Net-cost contracting and competitive tendering under covid: The Dutch experience

Thredbo Webinar 1 (29 September 2021)
The contract environment going forward

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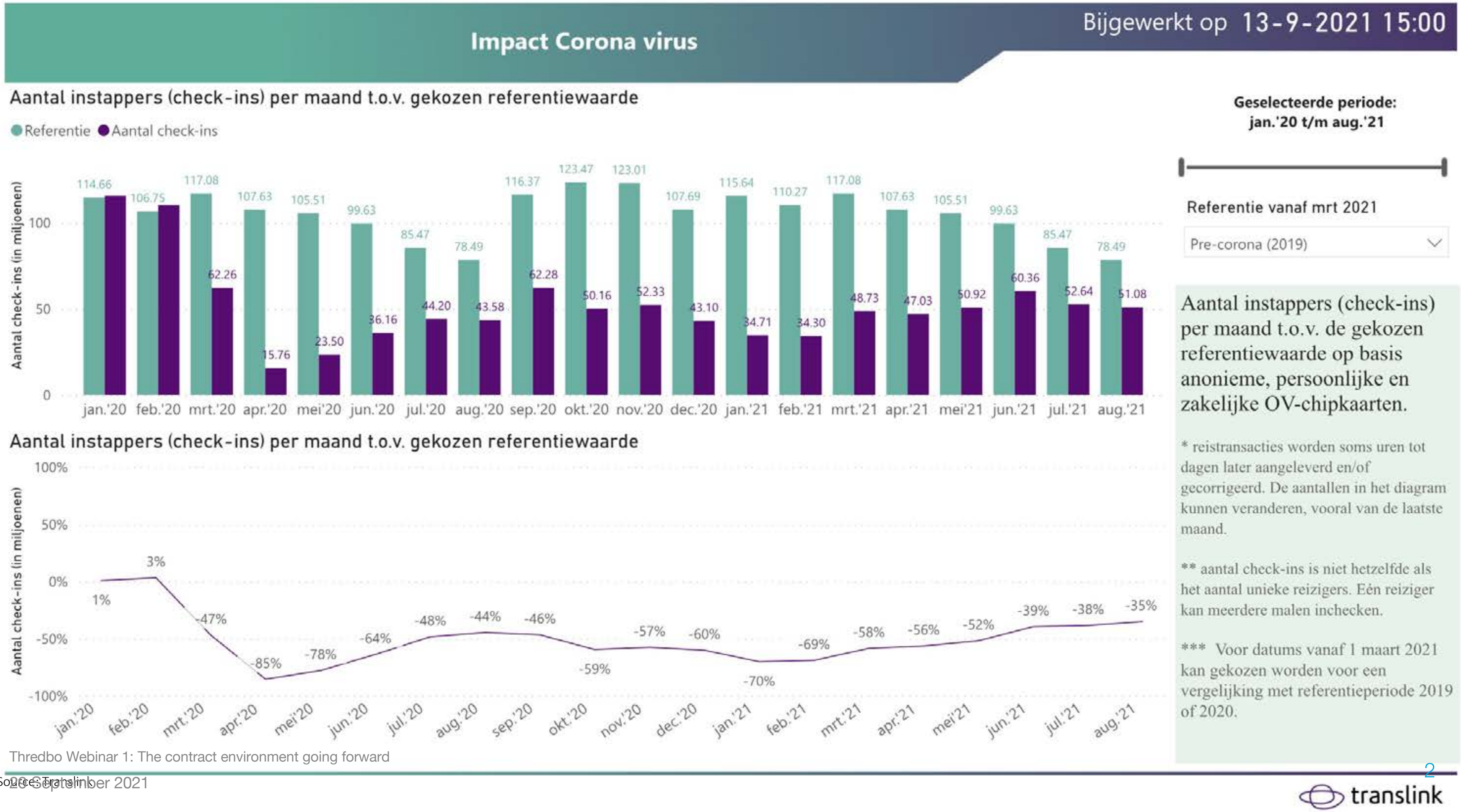
Impact on ridership
Boardings/month compared to pre-Covid-19 levels



Source: Translink

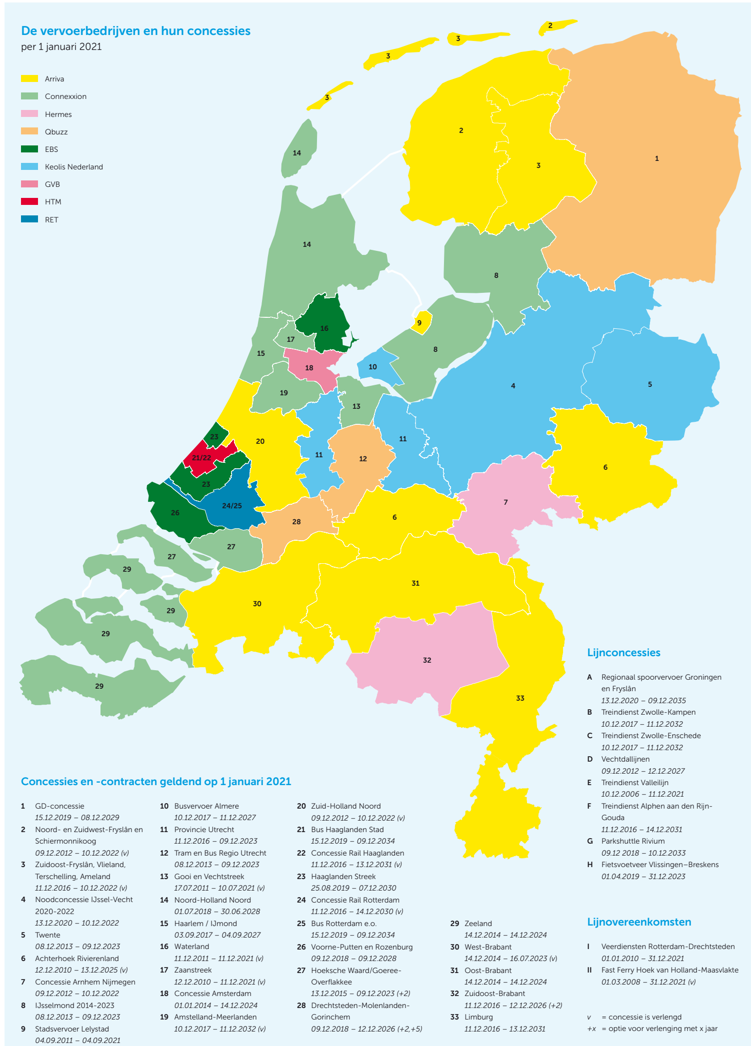
Contracting and competitive tendering in the Dutch PT sector
A brief introductory reminder

General reminders
- CT since 2001
- 14 PTA's + State (budgets come from the State)
- CT compulsory (except 3 main cities and national rail)

- 5400 buses (± 160 buses/concession) + tram/metro/train
- 10 (-15) years (some prolongation options)

- Mainly
  - Area concessions
  - Net-cost contracts and super-incentive contracts
  - Operators responsible for service development

Implications
- Covid directly impacts operators' revenues
- PTA's have no additional funding sources
  → The State involved in crisis resolution



Source: KpVV (2021) Regional OV per 1 januari 2021

Contracting and competitive tendering in the Dutch PT sector
Concessioning since Covid-19

Source: KpVV (2021) Regional OV per 1 januari 2021

- 2 concessions awarded in 2020
- One rail line CT received no bids
- Further CT on hold in 2020
- 5 expiring concessions re-awarded under emergency procedure (non-CT) for 2 years
- All other concessions amended to allow for additional EU-compatible financial support (BVOV), as temporary emergency measure

"Public Transport Availability Fee" (BVOV)

- About €1.5 bln in 2020
- Planned (pre-covid) subsidy remains available
- Compensation fee (BVOV) = [93/95% of costs] minus actual revenues

Coverage of 5-7% cost cuts?

- 2020: "compulsory losses" for operators
- 2021: transitional cost reductions measures to be agreed with PTA (operator profit = max. 0%)
- Compensations likely to remain necessary until (?) 2025

Covid-consequences for the Dutch PT market
1st round market consultation in <u>2020</u>: Summary of first reactions

1 Uncertainties	▪ PT market became unpredictable, much uncertainty (short and long term).
2 For the current concessions	▪ Limiting losses requires adjusting concessions ▪ BVOV is seen as just 'a step' in the right direction

3 For CT in the short term	▪ PTA behaviour has impact on attractiveness of Dutch PT market
	▪ Reduced willingness and ability to invest by operators
	    ▪ Impact on ZE-transition? Need for alternative forms of financing?
	    ▪ Need to mitigate risks in future concessions
	▪ Smaller concessions desirable, opinions differ on duration
	▪ Participation in new tenders strongly related to resolving problems in existing concessions first
	▪ Little enthusiasm for alternative forms of tendering

4 For the long term	▪ *Expectation* that crisis *could* have major implications for Dutch PT market organisation

Source: inno-V & AEF (2020) "Corona en OV-aanbestedingen", Onderzoek voor CROW-KpVV ism DOVA, 8 december 2020.

Covid-consequences for the Dutch PT market
2nd round market consultation in 2020: Ideas gathered / Outlook

1 Flexibility and risks	▪ Current practices satisfactory, but more flexibility desired and feasible
2 Investments	▪ Aversion to government interference with vehicle investments ▪ Interest in receiving more vehicle financing support
3 Scope of concessions	▪ Wish for smaller concessions; perhaps also shorter ▪ Knowledge of PTA on risks is issue, attitude in contract management even more
4 CT and flexibility	▪ Other CT procedures provide limited added value (in the eyes of operators)
5 Competition	▪ Market unattractive in 2020, no point in tendering in short term
Main collected ideas	▪ *Variation in contracting and mitigating risks* ▪ *Making contracts more flexible* ▪ *Stimulating innovation* ▪ *Financing vehicle investments differently* ▪ *Adjusting concession duration and size* ▪ *Improving PTA knowledge* ▪ *Making CT more flexible and reducing CT costs* ▪ *Improving starting conditions before restarting CT*
General observations	▪ *Still difficult for operators to understand what is important for authorities and why.* ▪ *Many issues are not new (ZE-investments, size of concessions)* ▪ *Strong tendency against change: keep NCC, aversion for GCC*

- Source: inno-V & AEF (2020) "Corona en OV-aanbestedingen", Onderzoek voor CROW-KpVV ism DOVA, 8 december 2020.
- For a more detailed analysis on the response of actors see:
  Hirschhorn, F. (2021). "A multi-level governance response to the Covid-19 crisis in public transport", *Transport Policy*, 112: 13-21.

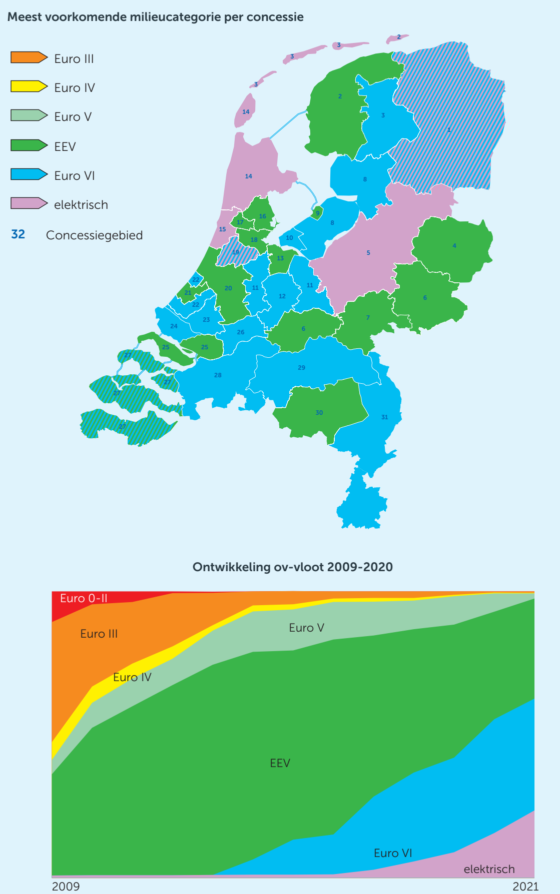
2021: Recommendations for more agile NCC-CT PT-concessions

Summary of main points (besides adaptation to changed demand)

1 Making provisions more specific	▪ Current 'special circumstances clauses' are too general ▪ Clearer process agreements for revisions needed
2 Risk management for more risk awareness	▪ More attention for risk management during CT, consultations and concession ▪ Define brackets for target realisation to create financial buffers ▪ More transparency (BuCa calculations), more PTA expertise → more mutual trust
3 Increasing concession agility starts at CT	▪ Gather more information from operators during CT preparation ▪ Give more clarity on PTA expectations, actions, priorities and package freedom ▪ Use dialogue before/during CT, or negociated procedure
4 Less focus on start and more on developments during concession	▪ Stop asking for more services and ZE immediately at the start ▪ Have a vision on development path, allow recalibration every 3-4 years ▪ Organise for beter cooperation, more 'daring' instead of fuss minimisation ▪ Know what is legally allowed ▪ *(Observation: directly awarded concessions to public operators by and large already do this...)*
5 Operators should also act	▪ More flexible timetable ('modules'), fleet and staff base (...but many obstacles...)

Summary of: KpVV (2021) Handreiking Wendbare ov-concessies

Covid-consequences for the Dutch PT market
Transition to Zero-Emission



Source: KpVV (2021) Millieuprestatie ov-bussen 2021

- Some delay in transition to ZE in coming years is expected
- Yet: Tendering documents so far continued to prepare for ZE "from the start"
- But: Growing attention by PTA for new arrangements to facilitate swift realisation of ZE (*nb: this is not a new issue as such!*)
  - Financing: guaranteed bus loans, public asset owning company, banks, leasing
  - Vehicle transfer at end of contract
  - Perhaps national subsidies
- Climate crisis reinforces sense of urgency!
- Expected catch-up with original deadlines, i.e.
  - 2025: all new buses ZE
  - 2030: all buses are ZE

How have similar circumstances (± "NCC-CT") evolved elsewhere in Europe? A few observations

Great Britain (rail)

- Franchises suspended
- The railway sector moves to a different contracting regime and risk allocation *(nb: not due to Covid as such)*

→ See next speaker in this webinar!

Sweden

- Financing issue plays between State and Regional PTAs
- CT goes ahead
- Reconsideration of tendered VBP-contracts (NCC-proxy based on boardings) in the shorter run:
  - Some want to keep it, and stress the need to better understand how the system works
  - Others want to go back to GCC (with quality incentives)

See also: Koglin, T. and A. Paulsson (2021). Marknad i kris? Kollektivtrafikens syn på avtalsmodeller under pandemin. K2 Working Paper 2021:08, K2, Lund.

France

- Urban transport: few CT in 2020
  - 35 CT in 2019
  - 8 contracts prolonged in 2020
  - 2 CT finalised in 2020
  - 24 CT expected in 2021
  - 16 CT expected in 2022
- Regional transport (bus): ?
- Start of regional (TER) train CT (first award 2021, start of operations in 2025)

Source of numbers for urban contracts: UTP