



Draft Submission to the Review Group on State Assets and Liabilities

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1. Introduction

Further to the setting up of the The Review Group on Assets and Liabilities by the Minister for Finance, Transdev is pleased to provide a preliminary response to the review process. As a leading operator of public transport services in Europe, we firmly believe that the private sector has an essential role in the future provision of mobility services for the Irish Republic.

Our operating experience shows that the privatisation and deregulation of public transport markets can deliver a number of clear benefits to passengers and to public authorities.

- A customer led approach. By taking the revenue risk the operator is incentivised to take a more market focused approach.
- Greater innovation to grow demand and reduce unit cost.
- Improved operational performance
- Decreased operational costs, improved productivity
- Emphasis on giving customers value for money, choice and good services. Failure to do so results in loss of passengers and revenue.
- Reduced requirement for public sector subsidy.

We have briefly outlined several possible models that could be considered as part of the review process below. The ultimate approach, however, must deliver the objectives the Irish State wants to achieve through any restructuring. We believe a more detailed understanding of the Irish State's goals is essential before an appropriate recommendation can be made.

We would be pleased to engage with the Review Group to explore the restructuring options in more detail. Working in partnership with public authorities is a key part of Transdev's approach to mobility services provision, and our award winning partnerships with local authorities in France demonstrate this. We believe a strong partnership between authority and operator be that a formal or informal relationship, is essential in delivering first class public transport services.

2. Bus

2.1 Options for reform

A number of models could be considered:-

- Free market approach
- Contracted route approach
- Franchised area approach

- “Mixed economy” model

2.2 Free market model

Structure

- Routes are left entirely to free market competition
- Public authorities can supplement commercial routes by subsidising additional services they feel are justified by social concerns but these services would have to be secured through competitive tenders.
- There might still be some forms of subsidy such as compensation for concessionary fare paying passengers
- A regulator is in place to ensure,
 - that the vehicles used are safe,
 - that drivers are qualified and safe,
 - that bus companies actually operate the advertised routes and timetables,
 - that there is intervention in the case of predatory or anticompetitive behaviour.

Advantages

- Operators have the incentive and the ability to improve operational performance through improved routing, scheduling, vehicle design, maintenance, productivity.
- By taking the revenue risk, the operator is incentivised to take a customer led approach. This encourages greater innovative and a more market focused approach to attracting passengers and serving their needs
- Likely to produce the greatest competition between operators over individual routes
- If subsidy is used, for example for free or discounted tickets for specific social groups, it can be precisely targeted

Disadvantages

- The degree of state control is low.
- Although the state can still specify routes it can only do so where there is no commercial justification for the route or where no operator is prepared to operate it on a commercial basis.
- There is a possibility of dominant or monopoly suppliers emerging and must therefore be effectively managed.

2.3 Contracted Route approach

Structure

The transport authority for all transport in the city/region retains responsibility for:

- the fare box risk
- setting of fares
- network and route planning
- provision of on-street infrastructure
- ticketing specification and fare structure
- specification and letting of operational contracts
- on street infrastructure

Advantages

- The Authority has a great deal of control over the planning of the transport system and therefore the bus network can be more easily integrated with other modes of transport and used to support long term strategic goals
- As the Public Authority is taking fare box risk it is simple to implement network fare pricing and integrated network ticketing
- The competition to secure operating contracts will be focused on the reduction of operating costs against a defined service offering which can lead to competitive and economic pricing for contracts.
- Operating contracts could be let for a comparatively short time allowing an underperforming contractor to be removed relatively quickly and painlessly

Disadvantages

- The Public Authority takes the fare box risk.
- Managing the network and the process of letting the contracts is not cheap or simple and will in itself represent a significant cost to the Public Authority
- Unless appropriately incentivised through a bonus/penalty regime, with no fare box risk, and heavily monitored, the operator will be cost rather than passenger focused and may be inclined to “cut corners” in terms of the passenger offering.

This is the model adopted by Transport for London.

2.4 Franchised Area Structure

Structure

The Public Authority retains ownership of the depot infrastructure and vehicles, franchising the operation and maintenance of the vehicles and depots to private sector operators for a period of time along with the routes associated with that depot. It is also possible to include the supply and / or the maintenance of the street infrastructure with the contracts let under this model.

Advantages

- Authority has a greater deal of control over the planning of the transport system and therefore the bus network can be more easily integrated with other modes of transport and used to support long term strategic goals.
- Competition is focused on operating cost against a defined service level which should ensure competitive and economic pricing.
- As the Public Authority is taking fare box risk it can implement network and integrated ticketing
- Operating contracts could be let for a comparatively short time allowing an underperforming contractor to be removed relatively painlessly

Disadvantages

- The Public Authority takes the fare box risk.

- Managing the network and the process of letting the contracts is not cheap or simple and will in itself represent a measurable cost to the public authority
- Custody and operation of significant public assets by the contractors can be involved if this structure is adopted, and steps need to be taken to ensure that the asset is returned in satisfactory condition
- There is no instant capital benefit for the State under this model as no assets actually transfer to the private sector. The benefit is in a reduced operating subsidy or the creation of an operating surplus which may take some time to manifest itself. Indeed initially the costs of setting up a franchised system may outweigh the savings achievable

2.5 Society Mixed model

The society mixed or mixed economy model is widely used in differing forms in continental Europe, especially in France and Italy. It seeks to combine the efficiencies of private sector operators with the public service interests of the Public Authority in a coordinated and cooperative environment. Transdev has extensive experience of this approach in France and it has proven to be very successful for both the public authorities and for Transdev.

Structure

The precise nature of the Society can differ to suit local requirements, but in all instances the Public Authority will put either all public transport in an area or a substantial subset of it, for example bus operations, up for tender. The winning tenderer will then establish a company to undertake the services in partnership with the Public Authority with both the Public Authority and the private sector operator as shareholders and with Directors appropriate to their shareholding.

As with the franchise model, the assets and the infrastructure remain the property of the Public Authority and the workforce will transfer to a new operator if/when the contract is re-tendered typically every 5 to 10 years, and the contract passes to a new operator.

Advantages

- The Society Mixed model allows significant influence from the Public Authority to achieve its goals, both through the terms of the original tender and through its Directors of the Society, whilst leveraging the experience and discipline of the private sector
- The structure compels the contractor and Public Authority to work together and ensures an understanding of the challenges and problems faced by each in the execution of their respective tasks
- The competitive tendering to the private sector of the operating contract ensures value for money for the public authority
- The Public sector has close oversight of the operation and of its assets in its 'inside' role and presence on the Operating Company's board
- Planning and integration of all modes is simplified as all assets remain within the ownership of the Public Authority

Disadvantages

- The role of the private sector is limited by the Public Authority involvement and influence on the Operator's Board may not lead to the most efficient solution or lowest cost of operation which is potentially available
- There is a danger that the closeness of operator and client may lead to 'client capture' causing the client to fail to manage the contracts as aggressively, efficiently, or proactively as it should in the public interest

3. Rail

3.1 Options for reform

Several options could be considered:-

- Sale or flotation of Iarnrod Éireann
- Establishing an Infrastructure Company or Authority
- Division of Iarnrod Éireann based on geography or on business sectors

3.2 Sale or floatation of Iarnród Éireann

Structure

This would maintain railway operations as one railway and one company, either as a single entity or as a holding company and series of operating and asset owning subsidiaries. This could be achieved by either selling the business as it is, or creating a single holding company and series of operating and asset owning subsidiaries and then selling them in one transaction to a new owner.

Advantages

- Maintains a single vertically integrated structure with infrastructure and operations within the same organisation reducing the chance of difficulties occurring at the interface between infrastructure and operations

Disadvantages

- The requirement to continue to subsidise the railways for the foreseeable future may be politically unpalatable if it is paid to a private "for profit" company
- Investors may be reluctant to enter a business financially dependent on the willingness of Government to continue to pay subsidies.
- The ongoing subsidies and the likelihood that Government will wish to reduce them if operating cost savings are achieved, provides little long term incentive for the new owner of the assets to reduce costs
- Implementation of the EU First Railway Package Directives while not impossible will be more difficult to achieve than for other structures considered below

- As the assets are owned outright by a single company it is likely to prove more difficult to remove a poorly performing company which is damaging the public interest without further radical reform

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3.3 Establishing an Infrastructure Company or Authority

Structure

Creation of an Infrastructure Company that would own and maintain the fixed assets of the railway with separate private sector companies operating the services under franchise. A mechanism for regulation would be required to control/approve access to the rail network, ensure any domestic competition law is adhered to, and to enforce appropriate safety standards.

Advantages

- Openly tendered franchise competitions provide a strong and regular focus for franchisees to produce cost effective solutions and can create an environment for new operators to enter the market, and meets the requirements of European Union legislation.
- Produces greater clarity for the Government on the efficiency of the businesses, where profit and losses are being made, and how any subsidies are being deployed
- Government can still define the service requirements in the public interest

Disadvantages

- Separates the infrastructure and operations into separate business potentially creating an interface where none existed previously and potentially higher management and administration costs as a result.
- Insufficient franchise length can create a disincentive for the operator to invest.

3.4 Division of Iarnród Éireann into parts based on geography or business sectors

Structure

- This structure would seek to produce vertically integrated railways based on regional areas or business sectors with a single integrated railway in each. Train operators have access to each other's area via track access agreements which would require the formation of a strong regulator to enforce.

Advantages

- Maintains a single vertically integrated structure with infrastructure and operations within the same organisation
- It is possible to sell or franchise some areas or groups of lines whilst maintaining others within the public sector producing an effective comparator between the privately managed and state managed operations. This can in turn be used to drive down costs in the state operator

Disadvantages

- It will be difficult to implement the European Union directives without substantial and effectively implemented regulation
- The companies created may not have the critical mass to operate efficiently
- Operators of the infrastructure may prioritise their own traffic and may be reluctant to allow third parties to operate of “their” infrastructure.

4. Transdev

About Transdev

Transdev is one of the largest public transport operators in Europe with a reputation for delivering high quality local public transport in partnership with public sector authorities.

Transdev is active in a wide variety of regulatory and commercial environments with operating subsidiaries across Europe, in Australia and Canada where we deliver all aspects of public transport provision from the organisation and management of major projects, to the development of passenger services and the operation of networks.

Every year, 2 billion passengers’ travel on Transdev’s tram, metro, train, transport on demand, bus and coach networks.

We have experience of successfully operating in public, “society mixed/mixed economy”, and commercial environments. In the UK, where the transfer of transport services from the public to private sector has been very extensive, Transdev has successful operations in the regulated market (London), and in the deregulated market through its award winning networks in Yorkshire, Lancashire and Bournemouth.

Transdev is in the process of obtaining regulatory approval for a merger with Veolia Transport which will create a world leading operator of sustainable mobility and passenger transportation with pro forma turnover of €8.1 billion and a combined workforce in the region of 117,000.

Transdev in Ireland

Transdev has had a presence in Ireland for some years and is presently a partner in a joint venture with RATP, the Paris public transport operator, which is bidding to commission and operate Metro North, currently the State’s most significant infrastructure project.

5. Contacts

For further information please contact:

Julia Thomas
Transdev
Grand Canal House
Grand Canal Street Upper
Dublin 4
Ireland

Email: julia.thomas@transdevplc.co.uk
Telephone: +44 (0) 20 8600 5650