

Public Transport Contracting Outsourced Bus Operations



Lesson Learned

- **Prerequisites for success**
- **Optional schemes, pro's and con's**
- **Addressing contract design issues**



Prerequisites For Contracting

- **Legal and regulatory framework**
 - **Clear assignment of responsibilities**
- **Technically strong designated units in government/public authority**
 - **Plan services**
 - **Manage bid processes**
 - **Monitor performance contract con**
- **Will to enforce contracts**
 - **Political**
 - **Staff**



Basic Contracting Schemes

	Fare Revenues	Reimbursed Costs	Operator Risk
Cost-Plus	Public Authority	Actual + Fee	None
Gross Cost/ Service Unit (e.g., KM)	Public Authority	Bid Cost	Costs
Gross Cost/ Passenger	Public Authority	Bid Cost	Costs, Passengers
Net Cost	Contractor	Bid Cost	Costs, Revenues

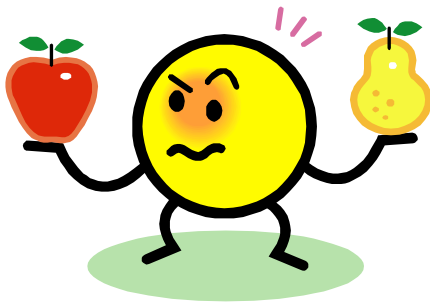
- **Variation of Net-Cost contracts: *Commercial contracts* (operator pays a fee to public authority)**

Advantages/Disadvantages Basic Contracting Schemes

	Cost Monitoring	Fare Revenue Monitoring	Likely Gov't Cost	Gov't Risk
Cost-Plus	Significant	Significant	High	High
Gross Cost/ Service Unit (e.g., KM)	None	Significant	Low	Moderate
Gross Cost/ Passenger	None	Significant	Moderate	Moderate
Net Cost	None	None	Moderate	Low

Key points

- **Cost-plus contracts: no incentive to reduce costs**
- **Net-Cost contracts: tend to be more costly than Gross-Cost contracts to Public authorities**



Choosing the Best Contracting Scheme

- There is no “best” option – depends on:
 - **Public authority capacity**
 - Administrative, management, and enforcement
 - **Private contractor capacities**
 - Financial, organizational and service
 - **Legal and regulatory framework**
 - **Public financial resources**
 - **Transport cost structure**
 - **Competition from unregulated, informal sector (e.g., motorcycle taxis)**
- **In developing cities, gross-cost contracts are usually more desirable**



Single vrs Multiple Operators

Need certain level of competition to maintain effectiveness and efficiency

- **Wrong kind of competition (net cost on the street) can lead to predatory behavior**

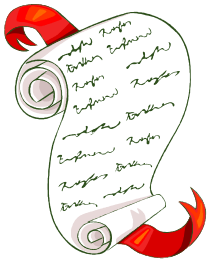
Public authority must be in a position of strength to negotiate / withdraw contracts

Never lose sight of the service end-user

- **Simplicity, convenience, integration**

Conclusion: Single operator per route or per sub-area may be best in most developing city cases





Scope of Contract

- **Public sector must clearly define service scope**
 - **Precise enough to allow bidders to compute properly costs**
 - **Flexible enough to:**
 - Be adaptable, in anticipation of future service changes, and
 - Allow operators to propose the most efficient way to deliver the service
- **Examples of scope items**
 - **Route description, stops spacing, max interval/ time of day, capacity to be provided, span of service**

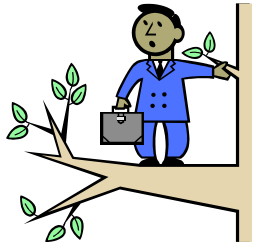




Quality of Service

- **Need specific performance indicators, standards in contract, e.g.:**
 - **average fleet age**
 - **vehicle standards**
 - **km between breakdowns**
 - **% of trips on-time, etc.**
- **Too high standards will be met at the expenses of the public authority**
- **Standards could be negotiated during the bidding phase (alternative offers)**





Allocating Risks

Largely dependent on chosen contract scheme (Cost-plus-gross, net)

Allocate the risk to the appropriate entity, according to its ability to bear it

– Example 1: deficient law enforcement (competitors...)

- Private contractor cannot bear that risk

– Example 2: major change in a competing infrastructure

- Private contractor cannot bear that risk

– Example 3: oil price increase

- Private contractor: bears the increase, up to a determined threshold
- Public authority: take the risk beyond the threshold on the basis of an indexation clause

– Example 4: fare evolution

- In a net-cost contract, the private contractor could not bear a unilaterally-decided by the Government fare slash



Duration and Size

Duration

- **Depends on the assets provided by the operators**
 - Typically 5-8 years for bus systems where operator supplies buses
 - Contactors would prefer longer contracts (7-12 years)

Contract Size:

- **Depends on the chosen strategy**
 - Single/multiple operators & local / international
- **Contract areas should be logical**
 - Route structures, depot availability, operational efficiency
- **Preferred size between 50-100 buses (1 depot)**





Fare Collection, Setting in Contract

- **Specify fare collection mechanism (gross-cost):**
 - **Detail required procedures and equipment**
- **Net Cost Fare setting**
 - **Make the public authority involvement clear**
 - **Special fare discounts (students, disabled)**
 - **Describe compensation mechanisms**





Incentives / Penalties

- **Outsourcing cannot work without well-designed incentives/penalties**
- **Best if implemented progressively over time**
 - e.g., quality of service
- **Objective is encourage compliance, *not to reduce costs by maximizing penalties!***





Monitoring, Enforcement

- **Monitoring and supervision**
 - **Measurable, verifiable performance indicators**
 - **Reasonable and attainable**
 - **Contractors should be able to hit targets**
- **Enforcement**
 - **The public authority must be credible (carrot and *stick*)**



Summary Conclusions



Competition Works

Operator	O/M Cost/ Revenue Vehicle Hour
WMATA*	\$101
Fairfax Connector**	\$61
Montgomery Ride-On***	\$80
MARTA*	\$81
Cobb County**	\$59

· 2005 USDOT NTD

* SOE

**Outsourced

*** Mixed



- **Need not outsource all aspects of PT operation**
 - **Can outsource some parts of system, e.g., BRT**
 - **Can outsource some functions**
 - **Certain maintenance items**
 - **Training**
- **Need strong public entity for planning and oversight**



Need More help?

World Bank Urban Bus Toolkit



- Targeted at improving urban bus systems in developing/transitional countries
- Sets out alternatives for providing services
- Provides tool for evaluating alternatives



Where Can I Get the Toolkit?

- **Run from the CD**
 - **Copies available here**
- **Go the web site**
<http://www.ppiaf.org/UrbanBusToolkit/>

