



Údarás Náisiúnta Iompair  
National Transport Authority

# Proposal to Directly Award a Public Bus Service Contract to Dublin Bus in 2019

3. Technical Report  
on Contract Options

October 2018





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# 1. Introduction

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## 1.1 Introduction

The current Public Service Obligation bus services in the Dublin city region are provided by Dublin Bus under a direct award contract with the National Transport Authority. This contract expires on 1st December 2019. The Authority must now consider how to provide public bus passenger services in Dublin following this contract. The options to be considered are whether to award another direct award contract to Dublin Bus or to competitively tender all of the Dublin Bus 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 Dublin Bus market. These options are considered in the context of EU Regulation 1370/2007 and the Dublin Transport Authority Act 2008.

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 2014 direct award contract with Dublin Bus

## 2. Current Dublin Bus PSO Contract

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### 2.1 Overview

The Authority entered into a five year Public Service Contract with Dublin Bus on 1<sup>st</sup> December 2014 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, and as expressly required under the decision of the Authority in 2013, a number of services representing 10% of services, have been removed from the Direct Award Contract with Dublin Bus and have been competitively tendered. The contract for those services was awarded to Go-Ahead Ireland Ltd. and operation has commenced.

### 2.1 Dublin Bus

Dublin Bus is a wholly owned subsidiary of Córas Iompar Éireann [CIE], a commercial state body which provides bus and rail public transport services. The Company was established in 1987 under the Transport [Re-organisation of CIE Act] 1986 and is the largest provider of PSO bus services in the Greater Dublin Area between the area between Newcastle in County Wicklow to the south, Balbriggan in north County Dublin and Maynooth in County Kildare to the west.

The Company currently employs in the order of 3,000 people and operates from 7 depots within the Greater Dublin Area. The PSO services comprise a network of cross city, radial, orbital, Xpresso and Nitelink services. The network was, as of Q4 2017, operated by 993 predominantly double deck buses. Over 90% of these are standard double deck buses, which can carry c. 90 seated and standing passengers. 70 of the double deck buses are larger tri-axle vehicles with a capacity of c. 120 passengers. The average age of the fleet is approximately 7 years with a range in ages from 14 to 0 years.

Under the Contract, Dublin Bus is responsible for the provision of bus depot and stabling facilities, supply and maintenance of bus fleet and ancillary facilities (such as ticket machines, automatic vehicle location equipment and CCTV equipment) and associated communications, storage, analysis and reporting systems. They are also responsible for the provision of staff and staff facilities and marketing.

In addition to, and financially separate from the PSO services provision, the Company also operates commercial activities such as the Airlink service, sight-seeing tours and private hire services.

### 2.2 Routes

The PSO network currently comprises **118** radial, orbital and local bus routes. Following the transfer of services to operation by Go-Ahead in late 2018 and early 2019, this number will

reduce to 95 primarily radial bus routes. In addition Dublin Bus operates 18 Nitelink routes (operating primarily on Friday and Saturday nights from 24:00 to 04:00 from the city centre to the suburbs).

Dublin Bus currently operate 13 high-frequency routes, i.e. routes operating 4 or more departures per hour in the inter-peak period. Most cross-city routes operate on a frequent day long basis, 7-days a week, with services every 15 minutes or more at peak times from Monday to Friday.

Express type services also operate on several routes, serving customers during peak hours only.

Approximately 136 million passengers were carried on Dublin Bus PSO services in 2017.

## **2.3 Buses / Fleet<sup>1</sup>**

As of end 2017, there were 993 buses (including spares for maintenance) in operation on Dublin Bus PSO routes. The network is operated predominantly by double deck buses, the majority of which can carry about 90 seated and standing passengers. 70 buses are larger tri-axle vehicles with a capacity of approximately 120 passengers.

The average age of the fleet at the end of 2017 was 7 years with a range in ages from 14 to 0 years.

The Authority now purchases the bus fleet directly and thereby fleet can be made available for use by any future contracted operator.

## **2.4 Depots**

There are 7 Dublin Bus depots, which accommodate between approximately 80 and 200 buses each. Individual routes can be resourced from a number of depots, for example, buses for the number 15 bus route are provided from the Harristown and Ringsend depots. Currently, these depots are not available for use by other bus operators.

## **2.5 Passenger Numbers**

The Direct Award contract commenced as passenger numbers began to recover following the severe economic downturn from 2008.

The following table shows the rise in passenger numbers on Dublin Bus services since 2014 and the increase in the Average Peak Vehicle Requirement.

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<sup>1</sup> Fleet is the total number of buses currently owned, including engineers' spares.

Year	Annual Passenger Numbers
2014	116.3m
2015	119.8m
2016	125.3m
2017	136.3m

## 2.6 Dublin Bus 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 within Dublin city.

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

- The provision of real time passenger information for all scheduled Dublin Bus and Go-Ahead services;
- Integrated ticket (Leapcard) for use on all scheduled Dublin Bus and Go-Ahead 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 by Dublin Bus and the Authority in supporting infrastructure, IT equipment and software in Dublin Bus 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 Dublin Bus and Go-Ahead services provided under contract.
- Branding - the existing Dublin Bus brand enables ready identification of buses available to people travelling within the Dublin area. The integrating Transport for Ireland brand has to be placed as the parent brand with any operator brand.
- 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 in Dublin 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 2019 to replace the contract directly awarded to Dublin Bus in December 2014. A key decision is whether the contract(s) will be

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

This follows a decision taken in 2013 to direct award a contract to Dublin Bus and to remove 10% of the services from that contract for competitive tendering. This has now been completed and a contract has been awarded to Go-Ahead Ireland Ltd. to operate those services.

### 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.

The Authority has now introduced some competition into the subsidised bus market in Ireland.



### 3.3 Tendering vs. direct award contracts in Dublin

The advantages and disadvantages of tendering or directly awarding contracts for operating all of the bus services in the context of the Dublin market 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 Dublin Bus/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><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 <i>“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”</i>. 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**

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.

## 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, Dublin Bus would be legally entitled to take part in any tender competition for some or all PSO bus services in Dublin.

Dublin Bus as the incumbent operator could be seen to have an advantage over potential market entrants as it currently owns important ancillary assets, including bus depot storage and maintenance facilities, bus ticketing system, 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, unless they are provided by the Authority. This does put the incumbent, Dublin Bus, at a considerable advantage.

The Authority has no statutory powers to ensure depot facilities or those buses purchased pre 2012 by Dublin Bus would be available to new operator/s. While the Authority could provide new depot 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 Dublin Bus services were opened for tender.

#### 4.1.2 Operating staff

The tendering of all Dublin Bus services would include either the potential need to transfer Dublin Bus 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 Dublin Bus to 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 currently accepted on all PSO funded bus services operated by Dublin Bus and Go-Ahead within the Greater Dublin Area. 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.

#### **4.2.3 Information**

The Authority currently provides real time passenger information for all scheduled buses operated by Dublin Bus and Go-Ahead in the Greater Dublin Area, through the [TransportforIreland.ie](http://TransportforIreland.ie) website, and at certain bus stops. Future contracts for bus services in 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 Dublin bus network as a single integrated entity, this information will need to continue 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 contract is an important consideration. At present, bus routes and times are closely specified in Authority public service contracts with Dublin Bus and Go-Ahead. Rail and tram elements of the public transport network are also by their nature closely specified, but operated under separate contracts. This suggests a need to specify bus services in 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 most European cities.

Several different approaches to tendering of bus services were taken in the Netherlands in recent years<sup>2</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

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<sup>2</sup> Public Transport Tendering in the Netherlands (PTEG -Van de Velde, Eerdmans, Westerink, inno-V Amsterdam) (July 2010) - Page 37

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. A gross cost with incentives to operator is a hybrid contract model.

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. 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>3</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.

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<sup>3</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)



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>

Gross cost with incentives 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>Operator focussed on service quality including reliability, punctuality and is incentivised to meet or exceed targets using contractual performance payment</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> <li>Constraints to the extent to which Authority may be able to incentivise performance associated with government PSO funding constraints.</li> </ul>

Regardless of whether or not the 2019 contract is directly awarded, the Authority intends to retain full control over the setting of requirements in relation to many aspects of the services, including:

- (1) Routes, timetables and operating hours for the services
- (2) Fares charged and tickets accepted for use of the services
- (3) Vehicles used to operate the services
- (4) Customer information provided to passengers

This is in order to ensure an integrated public transport network across the various operators and modes of public transport for which the operator has contractual responsibility. It mirrors the approach taken in most other European countries where contracts are in place between operators and transport authorities.

On balance, Gross cost contract with incentives for the operator to continuously improve performance during the contract lifetime is the preferred model. This type of contract is preferred because it places risks with the parties best placed to manage it. The Authority rather than the operator is best placed to manage revenue risk as it sets the fares and routes

for the services. The operator rather than the Authority is best placed to manage operational performance.

## **4.5 Incentivising operator performance to meet customer needs**

### **4.5.1 Weighting performance payments to better match customer priorities**

Currently 10% of annual contract payments to operators are performance related, with 5% related to punctuality performance and 5% related to service quality performance.

A customer survey of Dublin Bus passengers will be undertaken to ascertain their experience with and relative importance of performance in areas such as punctuality, reliability, access to and from bus, comfort of bus, driving style, cleanliness of bus and information provided on board the bus.

The results will be used to inform the relative weighting of performance payment deductions for failure to meet targets or incentives for exceeding targets.

### **4.5.2 Incentivising operators to exceed performance targets**

In the current direct award contracts, performance payment deductions apply for failure to meet targets, but there are no performance payment incentives to exceed targets as opposed to simply meeting them. It is proposed that all PSO contracts awarded by the Authority from December 2019 onwards will include a graduated performance payment incentive which would depend on the extent to which actual performance exceeded contractual targets.

### **4.5.3 Reliability target**

The current interim reliability target is that Dublin Bus must provide AVL data to show that 95% of scheduled services operated in each reporting period. From 2019 onwards, the Authority intends to increase this target to 98%. It is proposed that this target will be carried through into the December 2019 direct award contract.

### **4.5.4 Enhanced punctuality and regularity (EWT) targets**

Current punctuality targets for lower frequency services vary on a seasonal basis to take account of changing traffic conditions. The targets for each reporting period are being increased by 4% each year over the equivalent target from the previous year. In 2019, these targets will average approximately 65% over the network as a whole. It is proposed that the December 2019 contract will retain the gradual ramping up of punctuality target to an

average of approximately 69% in 2020, 73% in 2021, 77% in 2022, 81% in 2023 and 85% in 2024.

During 2018, regularity for higher frequency services will start to be measured based on headway between services rather than recorded departure time compared to scheduled time. The metric used will be Excess Wait Time (EWT -a measure of the time above the expected wait time that passengers have to wait at a stop for services). The EWT target will be set against current performance and it is intended that the target EWT will be gradually reduced up to the end of the current direct award contract. It is proposed that the December 2019 contract will retain this gradual reduction in EWT targets over the lifetime of the contract.

#### **4.5.5 New KPIs to measure long intervals between services**

These KPIs are proposed as a means of measuring how often a service is so late that the passenger benefit of operating the service is severely diminished, for example because the actual departure time of the service in question is at or after the scheduled departure time of the following service.

It is proposed to introduce a new KPI measuring the percentage of services where the actual headway is over twice the scheduled headway between services. This KPI would apply to high frequency services only, where regularity of services is measured on a scheduled headway (EWT) basis.

It is also proposed to introduce a new KPI for low frequency services (generally those operating 4 per hour or less) measuring the percentage of services which departed from a stop more than 15 minutes after the scheduled departure time.

#### **4.5.6 Measure punctuality and reliability performance by route or route bundle**

In the current direct award contracts, punctuality regularity and reliability targets and associated contractual payments apply on a network wide basis. In the December 2019 contracts, the Authority proposes to revise this arrangement so that targets and associated payments will apply on a route or corridor /route bundle basis.

#### **4.5.7 Introduce potential sanction of removal of consistently poorly performing route or bundle of routes from direct award contract for competitive tender**

It is proposed that if there is a consistent failure by the Operator to meet contractual KPIs for any route or bundle of routes included in a bus PSO contract from December 2019 onwards, then the Authority would reserve the right to remove the route or route bundle from the contract and put its operation out to competitive tender. As a guide, this sanction would be considered where there were 8 or more failures to meet a KPI target over the previous 13 reporting periods, or where a KPI target was missed for 4 or more consecutive reporting periods.

## 4.6 Conclusion

The Authority has made the following conclusions in this section:

- Any 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 Dublin Bus depots or fleet purchased before 2012.
- Any 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.
- It is not clear whether any depot costs associated with any further opening the Dublin Bus market to competition would outweigh the advantages of the cost savings that can be brought about by competition provided that the market opening is appropriately sized.
- Any market opening should be structured with appropriate lead-in time for the incumbent to plan to avoid unnecessary disruption to operations if incumbent is not successful.
- 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 bus services contract.
- Additional incentives are proposed in the public services contract to incentivise operator performance.

## 5. Final Conclusions

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- While there may be value in introducing competition in the Dublin bus services market while maintaining a smaller Direct Award Contract, the first competition has not been fully tested yet.
- Research of international experience set out in this paper indicates that there is likely to be a cost saving or improved service quality associated with tendering of bus 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).
- Operator performance should be incentivised to better meet customer needs