

## DEVELOPING 'TRUSTING PARTNERSHIPS' BETWEEN PURCHASERS AND PROVIDERS

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### I PUBLIC TRANSPORT: FROM COST TO SERVICE QUALITY

Public private partnerships ('PPPs') are often associated with major infrastructure initiatives, such as tollways, but there is no necessary limitation on such relationships to the infrastructure field. The provision of public transport services by the private sector, on contract to government, provides the subject matter of this paper.

Over the past decade or so, the major international policy focus in public transport service provision has progressively switched from reducing the strain of services on the public purse to delivering higher quality services. In part, this change in emphasis is due to the emerging evidence that major public transport cost savings can usually only be achieved once, such as when that service changes from being publicly to privately provided.<sup>1</sup>

More fundamentally, the driving force behind change is the growing policy focus now given to developing more sustainable land transport systems to deal with growing problems such as:

- worsening road traffic congestion;
- environmental impacts of traffic;
- traffic accidents;
- obesity associated with lower levels of physical mobility; and
- social exclusion experienced by some people in highly car dependent communities.

Developing more sustainable land transport systems involves, inter alia, increasing the relative public transport share of personal travel. This depends on

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1 Ian Wallis and David A Hensher, 'Competitive Tendering for Urban Bus Services – Cost Impacts: International Experience and Issues' in Rosário Macário, José Viegas and David A Hensher (eds), *Competition and Ownership in Land Passenger Transport* (forthcoming, 2006) 453–88.

improved service quality (for example, more frequent services, more reliable service, better connectivity, improved marketing information).

## II THE 'STO' APPROACH

One central element in the process of seeking improved public transport service quality has been a close examination of the way in which public transport strategies, plans and service delivery are integrated.

Macário identifies three levels in the configuration of an urban public transport system. The strategic level (S) requires the specification of government policy or outcome goals for public transport.<sup>2</sup> The tactical level (T) involves the design of the transport system, including the roles to be performed by the respective parties and the boundaries to be drawn between the roles of the government purchaser and the private service provider. The operational level (O) deals with the production and consumption of transport services. Decisions made at this level should follow from decisions and specifications from the strategic and tactical levels. Contracts relate to the operational level but should reflect decisions taken at the strategic and tactical levels.

In terms of role allocation, the strategic level is universally a governmental task. The operational level can be performed by either the public or private sectors but is becoming increasingly private. Tactical level roles have traditionally been performed by the public sector, but there are growing examples of public-private cooperation at this system-design level. With private sector service providers possessing a reservoir of knowledge that is relevant to the system-design task (in a private delivery model), there is growing interest in PPPs at the tactical level undertaking work that sets the framework for detailed service delivery contracts.

If the separate skills of purchaser and provider can be harnessed on system-design matters in the pursuit of shared outcome goals, a superior outcome is likely to result, compared to the alternative situation, where the parties keep at arm's length and operate in a purely commercial manner at the operational level (contract driven). This partnership idea is consistent with developments in many other fields, such as Supply Chain Management.<sup>3</sup>

Victoria is a leader in this emerging relationship-based field in public transport, drawing on its experience with rail franchising and refranchising, and with its bus planning and contracting work.

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2 Rosário Macário, 'Managing and Assessing Regulatory Evaluation in Local Public Transport Operations in Europe' (Paper presented at the 7<sup>th</sup> International Conference on Competition and Ownership of Land Passenger Transport, Molde, Norway, 25–8 June 2001).

3 See, eg, John T Mentzer, *Fundamentals of Supply Chain Management: Twelve Drivers of Competitive Advantage* (2004). See also Jakki Mohr and Robert Spekman, 'Characteristics of Partnership Success: Partnership Attributes, Communication Behaviour and Conflict Resolution Techniques' (1994) 15 *Strategic Management Journal* 135–52. See also Chester E Riddalls et al, 'Quantifying the Effects of Trust in Supply Chains During Promotional Periods' (2002) 5 *International Journal of Logistics: Research and Applications* 257.

### III TACTICAL LEVEL TRUSTING PARTNERSHIPS

#### A Key Requirements for Purchaser-Provider Partnering

Key requirements for purchaser-provider partnering include:<sup>4</sup>

- *common objectives tied to public policy purposes* – the purchaser and provider need not necessarily share all the same objectives, but public policy purposes being pursued by service provision must be shared and the legitimacy of partners' other objectives respected;
- *agreed governance arrangements* that encompass matters such as the relative roles and responsibilities of each party, risk sharing arrangements and remuneration arrangements, including incentives;
- *trust* that is based on a number of factors, including selection of the right partners, confidence in a partner's capacity to deliver, demonstrated good faith and accountability/transparency.

Building on requirements at the tactical level, Duncan emphasises the importance of contractual agreements at the operational level that allow for flexibility and adjustment.<sup>5</sup> He underlines the critical role that the pre-contractual environment and principled behaviour by the partners can play in the forging of sustainable and effective tactical level partnering relationships, which can flow through to relationship management at the operational level.

Guiding principles are needed in relation to ongoing relationship/contractual arrangements, covering matters such as:

- the terms of, and the process for, conducting a tender (if there is to be a tender);
- adjustment of public policy – which recognises that public policy may need to change over time and that a contractual environment should be flexible enough to accommodate such changes, in accordance with agreed procedure;
- commercial and financial arrangements;
- risk allocation and sharing;
- relationship management;
- shared governance – Duncan argues that shared governance is about sharing responsibility for the management of the relationship based on common principles, not about one party seeking to manage the other;<sup>6</sup> and

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4 John Stanley, 'Workshop B Report: Creating and Maintaining Trusting Partnerships' in Rosário Macário, José Viegas and David A Hensher (eds), *Competition and Ownership in Land Passenger Transport* (forthcoming, 2006) 423–37.

5 Kerry Duncan, 'Tactical Level Partnerships: Legal Perspectives and Challenges' in Rosário Macário, José Viegas and David A Hensher (eds), *Competition and Ownership in Land Passenger Transport* (forthcoming, 2006) 437–52.

6 *Ibid.*

- principled behaviour – the parties should always act in accord with agreed principles in a code of conduct, many of which have been summarised above.

## **B Incentives**

This discussion raises questions about the length of the contract, conditions likely to support openness and the sharing of ideas, information etc. From a public transport operator's perspective, the key driver is the certainty, or otherwise, that the value contributed to, and received from, the relationship will be sustainable over time. The longer the life of a service delivery contract, the greater the likelihood a private sector partner will wholeheartedly engage with the relationship. The concept of contract rollover for service providers who meet agreed criteria will encourage private engagement.

Short-term contracts, where competitive tendering at contract expiration is automatic, are unlikely to encourage service providers to be open with ideas and information, since competitors would stand to benefit from such openness.

## **IV A CHALLENGE FOR AUTHORITIES?**

Transport authorities are typically required to procure passenger transport services in a formal, constrained way because of influences such as public procurement rules (which prescribe purchasing practices) and economic thinking which insists that the market must be open.

Where private service delivery is involved, it is expected that there will be benefits in terms of cost-efficiency, quality, innovation etc. However, very little attention is paid in this process to the methods used by the private sector when it is in the role of the client. When a major private firm looks for a supplier for a major innovative contract, it is likely to:

- take time to understand what it needs and who can supply it;
- invite discussions with potential suppliers;
- spend a lot of time on a selection process that they control;
- invite only a small number of bidders, if they use bidding at all;
- negotiate;
- make sure that the job is well understood (for example, concept, output, development and deployment);
- establish a cooperative partnership to get ownership of the product, not just delivery;
- ensure that there is a strong project monitoring and measurement system with excellent intervention and corrective mechanisms;
- use the bonus/penalty system to make sure the supplier never loses focus;
- assign successful delivery to a senior internal manager, whose career path is directly dependent on the results;

- integrate the product/services into their business; and
- continue to work with good suppliers.

This is different to the usual practice of public sector procurement, where emphasis on probity of process frequently appears to dominate focus on achievement of valued policy/program/project outcomes, but it has many similarities to the innovative approach being implemented in Victorian public transport at present. The Victorian approach is maintaining a rigorous probity focus while ensuring that valued outcomes are the key driver of contract negotiations.

## V THE VICTORIAN PARTNERSHIP APPROACH IN PUBLIC TRANSPORT

Lessons from the initial failed experiment in Victorian rail franchising have had a significant impact on more recent public transport system thinking in Melbourne. Rather than go to the market for a fresh round of tenders, the State Government chose to negotiate with the remaining train and tram operators about taking over the complete train and tram networks respectively. This was largely premised on retaining existing system knowledge and experience, and maintaining system stability, possibly reinforced by concerns about a possible shortage of willing bidders. The negotiation process that underpins the new rail contracts, and the subsequent operational environment, have emphasised the importance of partnership.

The tactical level in Melbourne's current public transport system is probably most clearly set out in arrangements that govern the new rail franchise agreements and in the Victorian Government's *Meeting Our Transport Challenges* statement, which sets out a 10 year system development plan.<sup>7</sup>

The new franchise arrangements include the following, by way of example:

- the primary objective is to get the basics right – provide a high quality, stable public transport system that encourages innovation, achieves integration across modes and delivers excellent customer service;
- output objectives are set by the State and requirements are established on some key service parameters (for example, staffing in the areas of revenue protection and customer service);
- an agreed basis for sharing risks between government and the franchisees has been implemented;
- the multi-modal ticketing system is retained to emphasise services operating as a system;
- revenues are shared between service providers in fixed proportions to encourage working together to grow system patronage and revenue;

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<sup>7</sup> Department of Infrastructure (Victoria), *Meeting Our Transport Challenges: Connecting Victorian Communities* (2006) <<http://www.doi.vic.gov.au/DOI/Internet/planningprojects.nsf/AllDocs/D3D0D6B6C599955ACA257169001A4DF9?OpenDocument>> at 13 October 2006.

- a new operator-owned company (Metlink) has been established to work with government in handling system-wide issues such as marketing, revenue protection, complaint handling and system advocacy; and
- provision is made for franchisees to contribute to development of long-term strategic plans and major projects.

This process has continued through to negotiations for the next set of metropolitan route bus contracts. The Victorian bus industry, through its industry association, was closely involved in developing tactical level system improvement priorities, working closely with the responsible State Department of Infrastructure. The bus improvement program subsequently implemented through the 2006 Victorian State Budget and the *Meeting Our Transport Challenges* statement has established some conditions to be met in bus service delivery contracts.

The partnership that has existed through developing system improvement priorities is flowing through to the negotiation of the related service delivery contracts and will be important in the service delivery stage under those contracts. Performance-based contracts will be implemented, reflecting the State Government's strategic goals for the system and key tactical level priorities (for example, related to service reliability). Key performance indicators will be one part of an important accountability and transparency regime and will also form part of the relationship management process.

## VI CONCLUSION

Victoria's public transport service delivery experience suggests that trusting partnerships between the government purchaser and private sector provider can assist in tactical level system development, providing a foundation for subsequent service delivery improvement, closely integrated with government policy goals from service delivery. Close attention has been paid to the requirements for sustainable trusting partnerships and every effort is being devoted to reflecting these requirements in the relationships between purchaser and provider. Accountability and transparency provisions form an important ingredient in this process to protect the public interest against the risk of regulatory capture.