Proposal to Directly Award a Public Bus Services Contract to Dublin Bus in 2014

2. Economic analysis of Direct Award Bus Contract in the Dublin Market

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Report prepared for the National Transport Authority by

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1. Introduction and Overview

1.1 Background

The National Transport Authority (NTA) directly awarded contracts for the provision of public bus services in December 2009. Dublin Bus was awarded the contract for the operation of public bus transport within the Dublin area and Bus Éireann was awarded the contract for the operation of public bus services elsewhere in the State. These contracts expire on November 30th 2014. Under national legislation the NTA is required put the next award for public bus services to competitive tender unless the Authority is satisfied that the continued adequacy of services can only be guaranteed in the general economic interest by a direct award contract.

The process of deciding on the basis of the next award of a public service bus contract for Dublin is at an advanced stage. Figure 1 below provides more detail.

This report sets out the findings of an economic analysis of a proposal to move from the existing arrangement of directly awarding public service bus contracts in the Dublin area to a more competitive basis.

Figure 1 Timeline for decision on PSO Bus Contract in Dublin

1.2 Approach and Structure

This report considers the proposed approach to bus contracts in the Dublin region to be taken by NTA in the context of recent trends in the market, relevant international evidence and other factors.

Section 2 discusses existing arrangements for public service bus operations in Dublin. This encompasses:

- a recap of the rationale for government provision of public transport services
- a short discussion of particular economic characteristics of bus provision in Dublin and recent demand patterns
- a commentary on the extent of services in an international setting
- an outline of funding arrangements and recent trends.
Section 3 details the proposal put forward by the National Transport Authority (NTA) for the partial transition from direct award to competitive tendering in the Dublin area. It sets out the type of routes proposed to be included in the competitive tender and explains why this approach has been chosen.

Section 4 provides an analysis of the NTA proposal including setting out the desired benefits, discussing implementation issues and highlighting related risks.

Finally Section 5 distills the findings of the paper and sets out the next steps involved in the process.
2. Background: Public Service Transport in Dublin

2.1 Government Involvement in Public Transport Provision

Governments are involved in the provision of public transport – including bus transport – because it brings a range of economic, social and environmental benefits. A number of these are outlined below:

- First, it brings economic benefits by reducing congestion, offering affordable mobility and freeing resources for use in other productive activities. The benefits associated with reduced congestion can be substantial. Buses carry 28 percent of all trips into Dublin City Centre in the morning peak\(^1\) and evidence from the UK suggests that buses carry more than a quarter of all motorised trips into city centres in most large cities.\(^2\) If all, or even half, those bus trips were instead made by car, congestion in city centres would be increased significantly with subsequent impacts on productivity and competitiveness.

In turn this would also give rise to an increased cost of doing business. A systemic delay in getting goods to market would result in increased costs for business, which would likely have an impact on final prices paid by consumers.

- Second, it brings social benefits by facilitating mobility and offering affordable alternatives to lower income groups and other vulnerable cohorts. Vulnerable and socially disadvantaged groups are most reliant on bus networks. In this sense public transport plays an important role in tackling social isolation and promoting independent living.

- Third, public transport plays a vital role in enabling economic activity. Public transport aids in the functioning of the economy by contributing to more flexible labour markets and enabling other economic activities such as retail and leisure. Public transport allows individuals to travel across a wide geographical area. In doing so it increases the number and range of jobs accessible to workers. This can be especially important for low income or less skilled workers who are less likely to have access to a car and may also qualify for a narrower range of jobs which are more likely to be scattered across a larger area.\(^3\) For employers, public transport extends the available labour supply, which can be an important element in a firm’s location decision.

- Finally, it brings environmental benefits by reducing traffic volumes and thereby cutting associated emissions levels. In Ireland alone, emissions from the transport sector constitute nearly 20 percent of all greenhouse gas emissions.\(^4\)

If commercial bus operators were left to serve the market without any support, they would not provide sufficient services to fully deliver all of these social and economic benefits: there would be a ‘market failure’. Therefore Governments intervene to ensure that ‘enough’ public transport is provided.

The specific market failures involved include:

- Positive externalities or ‘spillovers’ when non-users who are not charged for the service benefit from it. For example, where bus transport leads to lower road traffic volumes, remaining road users benefit from reduced congestion, shorter journey times and enhanced safety
- Where public transport reduces traffic volumes, non-users benefit from cleaner air and reduced pollution
- Where lower income groups benefit, public transport plays an important redistributive role.

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1 National Transport Authority Annual Canal Cordon Count 2012
3 Abrantes, et al, op cit
4 Environmental Protection Agency (2013) Ireland’s Greenhouse Gas Inventory 1990 - 2011
Together these issues mean that Government involvement in the provision of public transport is socially, economically and environmentally desirable.

Recent research focusing on bus services in the UK has quantified the economic and social value of bus transport and found that bus networks warrant a greater focus from policy makers as a source of growth than other transport infrastructure projects.  

2.2 Public Service Bus Provision in Dublin

For the reasons set out above, public policy is to subsidise public bus services in the Dublin region. This policy commitment is given operational effect through the Dublin Transport Authority Act, 2008 whereby the National Transport Authority has the power to enter into contracts with bus suppliers for the provision of bus services.

The current contract for the provision of public bus services in Dublin was entered into with Dublin Bus in 2009 for a five-year period, ending on November 30th 2014.

The contract arrangements specify the key performance standards required to be satisfied by Dublin Bus. These relate principally to issues of quality and reliability. NTA monitors performance against these targets and in return makes payment as per the contract.

2.3 Transport Demand Patterns in Dublin

The services provided by Dublin Bus are an important element of the economic and social infrastructure of the Greater Dublin Area. Analysis of Census data shows that access to cars is lower in Dublin than elsewhere in the State:

- 24 percent of households do not own a car in Dublin
- This compares with a figure of 15 percent of households in the rest of the State.
- Approximately half of Dublin’s residents of driving age do not own a car. This compares with a figure of 27 percent for the rest of Ireland.

Demand for transport – across all modes – is a derived demand. That is to say that that transport is generally an input to another economic activity, and not an end in itself. In particular the demand for transport is positively correlated with the demand for labour.

For this reason, Dublin Bus passenger numbers have experienced a substantial decline over the period of the recent economic downturn. Figure 2 charts the trends in employment in the Dublin Region and Dublin Bus passenger numbers over the recent period, taking 2007 as the base year.

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5 Abrantes, et al, op cit
6 Analysis of Census 2011 data
At the same time, transport demand patterns are often not straightforward and countervailing trends can be observed. During the initial phase of a downturn, reduced congestion due to lower traffic volumes can encourage some users to switch to car transport, thereby maintaining car traffic volumes. In the case of Dublin, this may account for the initial faster decline of bus passenger numbers as shown in Figure 2.

Over the period in general, bus demand has maintained its share of the transport market as observed in the data collected by NTA. Bus use is down 9 percent, in line with the total across all modes. Bus transport is the second most common mode of travel into the City Centre, accounting for 28 percent of all travel. It is second only to car transport which makes up 37 percent of travel into the City Centre. This data further highlights the key role of bus transport in the Dublin economy.

2.4 The Extent of Services in Dublin

An important policy and strategic issue relates to the coverage and extent of the public transport offering in Dublin. The responsibilities of the NTA in relation to public transport include promoting an integrated public transport network and encouraging greater use of public transport. Total public transport usage in Ireland is low when considered in a comparative international context.

Issues including population density, extent of rail networks and urban scale influence Ireland's lower performance in this regard. Nonetheless improvement in modal share of sustainable modes as against private cars is a public policy goal. Given its comparative advantage over other modes in terms of affordability and flexibility, bus transport will form a core element of the policy response to enhancing sustainability of public transport and expanding coverage.

The Dublin bus market is very large, carrying 115 million passengers in 2012. In some areas of the city region however, services are less extensive. Whereas 28 percent of City Centre residents use public transport to get to work, the proportion falls to 18 percent in the outer suburbs and 8 percent in the hinterland. Reasons for this include the longer distances people often need to travel in the outer areas which generally makes the car more appealing, a more car-orientated environment with relatively less congested roads and greater availability of parking, and sparser public transport networks.

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Sources: Calculations based on CSO labour market data and Dublin Bus annual report data.

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7 National Transport Authority (2012) Report on trends in mode share of people crossing the Canal Cordon
8 National Transport Authority Annual Canal Cordon Count 2012
9 Section 4 provides a fuller exposition of public policy objectives in this area
10 Draft Greater Dublin Area Transport Strategy, based on CSO Census 2006 data
offering less services and longer distances to reach them. Because development is thinly spread in much of the outer urban areas, buses are the more viable mode of public transport, apart from a few key radial rail lines. Extending and improving the bus service offering is therefore important in promoting greater use of sustainable modes of transport across the GDA. Section 3 builds on this point.

2.5 Funding Public Service Bus Provision in Dublin

Public service bus contracts are funded via voted current expenditure by the Department of Transport, Tourism and Sport, through the National Transport Authority. As part of the broader process of fiscal consolidation, the scale of the subsidy to Dublin Bus has been reduced over recent years. The subvention peaked at a level of €85 million in 2008 and most recent available data shows it was €75 million in 2012.

The figure for 2012 includes a once-off emergency subvention of €5.3 million. This payment was made in order to provide liquidity support for the company and maintain service levels in the face of considerable financial pressures.

It is also worth considering the trend in the subvention in the context of overall current expenditure in the transport sector. Figure 3 shows the subvention against total public expenditure in the transport sector.

Figure 3  
Dublin Bus Subvention as a Proportion of Total Transport Current Expenditure

As a proportion of total transport expenditure, the subvention for public service bus activities in Dublin was largely maintained over the period. While the subvention has been reduced, it has not suffered disproportionately relative to the overall process of expenditure consolidation.

Figure 4 shows trends in relation to the subvention and deficit position.

Figure 4  
Dublin Bus Subvention and Deficit Information

As Figure 4 shows, Dublin Bus was running a gross deficit in 2007 at the peak of economic activity. While this point may be interpreted to give further justification to Government subvention of bus transport, it moreover foregrounds the need for greater efficiency in operations at that time. The trend prompted an efficiency review in 2008/09. This later led to the Network Direct process which has played a role in the enhanced efficiency observed in the interim.

More recently, data for 2012 show that increased revenue has helped to reduce the deficit, even in the context of a reduced subvention. In the main, fares increases rather than patronage increases account for the observed revenue uplift.

The financial trends over the period have given rise to a large accumulated deficit which led to specific difficulties in 2012. As the process of public expenditure reduction continues into 2014, the total level of subvention available can be expected to fall again in the short-term as seen in Figure 4.

A comparative analysis of subvention levels across Europe indicated that levels of public transport subvention vary between 35 and 60 percent of revenue. When all State interventions are taken into account, the level of subvention to Dublin Bus is at the upper end of the range.

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11 PSO subvention, Department of Social Protection payment as part of the Free Travel Scheme, tax foregone as a result of the Taxsaver scheme, emergency funding and funding for the purchase of new buses.
3. Proposal put forward by the NTA

3.1 The move from direct award to competitive tendering

According to analysis by NTA, there is value in introducing competition in the Dublin bus services market while maintaining a smaller Direct Award Contract to Dublin Bus. Therefore, the NTA propose a Direct Award contract to Dublin Bus from 1 December 2014 with adaptations to facilitate a move to a limited form of competitive tendering in 2016. This approach is being pursued in order to adequately plan for the transition and to comply with the necessary EU notification process (i.e. one year prior to launching a tender competition). The transition to any new arrangement for public bus provision requires the necessary lead in time to consider the issues involved and to adequately plan for potential eventualities. The NTA undertook preliminary planning and discussions in 2011 and 2012 but these activities were overshadowed by the difficulties posed by the financial instability of the incumbent. As a result discussions and preparations did not evolve at a necessary pace to comply with EU notification periods. Therefore the transition to the new arrangement of awarding contracts for bus provision is being deferred until 2016.

As illustrated in Figure 5, it is proposed that the 2014 direct award contract will contain two elements:

1. The direct award to Dublin Bus of routes that later will be open to competitive tender. This element of the contract will run for a two year period, and will be open to competitive tendering in 2016.

2. The direct award of the remainder of routes for a five year period up to 2019.

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12 EC 1370/2007, Article 7
3.2 Services proposed for competitive tendering

The NTA’s consideration of suitable routes for potential competitive tendering in the GDA was informed by the following criteria, which were developed from the public and market consultations:

- Geographical coherence to ensure efficient bus operations and management
- Type of competition that would attract tender interest
- Size of award that facilitates a managed downsizing by the State bus companies

3.2.1 Location

The location in which the NTA propose to initiate competitive tendering in the Dublin bus service market is the outer area, for the following reasons set out by NTA:

- The network in the outer areas was not addressed by Network Direct and has consequently not been reconfigured, so there is greater potential to gain efficiencies through opening the market
- The outer areas have experienced the highest level of development in recent decades and public transport has generally not kept pace. Moving to competitive tendering allows the market to be grown and the service offering to be improved
- The bus market in the outer areas is less dependent on existing property held by CIE Group therefore there are better opportunities for acquiring depots in these areas.

The routes which the NTA propose for competitive tendering are the orbital routes which connect the city suburbs and local routes which operate in and around local centres in the suburbs and outer areas. The type of routes are broadly indicated in Figure 6 and are set out in detail in Technical Report on Contract Options.

3.2.2 Scale of contracts

The current orbital and local market is served by some 80 peak hour buses. This represents about 10 percent of the Dublin Bus peak hour fleet, which the NTA consider to be sufficiently small to facilitate a managed downsizing of operations at a reasonable cost in the event of the contract being awarded to another operator. Dublin Bus already has experience in successfully downsizing their peak hour operations by 40-50 buses per annum each year since 2009. Besides this, the scale of any potential downsizing at Dublin Bus would be limited because Dublin Bus resources could be redeployed onto key radial and cross city routes where customer demand is beginning to grow, requiring additional services.

The NTA have estimated that an improved local and orbital service for the city could require in the region of 120 peak hour buses, so the intention would be to grow the contract over time, subject to availability of subvention and passenger demand.

To provide for a competition of interest to local as well as international operators, routes could be split into two lots distributed broadly equally on the north and south fringes of the city, each of about 40 peak hour buses with the option to increase each to 60.

Concurrently, the NTA propose an option to tender a portion of the Dublin Commuter market of the order of 15 - 20 peak hour buses which is currently operated by Bus Éireann under Direct Award.

3.2.3 Other arrangements

Incumbent operators

13 National Transport Authority (2013) NTA Proposal to Directly Award Contract for Public Bus Services to Dublin Bis in December 2014 – Technical Report on Contract Options
Under existing legislation Dublin Bus will not be able to compete for routes outside of its current operating jurisdiction (i.e. it will not be able to compete for routes outside the Dublin area and surrounds). Similarly under the same legislation Bus Éireann will not be able to compete for routes outside its current operating jurisdiction (i.e. bus routes within the Dublin area).

**Fleet and depots**
In order to support the most competitive tender from the market, the NTA will be in a position to provide the winning tender with the fleet to operate the services. This will occur at no extra cost to the State as the NTA has retained the right to reclaim the bus fleet recently purchased by Dublin Bus as part of funding agreement entered into. NTA will identify suitable depot space options and may seek to secure options on their leasing for the contract period.

**Contact duration**
A contract period of five years is envisaged, and this was a suitable duration identified during the market consultation.

**Responsibility for service specification and revenue risk**
The NTA propose taking responsibility for planning and specifying the route contracts which will be offered on a “gross cost” basis where the operator will be paid a fixed sum, as bid based on the gross cost of operating the contract i.e. the cost before the fare revenue is taken into account. The fare revenue will be returned to the NTA. It is envisaged that incentive-based incremental payments and penalties related to patronage and measures of service quality will be included in the gross cost contract.

**Integration**
The competitively tendered services will be integrated into all the NTA systems including the Leap card integrated ticketing system, the real time passenger information system and the integrated journey planner.

Integrated bus stops will be provided by the NTA.

**Concurrent tenders**
It is envisaged that all tender competitions will be run concurrently using the same tender procedure. This will reduce tender costs, increase the attractiveness of the competition and allow operators to tender for multiple lots at the same time.

**Contract development**
Any details that are available on the contracts will be published in the notice required by EC Regulation 1370/2007 in advance of the Direct Award and the competitively tendered contracts, which will be issued in November 2013.

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14 The Transport Act 1986 (Section 8 (2) and 8(3)) and the DTA Act 2008 (Section 52)
4. Analysis of the NTA proposal

4.1 Enhancing value for money and customer service levels

The key advantages associated with a move beyond direct award to competitive tendering stem from elementary economic theory in relation to the effects of competitive pressures and market discipline. In essence, by putting the contract out to tender, market forces are brought to bear to reveal the most economically efficient provider, thereby leading to lower costs and – all things equal - a reduced requirement for subvention. An enhanced level of customer service quality can also feature as an element of the contract award criteria. Additionally, potentially increasing the number of service providers in the market could relieve the current dependency on a single operator, making the bus service more resilient, with consequent benefits for the Greater Dublin Area economy.

Experience from a range of international examples lends weight to this contention. Meta-analysis of economic reform in public transit conducted in 2008 reviewed experience over a thirty year period. Table 1 reproduces the evidence from the UK and Europe in relation to a move to ‘controlled competition’ – the category of market reform which includes competitive contracting.

Table 1 Summary of Analysis of Cost Efficiency and Controlled Competition

<table>
<thead>
<tr>
<th>Date</th>
<th>Jurisdiction</th>
<th>Impact on cost efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Sweden</td>
<td>Improved</td>
</tr>
<tr>
<td>1995</td>
<td>Norway</td>
<td>No change</td>
</tr>
<tr>
<td>1996</td>
<td>France</td>
<td>Improved</td>
</tr>
<tr>
<td>1997</td>
<td>Spain</td>
<td>Improved</td>
</tr>
<tr>
<td>2001</td>
<td>Spain</td>
<td>No change</td>
</tr>
<tr>
<td>2003</td>
<td>Switzerland, Italy</td>
<td>Improved</td>
</tr>
<tr>
<td>2005</td>
<td>Netherlands</td>
<td>Improved</td>
</tr>
</tbody>
</table>

Source: Karlaftis (2008)

Further analysis, specifically on moving to competitive tendering, shows substantial initial cost impacts. Reviewing experience of 20 cities across 10 developed countries, the work found unit cost savings of up to 50 percent, with many estimates clustered in the 20-30 percent range. While these results regarding an initial move to competitive tendering are encouraging, a cautionary finding of this analysis is that second and subsequent awards can lead to increased unit costs from the first tender (but can still offer benefits). While some of the observed increases can be attributed to developments which would be evident in the counterfactual scenario without tendering (such as fuel and other cost increases and tighter labour market conditions) at least some of the increases represent an erosion of the initial gains through market evolutions such as bidders becoming more experienced. A further point accounting for this trend is authorities becoming more specific in their requirements as they become more experienced.

Nonetheless, the finding of the literature is that enhanced value for money is available through a move to competitive tendering.

A further benefit put forward for moving to competitive tendering relates to the potential for enhanced customer service levels. The metaanalyses cited above also found evidence of service improvements in the studies reviewed and the Competition Authority has noted the potential benefits in this regard.

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17 The Competition Authority (2012) Public Consultation on 2014 Bus Service Contracts. Submission to the National Transport Authority
As also pointed to by the Competition Authority, the tendering process is capable of specifying the frequency of services and the quality of bus required as well as requirements around integrated ticketing. While these issues will obviously feature in any tender competition, it is likely that there will be trade-offs with the magnitude of cost savings achievable. Nonetheless, the proposed option offers potential for improved customer service levels and enhanced value for money.

4.2 **Scale of savings achievable**

The underlying level of efficiency is a determinant of the scale of savings which can be achieved. Intuitively, the more efficient operations are at present, the more minimal the impact of competitive pressures and the lower the cost savings achievable. As shown in Table 1, the evidence of savings achieved is dated. Most of the studies were undertaken in the 1990s and early 2000s and use data from market reforms that were completed earlier again. The bus market has undergone transformation over the intervening period and it may be unreasonable to expect savings of the same magnitude as observed elsewhere in the past to be attainable for Dublin in 2016 and beyond. To assist in understanding this point it is worth assessing potential sources of savings and relative efficiency of Dublin Bus.

While staff numbers have been reduced, the downsizing has occurred alongside a 15 percent reduction in peak hour vehicles. Nonetheless, the scale of the subsidy to Dublin Bus has been reduced substantially.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>Dublin Bus PSO Subvention, 2008 - 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSO Subvention (€ ’000)</td>
<td>2008</td>
</tr>
<tr>
<td>85,682</td>
<td>83,199</td>
</tr>
<tr>
<td>Cumulative % reduction</td>
<td>2.8</td>
</tr>
</tbody>
</table>

*Source: Dublin Bus Annual Reports 2008-2009, Quarterly performance reports (schedule C), submitted by Dublin Bus to the NTA 2010-2012*

This has implications for the magnitude of additional savings achievable from a move to competitive tendering.

At the same time however, the improving performance in terms of efficiency may be attractive to potential bidders in a tender competition: a track record of delivering efficiency enhancement demonstrates a capacity to reform and implement change. This is all the more important given that staff may transfer on a TUPE basis to a new operator. The observed trend constitutes a positive signal to potential suppliers.

4.3 **Implementation Issues**

4.3.1 **The impact of property ownership issues**

In order to maximise the benefits of a move to competitive tendering the competition must be, and be seen to be open, transparent and equitable. An issue that emerged during the consultation phase is clarity relating to ownership of existing property. This entails both the physical infrastructure associated with public service bus operations in Dublin such as the fleet itself, the depots and the bus stops; but also less tangible components such as branding and customer information. While this would certainly constitute an impediment to a full move to competitive tendering, it is not considered by NTA to be a barrier to proceeding with the option set out in Section 3. Existing depots are not in the most suitable locations for the routes concerned. In addition space for new depots is less constrained in the areas concerned and the consultation phase showed that some operators already have space to accommodate requirements for a smaller contract award.

Concurrently, steps should be taken to address broader property issues to enable the option of a fuller competitive tender in the future. This is required to satisfy potential market entrants that any future competition is fair.

4.3.2 **Sufficient time for mobilisation and market awareness**

Directly related to these competitive conditions is the question of design of the tendering competition. In its submission to the NTA’s consultation process, the Competition Authority pointed out the need for careful design of the competition to prevent the emergence of cartels and bid-rigging.
Research from the MARETOPE project found that unpreparedness both of contracting authorities and operators is a common barrier to smooth implementation of market reform.\textsuperscript{18}

On the point of preparedness of potential operators, the market consultation undertaken by the NTA showed that for a 50-100 bus contract, the operators’ view, as a median, was that a 6 month tender period is achievable.\textsuperscript{19} Regarding the necessary mobilisation period, if depots and buses were provided, if buses and depots have to be sourced, a period of 9 – 12 months is considered necessary, with a shorter period if depots and buses were provided.

Requirements relating to national and EU-wide procurement rules must be complied with. Lead-in time requirements are a function of the scale of the competition. Given the scale of the competition under consideration, a timeframe of 2016 should be sufficient to put in place the necessary conditions.

In addition the contracting authority must also be appropriately resourced to effectively manage the competition.

\textbf{4.3.3 Appropriate size of bundles}

The specific bundles which are tendered should be selected so as to maximise the level of market interest and thereby increase the level of savings and enhanced customer service available. The market consultation undertaken by NTA in 2012 showed that Irish operators wanted less than 50 buses in a contract, and preferably of the order of 20 buses, while international operators wanted at least 50 buses and either strongly or absolutely preferred a contract for more than 100 buses. On this basis, Irish operators may be interested in the Dublin Commuter routes with a 15-20 PVR that may be tendered, and some of the 19-20 orbital and local routes with a current PVR of 80 buses. Some of the international operators may be interested in a larger bundle size, possibly with the commuter bundle. The dispersed nature of the routes that could be included in the bundles may present some challenges for operators to serve efficiently.

\textbf{4.4 The proposed option: opportunities and relevant risks}

Making changes to the way bus services are contracted, and potentially introducing new service providers creates opportunities, as discussed in Sections 4.1 and 4.2. As with all processes, there are also potential risks that need to be identified and managed. Opportunities and risks associated with the proposal to competitively tender the orbital and local routes in Dublin are outlined below.

\textbf{4.4.1 The scale of the Dublin bus market}

The passenger bus market in Dublin is very large. In 2012, 115 million passenger journeys take place every year. This is obviously a major market, and the strategic importance of the functioning of that market to regional and national economic performance has been emphasised throughout this assessment.

The opportunities arising from the scale of the Dublin market lie in the potential benefit of improved services and/or reduced costs and in creating significant market interest at an international level. However, the costs and risks arising from an ill-considered completion are also substantial. Care must be taken therefore, in progressing, even if the changes are well proven in other jurisdictions.

Tendering the entire market in one contract is not seen as prudent. Such an approach generates risks in relation to concentrating market power in a single private operator and is inadvisable from a competition policy perspective.

Instead, the proposed approach of tendering the orbital and local routes, representing about 10 percent of the market, leaves Dublin Bus with a scale of operation which can be made efficient for the company’s resources and overheads. This minimises the risk to the core Dublin Bus market while giving the opportunity to improve efficiency and customer service in the outer areas, as well as the opportunity to bring new operators into the market, reducing dependency on a single operator and enabling benchmarking.


\textsuperscript{19} National Transport Authority (2012)
4.4.2 Transition and service continuity

An integrated, functioning and reliable bus service is a key element of the economic and social infrastructure of Dublin. It is required to service the capital’s labour market, ensure productivity and competitiveness by alleviating congestion and provide important social services. Consequently, service continuity and a smooth transition to new arrangements are essential. The process will focus on:

- Ensuring that the right incentives are in place to safeguard the stability and reliability of the bus service following the announcement of a tender competition and in the lead-in to the award of the new contract
- Should the incumbent operator fail to win the new contract, managing the transition period to ensure service levels and reliability.

4.4.3 Stability of the core bus network

The Government’s medium-term infrastructure plan has highlighted Luas Cross-City Line as the key public transport project to be delivered in the years to 2017.\(^{20}\) Enabling works on the project are expected to commence in summer 2013 and it is planned that the service will be operational in 2017. The connection of the existing Luas Red and Green Lines and the extension of the network onwards to Broombridge is a major addition to the city’s public transport offering which will require the temporary and permanent reorganisation of bus services.

The bus network will require an element of reconfiguration to complement the new cross city light rail route. This involves understanding the longer-term effects of the Luas extension on the bus network and clear knowledge of the extent and shape of the bus network post Luas development. These uncertainties raise opportunities and risks over the coming years which may be easier to manage under a direct award contract with the incumbent compared with a new market entrant and a new contracting regime. If radial and cross city bus services were included in a competitive tender package, the risks around the process would increase substantially. Limiting the competitive tendering to the outer areas, as proposed, appears to be the lower risk approach.

4.4.4 Emergence of cartels

Collusive tendering and the emergence of cartels is a risk to any tender process. Under such circumstances, the winning bid will be higher than it would otherwise have been had unadulterated market forces prevailed, leading to loss of taxpayer resources. Careful management of the process will help guard against this risk.

4.4.5 Financial risks

Uncertainty or instability in funding constitutes a barrier to regulatory reform in urban transport which has been experienced internationally. Given that the subvention from the Department of Transport, Tourism & Sport is paid on an annual basis, and in light of the prevailing climate of fiscal consolidation, this risk is present in the case of Ireland.

A potential implication of this is that operators will price this risk into tender bids, thereby driving up the price against what it otherwise might be. This is not considered to be as significant a barrier as it may have been in 2010 and 2011.

As the process of fiscal retrenchment moderates and the public finances return to a more sustainable path, this risk will diminish over the medium-term.

5. Conclusions

This paper has reviewed the various economic and policy factors that will inform a decision on the basis of the next award of public service bus contracts in Dublin.

While preparations have been progressing for a move to competitive tendering, a further direct award to Dublin Bus will be required in 2014.

Moving further into the medium-term however, there is clear merit in a contained competitive tendering process for a segment of the Dublin market in order to test the process and understand the capacity to realise the potential benefits on offer. Figure 7 presents a schema of the potential approach.

![Figure 7: Potential Timeline for Future Contract Award](image)

This approach is well placed to understand the potential benefits of market reform while guaranteeing the continued reliability of bus services in Dublin, an important input to national economic performance.
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