

COMPETITIVE TENDERING IN THE NETHERLANDS: 6 LESSONS FROM 6 YEARS OF TENDERING

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INTRODUCTION

The Dutch public transport reform

The Dutch public transport regime was revolutionized by the introduction of a competitive tendering regime in 2001. Since then, the Dutch public transport legislation requires passenger transport authorities to determine their public transport policy goals, to determine concession areas and gradually to organize competitive tendering procedures to award these concessions in exclusivity to operators for periods that can currently extend to up to 8 years in the bus sector and 15 years in the railway sector.

The former public transport legislation was based upon the principle of market initiative, whereby transport operators were supposed to behave as entrepreneurs and request authorizations to operate routes at an appropriate municipal or national government instance. This regime had, however, evolved towards public monopoly in practice, as public transport had ceased to be profitable in its own right in the 1960s and all operators except for some minor exceptions were publicly owned, either by municipalities or by the national government. Various forms of subsidization were used in the course of time. These evolved from simple deficit compensation towards more incentivising forms of subsidization at the end of the period.

The new legislation from 2001 came with the institutionalization of the power of the 12 Provinces and 7 urban area governments as public transport authorities, replacing the role played hitherto by central government as regulator of the public transport services outside specific urban areas. The provincial authorities had until then had no involvement in regional public transport and had to start to develop their policies and intervention in this sector. See, e.g., van de Velde and Leijenaar (2001) for more details on this transition.

This new regime also changed fundamentally the market organization principle as it gave these authorities the monopoly right to provide public transport services. But this right

came with the legal obligation to use competitive tendering to select operators. This obligation was introduced gradually and was only generalized to all public transport after an official (positive) evaluation of its first effects. At the beginning of 2007 government finally adopted the necessary measures to force the universal application of competitive tendering in Dutch public transport. This obligation is not, however, applicable to the concession for the national railway network.

Note also that the major urban areas (Amsterdam, Rotterdam, The Hague and Utrecht) received a preferential treatment by being allowed to postpone the compulsory usage of competitive tendering (CT) as far as the concessions currently held by municipal operators in their core cities were concerned. The current plans are to use CT in Amsterdam in 2012 for the whole of the services, and in 2009 for bus and 2017 for trams in Rotterdam and The Hague. Whether this will actually be enforced remains, however, to be seen as Parliament started a discussion in June 2007 to abolish the obligation to use CT in those areas, very much against the advice of the Ministry. This discussion was triggered by the recent adoption by the European Parliament of the long awaited Regulation on Public Service Obligations in public transport, which entitles passenger transport authorities with the right of self-production.

Particularities of the Dutch regime

Differently from many CT regimes introduced in other parts of Europe, the Dutch regime aims at stimulating innovation in service design in public transport. To this effect, the legislator aimed, using the new passenger transport legislation from 2001, to give operators the power to (re-)design transport services (routes, timetables, fares, vehicles, etc.) during competitive tendering and/or during the contract period.

In terms of procedure, a particularity of the Dutch regime is that the Ministry chose for a rather strict tendering procedure based on 92/50/EEC, preventing negotiation as part of regular procedures. Contrary to France which bases its tendering regime in public transport ‘concessions’ on the necessity to have open negotiation, the Dutch regime is thus based on rather ‘mathematical’ multi-criteria evaluation procedures. As the new Directive of Services came in to being early 2006 in 2004/18/EC, the legal possibilities for negotiation have grown, however, authorities did not make a great deal of use of that opportunity.

Another essential particularity of the Dutch regime is its financing. Differently to many other parts of Europe, Dutch municipalities and provinces hardly have any own taxation powers. As far as public transport is concerned, the financial means are composed of transfers from central government which, until recently, could be spent exclusively on public transport. A recent legal change allows them to re-allocate monies for passenger transport services and (smaller) infrastructure investments in transport sectors. This central financing of public transport subsidies lead to a CT practice focusing on maximizing supply and quality for the existing budget, contrary to the Scandinavian practice of minimizing costs for the level of services requested.

RESULTS

Official first evaluations

The introduction of CT in Dutch public transport was officially reviewed in studies commissioned by the Ministry of Transport (Hermans and Stoelinga, 2003). Until then, efficiency had indeed been improved, however growth of ridership could not be observed. Note that subsidy cuts imposed by central government during the same period blurred the

observations. A shortcoming of the studies conducted at that time, is that they probably came too early to study the most interesting cases of CT giving service design freedom to the operators. Those only came later to fruition.

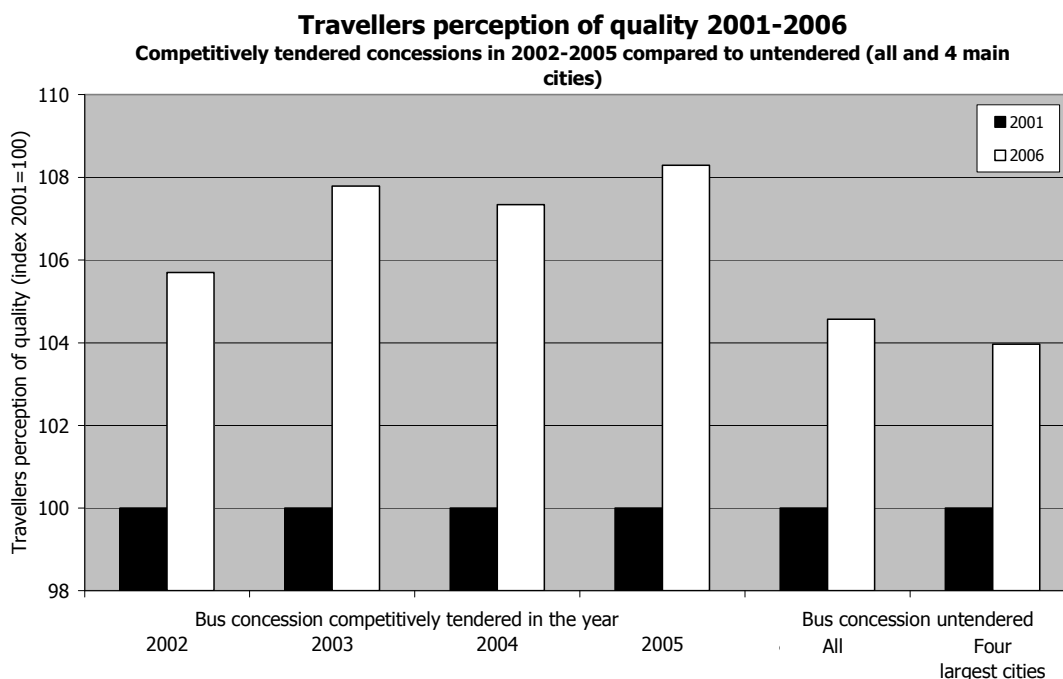
In the meantime most of Dutch public transport (excluding the core of the four largest agglomerations) has been submitted to CT or will be tendered in the next year or so. This has led to a large reshuffle on the side of the suppliers. The main former player (VSN, as national bus company) has sold off its northern area to Arriva and its southern area to Veolia. The remainder became to be known as Connexxion. This rather clear geographical division soon disappeared with the generalization of CT as all three main operators are currently active throughout the whole country. The large cities remain the exceptions, though. Differently from many other countries, small operators are not present (with the exception, however, of one rather small cases).

Further results

Since the official evaluation research of 2002 and 2003, a lot has happened. When looking the results of tendering in the Netherlands from a distance, the results are generally good. On the one hand the efficiency is improving further. We presented earlier examples (Van de Velde et al., 2007) of substantially growing numbers of bus-hours (30 to 60 percent) at lower budgets (5 to 10 percent) in the region around Amsterdam. The overall consensus from interviews with public transport authorities and operators is that the price per bus-hour has declined some 30 percent after the introduction of tendering. Interestingly, that price drop is not limited to tendered concession, but also occurred partly in those concessions that were not competitively tendered but were negotiated. Two mechanisms seem to have led to the lower prices in these negotiated concessions. First, transport authorities conducted informal benchmarking during their negotiations and used the tendered concession prices as leverage. Secondly, operators of concessions that were not yet tendered prepared for tendering, often with extensive reorganisations and rationalisations. As the market did cast its shadow, they became more efficient and were able to offer lower prices.

In addition, we see that the quality perception of passengers is improving. Yearly, the KpVV (a national platform for regional transport authorities) surveys more than 80000 passengers on the matter of quality of service throughout the Netherlands. Over the years from 2000 to 2006 quality perception has been rising, from an average 6.8 to an average 7.2 (see also Veeneman et al., 2007). It is important to note that the surveys from 2004 used a slightly different approach: from interviews to hand-out-and-return surveys.

The tendered concessions did slightly better than the non tendered concessions. Over the years the 60+ concessions (the number varies over the years) were put up for competitive tendering. The figure below gives an overview of how the quality perception in these various concession developed.



The figure shows that the rise in quality perception between 2001 and 2006 was largest for those concessions that were tendered out latest (in 2005): more than 8 percent rise. Also, for the earlier tendered out concessions the improvement was larger (more than 5 percent) than for those concessions not tendered out (just 4 percent). It is important to note that the concessions are not similar: the difference between CT concessions and non-tendered is not just the tendering. Of the respondents in the non-tendered concessions, the overwhelming percentage (more and more so in the later years) is located in the four largest urban areas of the Netherlands: Amsterdam, Rotterdam, The Hague and Utrecht. Their urban character could, next to the lack of tendering, be an important explanation for the lower scores in passenger perception on quality.

Interestingly, this overall perspective of success of CT is overshadowed by a few examples of iconic failure. Van de Velde et al. (2007) describe the case of the Province of Noord-Brabant. A first attempt to award the contract for the largest part of the province using CT failed due to dismissal by a judge based on unclear boundaries in the ToR for the financial part of the bid. The ToR stated there were upper and lower limits to the amount of subsidy asked by the operators, but did not make clear enough what the limits were.

The second attempt also failed, this time due to unclear awarding method. The awarding method included the price for additional work, but defined it in a way not used normally in the sector. As a result many bids were unrealistic with regards to additional work, whereas the chances of additional work grew as the provinces parliament proposed experimenting with free public transport. Finally, the winner was allowed to withdraw his bid and the runner up stepped in with only a few weeks before concession start. It proved a major problem to secure enough busses in time, with complaints by drivers and passengers as a result.

Additionally, the CT led to service levels far clearer described than before and the regional transport authorities (non-existent before CT) monitoring services levels diligently. As a result, the media regularly showed fines for sub-par service provisions, especially in the early stages of the concession. Media coverage for the successes of growing ridership in

specific concessions that were tendered and growing customer satisfaction was limited. The incidents simply had more news value than the overall development.

Indeed, the original goal of substantial growing ridership due to CT has not been met. In hindsight the goals on that part could be seen as overestimating the possible influence of an organisational form on the performance of public transport. However, it still is a valid critique on the success of CT in Dutch public transport. On the other hand improvements in service level, quality perception and sometimes ridership are there. And also it is far clearer what public money is spent on.

However, the failures have had an important two important effects.

First, in line with changing European regulation, tendering of urban public transport in the three largest cities (Amsterdam, Rotterdam and The Hague) was made no longer compulsory. In September 2007 the national parliament passed a motion that excluded the urban transport in these cities from the obligation to tender. Regional authorities are now re-evaluating whether or not to go forward with their tendering. A running tender in The Hague for the bus concession in the area was put on hold.

Second, the failures seem to influence transport authorities that still have to tender in their search for the right balance between government control and operator freedom (see for further analysis of this Van de Velde et al., 2007). They seem to tend towards more control as they see that as the best way to avoid further failures. Paradoxically, the main failure in the news, North-Brabant, is one of the authorities that opted for maximum control from the start.

On a macro level these can be seen as the main results of CT in the Netherlands. But, with the variety of tendering approaches it has become more and more clear that CT itself is hardly the reason for success or failure and a macro analysis does little justice to the variance in the research pool. CT is just a tool, a very powerful tool, which enables strong governmental control and gives strong incentive to operators. As the Netherlands has been a breeding ground for lessons about CT, we would like to formulate a few of those lessons. They are based on several research and consultancy projects conducted for the Dutch Knowledge Platform for Traffic and Transport (the knowledge exchange centre of for Regional Transport Authorities) and several regional transport authorities in the years 2005 through 2007.

THE MAIN LESSON: BALANCING ALTERNATIVES WITH THE POLICY GOALS IN THE CROSSHARE

The evaluation above gives an overview of the general effects that tendering has had in the Netherlands. However, the research subjects are far from a homogeneous group. The various authorities take different approaches and are more and less successful in time. There is no clear direction of a best practice yet to be distilled from all this. It is clear that some approaches have some advantages and others have other advantages. But there are lessons to be drawn from the 6 years of tendering public transport services.

Lesson 1: Who is designing the service: operator or authority?

A main issue in the Netherlands has been on the organisational choice of the tactical level: who is designing the services (see for an overview Van de Velde et al., 2007)? Obviously, public transport service provision is supported with public funding, based on a set of general goals (see also Veeneman and Van de Velde, 2006). As a result, one can expect governmental influence on the services. Generally, we see that in a basic service provision

where commercially that would not be viable. On other side, we also see support for higher service levels in peak hours, which are also relatively expensive to offer commercially. Other goals can be related to environmental performance of the sector or service provision to specific groups, relatively unable to provide mobility for the selves.

On the other hand the Dutch lawmaker thought is was a sound idea to allow the operator strong influence on the services. They obviously had more experience in developing the services. The idea was that they would have better market knowledge and would be more efficient in scheduling bus routes. Different from other European countries making the change to CT, Dutch transport authorities did not take over the service development departments from the existing monopolist operators. The law even excludes the possibility for transport authorities to develop the detailed schedules themselves.

The balance between the need to secure public policy goals on the one hand and capitalise on operator experience and expertise on the other is still a major issue in the Dutch public transport. This leads to different forms of CT with more or less control by the transport authority and more functional or more service oriented Terms of Reference (ToR).

We see various forms in the Netherlands, also with not a clear direction of development. Authorities see how the different extremes fail and seek new possibilities on the other side of the spectrum. On the one hand they are often disappointed about the innovation and ridership when they leave a lot of freedom to the operator. On the other hand they see monitoring and quality control problems when they take matters in their own hands, even with quality incentives in place.

A major lesson is that it is very important to deconstruct this question. The general question, who, operator or authority, should control service definition, has proven to be less fruitful. It is simply formulated far too general. The better question is: on what aspects of the service more governmental control is needed to reach policy goals. And on and on what aspects strong governmental control (so, design, monitoring and enforcement) can be detrimental to reach policy goals. The even better question has proven to be: how, on different aspects, the role of operator and authority should be set up. On most aspects of service design it can be useful to have input by both the operator and the authority. For example, environmentally friendly drive-trains are often only introduced in CT when the authority explicitly demands them. However, in terms of maintenance some are easier and cheaper to maintain than other, which can be best assessed by the operator. So, if we the most efficient environmental improvement can only be reached by input of both operator and authority. Another example is bus circulation. Efficient bus circulation is best planned by the operator; obviously the authority can set service specifications, from general service standards to line-and-frequency specifications. Main challenge is to formulate specifications in the ToR in a way that the authority gets the positive effects it seeks from public transport and the operator has room to optimise the services for low costs and high income.

Lesson 2: Alignment of interest between authority and operator: incentives or directives?

Low costs and high income are important drivers for the operator. Partly these drivers are aligned with the interests of the authority. Firstly, efficient operation leads to lower costs for the operator which in turn means lower subsidies by the authorities and consequently less tax expenditure or higher service levels. Secondly, high income for the operator will incorporate higher ridership and an attractive service that justify a higher price. Most

policy goals that authorities have set for public transport depend on high ridership, which in turn depends on an attractive service.

However, an important challenge for the authorities is to align the interest not in general, but make sure that they are aligned in detail. For example, the optimal cost-income ratio for the operator might incorporate less services or a higher price level, which both are generally not seen as desirable by the authority. Or the operator might seek costs reducing that harm the quality perception of the services while not harming ridership and the willingness to pay; for authorities a weakening of the image might again be unacceptable.

In those cases, the authority can choose two paths: that of tuning the incentive or taking control. We see examples of both: authorities rewarding ridership growth with a premium, making sure that operators also seek more passengers. Another example is that authorities choosing to set prices themselves, restricting rent seeking behaviour by the operator.

So partly, interest of operator and authority are aligned, which can be a basis for tuning the incentives for the operator to make sure they align better to the policy goals of the authority or for taking control. For another part the interests of the operator and the authority are not aligned at all. For example, authorities often want environmentally friendly busses. Ensuring a basic service level in low-demand areas and periods can be a policy goal of the authority. However, these types of services offer little return to the operator, making them unattractive to offer. On the other side of the spectrum, a great deal of additional services in the peak hours offers extra income, but cost-levels are also very high for services that can only be offered two hours in the morning and two hours in the evening. Partly the costs of vehicles and drivers can not be limited to those few hours: most drivers can not be hired for just the peak hours and busses also depreciate when they are in the garage. So, for those aspects the authority has to have a far stronger say in the final design.

Lesson 3: What relation is the authority aiming for: control or cooperation?

As said, the authorities have to choose between intelligent incentives and stricter control. The incentives should align the operators' interest better with that of the authority and form a basis for cooperation: operator and authority together proposing, selecting and implementing improvements to the services offered. Getting the incentives right is not easy as it is never exactly clear how the various operators will react to the incentives. That has several reasons. First, it is the specific reaction that matters, not the general idea. Earlier examples showed how the specific interpretation by the operator can be out of step with the intentions of the authority. Second, the context under which the operator is working might change, leading to changing reactions to incentives. For example, a changing economic climate might lead to lower ridership. As incentives can be based on ridership, this might influence a carefully chosen balance between various incentives. Thirdly, the context for the authority can also change, with changing political priorities leading to a mismatch of governmental goals and implemented incentive system.

Obviously, the alternative is more governmental control: the government executing the detailed design, including an extensive system of monitoring and enforcement. That has also proven to be far from robust. Problems occur in all three steps.

First, there are aspects of the service provision the operator simply can design better. Efficient bus circulation is not close to the key expertise of the transport authority, more so of the Dutch transport authorities, who have no basis in an operator. But also for efficient quality delivery, delivering the service in a way that passenger feel of quality in an

efficient way, the operator is far better equipped. Second, monitoring proves to be problematic service characteristics promised by the operator. Selecting and formulating performance indicators that can be easily monitored with uncontested outcomes is not easy. For technical performance indicators like punctuality extensive monitoring systems are available, but many authorities choose indicators that are less easy to monitor. Third, enforcement can be problematic. For example, many operators might reckon in possible fines, designed to change their behaviour. Then the desired effect on service provision is non-existent. Another is that the indicators for monitoring and enforcement have to be uncontested, more so than for incentive systems. A heavy fine proves to be an easier source for conflict than a nice premium.

As is obvious from the above, both an incentive based model as a control based model have problems. In both cases the detailed choices of the operator might get unaligned with those of the authority. An alternative way of looking at it is that incentives systems and control systems are just the general scenery for the cooperation between authority and operator. It is the cooperation that matters to allow both the interest of the operator and of the authority to be reflected in the service provision. The incentive systems and control systems are just the instruments of the authority to get the interest of the operator, as the (temporary) monopolistic situation of the concession might otherwise tempt the operator to loose interest in the wishes of the authority. That is a first important lesson.

A second lesson is that a general choice for control or incentive can not be made. Some aspects of service provision are quite suitable for a strict control system, one could think of a monitoring and enforcement system for punctuality. We have seen examples of that in the Netherlands, for example in Twente. Others aspects might more be a candidate for incentive systems, like passenger growth, of which we again see many in Dutch contracts.

But not just the contract is setting up the relation between authority and operator in the direction of cooperation or control, also we see different forms of how to organise the relation between operator and authority. We see authorities setting up a specific organisation designing the services and monitoring the operators, like in Groningen. A second model is found in Noord-Brabant, where the authority is aiming to have third parties develop the services for them, which they then in turn can demand from the operator. A third model is found in Zuid-Holland, where operator and authority have brought staff together to develop the services together. A fourth model is found in Overijssel, where authority and operator negotiate changes on a case-by-case basis, but have developed a detailed framework how to deal with disagreement.

The balance in these models in terms of flexibility seems to be around swift decision-making, easier in the authority controlled models, and decisions that are all about more passengers and lower costs, easier in operator incentivised models. Always changes in the services by the authority have effects on cost and revenue streams, which immediately affect the baseline of the operator, especially with net-cost or revenue-suppletion contracts. So, there should be always a role for the operator. However, the authorities pay substantial subsidies for public transport, not just for more passengers, but for several reasons. Reasons that might change over time, due to a changing political colour in the region. So, there should always be an important role for the authority, for example when the operator might want to change the services. The cooperation is unavoidable, although it can be organised in various ways. Models that tend to put too much power make for simpler changes, but less well balanced choices. The best way seem those models in which authority and operator to speed up their common decision-making processes, like the models 3 and 4 mentioned above.

Lesson 4: Do we cover all bases: too little of too much?

An important question for authorities, often coming up in the later stages of writing the ToR, is: have we covered all bases? And as that question comes up, many aspects are brought in with their own control or incentive systems. To the authority this gives the impression that they are pointing the operator in the right direction on all these different aspects. However, from an operator perspective a ToR with a barrage of pointers does provide little direction. That has two reasons.

First, the influence of each added incentive reduces the effectiveness of existing. When the operator is in the complex task of planning its services for the bid, such a diffuse barrage of incentives has a hard time giving direction. Opting for more control also is problematic as the costs for extensive monitoring also will grow dramatically. Second, during the concession period in the real world of driving busses all these various incentives will create complex trade-offs. A bus driver working under a contract with incentives based on punctuality and quality perception will have to make a professional judgement to wait for a running passenger or not. In such a situation a wide set of incentives is simply too diffuse to have an influence, a single excessively strong incentive will harm the other value: with strong incentives for punctuality he will always choose to drive away, harming passenger satisfaction, and vice versa.

An important lesson is that moderation in incentives and control is a good idea, mostly to counterbalance the natural tendency of the authority to design an incentive or control system for every aspect. An alternative is to opt for clear but broad incentives. An example is that of general customer satisfaction or ridership growth. Or even to opt for net-contracts, in which the operator receives the fare-box revenue. These three provide clear incentives to the operator to care for its customers, which is a robust critical success factor for a lot of different policy goals. Obviously, for those policy goals that are not supported by that incentive, other systems have to be in place, probably with more extensive incentive or control systems.

Lesson 5: Where to put the incentives: in awarding system or in the contract?

CT can give strong incentives that are intended to align the interest of the operator with those of the authority. The incentives have two habitats: the awarding model in the ToR and the contract. In a CT the contract is awarded on the basis of an awarding model, included in the ToR. The awarding model is used to award points to the various offers and in the end the offer with the best score will win the contract. As such, the awarding model is the first place to focus the operator on the goals of the authority.

The incentive structure of the awarding model is binary and extreme: operators either win or lose the contract. Consequently, operators feel a pressure to prepare their bids as attractive as possible and as such underemphasise future uncertainties that could thwart future service provision and they overemphasise their ability to deliver. This holds two major lessons for the authority: First, every element of the awarding model needs a strong penalty for underdelivering, to balance the tendency to overbid that every awarding model holds. That penalty has to be larger than the gains of underdelivering, but it has to be in the order of magnitude of those gains. Second, qualitative judgement, for example by a team of experts, is an attractive element of an awarding system to diminish the possibilities to strategically bid, simply to win the contract. Such a qualitative judgement should include the feasibility of the service promised in the bid. This forces the bidding operators to include feasibility into their bidding considerations and as such come up with a more

realistic bid. Such qualitative judgement could focus on an implementation plan or the services defined.

The incentive structure during the concession period is far less binary. The incentives in the contract should focus the operator more on the authority's needs for the time of the concession. The incentives come in two forms:

- Penalties (several times possible gains to the operator when not delivering) on not delivering on imperative demands (like those in the awarding model) and
- Premiums (based on the willingness to pay by the authority) on delivering on optional demands.

The second type has an economic advantage: it relates the authority's willingness to pay, for example for environmentally friendly busses, with the economic reality of the operator: the additional costs of the environmentally friendly busses. The authority is making a balanced choice: it has to make a decision on what clean busses are worth. The second type has a political disadvantage: politicians want to be able to ensure specific service aspects, often without regard of the costs. CT allows them to hide the costs of the various service aspects demanded by the authority in an overall price per bus-hour or bus-kilometre. Obviously, the costs of their demands will eventually be reflected in the overall price and, given a limited budget in other parts of the service level.

The main difference between penalties and premiums is the way in which the financials are organised. When the authority wants to force a specific service aspect, not delivering will result in a penalty for the operator far larger than the possible gains of not delivering. When the authority wants to incentivise not delivering will result in the operator forfeiting a bonus as large as what the authority is willing to pay for that aspect.

The main lessons are that incentives given in the awarding model should include qualitative judgements, including feasibility of the offer. In addition, the service aspects judged in the awarding model should be accompanied by a penalty system for not delivering during the concession period. Second, it is good government to include premiums on various aspects that the operator can optionally deliver on and that could support government goals. They should not be a substantial part of the awarding model, as that would trigger overbidding on these aspects.

Obviously, the above holds mainly for concessions in which a large part of the service aspects are developed by the operator as part of the bid. When the bid purely is a price for bus-hours or bus-kilometres with detailed service descriptions this is less problematic. However, tendering solely on price has shown to give problems in quality assurance, as all incentives are focused on low price.

Lesson 6: How to pay the operator: net or gross-cost contracts?

In the Netherlands we see a variety of contracts. On the one hand of the spectrum, we have seen gross-cost contracts in Noord-Brabant en Groningen. In these cases the authority is only paying a subsidy to the operator as remuneration for offered capacity. The authority is deciding how to use that capacity, consistent with approaches in for example Copenhagen and London. Most contracts in the Netherlands though would have to be regarded as net-cost contracts, with fare-box revenues going to the operator. We see that in also Germany. However, more recently the authority of the Amsterdam area introduced a contract under which the subsidy being awarded to the operator based on the ridership, so a form of

revenue-suppletion contract, rather than a cost-based contract. That is in line with the situation in the Netherlands prior to the introduction of CT.

We see advantages of all three approaches. The gross-cost contracts, in combination with service development by the authority, allow for flexible planning of services. Disadvantage is that it is harder to let the operator plan bus circulation efficiently, as most of the service is already fixed by the authority design. In addition, this form of contract needs clear quality incentives, based on either passenger quality perception or ridership (bringing it closer to net-cost contracts).

The net-cost contracts already carry that quality incentive in them, focussing the operator on the quality experience of the passenger, although that not always may be the same as the quality experience of the authority. Flexibility in the concession is more complex under this contract. Changes in the services have immediate consequences for the income from the fare-box. It requires clear agreement on how to deal with wishes to change the services from both the authority and the operator, including the financial ramifications. An important aspect is for the authority to secure those services that are not cost-effectiveness for the operator. That can be done by focusing the subsidy on specific services, for example services in low-density areas or additional services in the peak-hours. Otherwise the authority has to be aware of the limited incentive offered by the fare-box when a substantial part of the income is lump-sum subsidy. The higher the amount generated by subsidies, the lesser the incentive to actively attract passengers.

Finally, the revenue-suppletion contract makes it even harder to induce authority driven service aspects. We see none of these as a panacea. The latter two are strong because of their policy robust focus of the operator on the passenger. They are weaker in securing other policy goals, especially as they might change during the concession period. They both need very clear framework for introducing authority driven changes in the services. The former is stronger in securing (changing) authority demands on the services. But a gross-cost contract needs both a process to include operator induced optimisation (for example in bus-circulation) in service definition as well as quality incentives to mitigate its weaknesses. None of the three is a panacea, but what the favourite is will very much depend on the situation. For example, a transport authority that has inherited planning capability can choose easier for a gross-cost contract, than an authority with limited capacities in that respect.

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