practical bus franchising
the Jersey model

working with our partners

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acknowledgements

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introduction

The forthcoming Buses Bill is likely to introduce a range of new powers for Local Authorities to re-order how bus services are delivered in their communities. For those that choose to use these powers to their fullest extent and apply a franchised model, it will represent the most dramatic shift in how bus services are delivered since deregulation in 1985.

As a consequence, Local Authorities have already begun the process of weighing up these new powers, assessing both their desirability and their practicality. Will franchising allow them to grow ridership? How will the ability of operators to innovate be maintained? Will operators even compete for franchises? Will authorities need to develop ‘TfL-style’ teams to manage franchises? Will the costs of franchising outweigh the benefits? These are all legitimate concerns and the Authorities that we speak to are exploring them with due seriousness.

the challenge

With the exception of London and the TfL franchising system, there are few places in the UK for Authorities to look for direct examples of good practice. Whilst the TfL model has many advantages, the fact that it is unique in the UK makes it significantly more challenging for Authorities to gain the evidence they need to make informed decisions on the most appropriate course to chart.

In addition, whilst some Authorities may consider the TfL system appropriate for their needs, for others it may prove too expensive or too difficult with their current levels of in-house expertise.

a new example

Jersey is the largest of the Channel Islands and a Crown Dependency, free to order its bus service as it sees fit. Jersey first regulated its bus service in 2002, so their Department for Infrastructure has close to 15 years’ experience – both good and not so good – in this type of network-level contracting. Their direct experience of franchising has led them, over time, to develop a practical model that has proved an unqualified success.

Jersey’s results with their procurement process have been impressive. Since the start of the new contract in 2013 – the first full application of the model – passenger ridership has increased by 32%, the levels of subsidy have reduced by £800k per year – on a service with a Peak Vehicle Requirement (PVR) of approximately 80, customer satisfaction has increased by 5%, five new routes have been introduced and frequencies have been improved on key corridors.

Jersey has also seen some progress on its strategic modal shift objectives – 57% of those who use the bus in peak time have access to a car but choose not to use it. All of this has been achieved without the Department for Infrastructure needing to add any additional management resource.
As a social enterprise, we share the values of our commissioning partners – and a part of what that involves is freely sharing our experience and expertise with Authorities. As franchising approaches in the UK, several Authorities have invited us to talk about what we think it might mean. HCT Group operates the bus service franchise in Jersey under its LibertyBus brand, so we have experience of working in a franchise environment. However, we think that our best answer is not to tell our own story, but to tell that of our Commissioner.

This publication will set out how Jersey used the power of franchising to reach its strategic goals of increased ridership, lower costs, modal shift, innovation and partnership-working with their operator.

To support us in this, our partners at the Department for Infrastructure have been kind enough to share with us the full process from their own perspective as Commissioners, providing a window into their reasoning and decision making. Our aim is not to prescribe the Jersey model as a panacea – each locality is different – but rather to present a new example, inspire debate and encourage innovation.
the Jersey journey

It’s different in Jersey. This section will explore the background of the current bus services contract – what makes Jersey different, their experiences with de-regulated services and their first steps in contracting out their bus network.

Jersey – facts and figures

Jersey sits in the Bay of St Malo – just 19 miles from the French coast and 85 miles south of the English coast. With a population of 100,800¹ and dimensions of nine miles by five, it is the largest of the Channel Islands. Approximately one third of the population live in the capital, St Helier, with the most significant concentrations of population found along the south coast. Jersey’s principal industry is financial services (42% of GVA) and has a GDP of £37,000 per capita (UK: £27,500²). This high level of economic development has implications for the bus service as there are currently almost as many cars (70,429³) as people.

As a British Crown Dependency, Jersey is self-governing and has its own financial and legal systems and its own courts of law. It has a States Assembly made up of 49 elected members and its Government is collectively known as the States of Jersey (or ‘the States’ for short). The brief for transport falls under the Department for Infrastructure, which is headed by a Minister.

a different model of regulation

For the greater part of its history, Jersey’s bus service has been de-regulated. Operators competed against each other without any regulation at all until a fatal incident led to the introduction of bus and driver licencing in 1935. The bus service continued to develop as a commercial proposition, focussing heavily on the needs of the tourist economy. This included strongly seasonal timetables, making bus travel in winter much more difficult for the resident population.

The commercial service continued until the late 1990s. With demand in decline, commercial operators requested additional public subsidy to support both public and school services. Whilst the States of Jersey could agree with the necessity of subsidy to secure a network outside of the key corridors and a robust school service, no agreement could be reached on the extent of the subsidy. The States was left with no alternative but to put the network out to tender.

¹ www.gov.je
² www.ons.gov.uk
the first contract

With the need to tender emerging as a last resort after negotiations broke down, the States had to act swiftly. The contract was let on a cost-plus basis where the States would keep the fare-box revenue and this would allow them to commission a more developed network over time. In 2002, Connex were awarded the bus contract on a competitively tendered basis for ten years, with the length of the contract set to ensure that their new operator could invest in new vehicles.

Cost-plus contracts have their strengths and weaknesses. They can be ideal for where the future is uncertain and the Commissioner wishes to have the easy freedom to assemble additional services or routes. However, they provide a mismatch of incentives to the operator:

- There is a strong disincentive to reduce unit costs through innovation – or to even have a close interest in cost control.
- There is no incentive whatsoever for the operator to deploy their entrepreneurial skills and experience in network design, scheduling, ticketing, marketing and so on – as the revenue earned from such innovation goes entirely to the Commissioner.

The first contract did act to secure a robust, reliable network and new vehicles for the service. However, there was a growing realisation at the States that the way the service had been contracted was not allowing them to take the network forward. The full public burden of delivering the bus service was on the States and the contract had not allowed the operator to use their skills in the service of the public.

a strategic approach

In 2010 the States launched its Sustainable Transport Policy. This new policy sought to address severe traffic congestion in Jersey. It called for, amongst a range of policy measures, a significant increase in bus ridership. This heightened the need for a change in the contract model as, under cost-plus, the additional mileage required would be financially prohibitive. The States were going to have to solve the problem in another way.
the Jersey process – before the start

The 2010 Sustainable Transport Policy had significantly raised the bar for what the bus service needed to achieve. Before the tendering process could begin, there was a clear articulation of what this ‘raised bar’ might look like in practice, what the lessons learned were from the previous contract and as a consequence, what the tendering process might look like.

what the States wanted

In order to achieve modal shift, the States set out to make Jersey’s bus service a practical alternative to the car for the majority of Islanders 364 days of the year – a service for the public of the island which the visitor could use, rather than the other way around. There was a clear desire to increase ridership at the same time as reducing the overall level of subsidy.

learning the lessons

Achieving these goals – social and economic – would require a combination of the States thinking and acting strategically and the full power of a commercial operator’s ability to innovate. In short, it was going to need a high-functioning partnership where both parties stood to benefit.

This would involve both sides sharing elements of risk, but also rewards. The method chosen for this was a minimum subsidy contract for a defined network, with the operator taking receipt of fares.

time

With the new contract due to start on 2 January 2013, the States gave themselves two full years, ensuring that they had time not only to run a comprehensive process but also time to give the successful operator the space to get all the new measures in place. One of the reasons the States chose an extended timeframe was their view that they needed to start at the very beginning – with an in-depth research phase.

committing resources

At the States, the day-to-day management of the Jersey bus contract falls to one member of staff with direct expertise in the PCV industry. The States knew that significant additional expert resources were required to manage the process if their goals were to be achieved.

For the length of the commissioning process, they appointed an experienced project manager with a proven track record in major procurement projects outside of transport, supported by a transport specialist consultant from Mott
Macdonald. They set a project budget of £150,000 (including staff), which is a not inconsiderable investment. However, they were able to translate that into an £800,000 annual saving on their subsidy with no additional ongoing management resources required.

**a clear structure**

To ensure the smooth operation of the project, the States put in place a structure to support, challenge and hold it to account. The project team reported to a project board consisting of senior civil servants who could ensure that work was on track. This in turn reported to a political steering group, chaired by the Minister and included elected representatives with a clear stake in the outcome. This group provided both a sounding board for new ideas as they emerged and a means of establishing political legitimacy for the actions of the project team.
the Jersey Process – step by step

With clear objectives for success and a project plan in place, Jersey ran a competitive tender process that sought to find a partner for their bus service.

discovery phase – with a twist

The project team began with an in-depth research and discovery phase, seeking to identify what it could learn about good practice in transport commissioning and strategic network development. This was conducted through interviews with a range of stakeholders – PTEs, Authorities, TfL, and a huge range of bus operators – large, small and international.

The discovery phase had a second, equally important objective. The project team knew that each research meeting with a stakeholder was also a sales meeting – promoting the opportunity that was coming up in Jersey, raising awareness and interest in the forthcoming tender. The combination of a discovery phase with a market development phase would prove instrumental in creating the competitive environment sought.

Expression of Interest

Through a combination of the work done to promote the tender and the fact that, despite protestations to the contrary, the bus industry is well equipped to respond to this kind of opportunity, Jersey received 22 Expressions of Interest in the contract.

Expressions of Interest came from all over the world. Four out of the UK ‘big five’ operators, European state-owned operators, Asian and Middle Eastern operators, smaller UK operators, local Jersey operators, the incumbent operator, private equity investors, global government contract specialists – even one of the UK’s leading social enterprises… It was clear that Jersey would be able to run a highly competitive process.

PQQ – with a twist

All of those who expressed an interest were asked to submit a Pre-Qualification Questionnaire (PQQ). The PQQ asked respondents to provide standard information – financial details, organisational structures, operational capabilities. However, it also asked two more searching questions:

- Please provide an example of where you have driven change in a bus service.
- Tell us about a bus service that you provide of which you are particularly proud.
The reasons behind these additional questions were clear. It signalled to the market what success in Jersey would look like – and the kind of relationship the States wanted to have with their operator – one where both parties wanted the same things, which is the basis for a relationship based on trust. This provided an early method to differentiate between competitors.

The States received 11 completed PQQs. Interestingly, there was no particular pattern in which type of organisations pulled out at this stage – it represented a tithe of the categories set out above. Each of the 11 were invited to Jersey to discuss their PQQ. This not only allowed the operators to explore their standard information with the project team, but also to explore their answers to the two questions – almost their philosophy of providing a service to the public.

Seven out of 11 operators could demonstrate clearly how they had championed change and innovation to the benefit of the travelling public and also met the necessary financial criteria. Each of these seven was sent the full first-phase Invitation to Tender pack.

**the first phase – a model network**

At the heart of the first phase tender was the request to price a model network. The model network had been developed with Mott Macdonald and was intended to apply good practice to Jersey’s status quo – the work had already identified operational efficiencies of around 12%. Whilst this would not be enough for States to be able to reach their ambitious targets, what it did do was provide a level playing field for all of the tenderers to price against. Those evaluating the tenders could see exactly how prices had been obtained, could explicitly compare one with another and could evaluate how operators had gone about their operational strategy.

The responses to the model network also enabled the States to develop a working picture of how much it might cost if they needed their operator to do more, in line with the States final goals of an all year round service.
the first phase – getting the incentives right

A mismatch of incentives between operator and contractor had been at the heart of first contract’s issues. The States took the view that the best people to know what motivated operators were the operators themselves. The tender asked operators to set out an incentives plan that spoke to their own interest whilst responding to the States’ strategic aspirations.

All responding operators suggested a programme of profit-share of one sort or another. If operator profits exceed a certain level, they are shared with the States for the explicit purpose of transport investment. This actively incentivises the States to be significantly pro-bus, investing in new roadside infrastructure, bus priority measures, curtailing town centre parking and so on. This then leads to greater operator profits, leading to a greater profit share for the States and round it goes – a virtuous circle.

The underpinning idea was to develop a partnership that both sides could really invest in, based on respect. A long-term bus operating contract is not a one-off transaction, it has to work for the life of the contract and both parties have to believe that it’s equitable.

For the service to deliver on its objectives, the States aimed to commission a contract based on trust. It is not-straightforward to tender for abstract nouns, but nevertheless it was a theme throughout the process, from the initial PQQ to the full tender – and ensuring the incentives worked for both parties was a key element of this.

the first phase – a focus on quality

The States were clear from the start how the tender would be scored – 60% on quality, 40% on cost. Operators were free to propose their ideas and expertise on vehicle specifications, marketing and promotions, customer experience strategies and so on – areas where operators frequently excel.

the first phase – a detailed assessment

Five bidders submitted detailed first phase tenders based on the model network. Each was invited to Jersey to explore their proposal over the course of a full day. This would be both in terms of how they addressed the model network and their plans to improve quality. The idea was to enable the assessing panel to really understand what was being proposed, preventing any chance of miscommunication and to allow the bidders to show the thinking that had gone into their proposals.
unlocking innovation – the second phase

The challenge with relying on a model network is that whilst it gives a comparable pricing structure, it locks out the most important success factor of all – operator innovation in scheduling and network design. The States used the first phase to compare like with like – put simply: are they any good and can we afford them if they are? The idea was to use the first phase to select two finalists\(^4\) for the next stage.

The second stage took off the restrictions of the model network, asking operators to apply their own expertise to propose a network and schedules that met the strategic objectives set out by the States – a year round network for modal shift. The only restrictions were the requirement to apply the costing model set out in the first phase.

The winning bidder was able to identify several measures that would strongly enhance the network and Jersey was able to commission a network that much more closely reflected their ideas and aspirations.

the result

The States awarded the contract in 2013 to HCT Group. The new service launched on schedule on 2 January 2013 under the LibertyBus brand – a brand chosen through a direct public poll (one of many operator-proposed innovations).

\(^4\) In practice, the winning bidder was already sufficiently far ahead in terms of both price and quality that the second placed operator was asked to be a reserve only. The first placed bidder went onto the second phase alone.
the LibertyBus contract

The process has led to a contract that is the basis for a working partnership between the States and HCT Group. It has a variety of provisions in place to cement the partnership, incentivise both parties and provide protections for the community in the event of service failure.

The key principles of the contract are:

- **A year round service**
  The contract specifies the use of smart ticketing and trackable vehicles.

- **Shared incentives**
  Risk is shared through a minimum subsidy contract (managing down-side risk to the States) with the operator keeping fare revenue (providing up-side incentive to the operator). The up-side is also shared after a certain point with a profit-share arrangement, incentivising the States to take positive, pro-bus steps. There are also financial penalties should the core service not be delivered to the agreed standard.

- **No room for complacency**
  The contract is a seven year term – sufficiently long to make a new fleet practical. However, incentives for contract extensions are in place in the form of three possible ‘bankable’ extensions. These are based on KPIs being achieved in the middle-late period of a contract (when complacency might set in), providing strong incentives for ongoing performance. The States also retained the discretion to agree extensions in the event that the operator was able to create a singular degree of value – acting as a further spur to innovation.

- **Better tech**
  The contract specifies the use of smart ticketing and trackable vehicles.

- **Open data**
  The States require full access to passenger data and transparent operating costs.

- **No free rein**
  The operator would deliver meaningful consultation with both the States and the public on routes and timetables. There is no 56 day notification period in Jersey – which has significant advantages in responding quickly to issues or opportunities. The function of a UK Traffic Commissioner in this regard is replaced by both the Commissioner and, more importantly, the travelling public.

- **Part of the community**
  There would be Island reinvestment in social/community transport.

- **Failsafe**
  The States retain step-in rights for fleet and equipment in the event of service or organisational failure, ensuring that the public are protected.

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5 Whilst this ‘comes with’ when commissioning a social enterprise, traditional operators can also make a difference in their communities through CSR-style initiatives.
Facilities
The States provide depot and terminus facilities free of charge.

Final word
Whilst we all know this can never be fully achieved, the aim of both parties is to leave the contract in a drawer and forget about it. True contracts are about partnerships.
conclusion: ongoing management

The process set out above may seem quite intensive, requiring a great deal of investment in time and resources – particularly for an operation that requires only 80 PVR. In all fairness, it was intensive and it did take resources – both for the States and the bidding operators. But the results speak for themselves.

Many Authorities are concerned that managing a franchised operation will be expensive and technically challenging, particularly when they look at the work in contract management performed by TfL. By putting in both the strategic thinking and the effort at the tendering stage, the States have shown that ongoing management can be delivered with existing resources. ‘TfL’ in Jersey is just one transport professional.

The shared incentives make the relationship one of partnership. The contract terms and the effective use of technology make the day-to-day contract management straightforward. The contract specifies open data as well as open book – the States have a login to our ticket machine and RTI software – they see the same data as we do and in real time. This means there are not two parties demanding reports from one another, but a team working on the same data to improve services and increase revenue.

We believe that the Jersey model is fundamentally scalable – in fact, it would almost certainly be more cost effective at a larger scale. As a consequence, we believe that sharing Jersey’s story with Authorities as they consider the powers given by the Buses Bill is both timely and useful.

If you would like to talk with someone at HCT Group about our experience of the franchising process in Jersey – and how that might be applicable for Authorities in the UK, please feel to contact us on businessdevelopment@hctgroup.org.
About HCT Group

HCT Group is a social enterprise in the transport industry, safely providing over 20 million passenger trips on our buses every year. We deliver a range of transport services – from London red buses to social services transport, from school transport to Park and Ride, from community transport to education and training. We reinvest the profits from our commercial work into further transport services or projects in the communities we serve.

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