

# Proposal to Directly Award a Public Bus Services Contract to Bus Éireann in 2014

## 3. Technical Report on Contract Options

September 2013



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# 1. Introduction

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## 1.1 Introduction

The current Public Service Obligation bus services outside the Dublin city region are provided by Bus Éireann under a direct award contract with the National Transport Authority. This contract expires on 1st December 2014. The Authority must now consider how to provide public bus passenger services outside Dublin following this contract. The options to be considered are whether to award another direct award contract to Bus Éireann or to competitively tender all of the Bus Éireann public bus services or a combination of tendering some services and a reduced size direct award contract for remaining services. The appropriate durations for any new directly awarded or competitively tendered contracts also need to be considered.

This report examines the contract options in detail and highlights the key issues involved in reaching a decision on a recommended proposal for the Bus Éireann market. These options are considered in the context of EU Regulation 1370/2007 and the Dublin Transport Authority Act 2008.

This report concludes with a recommendation to:

- (i) to enter into another direct award contract with Bus Éireann in 2014 and
- (ii) to amend that contract in 2016 to reduce the services within that contract by approximately 10% and
- (iii) to provide the removed services through a separate contract following an open tender process.

In addition to the examination of contract options set out in this report, the Authority has produced the following documentation which should be read in conjunction with this report:

- Consultation paper
- Report on operation of 2009 direct award contract with Bus Éireann
- Economic analysis of a directly awarded bus contract in the Bus Éireann market (carried out by Ernst and Young on behalf of the Authority).

## 2. Current Bus Éireann PSO Contract

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### 2.1 Overview

The Authority entered into a five year Public Service Contract with Bus Éireann on 1<sup>st</sup> December 2009 for the provision of a network of public bus services and service capacity. The Contract additionally includes the provision of ancillary services including marketing, information, sales and service integration.

During the period of the contract to date, Bus Éireann has undertaken approved changes to services as part of the Company's Cost Recovery Plan.

In addition, the Authority has carried out a series of reviews of public transport services for the regional cities outside Dublin, Dublin commuter belt services, and the South East, South West and Border Midlands and West regional areas. Implementation of the route and timetable changes arising from the reviews has taken place in Galway, Limerick and Waterford city, as well as most of Cork City. Partial implementation of the recommendations arising from the Dublin commuter belt review has taken place. Detailed implementation plans addressing the outstanding recommendations of the reviews are currently being developed by Bus Éireann in conjunction with the Authority.

### 2.2 Routes

As of August 2013, Bus Éireann operate 215 bus routes under contract to the National Transport Authority

#### **Regional cities**

20 routes are operated in Cork, 6 in Limerick, 8 in Galway, and 5 in Waterford. Services generally operate at regular frequencies throughout the day from Monday to Saturday. Sunday services are less frequent and in some cases they do not operate.

#### **Regional towns**

Six towns are served (Dundalk, Drogheda, Navan, Balbriggan, Athlone, Sligo). Services generally operate at regular frequencies throughout the day from Monday to Saturday. Sunday services are less frequent and in some cases they do not operate.

#### **Dublin commuter belt**

36 services operate from the commuter belt outside Dublin, generally as radial services to Dublin city. Some local and orbital services also operate between destinations within the commuter belt. Radial services to Dublin generally operate at regular frequencies throughout the day. Local services tend to operate at significantly lower frequencies.

#### **Stage carriage services**

There are 134 Stage carriage services, generally linking a series of settlements of various sizes in a particular region. Routes vary significantly in length and frequency from several times a day to once a week.

### 2.3 Bus fleet

The network is operated by a mixture of single and double deck buses, and single and double deck coaches.

Operations are spread between 11 main depots<sup>1</sup> with a total peak vehicle requirement of 401 buses<sup>2</sup>

The Authority funded the purchase of 60 buses for deployment on PSO services, which were delivered in 2012. These included 10 double-deck buses, 25 single deck city buses, and 25 single-deck coaches. Through a contractual provision in the fleet funding agreement executed between the Authority and Bus Éireann, these buses can be moved to the ownership of the Authority and thereby be made available for use by any future contracted operator.

### 2.4 Trends in PSO passenger numbers

Annual trends since 2009 for Bus Éireann PSO passenger numbers are presented below. They show a decline in passengers up to 2011, but a slight upturn in 2012.

Year (December)	Annual Passenger Numbers (millions)
2009	33.7
2010	29.13
2011	28.48
2012	28.63

<sup>1</sup> Main depots are supplemented by smaller storage/out-based areas

<sup>2</sup> As of end of 2012, excluding spares

Passenger numbers for 2012 show that the Cork city and Dublin commuter markets are expected to account for 56% of the total PSO service market.

<b>PSO market</b>	<b>Percentage</b>
<b>Stage carriage/towns</b>	18%
<b>Dublin commuter</b>	23%
<b>Cork</b>	33%
<b>Galway</b>	12%
<b>Limerick</b>	10%
<b>Waterford</b>	3%
<b>Total</b>	<b>100%</b>

## **2.5 Bus Éireann Participation in NTA Integration of Services**

The Authority has undertaken a number of integration measures to provide a seamless offer to the public transport customer.

In the case of bus services, these integration initiatives include:

- The provision of real time passenger information for all scheduled Bus Éireann services;
- Integrated ticket (Leapcard) for use on all scheduled Dublin Bus services as well as Luas, Iarnród Éireann and Bus Éireann services operating in the Greater Dublin Area;
- The development of a public transport journey planner for all public transport modes, including bus.

There has been significant investment in supporting infrastructure, IT equipment and software in Bus Éireann to enable this improved level of integration.

Other aspects to integration include:

- Fares - the regulation by the Authority of all fares to be charged for all Bus Éireann services provided under contract.
- Branding - the existing Bus Éireann brand enables ready identification of buses available to people travelling within the Dublin area. The integrating Transport for Ireland brand is being placed alongside on a phased basis Service network – the bus network is designed to avoid insofar as possible wasteful competition with and duplication of Iarnród Éireann and Luas services.

Future public bus service contracts will need to build on this legacy, to ensure that the current level of public transport integration is maintained and improved.

# 3. A new public service contract

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## 3.1 Overview

A new public service contract (or contracts) for the operation of Public Service Obligation (PSO) funded bus services in Dublin will be required in December 2014 to replace the single contract directly awarded to Bus Éireann in December 2009. A key decision is whether the contract(s) will be

- directly awarded
- competitively tendered
- a mix of directly awarded and tendered

## 3.2 Competitive tendering in Europe

Several EU member states, regions or cities have moved towards competitively tendering for the operation of public transport services, including bus.

These include London, Sweden, Denmark, most of the Netherlands (except the main urban centres of Amsterdam, Rotterdam and the Hague), Germany (rural and suburban services in some regions only) and Italy (some local services).

In Great Britain (outside London) the market for the provision of bus services is fully deregulated. Notwithstanding this fact, British local authorities do tender for the provision of certain bus services that are not operated on a commercial basis.

## 3.3 Tendering vs. direct award contracts outside Dublin

The advantages and disadvantages of tendering or directly awarding contracts for operating all of the bus services in the context of the market outside Dublin are set out below.

### Tendering

Advantages	Disadvantages
<ul style="list-style-type: none"><li>• Potential operating cost savings, allowing more bus services to be provided for a given subvention level</li><li>• Potential service improvements through increased frequencies or additional services.</li><li>• Economic justification for another Direct Award Contract not required.</li></ul>	<ul style="list-style-type: none"><li>• Potential need for an operator to have access to depots and other assets from Bus Éireann/CIE to create a level playing field and ensure transparency for new market entrants.</li><li>• Potential industrial relations issues if staff need to transfer depots and/or to new employers.</li><li>• Risk of loss of public transport integration. Requirements to protect integration are likely to impose costs on new market entrants and/or the Authority</li></ul>

Advantages	Disadvantages
	<ul style="list-style-type: none"> <li>• To fully realise potential cost savings, and to ensure a level playing field for market entrants, it may be necessary to tender a substantial part (or all) of the bus market, with associated risks</li> <li>• Limited time and staff resources available to the Authority to fully prepare for and undertake a large tendering process or a series of concurrent tender processes.</li> </ul>

### Direct Award

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Ensures continued integration of services and facilities</li> <li>• May postpone need to address asset ownership issues (depots, fleet etc.) associated with tendering</li> <li>• Avoids potential industrial relations issues due to transfer of contracts to new operator</li> </ul>	<ul style="list-style-type: none"> <li>• Potential operating cost savings associated with the competitive tendering process may be foregone.</li> <li>• Current legislation (DTA Act 2008) states the Authority can only directly award contracts “where it is satisfied that the continued adequacy of the public bus services to which the contracts relate can only be guaranteed in the general economic interest by entering into such contracts”. The Authority has to satisfy itself in this regard. A decision to directly award a contract may be open to challenge.</li> </ul>

## 3.4 International Experience

The Authority has examined the experience of transport authorities across Europe in relation to outcomes from competitively tendering. The high level findings are that:

- Substantial cost savings are achievable in the first move to competitively tender services. While these can be eroded with subsequent competitions, unit costs remain below pre-tendering levels. In some cases stricter service specification in subsequent competitions has eroded the initial savings.
- The underlying level of efficiency prior to a move to competitive tendering is a determinant of the scale of savings achieved.
- In general service quality has improved through competition but not in all cases.

## 3.5 Conclusion

The conclusion from this section of the report is that it is in the general economic interest to introduce competition into the national bus market. Experience from a range of countries supports the contention that competitive tendering of public bus services yields benefits. The key advantages associated with competitive tendering of public transport services arise from the effects of competitive pressures and market discipline. By putting a service out to tender, market forces are brought to bear to reveal the most economically efficient provider, thereby leading to lower costs.

An enhanced level of customer service quality can also feature as an element of the contract award criteria. Additionally, the presence of a number of operators in a market allows for benchmarking of performance.

The extent of savings will be determined by the underlying level of efficiency within Bus Éireann and this will be tested by competition, in which Bus Éireann can participate.

## 4. Competitive Tender Considerations

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### 4.1 Equality of Access

Any tender competition has to take place on a fair and equitable basis, Bus Éireann will be legally entitled to take part in any tender competition for some or all PSO bus services outside.

Bus Éireann as the incumbent operator could be seen to have an advantage over potential market entrants as it currently owns not only buses, but also important ancillary assets, including bus depot storage and maintenance facilities, bus ticket equipment, on board CCTV facilities, other on-bus data recording, storage and management equipment, a central bus operations centre and bus staff facilities, It also has a suitably qualified and trained staff at its disposal to deliver the services. These are considered in more detail below

#### 4.1.1 Bus Infrastructure

The costs to a market entrant of providing these or similar facilities are likely to be considerable. If Bus Éireann were to retain ownership of these facilities and tender without having to take into account their value, it would give them a considerable advantage over new market entrants without access to these facilities.

To ensure fair competition, there are two options

- (1) Determine the value of access to these facilities to Bus Éireann and potential value to a market entrant over the lifetime of the contract and take this into account in evaluating tenders; or
- (2) Make the relevant facilities available to the successful tenderer (should they wish or be required to use them).

The first option poses serious difficulties both in determining the value of the facilities to Bus Éireann, and in determining the (possibly different) value of the facilities to a new market entrant. Both the capital and the operating cost of the facilities would need to be taken into account in some fashion, for the bus services in question.

Regarding the second option, the Authority has no statutory powers to ensure depot facilities or those buses purchased pre 2012 would be available to new operator/s. While the Authority could provide new depots facilities for all tendering parties, this would increase the cost to the state for the competition. It could be considered a reasonable cost if only part of the Bus Éireann services were opened for tender.

#### 4.1.2 Operating staff

The tendering of all Bus Éireann services would include either the potential need to transfer Bus Éireann staff to another employer, if the incumbent were not successful in the competition, in which case EC TUPE (Transfer of Undertakings Protection of Employment) regulations would come into play.

A smaller tender completion allows the potential for Bus Éireann to downsize and reduce the requirement to transfer staff to a new operator.

## **4.2 Maintaining Integration**

The Authority has a clear obligation under Section 10 of the DTA Act to seek the provision of a well-functioning, attractive, integrated public transport system for all users, and to seek increased use of the public transport system whilst ensuring value for money.

In keeping with these objectives, the following requirements will be included in future PSO funded bus contracts, whether tendered or directly awarded.

### **4.2.1 Ticketing**

The Authority's "Leapcard" integrated ticket is just at the point of being accepted on all PSO funded bus services operated by Bus Éireann within the Greater Dublin Area and it will be extended to Cork services in 2014. The Authority will require operators to participate in the "Leapcard" integrated ticketing scheme

### **4.2.2 Fares**

Fares for PSO funded services are decided by the Authority. This arrangement will need be continued in future public transport service contracts, regardless of operator. The Authority will gradually introduce an integrated fares system for the Greater Dublin Area, and provision for this eventuality will need to be made in all future public transport service contracts.

### **4.2.3 Information**

The Authority currently provides real time passenger information for scheduled buses operated by Bus Éireann, through the [TransportforIreland.ie](http://TransportforIreland.ie) website, and at certain bus stops. Future contracts for bus services outside Dublin will require operators to provide bus operating schedule, location and time data to the Authority in the format needed to enable continued provision of real time passenger information to bus customers and to enable monitoring of operator performance against requirements set out in service contracts by the Authority.

The Authority may also wish to provide passenger information on board buses to its specification. To assist customers in viewing the bus network as a single integrated entity, this information will need to be presented in a common format and style regardless of bus operator.

### **4.2.4 Branding**

It is important from a bus customer point of view to view all PSO services as an integrated package, irrespective of operator. A unifying brand is required to achieve this.

## **4.3 Degree of service specification**

The level of specification of bus services required in the new contracts is an important consideration. At present, bus routes and times are closely specified in Authority public

service contracts with Bus Éireann. Rail services and tram and bus services in Dublin are also by their nature closely specified, but operated under separate contracts. This suggests a need to specify bus services outside Dublin in a similar manner to ensure continued network integration and fair competition between operators.

Internationally, close specification of services by the transport authority is the approach taken (routes, frequencies, and so on). This is the practice in London.

Several different approaches to tendering of bus services were taken in the Netherlands in recent years<sup>3</sup>. There has also been a tendency in recent years to move towards a greater degree of service specification by transport authorities in tendering bus services. This is a change from specifying only objectives to encourage operator innovation which was one of the key early aims of the introduction of competitive tendering in the Netherlands.

Provisions will be required for the Authority to amend bus services during the lifetime of the new contract where needed, to take account of changing travel patterns or traffic conditions for example.

#### **4.4 Contract Type**

There are two main types of contract to be considered based on the level of transfer of revenue risk to the operator. A gross cost contract is where the operator is paid to operate the service, the fares revenue is kept by the Authority and the operator carries no risk in terms of revenues. In a net cost contract, the Operator retains the revenue and the risk associated with the revenue not matching or exceeding operating costs.

London uses gross cost contracts for its 700 bus contracts in London, one for each route. These contracts include additional production incentives or penalties based on a “Quality Incentive Contract”. Operators can earn +15% of the contract price in bonus payments and penalty payments can be 10%.

Stockholm uses gross cost contracts for route bundles where quality incentives can be up to +/-23% of the contract price, based on the monitoring of punctuality and customer’s perception of the service. This is a substantial incentive for the operators to improve the quality of the service.

Elmshorn in Germany and Halmstad in Sweden use gross cost contracts with passenger incentives. These are in fact more a mixed form of gross cost contract and net cost contract with shared additional fare box revenue. The operator in Elmshorn received € 0.35 per additional passenger, based on average calculation for the first year of operation. In both cases the operator is also responsible for significant parts of planning and development of the service. This is essential for the balance between the responsibility and incentives in the contract.

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<sup>3</sup> Public Transport Tendering in the Netherlands (PTEG -Van de Velde, Eerdmans, Westerink, inno-V Amsterdam) (July 2010) - Page 37

There are more of such gross cost contracts with shared passenger incentives to be observed in Europe and one can expect that the distinction between gross cost contract and net cost contracts might become vaguer in the future.<sup>4</sup>

**Advantages and disadvantages**

Experience elsewhere suggests operators typically take a risk-averse view of prospective revenue, and price this risk into net cost tender bids. On the other hand, gross cost tendering obviously places revenue risk and collection accountability on the shoulders of the Authority.

Gross cost contract advantages	Disadvantages
<ul style="list-style-type: none"> <li>Fare revenue risk to operator is removed thereby increasing the pool of prospective operators and mitigating premium risk pricing in tenders.</li> <li>Removes a key information advantage (detailed patronage data) that incumbent operator may have over market entrant</li> </ul>	<ul style="list-style-type: none"> <li>Fare revenue risk falls on Authority</li> <li>Mechanisms/checks required to ensure operator collects fares revenue on behalf of the Authority</li> </ul>

Net cost contract advantages	Disadvantages
<ul style="list-style-type: none"> <li>Fare revenue risk does not fall on the Authority</li> <li>Operator has incentive to improve service quality to attract patronage and thus revenue</li> <li>Operator is likely to ensure appropriate procedures are in place to protect its fare revenues (no need for Authority checks)..</li> </ul>	<ul style="list-style-type: none"> <li>Operators are likely to seek a premium for absorbing fares risk due to patronage variations.</li> <li>Significant patronage declines may undermine operator financial viability</li> <li>Any patronage increases would not be of financial benefit to the Authority.</li> </ul>

**4.5 Conclusion**

The Authority has made the following conclusions in this section:

- The competition for services has to ensure equal treatment for all tenderers and ensure that the incumbent has no advantage.
- The Authority has no right of access to Bus Éireann depots or fleet purchased before 2012.
- The competitively tendered services should be structured around the Authority providing available fleet, bought in recent years through state grants, to competitors. Also the depot needs should be taken into account in selecting the services for tendering.
- Any depot costs associated with opening the Bus Éireann market to competition would not outweigh the advantages of the cost savings that can be brought about by competition provided that the market opening is appropriately sized.
- The market opening should be structured with appropriate lead-in time for the incumbent to plan to allow minimum transfer of staff if incumbent is not successful.

<sup>4</sup> [http://ec.europa.eu/transport/urban/studies/doc/2008\\_contracting\\_urban\\_public\\_transport.pdf](http://ec.europa.eu/transport/urban/studies/doc/2008_contracting_urban_public_transport.pdf)

- The Authority will maintain a fairly tight contractual specification of required services (routes, frequencies and so forth);
- Public transport integration (ticketing, fares, passenger information, and network integration) will need to be included as a contractual requirement but it doesn't preclude competition.
- The Transport for Ireland brand will provide the unified branding to ensure customer identification of publicly funded bus services.
- The Authority would propose a gross cost contract with incentives for the Operator for any competitively tendered bus services contract. It would not be proposed to move any Direct Award into a Gross Cost Contract at this time.

# 5. Market segmentation options

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## 5.1 Commonplace approaches to geographic segmentation

Internationally, there are a variety of means by which services have been contracted, where a decision has been made to tender services.

**Route-by-route:** under this approach, clear specifications for route performance may be set out in the tender. These are at operational level rather than high level objectives. Table 3.1, below provides an example (based on a London bus contract):

**Table 5.1: Route Specification**

Contract reference	12345
Route number	1
Terminus Point	A to B
Contract basis	Gross Cost
Vehicle type	87 person capacity, dual door, double deck vehicles
Maximum approved dimensions	9.9m long, 2.55 wide
Advertising rights	Operator
Minimum performance standard	Average excess wait time no more than 2 minutes
Minimum operated mileage	no less than 98%

Tendering each route individually provides for efficient production of services, since the level of potential bidders is high and thus competition is more intense. However, it adds administrative complexity in that each route requires a separate procurement. While London employs this method, over time the winning of route contracts has narrowed down to a number of large operators. The 8,000 bus fleet is owned by the operators, with about 90% being run by a few very large companies – Stagecoach, First Group, Go-Ahead, Arriva, Abellio, Delgro and RATP UK.

### **Route by Route Tendering Case Study: London**

From the beginning, designing tender competitions to enhance competition and attract new entry to the London bus market was a clear concern. The choice of tendered routes in the early years, peripheral and requiring a relatively small number of vehicles to operate, reflects this. This concern may also have affected decisions on the number of routes to tender at one time. On the one hand, there are bundling benefits in terms of shared fixed costs, coordination efficiencies. This calls for tendering a large amount of related routes together. On the other hand, larger tenders could discourage entry by smaller bus operators without the capacity to bid on all the routes in the auction. As a benchmark, a typical garage, which is necessary to operate a route, has capacity for 50-100 buses and serves about 8 routes. The current practice may have reached a compromise

between these two views<sup>5</sup>. Routes tendered within one competition are usually in the same area of London.<sup>6</sup>

Today, London Buses has a continuous programme of tendering with Invitations to Tender being issued throughout the year. The rate of tendering is about 15% to 20% of London's bus network each year (circa 90-120 routes, depending on the number of performance related extensions) with tenders typically issued every 2-4 weeks.

Services range from routes which require only one bus, through low frequency midibus routes up to high frequency 24-hour double deck routes. There are also dedicated school bus routes.

Route size varies significantly, with Peak Vehicle Requirements (PVR) ranging from 1 to over 50. Services are classed as either High Frequency (5 buses or more per hour throughout much of the week) or Low Frequency (4 buses per hour or less), and about 82% of the network is High Frequency.<sup>7</sup>

The highest frequency routes have a bus every 2-3 minutes, and the lowest frequency have a single return journey per day. Most routes operate from about 04:30 until after midnight, but an increasing number of routes run 24 hours per day. Some additional 'nightbus' services only operate between about midnight and 04:30.

In 2001, Quality Incentive Contracts were introduced to replace Gross Cost and Net Cost contracts as routes were tendered. These contracts are a development of previous contracts, but with direct financial incentives for operators linked to the quality of service. The contracts are an extension of the gross cost model insofar as TfL retains the revenue.

**Route bundling:** A variant of the above is route bundling. Bundling route/service tenders may achieve economies of scale and is more likely to elicit innovative responses from operators than small individual single route/service tenders. By packaging routes and services the tendering authority is more likely to enable bidders to factor in their own specific operational structures, opportunities and constraints (as well as knowledge of the passenger market) in responding to a tender. This could be expected to result in more efficient operational solutions which should, subject to effective competitive tendering, be passed on to the tendering authority as lower costs

As against this, packaging can have the effect of excluding smaller operators without the capacity to operate large numbers of services. This could have the knock-on effect of restricting entry to the market meaning that ultimately competition for tenders could be reduced<sup>8</sup>.

### **Route Bundling Case Study: Copenhagen**

Danish legislation required conversion of bus services in Copenhagen to competitive tendering which started in 1989. The public transport system had approximately 1,200 buses, with annual ridership of approximately 260 million. Because of a concern that the public transport authority

<sup>5</sup> Glaister, Stephen and Michael Beesley (1991), "Bidding for Tendered Bus routes in London," *Transportation Planning and Technology*, 15, 349-366

<sup>6</sup> <http://www.ecares.org/ecare/personal/cantillon/web/book-chapter.pdf>

<sup>7</sup> <http://www.tfl.gov.uk/tfl/businessandpartners/buses/tenderresults/lbsl-tendering-and-contracting-feb-09.pdf>

<sup>8</sup> <http://webarchive.nationalarchives.gov.uk/+http://www.dft.gov.uk/pgr/regional/buses/tendering/enderinggoodpracticeguid3582.pdf>

could not objectively evaluate proposals by private companies and its own internal operating department, its own department was excluded from participation<sup>9</sup>.

Copenhagen currently bundles tenders in small packages, not areas. The duration of each contract is 6 years with the option of an additional 2 years. Operators are chosen on the basis of price, bus equipment, organisation and quality of performance. Operator's remuneration is based on services provided and level of quality, with fines and bonuses in place to encourage higher standards. New operators are required to employ incumbent's staff.

Tendering in Copenhagen has saved money and increased quality standards.<sup>10</sup>

**Area tendering:** consists of a competitive tendering for a single operator to run bus services in a whole urban or regional area and to configure such services to meet certain objectives (sometimes such an area contract can involve multi-modal services). This helps maintain the integrity of the network but it also poses challenges in terms of complexity and levels of competition. Unlike the route tendering above, it is difficult to compare operators simultaneously (yardstick competition). If one operator operates the entire city network for example, considerable freedom could be given to the operator to design public transport routes and service levels as they see fit, to meet higher level objectives set by the tendering authority (such as increasing public transport use). However if city rail and tram services are the subject of separate contracts (as is the case in Dublin) the multi-modal aspect is not possible in Dublin at present.

#### **Area Tendering Case Study: The Netherlands**

Competitive tendering has been in place in the Netherlands for nine years. While the urban core of the large urban areas has been excluded from tendering, almost the whole of the rest of the country has now been subject to competitive tendering.

The competitive tendering procedure is organized by one of the 19 transport authorities: 12 provinces and 7 'City Regions'. The authorities are free to change the division of concession areas according to their wishes. The new legislation resulted in a situation in which the Netherlands is divided into about 70 concession areas (encompassing bus, tram, metro, fast ferry and regional rail). Concessions are areas in which a public transport operator has a temporary monopoly right for usually 6 to 8 years (the law allows concessions up to 8 years, concessions including rail may last up to 20 years).

The average size of a concession has tended to increase over the years, both in the area covered and in the length of the contract. Larger contract areas are also seen as more efficient and as offering opportunities to promote and develop a more effective integrated public transport offer.

There has been a trend towards greater specification of service detail in response to experience and perceived risks and uncertainties involved in objectives based franchising. However, new approaches are still being developed – including greater co-development of franchises between operators and franchising authority<sup>11</sup>.

The process of area tendering does not differ from route bundling when greater specification is used by a transport authority.

<sup>9</sup> <http://www.publicpurpose.com/ut-ct-mon2004.pdf>

<sup>10</sup> [http://www.fes-forumberlin.de/pdf\\_2005/5\\_5\\_31\\_sloth.pdf](http://www.fes-forumberlin.de/pdf_2005/5_5_31_sloth.pdf)

<sup>11</sup> <http://www.pteg.net/NR/rdonlyres/7760B2F2-E2C5-4372-88AA-E43378AB5431/0/PTtenderinginNL20100723small.pdf>

There is a trade-off in the definition of the size of the bus service area to be assigned through a competitive tendering process. On one hand, the definition of a small service offering to be assigned, for instance a bus line, can guarantee a high level of competition because many operators will be able to participate in the tendering process. On the other hand, a small service offering cannot guarantee an optimal exploitation of the economies of scale, and a very large number of small contracts create administrative complexities. The practice of including more specification in area contracts has moved them closer to a route bundling concept.

It is also worth noting that for cities where competition was introduced elsewhere in Europe it took several years to move towards a fully tendered bus market. However most started the process well in advance of Regulation 1370 and had less onerous timescales in place than those implied in Irish legislation.

## **5.1 Segmentation options outside Dublin**

Options for segmenting the PSO bus market outside Dublin in advance of a possible competitive tendering process are outlined below.

Some options at least are likely to require the transfer of relevant assets (e.g. buses, depots, ticketing equipment etc.) out of the ownership of Bus Éireann in advance of the tendering process.

An added complexity is that, unlike the Dublin bus market, all major Bus Éireann bus depots are currently shared (PSO buses, commercial Expressway services and school services use the same depots). For this reason, the direct transfer of operation of an existing BE depot to a new operator is a lot less feasible than in the Dublin bus case.

Unless Bus Éireann was the successful bidder for a competitively tendered contract, each tendering option would involve transfer of Bus Éireann staff to a new operator under TUPE rules, or require severance packages.

### **5.1.1 Long list of options**

In deciding the option to choose, it is essential to examine the likely benefits and practicalities of each option, in the context of 2014 bus contracts. The segmentation options for tendering include:

- (1) All PSO services
- (2) PSO rural services operating from one or more depots
- (3) PSO city services, in one or more cities
- (4) Some or all Dublin commuter PSO services

Each is examined below.

#### **Option 1 - All PSO services**

Opening of all Bus Éireann PSO services to competitive tender could result in numerous risks including

- whether the continuation of existing services could be guaranteed;
- whether all the necessary assets (buses and depots in particular) could be acquired from Bus Éireann in the given timeframe; and

- whether it would be administratively possible to manage the multiple tenders involved or strategically prudent to move from a position of competitively tendering none of the PSO bus market outside Dublin to a full opening of the market, without any prior experience of tendering PSO bus services.

Given these risks and challenges, it is not recommended as an option for further consideration.

### **Option 2 - PSO stage carriage services**

A significant amount of service reconfiguration is likely to be required over the coming years for rural stage carriage services in particular. This will arise from an optimisation of rural transport services and PSO services and also an efficiency configuration of rural PSO services.

In advance of this work, tendering for PSO rural services would be premature.

To date the re-organisation of rural transport and PSO stage carriage services has only been undertaken in the South East region, so the South East region is seen as the only realistic candidate for tendering of PSO stage carriage services at this time.

### **Option 3 - PSO city services, in one or more cities**

Opening of Bus Éireann PSO city bus services to competition would pose fewer challenges than the options above. There are significant PSO bus operations in four cities outside Dublin (Cork, Galway, Limerick and Waterford). Commercial operators of city bus services already have a significant presence in two of these cities (Galway and Waterford). A variant of this option could include adding in some outer commuter type services operating to a regional city. This could have advantages over tendering city services only, as it may enable certain outer commuter bus services to operate city type services when within the city itself. This could result in more efficient operations, as the required bus services could be provided more efficiently overall.

Options are discussed further below.

### **Option 4 - Some or all Dublin commuter PSO services**

Opening all Bus Éireann Dublin commuter PSO city bus services to competition in 2014 would result in tendering roughly one third of the PSO market (in terms of bus numbers). To achieve economic tenders, this option would be likely to require significant bus depot and bus fleet transfer from Bus Éireann.

However, the opening of part of the Dublin commuter market to competition is likely to pose fewer difficulties, and is discussed further as an option below.

## 5.1.2 Examination of shortlisted options in more detail

### Option 1 – Tender all PSO services

This is discounted as an unrealistic option at this point in time.

### Option 2 – Tender PSO stage carriage services

The proposed reorganisation of rural transport and PSO stage carriage services to provide greater operational efficiency provides an opportunity for the tendering of services in the South East Region, These services generally serve either Waterford city or Wexford town.

The table below sets out some of the advantages and disadvantages of tendering stage carriage services.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The relatively small number of services involved may prove attractive to a range of potential operators</li> <li>• Recent<sup>12</sup> and planned pre-2014 NTA purchase of bus fleet suitable for smaller city operations will facilitate leasing to market entrant without the need for fleet transfer from Bus Éireann.</li> </ul>	<ul style="list-style-type: none"> <li>• If new depot required, site acquisition and planning permission timescales could create uncertainties for market entrant</li> <li>• If bundle size is too small, it may be of limited attractiveness to larger potential operators</li> <li>• The relatively dispersed nature of the services could make it more difficult for a larger operator to run services from a single depot.</li> </ul>

Figure 1 at the end of this report shows the services in question.

### Option 3 - Tender PSO city services (in one or more cities)

The table below sets out some of the advantages and disadvantages of pursuing the option of tendering PSO city bus services in one or more of the regional cities.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Relatively self-contained operational characteristics of services in regional cities may prove attractive to a range of potential operators</li> <li>• Recent and planned pre-2014 NTA purchase of bus fleet suitable for smaller city operations will facilitate leasing to market entrant without the need for fleet transfer from Bus Éireann.</li> <li>• Tendering out more than one city simultaneously may increase attractiveness to larger operators</li> </ul>	<ul style="list-style-type: none"> <li>• If new depot required, site acquisition and planning permission timescales could create uncertainties for market entrant</li> <li>• If bundle size is too small (e.g. one of the smaller cities only), it may be of limited attractiveness to larger potential operators</li> </ul>

<sup>12</sup> 60 new bus vehicles have been funded by the National Transport Authority (NTA) to date, at a capital cost of approximately €19m. These include 10 double-deck buses, 25 single-deck city buses, and 25 single-deck coaches. They are for use on PSO services currently operated by Bus Éireann.

If depots are not available to market entrants, this may adversely impact on tender prices. In looking at the characteristics of the various cities, it is considered that Galway and Limerick are sufficiently large to attract interest from potential market entrants, but also sufficiently small that bus and depot transfer from Bus Éireann may not be essential to secure an economically advantageous tender price. However the impact on the residual Bus Eireann operations from these locations was felt to be sufficient not to consider them in more detail as an option for tendering.

Waterford is the smallest city operation and could be grouped with services thereby creating a geographical spread of tendering opportunities.

Tendering Cork city services is also an option, but these services comprise almost 20% of the Bus Éireann PSO operations. The consequential management of a 20% downsizing in terms of staffing and overheads would be very challenging to achieve without triggering a need for additional PSO subsidy. Consequently, tendering the entire Cork network is not recommended, although individual corridors could be considered.

Dundalk, Tralee, Athlone and other town services are considered too small in terms of likely value to be gained by tendering, although they are realistic possibilities.

Taking the above considerations into account, the options for regional city service tendering currently under consideration are

- Waterford city
- Cork city corridor and Waterford city
- A Cork city corridor

A map showing the current services operated by Bus Éireann in Waterford city under consideration for tendering in 2016 is presented in Figure 2 at the end of this report. A map showing the current services operated by Bus Éireann on the corridor in Cork city under consideration for tendering in 2016 is presented in Figure 3 at the end of this report.

#### **Option 4 - Tender some outer Dublin PSO commuter services**

There is potential for some outer Dublin commuter PSO services currently operated by Bus Éireann to be tendered. Services on certain corridors are likely to be less depot-dependent and may be suitable for tendering. The PSO services on the coastal Dublin commuter corridor (including Dundalk, Drogheda, Balbriggan, Dublin, Wicklow, Arklow and Wexford) could be considered for tendering.

A map showing the current services operated by Bus Éireann on this corridor is presented in Figure 4 at the end of this report.

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>Recent and planned pre-2014 NTA purchase of bus fleet could facilitate leasing to market entrant.</li> <li>Market entrant can acquire a depot (or depots) and associated facilities that suit their particular needs</li> <li>Bundling some outer Dublin commuter services with local and orbital tender prove attractive to larger operators</li> <li>Bundling Dublin outer commuter services in a tender with city radial services on the same corridor could generate significant efficiency savings.</li> </ul>	<ul style="list-style-type: none"> <li>If certain outer commuter services were tendered with Dublin local and orbital services, need to specify individual route requirements carefully to ensure continued integration of Dublin services</li> <li>Additional costs to Authority likely if new depot and other facilities are required</li> <li>If new depot required, site acquisition and planning permission timescales would create uncertainties for market entrant</li> </ul>

## Summary

Based on the shortlisted options, there are a number of ways in which the above route tendering options could be combined to open up between 7% and 10% (in terms of bus fleet size) of the PSO services operated by Bus Éireann outside Dublin. These include

- Tender the Waterford City services and portion of Cork city services as presented above
- Tender either the Cork city portion or Waterford City services together with the Dublin coastal commuter services presented above
- Tender the Waterford city and South East stage carriage services presented above.

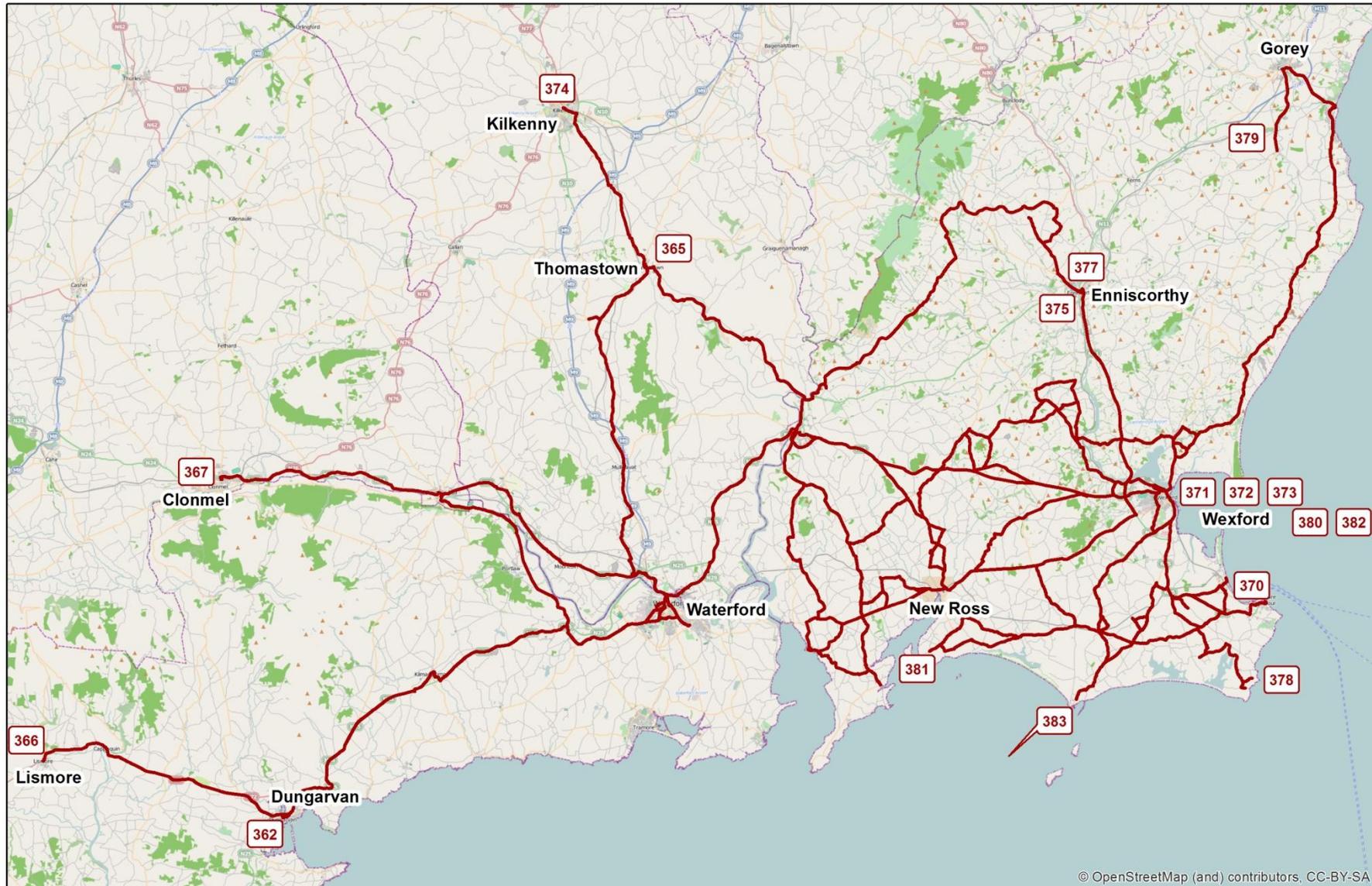
## 5.2 Conclusion

- It would be a major challenge to develop a tender and procure a contract for all the Bus Éireann network in one go and ensure all services would continue to operate smoothly from December 2014; therefore, it is recommended that a portion of the network only should be considered for tendering.
- PSO rural services need to be optimised particularly in relation to inter-action with the Rural Transport programme and also the integration of various strands of funded services. For that reason it is not recommended to initially open these services to competitive tendering except potentially in the south east region where service optimisation will have begun.
- NTA is likely to have sufficient buses in its ownership by 2016, which could be assigned to successful tenderers for service operations in regional cities (Waterford, or part of Cork). Given the relatively small size of the operations contemplated for tender, it is possible that tender prices for these cities will not be unduly affected by not having access to Bus Éireann depots. This option would comprise approximately 7% of the peak vehicle requirement for PSO services.
- In addition to or instead of the regional city services, there may be significant benefits to tendering some Bus Éireann PSO routes serving the outer Dublin commuter market, especially in conjunction with separate tendering of certain Dublin suburban services as set out in the technical paper on contract options for public bus services in the Dublin area.

## 6. Final Conclusions

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- There is value in introducing competition in the Bus Éireann services market while maintaining a smaller Direct Award Contract.
- Research of international experience set out in this paper indicates that there is likely to be a cost saving associated with tendering of bus services.
- Tendering the full Bus Éireann network is not recommended.
- The preferred competitive tendering scenario is to select between 7% and 10% of services from the following suite of options:
  - All city services in Waterford
  - Some city services in Cork
  - Some rural stage carriage services in the south east region
  - Certain Dublin commuter services.
- In any new contracts, fare revenue risks should largely lie with the Authority - gross cost contracts with quality incentives appear to work well internationally.
- Fairly tight contractual specification of required services (routes, frequencies and so forth) is likely to be required to maintain public transport network integration.
- Other key integration requirements (ticketing, fares, passenger information, and network integration) will need to be included in any new contracts.
- A unified brand is needed to enable customer identification of publicly funded bus services (those where integrated ticketing, regulated fares and passenger information are provided).



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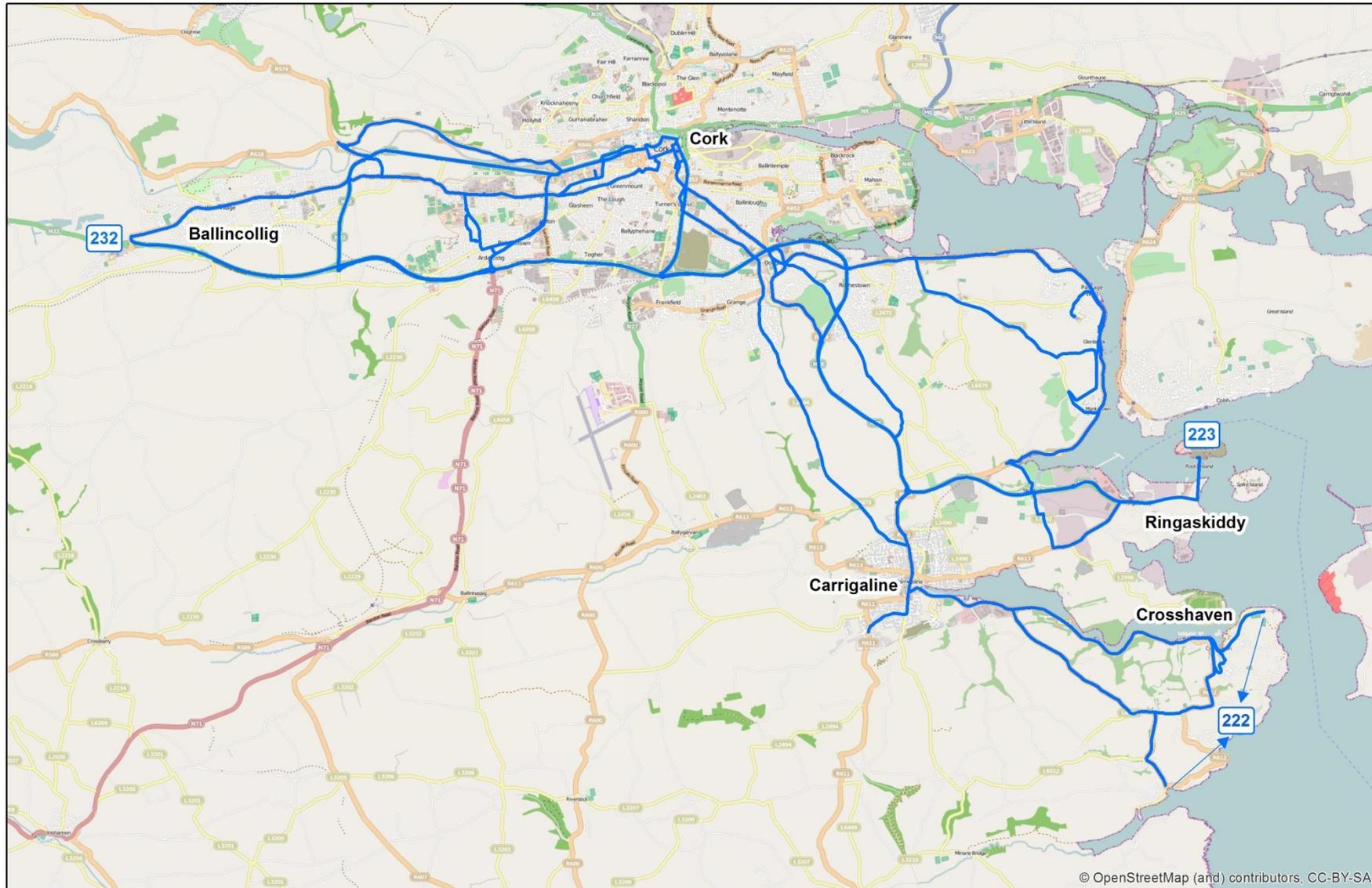


 Connecting your transport services

**Figure 1: South East Regional Services**

**Route No's : 362, 367, 370, 371-375  
365, 366 & 377-383**





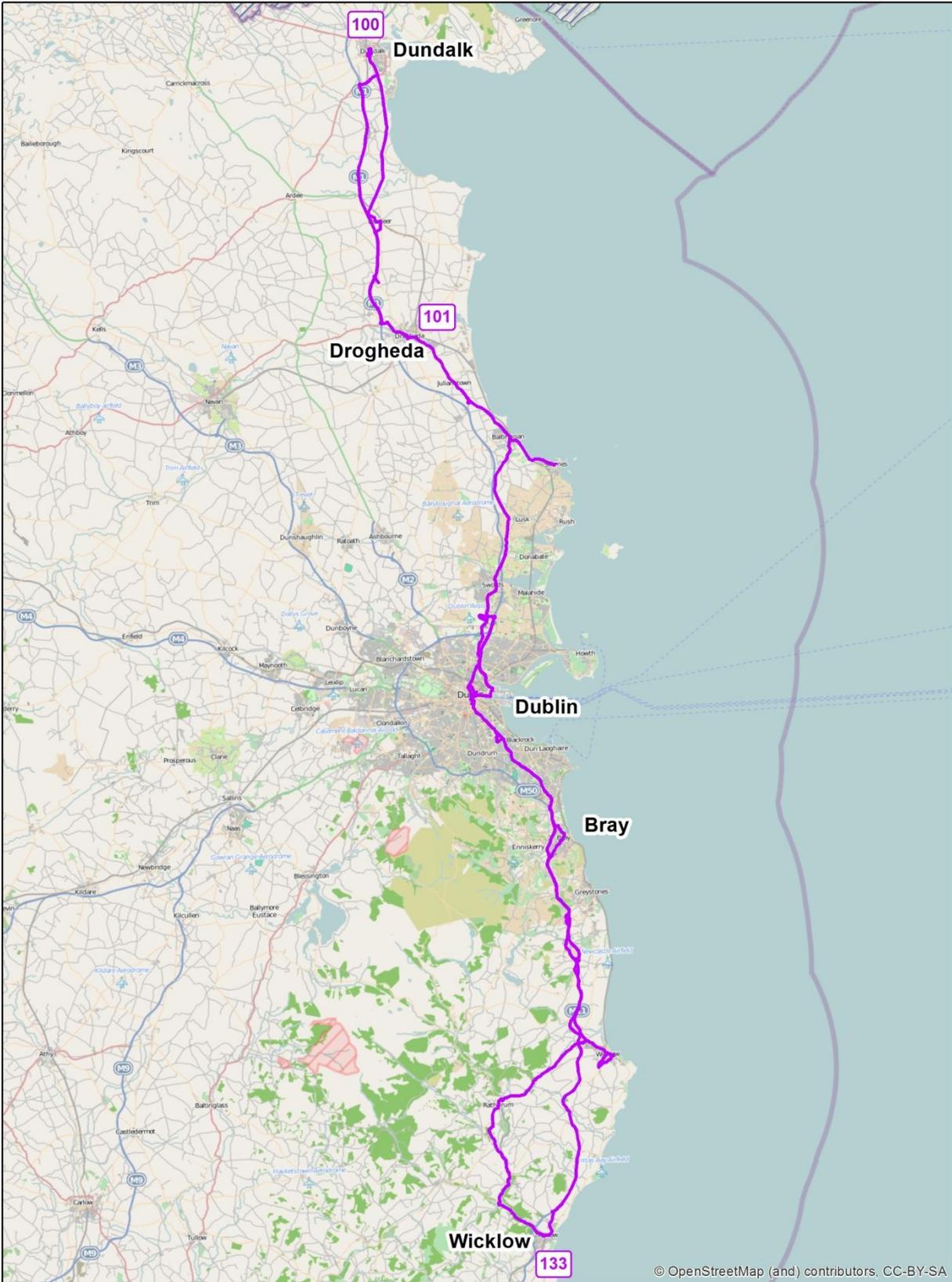
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 Connecting your transport services

**Figure 3 : Cork City Corridor**

**Route No's : 222, 223 & 232**



**Figure 4:**  
**Dublin Coastal Commuter**

**Route No's : 100, 101 & 133**



Connecting your transport services

