costs than the other contracts (subject to further investigation).

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