

REPORT OF THE

AUDIT OFFICE

COMPETITIVE PRICING OF PUBLIC PASSENGER TRANSPORT



**THE
AUDIT
OFFICE**

OFFICE OF THE CONTROLLER AND AUDITOR-GENERAL
WELLINGTON, NEW ZEALAND

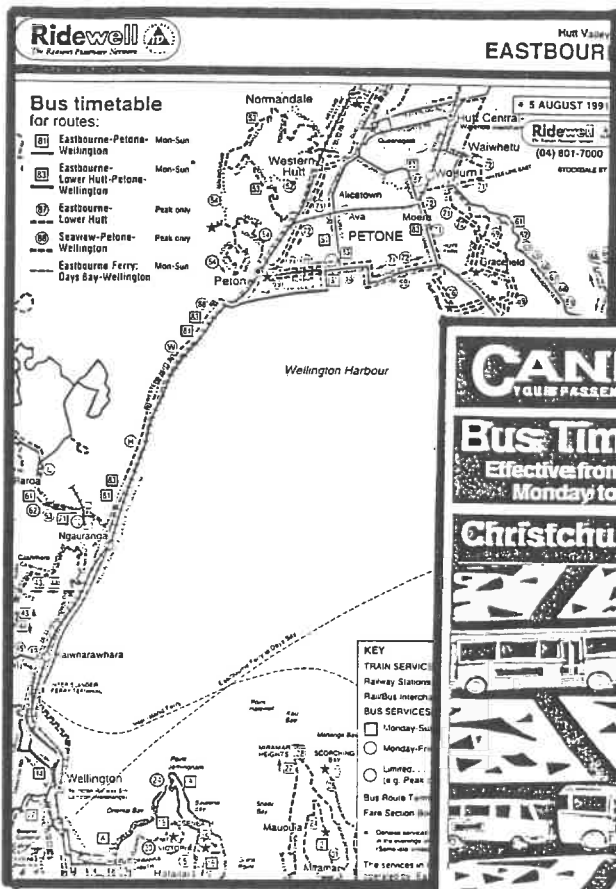
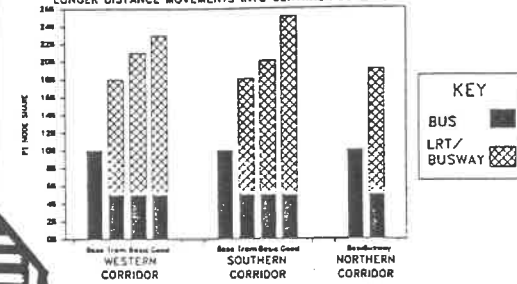


FIGURE 5.1
FORECAST EFFECTS OF INTRODUCTION OF NEW MODES
LONGER DISTANCE MOVEMENTS INTO CENTRAL AUCKLAND



CANRIDE
YOUR PASSENGER SERVICE

Bus Timetables
Effective from 1 July 1989
Monday to Saturday

Christchurch North
Routes

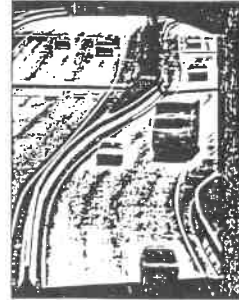
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18
Rangiora
Oxford

Transport Law Reform 1989

The Transport Law Reform Bill (No 2) 1989 represents a major reform of the organisation of land transport in New Zealand.

The main features of the Bill are:

- Transit New Zealand**
The creation of a new organisation to provide for integrated nationwide planning and funding of roads, passenger transport services and road safety.
- Land Transport Fund**
All money collected from road users is to be paid into a dedicated fund which will be spent on land transport related activities.
- Regional and Local Transport Planning Functions**
All regional councils, working together with local councils, will have clear local responsibilities to plan and implement policies for roading, passenger transport service levels and road safety.
- Unified Passenger Transport Licensing System**
Passenger transport operators will be licensed in a unified system, with improved safety standards, and clear regulations to ensure consumer information and safety, and the monitoring of safety performance. New performance standards will apply to all drivers of passenger services.
- Licensing of Tow Trucks**
For the first time all tow truck operators and drivers will be licensed and monitored, with clear standards of operation.



NET PRICE CONTRACT

SERVICE SPECIFICATION TENDER NO: _____

PERIOD OF CONTRACT: 3 TO 5 YEARS COMMENCING DATE: _____

MIDDLEMORE HOSPITAL ACCESS SCHEME

BASIC SERVICE DESCRIPTION:
Terminus: Hospital Rd Adjacent To Middlemore Hospital

Service Area: Denoted by that area encompassed by the bold lines on the map

The service is operated within the service area on a demand responsive, pre-booked basis on a scheduled departure basis for journeys to and from Middlemore Hospital.

SERVICE DESCRIPTION - Monday to Friday

INWARD		
Time Period	Minimum Trips	Maximum Trips
8.30 a.m. to 9.00 a.m.	On demand	On demand
9.00 a.m. to 1.30 p.m.		

OUTWARD		
Time Period	Minimum Trips	Maximum Trips
8.30 a.m. to 9.00 a.m.	1	1
9.00 a.m. to 4.30 p.m.	14	14
First Trip	8.30 a.m.	
Last Trip	4.30 p.m.	

NOTES

The Middlemore Hospital Access Scheme is designed to provide Middlemore Hospital patients with an affordable and convenient means of travelling to and from the Hospital. The service is available only to Middlemore Hospital patients within the service area, who may be accompanied by one other person.

The current operator is an approved taxi organisation with a fleet of 135-140 nine-seater cars, nineteen 7-seater vans (including 4 wheel chairs for 4 wheel chairs), and eighteen 10-seater vans. The current operator will meet demand for the service ahead of other work. The current operator will be responsible for the service. The vehicles do have radio telephones to the operator's office which enable vehicles to be deployed to the service.

The use of multiple hires is encouraged as one means of lowering the cost of this reason out patients must pre book their trips with the operator to the day before the intended day of travel, or earlier.

The current operator administers a telephone booking office which operates 7 days a week.

The fares are \$3.00 per passenger trip in each direction (children under 2 years of age travel free). Presentation of a travel card by the out patient. The Auckland Regional Council issues travel cards to patients. The clinics in turn issue the travel cards to patients.

THE REQUIREMENTS FOR THIS SERVICE WILL BE FULLY PROVIDED FOR IN THE CONTRACT.

CANRIDE
YOUR PASSENGER SERVICE

1989 Transit New Zealand No. 7



20. Expenditure subject to competitive pricing procedure—(1) After the 30th day of June 1991, no payment shall be made from—

(a) The Account in respect of any project carried out by the Authority under this Act; or

(b) The Land Transport Disbursement Account of any local authority in respect of any project,—

unless, except in the case of a project approved before that date, the payment relates to an approved project the price of which has been determined by a competitive pricing procedure, and no such payment shall be made to any local authority.

Ridewell
The Regional Passenger Network

WELLINGTON
PUBLIC TRANSPORT
GUIDE



THE AUDIT OFFICE

**COMPETITIVE PRICING
OF
PUBLIC PASSENGER TRANSPORT**

AUGUST 1992

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COMPETITIVE PRICING OF PUBLIC PASSENGER TRANSPORT

More than \$100 million is spent every year to subsidise the operation of public passenger transport services. However, the way in which those services are provided was changed from 1 July 1991, as part of the Government's reform of the transport sector.


It is therefore timely to review how the new policy was applied and whether value for money was obtained from this substantial investment of public money. I hope that the comments in this report will make a contribution to future management of the public passenger transport sector and that the lessons learned from this, the first round, will be heeded.

The organisations we reviewed faced an enormous exercise in preparing for 1 July 1991. In addition to the volume of work, they had to develop and implement many new policies. They are to be congratulated on completing the task within the limited time available.

I would like to acknowledge the work of the staff from the Major Projects Group, Chris Cassels and Bill Gebbie, who undertook the audit and prepared this report.

The report is produced in two parts:

- A full report providing a detailed account of the audit, including our findings; and
- A summary report consisting of the green centre pages. The summary report has been produced in a form that allows it to be detached for separate reference



J W Cameron
Deputy Controller and Auditor-General

14 August 1992

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CHAPTER 1

INTRODUCTION

Mandate

- 101* The audit was carried out under section 25(3) of the Public Finance Act 1977. It assessed the effectiveness and efficiency with which the new Competitive Pricing Procedures (CPPs) for public passenger transport were developed and subsequently implemented in July 1991.
- 102* The CPPs were chosen for examination because:
- Over \$100 million was spent on public passenger transport services in 1990-91, funded by both central and local government;
 - Public passenger transport is important in the lives of many people, providing some 125 million subsidised passenger journeys each year;
 - The CPPs represent a significant element in the Government's reform of the transport sector; and
 - This was a new policy and an evaluation of the first tendering round could provide useful lessons for future years.

Audit Approach

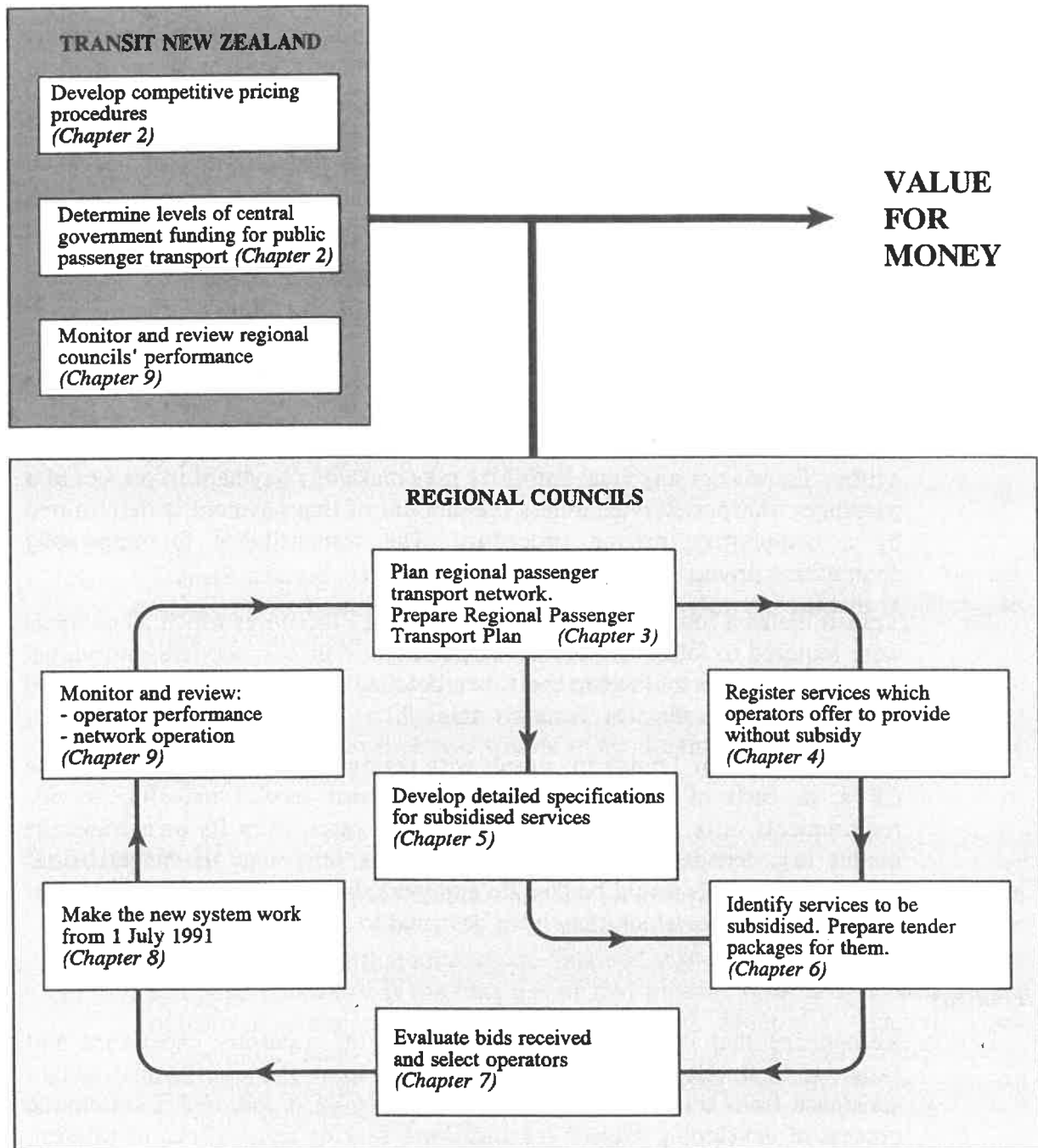
- 103* Four organisations were chosen for examination. Transit New Zealand (Transit) was first reviewed, as the agency responsible for developing the CPPs. Regional councils were responsible for putting the CPPs into practice, and three councils were selected for examination. They were Auckland, Wellington and Canterbury, which together spent 93% of all public passenger transport subsidy money in 1990-91. We examined how Transit and these three councils carried out their respective roles for the introduction of the new policy in July 1991.
- 104* Our audit was of effectiveness and efficiency, and the fieldwork was carried out from December 1991 through to February 1992. We visited all four organisations, reviewed documentation, and interviewed staff. In addition, we talked to passenger transport operators and to consultants who had experience with public passenger transport in New Zealand.
- 105* Several other agencies have an interest in the outcome of the reforms. The Ministry of Transport is conducting a survey of public attitudes towards passenger transport, and the Commerce Commission has reviewed the competitive aspects of the process for compliance with the Commerce Act 1986. Transit is currently auditing regional councils' compliance with the

Manual of Competitive Pricing Procedures which they were required to use for the tendering process.

Passenger Transport Reforms

- 106* The reforms were designed to address shortcomings in the previous regime. There was no requirement for competition in the supply of services, and costs were not transparent.
- 107* The reforms are incorporated in three main pieces of legislation; the Transport Services Licensing Act 1989, the Transit New Zealand Act 1989 and a 1989 amendment to the Local Government Act 1974.
- 108* The report follows the process by which the CPPs were developed and implemented. The model we used to evaluate the performance of the four organisations is shown in Figure 1.

FIGURE 1
THE COMPETITIVE PRICING AUDIT MODEL



CHAPTER 2

FUNDING OF PUBLIC PASSENGER TRANSPORT

- 201 Transit was set up in 1989 to plan and manage all central government expenditure on roads and passenger transport out of a Land Transport Fund which was set up for that purpose. Allocating funds to different land transport activities requires Transit to make explicit trade-offs between investment in roading and passenger transport, subject always to current government policy. Arguments in favour of road users contributing to funding public passenger transport rest on assumptions about transfers of costs and benefits between private motorists and users of public transport.
- 202 This chapter discusses two aspects of Transit's work:
- Development of the Competitive Pricing Procedures; and
 - The allocation of funding to public passenger transport.

CPP Development

- 203 Section 20 of the Transit New Zealand Act 1989 states that after 30 June 1991 neither Transit nor any local authority may make any payment in respect of a passenger transport service unless the amount of that payment is determined by a competitive pricing procedure. The responsibility for approving competitive pricing procedures lay with Transit.
- 204 Transit issued a Manual of Competitive Pricing Procedures which all councils were required to follow in purchasing passenger transport services. Individual councils were free to develop their own detailed procedures within the broad requirements laid down in Transit's manual.
- 205 It was essential for Transit to consult with regional councils in developing the CPPs, as each of the 14 regions had its own service network, service requirements, mix of operators and, in some cases, even its own transport modes (e.g. ferries or rail). Consultation was important in ensuring that Transit's proposals would be flexible and workable as well as being consistent with the objectives which they were designed to achieve.

Findings

- 206 Recognising that its own staff did not have the necessary experience and expertise to develop CPPs for passenger transport services, Transit sought assistance from transport consultants. In doing so, it followed a systematic process of developing project specifications, seeking registrations of interest, developing project briefs, and inviting detailed proposals from three selected firms. It then evaluated those proposals in terms of price, experience and expertise in the field of public passenger transport, project methodology, the consultant's work programme, and logic of the proposal.

FUNDING OF PUBLIC PASSENGER TRANSPORT

- 207 Having selected its consultant, Transit maintained close contact throughout the CPP project. The timescale for developing and promulgating the CPPs was limited and the work programme involved extensive research, consultation and drafting. Issues were discussed, and options evaluated in detail against Transit's objectives.
- 208 Transit went to some lengths to consult regional councils and transport operators and to accommodate their views. It organised a conference where regional councils and operators had the opportunity to discuss Transit's draft proposals. It released a draft CPP Manual in July 1990. After considering submissions on that draft, Transit convened a CPP workshop in October 1990, following which regional councils again submitted their views on Transit's proposals. The final manual was then sent to all regional councils in January 1991.
- 209 In drafting the manual, Transit recognised the need to keep the CPPs flexible for operators and regional councils without compromising its provisions for encouraging competition. Transit made a number of changes to recognise the requirements of regional councils. For instance, it relaxed its original limitations on tender size. This allowed operators to schedule their networks more efficiently, and thus to offer lower-priced bids. The effect of this decision, in practice, is discussed in Chapter 7.

Conclusions

- 210 Transit selected its consultant with care, and monitored progress. We are satisfied that Transit obtained value for money for the services it purchased from its consultant.
- 211 The CPPs were the product of a lengthy debate over issues and options. Transit consulted widely with regional councils and the transport industry to produce a manual which was workable for the three councils whose tendering practices we reviewed.

Funding Policy

- 212 The CPPs are an important mechanism for ensuring that public money used to fund transport services is spent in the most cost-effective manner. They are designed to ensure that services are obtained at the best possible price. They do not ensure that this is the best use of that money. What is also required are objectives setting out what these subsidies are designed to achieve. Thus, where public money is used to fund public passenger transport, we expected to find sound reasons justifying any such expenditure. Accordingly, we reviewed Transit's subsidy policy.
- 213 Transit has committed \$44.3 million to passenger transport services from the Land Transport Fund for 1991-92. Transit is accountable for this expenditure to the Government and to road users from whom taxes are collected to meet the costs of land transport related activities.

FUNDING OF PUBLIC PASSENGER TRANSPORT

- 214 Accountability also requires Transit to be able to justify to the Government and road users how public money is spent; that is, what services the money is supporting, and to what extent regions, communities, transport users or others benefit from that money.
- 215 A subsidisation policy therefore serves two purposes. It provides a means of deciding how much money is to be spent on public passenger transport. It also enables the Government to justify its decisions about the nature and extent of the services it subsidises in each region.

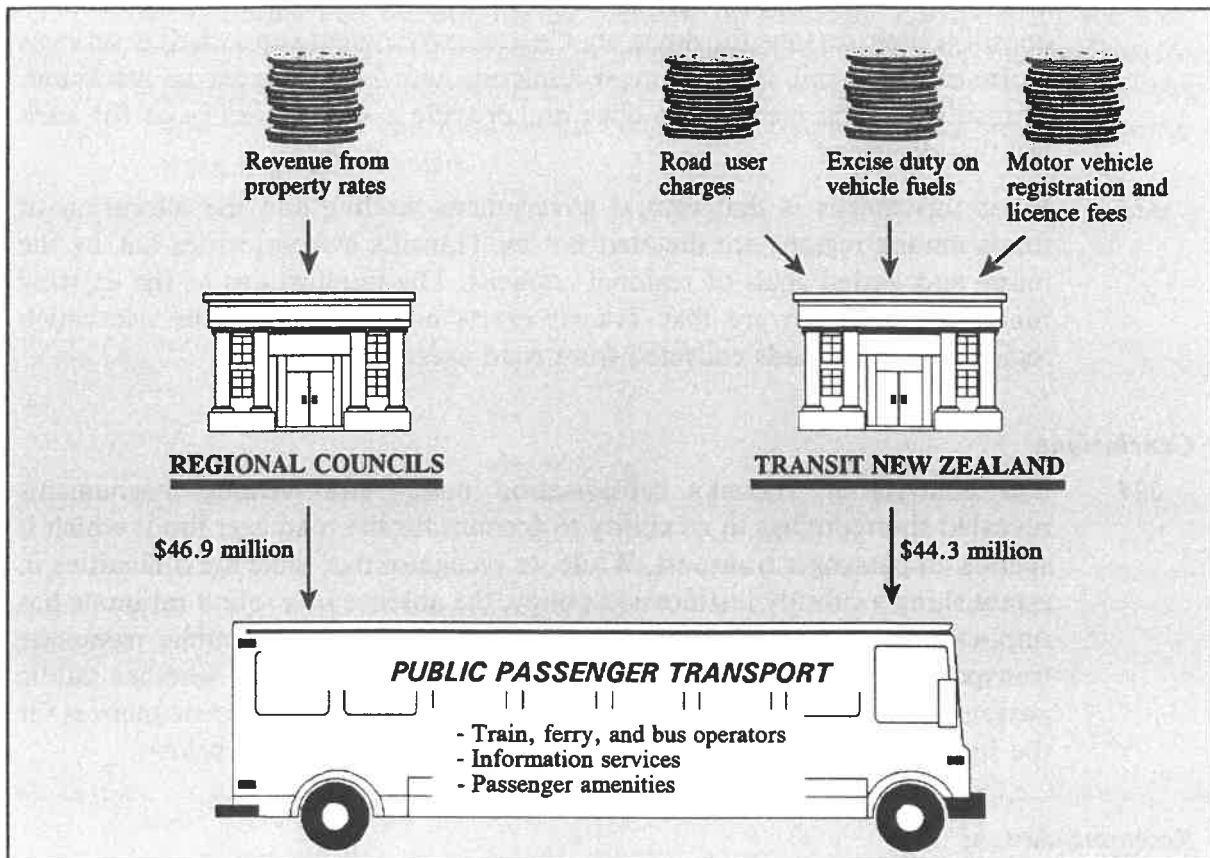
Findings

- 216 Since it was set up in 1989, Transit has commissioned various studies to develop arguments for supporting public passenger transport. These include benefits for the transport-disadvantaged, equalising the costs borne by users of roads and public transport, and environmental benefits. Transit recognises the need to formulate the rationale for subsidising passenger transport, and to clarify the arguments for contributions from ratepayers and road users.
- 217 We are aware that there are difficulties in justifying and quantifying the amount of funding which should be provided to passenger transport. Since its inception, Transit has devoted some effort to establishing a sound policy for subsidising passenger transport. However, we note that, although it has identified arguments for subsidising passenger transport, Transit has yet to quantify or prioritise these.

Funding Mechanisms

- 218 Regional councils are responsible for planning and implementing passenger transport policies in their regions. They make the decisions about what services should be supported from rates. However, central government also contributes to these regional transport services, as shown in Figure 2. We expected this funding to be based on central government's own specified criteria and priorities. These subsidies should be distributed in a way which makes clear the purposes for which the money is to be spent.
- 219 Regional councils have wide discretion as to the amount of money they spend on passenger transport, and how that money is spent. Regional goals include reducing costs for all users of public transport, addressing social needs by subsidising special groups in the community, providing mobility for people with no private means of transport, improving road safety, and reducing traffic congestion.
- 220 Transit funds passenger transport according to the principle that it will support regional councils' expenditure on services which they perceive as meeting the

FIGURE 2
FUNDING PUBLIC PASSENGER TRANSPORT 1991-92



needs of their own regions. As those needs vary within and between regions, and as the funding policies of regional councils may differ from those of Transit, we expected Transit to:

- Analyse and evaluate the services to which regional councils are committing both ratepayer and road user funding against criteria of its own; and
- Set funding priorities within and across regions, between modes, and between different groups of transport users.

Findings

221

Transit supports regional investment in passenger transport through a funding formula which it inherited from one of its predecessors, the Urban Transport Council. This provides for central government to fund total regional council expenditure on passenger transport services up to a fixed proportion of each council's expenditure on passenger transport services. Current Transit subsidy levels are 65% for rail services and 40% for other services. These fixed percentage contributions are based solely on historic subsidy levels. Transit has paid out subsidies on this basis, without knowing whether these proportions remain appropriate.

FUNDING OF PUBLIC PASSENGER TRANSPORT

- 222 Financial assistance is provided for regional transport systems rather than for specific services. As noted, each regional council may support public passenger transport in order to achieve quite different goals. Transit does not analyse the mix of services which regional councils choose to subsidise; nor does it question their reasons for doing so. Central government supports bus services in Invercargill, rail services in Wellington, and ferry services in Auckland. Transit's funding mechanism does not provide a satisfactory basis for such funding decisions.
- 223 What this means is that central government funding and the allocation of funds among regions are dictated not by Transit's own priorities but by the many and varied goals of regional councils. The implications of the existing funding mechanism are that Transit exerts no control over the use which regions make of funds collected from road users.

Conclusions

- 224 Our analysis of Transit's subsidisation policy and funding mechanisms revealed shortcomings in its ability to account for the road user funds which it spends on passenger transport. While we recognise that there are difficulties in establishing a subsidy justification policy, the absence of a sound rationale has implications for the involvement of central government in public passenger transport. At the present time, it is not possible to establish whether public passenger transport is over-funded or under-funded. This has consequences for the funding of passenger transport in the future, as discussed below.

Recommendations

- 225 **Transit should give priority to developing a sound rationale for central government's contribution to passenger transport, and to determining how much should be allocated to each regional council.**

Future Funding of Passenger Transport

- 226 Without a coherent subsidisation policy, Transit was unable to respond effectively to a recent move by the Government to cut funding to passenger transport. Transit's targeted funding of \$44.3 million for passenger transport in 1991-92 was based on regional council expenditure for 1990-91. In July 1991, however, the Minister of Transport announced a reduction in passenger transport subsidies to \$32.2 million. There was no clearly stated and researched funding policy which the Government could have used to identify the consequences of this cut; nor, once its funding was reduced, was Transit in a position to know how that new reduced level of funding should be allocated.
- 227 The Government recently gave regional councils the power to supplement funding for passenger transport by levying a petrol tax on motorists. Taken together with the decision to reduce central government funding, this and other proposals such as road tolls indicate a move on the part of the

FUNDING OF PUBLIC PASSENGER TRANSPORT

Government to transfer the responsibility for funding passenger transport to the regions.

- 228 This would effectively transfer from Transit to regional councils the problem of identifying and quantifying the benefits of passenger transport for the road user. For the regional councils, the challenge will be to develop mechanisms for funding passenger transport in a way which is seen as fair to both ratepayers and road users. This requires the councils to complete the subsidisation policy work begun by Transit.

CHAPTER 3

PLANNING THE TRANSPORT NETWORK

- 301 Regional councils are responsible for developing a network of public passenger transport services to meet the needs of their regions. This involves:
- Meeting the needs of the users by ensuring that services conform to standards of quality and quantity and are affordable; and
 - Meeting the needs of the road user taxpayers and local ratepayers who fund the subsidised services.
- 302 In the period leading up to implementation of the new public passenger transport regime, there were factors which made this planning function particularly important:
- The reforms represented an opportunity to review the entire network at one time;
 - Once the new services were put in place, making changes could entail renegotiating the contracts, with consequent costs;
 - Due to the lack of competition under the previous regime, there was a risk that the system reflected not the needs of the region but the practices of the incumbent operators; and
 - Councils had to be able to design appropriate service specifications for their own transport management and to enable operators to develop realistic bids.
- 303 Some of these factors had implications beyond the planning process itself and these are discussed in the relevant chapters.
- 304 We expected that councils would have developed plans not only at the level of specific services but also at the broader regional level. We also expected to find short-term plans for the implementation of the new system and longer-term plans to address needs not met or changing circumstances. Ideally, councils would have integrated all these planning aspects to provide a comprehensive view of what their region's public passenger transport system would look like for the future.
- 305 We examine below how the councils went about obtaining information about existing and future services and using it to plan the transport network after 1 July 1991.

Findings

Canterbury

- 306 Of the three councils reviewed, Canterbury placed the greatest emphasis on public consultation. During 1990, it conducted its own surveys of both bus users and non-users, to determine their needs. On-bus surveys asked passengers about their travelling needs and travel patterns for each route.

NETWORK PLANNING

Newspaper surveys asked residents about their usage of public transport and about their travel preferences.

- 307 A public consultation process was also undertaken by the council in drawing up its Regional Passenger Transport Plan. It circulated a discussion draft in June 1990 and then held meetings with community groups, other local authorities and the public. After circulating a further draft, the council published the final plan in December 1990. This incorporated route changes, trial services, and service innovations arising out of the public consultation and the council's own research.
- 308 The final plan also contained a detailed schedule of specified services which the council was seeking to have provided in the Canterbury region from 1 July 1991.
- 309 At the time of the audit, however, Canterbury lacked the information for medium-term to long-term transport planning. This was recognised and the council was working on producing it.

Wellington

- 310 For several years prior to the reforms, Wellington Regional Council had been reviewing services in its area, with the co-operation of local transport operators. Consequently, it had useful information on which to base its planning for the post-1 July 1991 transportation network. Indeed, it had already started introducing identified service improvements.
- 311 The council is undertaking a study into the medium-term to long-term transportation needs of the region; the Greater Wellington Area Land Use and Transport Strategic Review (GATS). This is examining transport issues and how they are likely to develop over the next 20 years. It is scheduled to be completed shortly.
- 312 The council released its draft Regional Passenger Transport Plan for consultation in April 1990. It was circulated to local authorities, operators and other interest groups. The council considered the submissions received and formally adopted an amended draft. Detailed service specifications were published separately in July 1991.

Auckland

- 313 Auckland Regional Council delayed preparation for deregulation on 1 July in the belief that its resistance to the reforms would lead to a change in government policy. This stance left the council without time to do any service planning.
- 314 In addition, the council had not previously undertaken the detailed service-level planning necessary for ongoing management of the network, and therefore had no researched information about the suitability of existing services. It proposes to carry out this work over the next few years.

NETWORK PLANNING

- 315 The council also did not have current information on future transport needs. The last transportation planning model for the region was developed in 1972-76, with some additional work in 1986. The council was aware that the region had changed substantially since that time, making the existing models obsolete.
- 316 The council's 1991-92 Annual Plan identified both service-level planning and longer-term regional planning as major transportation activities for the year. We found that no work had been started on the first of these. The council had, however, begun work on a new computer model to assist in medium-term to long-term planning. This is scheduled for completion in 1993.
- 317 The council developed a Regional Passenger Transport Plan and consulted with local territorial authorities and passenger transport operators. This plan was published in October 1990. It contained a schedule of specified services which was based on the routes and timetables of the existing operators.
- 318 However, because the council had no information about the levels of patronage on those services, there was no assurance that the services it elected to provide after 1 July were either necessary or appropriate to meet the demands of users. On the contrary, the council's own Regional Passenger Transport Plan indicated that these were far from ideal.
- 319 The schedule of specified services included public input through the submissions of the area's community boards. They had sought new local services and these were included in the schedule.

Conclusions

- 320 Canterbury did a commendable job in planning for the new regime on 1 July 1991. It used the Regional Passenger Transport Plan as a key document, incorporating detailed information about its policies and every individual service which it proposed to provide. This allowed the public, be they users, operators or ratepayers, to see exactly what the council proposed to provide after 1 July.
- 321 Wellington also did a substantial amount of research to ensure that its detailed network planning was appropriate, and developed a Regional Passenger Transport Plan.
- 322 Auckland lacked the planning information necessary to ensure that the service network it would put in place on 1 July would meet the needs of the users. It had recognised the problem, but had not yet begun to address it. The proposed system mirrored existing services, although the council itself acknowledged these to be inappropriate.
- 323 None of the three councils had the necessary information to ensure optimal medium-term to long-term planning, which would address broader transport needs. All have taken steps to develop the necessary tools for this. They all still need to integrate public passenger service planning into regional transport

planning as a whole. We recognise that the planning modelling essential to achieving this is still a developing area.

Recommendations

- 324 **Councils need to consult regularly with those who are using public passenger transport as well as with the general public about future transport policies and services.**
- 325 **To address broader regional needs, councils should collect the necessary information for medium-term and long-term transport planning.**

CHAPTER 4

COMMERCIAL SERVICES

- 401 The reforms anticipated that only some services would need to be subsidised. Other services would be commercially viable, and so could be provided without public money. For this reason, the first step in the new process called for transport operators to register with the councils services which they would be prepared to run without subsidy. The operators were free to apply for registration of any services they wished, whether these were specified in the councils' plans or not.
- 402 The legislation allowed councils to decline registrations only in certain limited circumstances. These were where:
- There was already an existing registered service; and
 - There were adverse environmental or traffic management effects.
- 403 Regional councils had no direct control over the services which operators chose to register, except on the grounds described above. Indirectly, however, the service requirements as set out in their Regional Passenger Transport Plans signalled, to the market, councils' own priorities in terms of such service features as fares and trip frequencies. Where they registered services the features of which conflicted significantly with those prescribed by the councils, operators knew that they faced the possibility of "contracting over". Contracting over refers to the mechanism whereby a council superimposes a contracted service on a route where a commercial service already exists.
- 404 While contracting over offers benefits, it can also have adverse implications for the cost of providing a service and for the operation of the market. It may lead to public money being spent on services which could be provided without subsidy. Furthermore, the risk of losing their service to a subsidised operator may provide a disincentive to operators to register.
- 405 We expected regional councils to maximise the commercial provision of services where these were broadly consistent with their own requirements.
- 406 Although their ability to influence the extent of commercial registrations was clearly limited, given that this was dependent on the commercial judgement of the market, it was nonetheless in the interests of regional councils to maximise opportunities for operators to run services without public funding.
- 407 This may enable councils to reduce subsidies or use savings to increase service levels. Where councils acted to negotiate changes to commercial services, or

COMMERCIAL SERVICES

contracted over such services, we expected that such intervention in the market would have been based on clear and sound policy guidelines.

Findings

Canterbury

408 In Canterbury, commercial registrations had no effect on the tendering process because these services comprised only 2% of total service kilometres in the region. Those registrations did not conflict with the council's requirements for the services concerned.

Wellington

409 In Wellington, registrations covered 51% of total service kilometres in the region. This figure included the rail and trolleybus services registered by NZ Rail and Wellington City Transport through special infrastructure payments. This is discussed in detail in Chapter 10. Services provided without support from public funding comprised 10% of the total service kilometres.

410 Some operators registered commercial services which conflicted with the service requirements stipulated by the council, or were being run at the time by their competitors. In addition, some operators registered commercial services which covered only short periods rather than covering services throughout the day.

411 This led the council to intervene in order to obtain services which met its requirements. We assessed whether, given this pattern of commercial registrations, the council was successful in meeting its own service requirements without compromising the policy objectives of the registration process.

412 The council was aware of the implications of contracting over, and had examined the options available to it in specific situations. The council had notified operators that it reserved the right to contract over registered services which failed to meet its own service requirements.

413 The council ultimately contracted over only one large block of services—in Titahi Bay. The council decided that supplementing the commercial service with a subsidised service could be inefficient, would disrupt passengers and thus reduce patronage, and would result in a less satisfactory service for users.

414 We also examined documentation relating to negotiations with other operators in the region, in order to establish the basis for the council's intervention in the market on fare levels. While the process is not well documented, our

COMMERCIAL SERVICES

investigations indicate that the judgements made by the council in each case were based on research into the services concerned.

Auckland

- 415 In Auckland, commercial registrations constituted 8% of total service kilometres in the region. The council had declared its intention to tender for services which were essentially the same as the services being run by the existing operators, and in their traditional operating areas. This made it easier to subsequently integrate subsidised services with commercial services in the tendering process. Since operators registered selected services which matched their existing networks, there was no conflict with the council's own service requirements, and the council had only to tender out the services remaining.

Conclusions

- 416 In the three councils reviewed, the proportion of services registered was small, and they typically mirrored existing service patterns. In Wellington, where registered services conflicted with the council's requirements, it carried out analysis to justify its subsequent intervention in the market.

Recommendations

- 417 **Councils should explore opportunities to encourage operators to run services without subsidy. They must be willing to respond flexibly to initiatives taken by the market, particularly if more commercial services are registered in the future.**

Implications for the Future

- 418 Most passenger transport services in the regions currently receive a subsidy from regional councils. It is in the councils' interests to encourage the market to run these services without subsidy. Whether operators are willing to do so can be influenced by regional councils.
- 419 One way to encourage registrations is to specify service requirements for subsidised services which make them attractive to commercial operators. Raising fares, for example, may make services more viable for prospective commercial operators. Similarly, restructuring services may create commercial opportunities while at the same time minimising the impact on subsidised services.
- 420 Despite any such incentives, commercial registrations can still remain low. This may signal that operators are withholding registrations. In areas where there is little competition, operators know that they are likely to win any tenders for services. Thus, they do not need to register and can collect a subsidy instead. This means that they are paid for a service which they could have provided at no cost to the public purse.

COMMERCIAL SERVICES

- 421 Consequently, councils must rigorously scrutinise the prices of tenders to ensure that they are not paying subsidies unnecessarily. The way in which councils can check prices is discussed in detail in Chapter 7.
- 422 Commercial registrations provide a means for regional councils to test their own assumptions about what the travelling public want and need. As registrations were so limited, however, councils did not get the information needed to carry out these evaluations. If registrations increase in the future, regional councils must be willing to test the appropriateness of their planned subsidised services against the commercial judgements of the market.

CHAPTER 5

DEVELOPING SERVICE SPECIFICATIONS

- 501 To translate its plans and policies into a working transportation system, a council needs to develop explicit service requirements. From these, it can then develop tender documents for the supply of those services which have not been commercially registered.
- 502 While there are many elements which go to make up the final form of any service, these fall into the following main categories:
- *Service Features*
 - ★ Where, when and how often the service will run, i.e. the route and the timetable; and
 - ★ The quality of the travel for users generally or special groups, e.g. modern buses, or low step heights to assist less agile passengers;
 - *Service Capacity*
 - ★ How many people will be carried over a trip or particular period; and
 - *Fares*
 - ★ A fare structure to balance the objective of recovering costs with that of keeping the service affordable for users.

Service Features

- 503 From a passenger's point of view, the ideal transport system is cheap, handy, frequent, fast and comfortable—and always has seating available. Councils have to try to accommodate these expectations within the limited available funds. They must weigh up the benefits of providing anything more than a basic service against the costs which will be incurred by doing so.

Findings

Canterbury

- 504 As discussed in the section on planning (Chapter 3), Canterbury had carried out research to identify what services would best meet the travelling public's needs. This information was incorporated into the service specifications which recognised and addressed users' requirements as well as incorporating identified efficiencies.
- 505 The council set the broad requirements for individual services but allowed operators to determine their own detailed routes and timetables. It believed that operators were best placed, and had the incentive, to schedule services to minimise their costs and maximise their patronage.
- 506 Essentially, this approach had the advantage of flexibility, but caused some problems in practice. This was because it did not take into account the need to co-ordinate services to ensure that the network remained integrated. When operators chose their own routes and timetables, they had no incentive to

DEVELOPING SERVICE SPECIFICATIONS

ensure that these connected with the services that might be provided by other operators. The implications of this policy for the operation of the new system are discussed in Chapter 8.

- 507 The council saw the quality of the bus fleet as important in maintaining patronage, and the vehicle features it stipulated in its tender documents were the most prescriptive of the three councils surveyed. These requirements included a maximum bus age of 20 years (with a fleet average of 12 years), and features such as step heights and door widths for exit and entry.
- 508 Consultants assisted the council to develop these criteria, based on surveys which identified the features important to passengers. This provided the council with independent assurance that the features would be effective in maintaining and enhancing the use of public transport. It was thus able to justify the potential cost of providing such quality enhancements.

Wellington

- 509 Wellington service specifications were based on studies of actual usage. Potential improvements identified in the studies were then incorporated into the final specifications. Wellington Regional Council faced a particularly complex task in having to integrate its bus and rail networks.
- 510 The council developed "preferred timetables" for services in the region. It also identified special requirements, such as the need for connecting services or for buses to pass schools at finishing time.
- 511 This was useful since it gave operators a guide to the services desired but did not preclude innovation. It also helped to integrate services and so minimise passenger inconvenience.
- 512 The council adopted Ministry of Transport vehicle requirements as its quality standards for vehicles. It did not assess the impact of vehicle standards on cost or patronage, and so had no assurance that the standards it chose would meet the council's objective of maximising patronage. The council now has available to it the results of a study which it commissioned on this subject. We expect the council to consider its findings in developing future specifications.

Auckland

- 513 Auckland Regional Council sought to preserve the quality of transport services by specifying standards for buses, trains and ferries. It did not assess whether these criteria imposed costs or offered tangible benefits for users.
- 514 The council decided to base its service specifications on existing routes and timetables, and so avoid any disruption to passengers.
- 515 However, these services had developed under a regime which protected incumbent operators from competition. There was no pressure from competing operators to run services more efficiently; for example, by using different vehicles, timetables or routes.

DEVELOPING SERVICE SPECIFICATIONS

- 516 In adopting existing service features, the council missed an opportunity to make its services more attractive.

Service Capacity

- 517 A council's choice of vehicle capacity in its service specifications can also have an important impact on costs and patronage. Large-capacity vehicles may be required at peak times, since travellers prefer not to travel standing or squashed in. Certainly, they do not want to be left behind because there is no room on board, and may abandon public transport if this happens.
- 518 On the other hand, investing in large-capacity vehicles is expensive and they may be unnecessary during off-peak periods. Mini-buses may accommodate the smaller numbers of passengers travelling at those times. They may also provide services for a lower subsidy than conventional buses because of their lower capital costs. Thus, designing services to accurately match passenger numbers creates opportunities for operators of smaller vehicles.
- 519 We therefore expected councils, in designing their service specifications, to determine the appropriate capacity for every service. They must balance the costs of supplying such a service with users' needs, operational requirements, and the need to promote competition amongst operators.

Findings

Canterbury

- 520 Canterbury recognised the need for information to accurately determine service capacity. To obtain this, it conducted surveys of actual usage. From the results, it derived minimum capacity specifications for individual services.

Wellington

- 521 Wellington also undertook research to assist it in identifying actual usage. Its service specifications were based on this research. The need to accommodate the interdependence between rail and buses meant that Wellington faced a very complex and time-consuming task.

Auckland

- 522 The vehicles used by existing operators formed the basis of Auckland's specifications. It did not obtain current patronage information to determine whether these were appropriate. The council risked paying for buses which were either under-utilised or overcrowded.

Fares

- 523 The CPP manual required councils to set fares for services they were funding. Fare levels are vital in the trade-offs which councils must make when weighing up the service they want against the cost of providing it. Fares help offset the subsidy costs incurred by councils. If fares paid cover a high proportion of the cost of services, then operators are more likely to register them commercially.

DEVELOPING SERVICE SPECIFICATIONS

Even where this does not lead to commercial registrations, the level of subsidy that operators require to provide such services will be reduced.

524 However, the level of fares also influences the behaviour of travellers. An increase in fares can drive people away from public passenger transport. The subsequent decline in patronage then offsets the anticipated gains in revenue.

525 Thus, councils must balance the objective of minimising subsidy costs with that of making public passenger transport sufficiently attractive to maintain or enhance patronage.

Findings

Canterbury

526 Canterbury Regional Council used existing fare levels to determine the fares which would apply from 1 July. It was mindful that Christchurch passengers were extremely sensitive to fare increases and could easily switch to other modes of transport. However, because fares had not increased since July 1989, the council permitted operators to increase their fares by up to 25% from 1 January 1992. In delaying the increase until 1992, the council sought to avoid an additional change for users on 1 July.

Wellington

527 To avoid driving travellers away from public passenger transport, Wellington Regional Council was determined to minimise fare increases. It used existing fares as the benchmark and permitted a maximum increase of 5%, in line with inflation. In special cases, it allowed greater increases.

528 The council also wished to avoid passengers paying different fares on the same service. This situation arose where operators registered only parts of some services; for example, just the peak hour trips. These commercial operators were free to charge whatever fare they believed the market would bear. Some of the proposed fares were different from those which the council wanted to apply on the remainder of the trips, which it had to subsidise operators to supply. Some were higher and some lower.

529 Wellington's commercial registrations had created a problem not faced by the other councils. The prospect facing passengers was that of paying a high fare at one time of the day and a lower fare at another time for the same trip. The council initiated negotiations with the commercial operators who agreed to match the fares on the subsidised services. It formulated the new fares from a combination of existing fares, the commercial fare, the proposed fare, and a regional standard weighted fare.

Auckland

530 The fare schedules specified in Auckland were based on those of the Yellow Bus Company, which was carrying the majority of passengers in Auckland. Seeking to limit adverse effects on the travelling public, and on subsidy costs,

DEVELOPING SERVICE SPECIFICATIONS

Auckland Regional Council adopted fares designed to disrupt the fewest people.

Conclusions

- 531 To a large extent, Canterbury and Wellington based their service specifications on research. They sought to introduce improvements to the existing system to make it more attractive to users, in the most efficient manner. Although we have noted above some shortcomings in their performance, they were largely successful in this endeavour.
- 532 Auckland placed considerable importance on avoiding any changes to the system. This was to avoid disruption to travellers and the consequent loss of patronage this could cause. In doing so, it adopted the existing system. However, as discussed in Chapter 3, the council was aware that this system was inappropriate and that, as in the other two regions, patronage was declining. Consequently, the council missed the opportunity to introduce, through the service specifications, any of the necessary changes which it had identified as desirable. This may have been successful in addressing the immediate impact on passengers, but does nothing to address the continuing long-term problem of declining patronage.
- 533 None of the three councils gave the attention to developing fares which we had expected, given the importance of this factor. All used existing fare levels as their starting point without knowing whether these were appropriate.

Recommendation

- 534 **Regional councils should develop fare structures which balance the objectives of recovering costs and retaining patronage.**

CHAPTER 6

DESIGNING THE INDIVIDUAL TENDER PACKAGES

- 601 Having developed service specifications, regional councils faced the decision of how best to tender out the work. The CPPs limited the size of the tender packages. Within these limits, councils were free to group services as they wished. The size and the content chosen for each tender package, or Request for Tender (RFT), can affect the outcome and costs of the tendering process.
- 602 We expected councils to design RFTs to:
- Benefit from operator efficiencies;
 - Encourage competition; and
 - Accommodate the needs of users.
- 603 If the services included in the RFT do not recognise operational realities, this can add to the cost. Small changes in timetabling can increase the number of buses required to service the route. This adds to the ultimate cost of providing the service, and thus the subsidy required.
- 604 Operators of large vehicles have different cost structures from operators of small vehicles. Each operator is cost effective under different circumstances and thus best employed for different types of services. However, the operators of large vehicles had dominated the market. It was in the interests of regional councils to identify and create opportunities for smaller vehicles to provide services where they could be more cost effective.
- 605 Small-size packages, or those requiring low-capacity vehicles, offer opportunities to small operators. They may encourage competition as well as reduce the subsidy required, because of the different cost structures of such operators. Services at peak-travel times, however, may require a lot of large buses to meet the demand.
- 606 In order to provide competitive opportunities for operators with smaller fleets, RFTs had to be of a size which allowed them to bid. This could be achieved by splitting services into packages according to the required passenger capacity. The CPPs also allowed operators to re-combine services in ways which met their operational needs, thus preserving opportunities for larger operators to compete.
- 607 Users can also be affected by the way in which the RFTs are designed. If routes are fragmented, and so served by different operators users, may find themselves having to transfer to reach their destination, where they could previously complete the trip in a single journey. They may have to pay two fares instead of one, with the resultant disaffection this creates.

DESIGNING THE INDIVIDUAL TENDER PACKAGES

- 608 We expected councils to “package” the RFTs in a way which, as far as possible, minimised subsidies, maximised user convenience, and recognised the operational needs of efficient service providers.

Findings

Canterbury

- 609 To encourage smaller operators, Canterbury intentionally set route package sizes below the upper limits prescribed in the CPPs.
- 610 The council decided, however, that it would cost more to subsidise off-peak services if operators had to provide these separately from peak services. This was because the council believed that operators benefited from being able to cross-subsidise off-peak services from heavily patronised, revenue-producing peak services. For these reasons, the council limited the extent to which it broke up its services, tendering peak and off-peak services together.
- 611 Consequently, most of Canterbury’s RFTs covered the whole day, from Monday to Saturday.
- 612 Sunday services were packaged in separate RFTs because of lower passenger loadings than on other days of the week. This was to test the costs of providing Sunday services, and to encourage interest from smaller operators. School services and trial services were tendered separately.
- 613 In our view, the council’s assumptions may not hold true in all situations, and a more flexible approach may encourage greater competition in the passenger transport market. We discuss this issue in more detail at the end of this chapter.
- 614 In the Canterbury region, the market responded to the council’s decision to issue tender packages throughout the day by sharing the work among operators of small and large vehicles. For example, one bus operator in Christchurch submitted a successful proposal to use a mix of its own 40-seater vehicles, and 10-seater vehicles owned by a local taxi company. That taxi company also won tenders for low-demand services in competition with operators of conventional buses. A second taxi company is also running low-demand services under contract to another operator of conventional buses. In this instance, any cost efficiencies were gained by the operator rather than by the council.

Wellington

- 615 RFTs in Wellington were split according to passenger demand in the following way:
- Peak/inter-peak;
 - Morning/evening;
 - Saturday; and
 - Sunday.

DESIGNING THE INDIVIDUAL TENDER PACKAGES

- 616 Separate RFTs were also developed for rail corridors, express services, and school buses.
- 617 Due to the higher number of commercial registrations than in Canterbury or Auckland, Wellington Regional Council had less discretion to group services as it might have wished. The council's objectives were to fill gaps in the desired network left by these commercial registrations, and to encourage operators of small vehicles to compete. In the Hutt Valley, for example, the configuration of commercial registrations required the council to design subsidised services which could be integrated with those run commercially. It was successful, through having smaller packages, in enabling taxi companies in both Wellington City and the Hutt Valley to compete for and obtain contracts for services where passenger demand was low.

Auckland

- 618 In grouping services, Auckland Regional Council had a number of objectives in mind. These were:
- To allow operators to achieve efficiencies by cross-subsidising between peak, and inter-peak or off-peak services;
 - To encourage competition from operators of small vehicles; and
 - To avoid the possibility of having more than one operator on a given route, in the belief that this would result in both a higher quality service for users and more cost-effective supply of both peak and other services.
- 619 Accordingly, the council split its services in the following way:
- Monday to Friday up to 6 pm;
 - Evening and late night;
 - Saturday; and
 - Sunday.
- 620 Some of Auckland's services carried so many passengers that they exceeded the limits set by the CPPs on tender size. After consultation with Transit, Auckland resolved this difficulty by combining a number of RFTs.
- 621 We have similar concerns, however, about the single-operator approach taken by the council as discussed above in relation to Canterbury. These concerns relate to the assumption by both councils that the cheapest bid for services throughout the day will come from a single operator who is able to meet both the capacity requirements of peak periods and the lower passenger demand at times outside the peaks.
- 622 A particular concern relates to the fact that Auckland did not have accurate information about patterns of passenger demand by day of the week or time of day. This information was essential if the council was to maximise the opportunities for operators of smaller vehicles to compete with operators of conventional buses. It was therefore not in a position to package services according to the passenger capacity required. As a result, existing operators

continued to run large vehicles on most off-peak services, even though they may carry few passengers.

The Risks of Pursuing the Single Operator Argument

- 623 As discussed above, Canterbury and Auckland Regional Councils adopted the practice of grouping services to limit the number of operators on a given route. While this did provide benefits (for example, in terms of administrative costs), it had the potential to reduce competition.
- 624 The councils believed that it would be most efficient to package peak and off-peak services together so that these services could be provided by a single operator. This was because a single operator could cross-subsidise and thus provide a cheaper overall service. The efficiencies available to them from scheduling drivers and vehicles over extended time periods would also contribute to a more cost-effective service.
- 625 The high capacity required to meet passenger demand at peak times, created by commuter travel on weekdays, precluded operators of small vehicles and operators with small fleets from offering bids for these RFTs (see Figure 3). This was despite the fact that the RFTs incorporated lower-demand services which such operators would have been able to provide. In this way, the councils favoured the traditional bus operators and lost the opportunity to exploit potential efficiencies from competing operators.
- 626 Councils also argued that a single operator on a given route would be less confusing for users. We recognise the adverse effects which can arise from multiple operators, but believe that these are not insurmountable. This is borne out by the experience of Wellington Regional Council, where the pattern of commercial registrations led to more than one operator on the same route. As discussed in paragraphs 827–830, the council was able to provide solutions to the problems this caused.

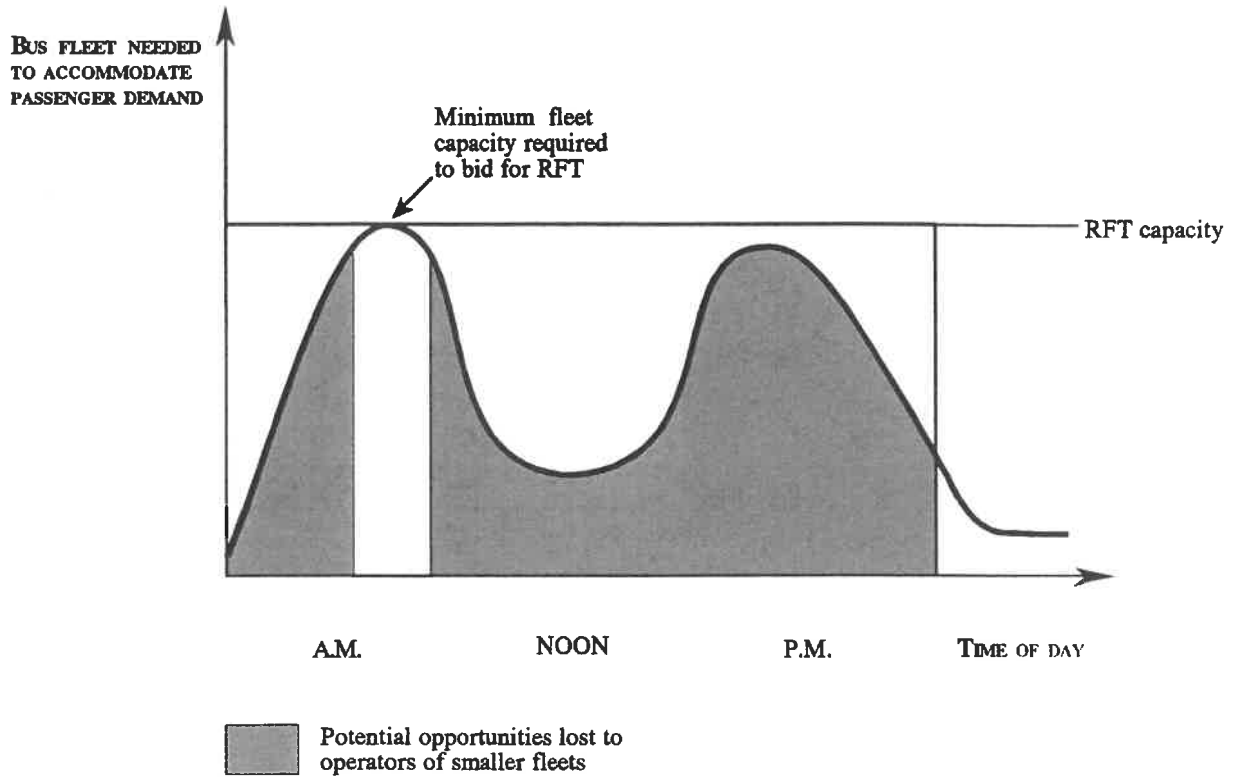
Conclusions

- 627 All councils took steps to encourage competition by identifying times of low demand and tendering those services out as separate RFTs. Some further opportunities were forgone, where councils packaged RFTs to limit the number of operators on particular routes.

Recommendation

- 628 In packaging tenders, councils should balance the need to maintain an integrated transport network with the benefits of allowing the most cost-effective operators to bid for services.

FIGURE 3
EFFECT OF PACKAGING RFTs TO ALLOW ONLY
A SINGLE OPERATOR THROUGHOUT THE DAY



CHAPTER 7

EVALUATION OF BIDS AND SELECTION OF OPERATORS

The Evaluation Process

- 701 Having received the operators' bids for the RFTs, councils faced the task of evaluating them and selecting the best offer.
- 702 In addition to a conforming bid, an operator could offer alternative bids with variations such as:
- Improved service quality or quantity—for example, newer vehicles or more frequent trips than the specified minimum;
 - Any combination of up to three geographically adjacent RFTs; and
 - A group bid—a combination of any number of RFTs of the operator's own choosing.
- 703 The Competitive Pricing Procedures Manual prescribed the circumstances in which councils could intervene in the tendering process to influence the outcome. These were where:
- There was only one bidder; or
 - It was in the public interest—for instance, if tender prices were too high.
- 704 We expected councils, where appropriate, to take advantage of these opportunities and to negotiate the price or re-tender the services. To do so successfully, they needed to have developed a strategy for evaluating bids.
- 705 This required councils to have benchmark prices to indicate whether bids were reasonable. This was particularly important where there was only one bidder. In those instances, there would be no competition putting pressure on the prices, nor other prices available for comparison.
- 706 In December 1991, the Minister of Transport issued a directive which allowed councils to give preference to existing operators in the tendering process. They could do so in two ways. One was by giving existing operators a price advantage over other bidders. The other was by extending the duration of contracts.
- 707 Figures 4 and 5 illustrate the situation facing each of the councils at the close of tendering.

CANTERBURY

- 708 Canterbury had elected not to use the ministerial directive to give a price preference to existing operators.

**FIGURE 4
BIDS RECEIVED FOR RFTs**

	No. of RFTs issued	No. of Bids received
Canterbury	50	61
Wellington	132	280
Auckland	285	388

**FIGURE 5
NUMBER OF TENDER BIDS BY RFT**

	0 Bid	1 Bid (incumbent)	1 Bid (other operators)	2 Bids	3 Bids	4+ Bids
Canterbury	1	33	5	10	1	0
Wellington	0	39	1	55	22	15
Auckland	0	199	0	74	8	4

- 709 The high number of single bids which Canterbury received revealed an absence of competition over a large portion of the network. Some operators submitted group bids, at discounted prices. This indicated that they placed a premium on securing whole sections of the network.
- 710 The level of savings which operators were offering in their group bids made the bids extremely attractive. This was a strong inducement to the council to accept them without further consideration.
- 711 However, there were two reasons for the council to test whether these group bids represented the lowest attainable prices:
- There were individual bids from other operators for some of the RFTs which fell within group bids. Some of these competing bids offered prices substantially below that of the group bidder for the same RFT; and
 - A number of the high-priced services offered within the group bids had no competing tenders. The tendering operator in those instances was effectively the only bidder. Consequently, for services which attracted a large proportion of its subsidy money, the council had no prices for comparison.

EVALUATION OF BIDS AND SELECTION OF OPERATORS

- 712 In our view, councils cannot ignore the benefits available in the first case, or the risks inherent in the second.
- 713 In the absence of competition in the region, Canterbury recognised the need to exert pressure on the market. It decided to award contracts to the lowest bidders for any RFTs where there was more than one bid whether within a group bid or not.
- 714 It did so only where the prices were close to or within its own estimates. These were based on the likely costs of an efficient operator. They served as indicators rather than definitive figures.
- 715 This approach effectively challenged the operators' strategy of offering group bids. These were broken up by the council's decision to offer separate contracts for the most price-competitive RFTs. It also signalled the council's determination to attract competition.
- 716 The council's commitment to obtaining the best possible prices through competition led to further rounds of re-tendering and renegotiation. This not only brought pressure to bear on existing bidders, but also stimulated competition, with new operators entering the bidding in later rounds.
- 717 In some instances, the operator who had been awarded the contract decided not to take it up. This meant that, in some cases, the council again faced the situation of the single bidder. Where this occurred, the council chose to negotiate rather than re-tender, to avoid continuing uncertainty for the travelling public. It was successful in obtaining reductions in the prices offered by these bidders.
- 718 Since the council split the initial group bids, it is not possible to make direct price comparisons to establish the money saved on individual services within them. Over groups of services, however, we were able to establish that the council reduced prices by significant amounts. Over one major group, for example, the council secured a reduction of 33% on the prices originally submitted.

Conclusion

- 719 From our analysis of the council's management of the tendering process, we are satisfied that the council used the devices at its disposal in seeking to secure services at the least cost.

Results of the Tendering Process in Canterbury

- 720 The council met the 1 July deadline for putting in place the new services and fare structures it had detailed in its plan.
- 721 The subsidy paid in Canterbury in 1990-91 was \$14.8 million. The subsidy identified at 1 July 1991 was \$10 million, representing a saving of \$4.8 million or 32%.

EVALUATION OF BIDS AND SELECTION OF OPERATORS

- 722 Canterbury was successful in attracting increased competition and innovation in the provision of services. The second and third tendering rounds saw a taxi company bid for and obtain contracts for low-patronage services. It also obtained a mix of Sunday and Monday-Saturday evening services under contract to a major bus operator. In a similar arrangement, a second taxi company has since subcontracted to a different bus operator to run other low-patronage services.
- 723 The introduction of the new competitive tendering process imposed costs on the ratepayers of Christchurch and Timaru cities where the municipally-owned bus companies failed to retain their existing levels of work. In Timaru, the municipal operator lost two out of its existing three contracts. In Christchurch, the municipal operator lost both major and minor routes to private competitors. As a consequence, Christchurch ratepayers have had to bear the costs of the resulting redundancies (\$10 million) and asset write-downs (\$8 million) up to 30 June 1991.
- 724 In Timaru, the district council was able to offset costs by selling its fleet to the successful bidder. Christchurch City Council was able to recover only about \$400,000 of its losses through the sale of its surplus buses.

WELLINGTON

- 725 Wellington also declined to use the ministerial directive, which would have allowed it to favour incumbent operators.
- 726 Since the majority of bids received for the Hutt Valley RFTs did not satisfy the primary specifications, the council re-opened the tendering. In some cases, it also considered the tender prices excessive. Extending the tendering process reduced the time available to the council to complete the evaluations and contract for the services.
- 727 The council had not, however, documented its process in a way which allowed us to compare whether the subsequent bids for the excessively-priced services offered any savings over those submitted in the first round.
- 728 Wellington had estimates for the likely cost of providing services for each of its RFTs. The council compared these benchmark prices with the final bids submitted for the Hutt Valley services to test if these bids were reasonable. The bids varied considerably relative to the benchmarks, some higher and some lower. The council ultimately accepted the lowest-priced bids in each case, regardless of their price relative to the benchmarks.
- 729 It could, however, take comfort about the appropriateness of many of these prices because of the level of competition in the region. As can be seen from Figure 5, many RFTs attracted more than one bid. The council was thus in a position to compare the costs of different operators and check these against its own estimates.

EVALUATION OF BIDS AND SELECTION OF OPERATORS

- 730 However, there were still a significant number of RFTs which were not subject to any competition. Many of these single bids, including a number of high-value bids, were subsumed within group bids.
- 731 Group bids were accepted by the council as offering the best available price. It did not pursue the option of negotiating on those RFTs where there was only one bidder in order to test the prices. Its ability to do so was constrained by the limited time it had available after re-tendering the Hutt Valley services and by the work involved in rescheduling its high number of connecting services.

Conclusions

- 732 The council applied pressure on operators in the Hutt Valley by re-opening tenders there. However, a lack of documentation meant that we were unable to ascertain the effect of this action on the final contract prices.
- 733 The time available to the council to re-tender and negotiate was very limited. Consequently, the council did not test prices in those cases where there was only one bid for a service. The council was therefore unable to ensure that it had minimised the costs of these services.

Results of the Tendering Process in the Wellington Region

- 734 The council completed the tendering process and set up required services by 1 July. New services were introduced, and existing services modified.
- 735 The tendering process allowed some new entrants to gain contracts and produced innovations in vehicle type. Taxi companies are now using mini-buses to service some lower-capacity routes. In the Hutt Valley, more than one company now operates on some routes, providing a mix of commercial and subsidised services. This was the sort of outcome expected from the Government's policy.
- 736 The subsidy saving identified at 1 July 1991 was \$6 million, a reduction of 16% over the funding of \$37.5 million required in the previous year. \$2.1 million of the saving related to rail services. The total subsidy cost of the new network at 1 July 1991 was \$31.5 million.
- 737 Wellington City Council began rationalising its municipal bus operations in advance of the tendering process, to remain competitive. It succeeded in obtaining the desired contracts during the tendering round. However, the restructuring resulted in redundancy payments of \$3 million and fixed asset and inventory write-downs of \$33 million for the 1990-91 year. These costs, which were an outcome of the CPP process, have to be borne by the ratepayers of Wellington.

AUCKLAND

- 738 Auckland Regional Council had the responsibility for tendering transport services. At the same time, it owned Transportation Auckland Corporation

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Ltd, which in turn owned the Yellow Bus Company, the major operator in the Auckland area. To avoid a conflict of interest, the council set up the Competitive Pricing Special Review Committee to deal exclusively with matters relating to the tender process.

- 739 Auckland elected to use the ministerial directive allowing it to give a price preference to incumbent operators. It also made use of the provision which allowed councils to extend contract periods up to five years.
- 740 However, as Figure 5 shows, incumbent operators faced few competing bids. This meant that there were few cases where the directive was relevant. Only two RFTs produced bids which met the price-preference criteria and both bids were of very small value. In these cases, the council made its choice on transport management grounds and not price. In one instance, the incumbent operator retained the work because this ensured an integrated service. In the other, a new entrant won the contract because the service linked in well with another of that operator's services.
- 741 Consequently, in practice, the directive had no bearing on the process of evaluating bids.
- 742 Unlike Wellington and Canterbury, Auckland had not developed independent benchmark prices for individual RFTs. Rather, it had relied on the previous year's contract prices to determine whether the bids submitted were reasonable.
- 743 This allowed it to check only whether the total amount of subsidy required would exceed that paid in the previous year. However, the figures available reflected only the total amount paid to each operator for the year, not the costs of particular routes or services.
- 744 In using historic subsidy levels as a benchmark, the council was accepting them as appropriate. In our view, they were unlikely to be satisfactory, having been developed under a protected environment where operators had escaped any competitive pressure to restrain prices. In the case of the Yellow Bus Company, at least, the council had information which showed that that operator's costs reflected a high level of inefficiency.
- 745 The use of existing contract prices as a benchmark made it possible for any operator inefficiencies from the previous system to flow through into the new contracts. This was particularly so where the incumbent operator was the only bidder, and so not subject to challenge.
- 746 As Figure 5 shows, the council received a total of 199 single bids, on which it could negotiate. There were four cases where the council identified a need to reduce costs. These were single bids from small operators who previously held contracts which exactly matched the RFTs. Their bids could be compared directly with their previous year's price.
- 747 The council found that the bids were excessive, and negotiated or re-tendered each of them. It succeeded in reducing the original prices by 59% to achieve an

EVALUATION OF BIDS AND SELECTION OF OPERATORS

overall saving of \$320,000. We would have expected the council to address the remaining 195 single bids in a similar way. It did not do so.

- 748 Auckland thoroughly evaluated the alternative bids it received from operators seeking to compete outside their normal spheres of operation. In some cases, the council carried out field surveys to test whether the alternative proposals were workable. Once again, however, this affected only a tiny part of the network, and the council accepted alternative bids put in by the incumbent operators without any such detailed scrutiny.
- 749 Operators in Auckland submitted group bids. The council's view was that it should benefit from the savings which these offered by awarding the contracts to the group bidders where possible.
- 750 As elsewhere, there were operators who had put in bids for individual RFTs which were also included in the group bids. Some of these individual bids were significantly lower than those of the group bidders for the same RFT.
- 751 The council addressed this situation by asking the two group bidders who were affected to put in further bids, excluding the competing RFTs. It did this to determine whether splitting the group bids and accepting the lower individual bids would ultimately result in a lower overall price for that group of services.
- 752 One of the operators did not respond. The other provided prices which were either unchanged or still too high to make it worthwhile for the council to accept the competing individual tenders. The council then accepted the original group bids as being the best offer.
- 753 This outcome demonstrates a problem for councils faced with big group bids in a situation of limited competition. Individual bids, even where they are extremely competitively priced, cannot offer sufficient savings to defeat the group bid price. Astute group bidders can thus keep their prices high without fear of losing the work.
- 754 This is particularly so in Auckland, where there are no operators big enough to be able to compete for more than a fraction of the work of the Yellow Bus Company. Its fleet of more than 500 buses dominates the market. The fleets of all other operators combined equal fewer than 170 buses, with the largest having only some 40 vehicles. Thus, re-tendering as a means of exerting pressure on that company's prices is likely to be less successful than in any other region. This puts the onus back on the council to use the opportunities to negotiate on single bids.

Negotiations with the Yellow Bus Company

- 755 Having selected the successful bidders, the council found that it faced a potential shortfall in funding. It had a policy of maintaining the existing levels of service, but did not want to impose a higher rate burden to do so. Accordingly, councillors instructed officers to enter into negotiations with the Yellow Bus Company to seek a reduction in costs. The value of the work won

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by that company exceeded \$34 million, representing 78% of all contracts by value. Thus, reductions on these contracts had the greatest potential to redress the council's budget imbalance.

- 756 On 1 May 1991, officers wrote to the company informing it of its success in winning the contracts and advising that further negotiations would be pursued. We question how such negotiations could have been effective when the council had already formally awarded the company the contracts. The company clearly had no incentive to change its position. Councillors and council staff did, however, hold further discussions with the company. These led to concessions, but not in favour of the council.
- 757 The council had already determined the duration of its contracts. However, as a result of the negotiations, it not only agreed to the company retaining its contracts at the original price but also extended the term of some contracts. These extensions applied to two geographical areas. Contracts for services in the west of the region were extended from three to four years, and those for services on the isthmus from four to five years.
- 758 Documents held by the council show that the Yellow Bus Company's viability was sensitive to the length of its contracts. Accordingly, the company sought and obtained these extensions from the council. Contracts worth \$4.7 million annually were extended to four years, and others worth \$12.5 million were extended to five years. Three other operators working in the same areas were also beneficiaries of this policy, but the total annual value of their contracts was small—less than \$1 million in total.
- 759 Thus, the review of the contract periods applied to only four companies. The other sixteen successful bidders in the region were not affected. However, the ministerial directive did not allow councils to favour particular operators in the selection of the duration of contracts. The council's decision contravened this requirement.
- 760 In extending the contract durations, the council's aim was to ensure that existing services continued to be provided after 1 July. To achieve this, the council believed that it was vital to ensure the financial viability of the Yellow Bus Company by ensuring that it obtained the contract terms which it was seeking. In this, the council was successful.
- 761 However, as a consequence of the council's decision to accommodate the Yellow Bus Company:
- That company, and three other operators, will avoid the competitive pressure of the tendering process until 1995 or 1996;
 - An additional \$17 million of public money has been committed for 1995, and \$12.5 million for 1996;
 - Any cost savings which might have been achieved through tendering these services earlier have been deferred; and
 - Reviews of services in those areas will occur later than originally planned.

EVALUATION OF BIDS AND SELECTION OF OPERATORS

- 762 Its concern to ensure that the Yellow Bus Company secured work on the operator's own terms over-rode the council's responsibility to promote competition and minimise subsidy costs.
- 763 There may be valid reasons for supporting the company through ratepayer subsidies. Indeed, the council faced the possibility of extensive and expensive redundancies if the company did not obtain sufficient work. By securing the financial viability of the company for up to 5 years, the council avoided the immediate restructuring costs which local authority bus operators elsewhere were facing.
- 764 Such assistance, however, should be transparent and direct, rather than through concessions during the tendering process.

Conclusions

- 765 The council reduced the costs of four minor services and vetted the quality of service offered in some others. However, the vast majority of the services received no detailed scrutiny, despite information available to the council that there were inefficiencies present.
- 766 The council ensured the survival of the Yellow Bus Company and continuation of the services it was providing. But the true costs of this are hidden by the way in which the council chose to achieve those objectives.
- 767 The valuable concessions given to the Yellow Bus Company were at the expense of competition in the Auckland region.

Results of the Tendering Process in the Auckland Region

- 768 The tendering process was completed on time and services were in place for 1 July. The council has retained the existing level of services and these will operate for a minimum of three years, when the first contracts come up for renewal. Through its support for the Yellow Bus Company, it avoided the restructuring costs faced by municipal bus operators in the other regions.
- 769 Operators generally retained the services they were running previously, and did not expand into new areas or areas held by other operators. As in other regions, there were some new entrants, including taxi operators.
- 770 The saving in subsidy costs identified by the council at 1 July 1991 was \$3.6 million, a reduction of 7.5% over the previous year's cost of \$48 million.

Overall Conclusions

- 771 Each region took a different approach to the group bids its received. Auckland and Wellington accepted that group bid prices reflected operator economies of scale. Canterbury did not give the same credence to this view and was successful in reducing prices as a result.

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772 Canterbury most vigorously exploited the opportunities available to put pressure on operator prices. To a lesser degree, Wellington did the same. Auckland tested only a very small fraction of the bids in detail, leaving more than \$40 million of work largely unscrutinised. In addition, it allowed the Yellow Bus Company's commercial needs to influence the outcome of the tendering process.

Recommendation

773 Councils should make use of all opportunities to test tender prices. This is particularly important where a single operator dominates the market or where competition for services is weak.

CHAPTER 8

MAKING THE NEW SYSTEM WORK

- 801 In the period prior to 1 July 1991, regional councils designed their passenger transport networks and contracted operators to provide the necessary services. 1 July 1991 marked the day on which the transport systems created by the regional councils began operating. It was their responsibility to ensure that this transition was successful.
- 802 Furthermore, the councils had to ensure that the transport services they were funding continued to meet the needs of travellers and maximised the value obtained from the public money used to subsidise them.
- 803 There are three key areas where we expected regional councils to participate in the on-going operation of the system:
- Promotion and publicity for public passenger transport;
 - Provision of amenities for travellers; and
 - Service adjustment and co-ordination.

Promotion and Publicity

- 804 Public information is widely recognised as an essential element for a successful passenger transport system. It serves two purposes:
- Promoting public passenger transport as a desirable mode of travel, by comparison with alternatives such as private cars; and
 - Providing specific details about available services and how to use them.
- 805 Public information must be accurate. Consequently, changes to existing services, or the introduction of new services, need to be advertised so that users are kept informed. Information must also be readily accessible so that enquiries from the travelling public can be quickly answered.
- 806 Where there is a lack of information, there is a risk that passengers will stop using public transport. Those who have any choice will seek an alternative. The trend here and overseas has long been away from public passenger transport towards the relative convenience of private modes. Councils have a role in minimising this trend through maintaining or, where possible, enhancing patronage.
- 807 While operators also have this incentive, their commercial interests may lead them to give priority to promoting their own services. Broader regional passenger transport needs are likely to be of secondary importance.

Findings

- 808 Wellington and Canterbury public passenger transport users faced significant modifications to existing services on 1 July 1991. Both councils formally developed strategies for handling these changes, and organised publicity

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campaigns to inform the public about the reasons for the changes and how these would affect them.

- 809 The two councils also set up permanent telephone enquiry services which could provide callers with route and timetable information, and co-ordinated the design, printing and distribution of timetables to ensure that they were easy to use and widely available.
- 810 They compiled and disseminated comprehensive information about services in their regions, both subsidised and commercially registered. This provided a one-stop-shop for travellers, saving them the inconvenience of having to check with different operators about different services.
- 811 These activities are conducted under the aegis of the RIDEWELL logo in Wellington and CANRIDE in Canterbury. The aim is to create an identifiable focal point for the public for all matters relating to public passenger transport. Questions, suggestions, compliments or complaints can then be put directly to the council concerned.
- 812 Unfortunately, despite the detailed planning and very commendable efforts to provide information, the 1 July changeover went less smoothly than either council had hoped.
- 813 Wellington had planned to provide an information pack, including the appropriate area timetables, to households throughout the region, but not all were received in time. Canterbury also faced problems in getting information out before 1 July, and had to resort to last minute messages to travellers. In both areas, some bus operators added to the confusion when they failed to travel as advertised. The result was adverse publicity, which overshadowed the councils' other accomplishments.
- 814 Auckland travellers faced few changes on 1 July. The council distributed a poster alerting the public to the changes and referring them to the relevant operators for further information.
- 815 The only source of public information about services in Auckland is the BUZ A BUS telephone service provided independently by the Yellow Bus Company for its own passengers.
- 816 Canterbury and Wellington take an active role in promoting public passenger transport generally. This includes advertising its benefits and working to improve service quality. Canterbury, for example, ran a best-bus-driver competition, with the winner being the driver receiving the most votes from the travelling public.
- 817 While Auckland has recognised a need to promote the use of public transport, it has taken no steps to do so. This leaves only the operators, who can be expected to promote the use of public transport outside their own service areas only where it is in their commercial interests to do so. In Auckland, therefore,

there is no agency ensuring that public passenger transport is adequately promoted.

Amenities for Travellers

818 To operate effectively, a public passenger transport system requires more than just the buses, trains or ferries to carry people about. For instance, travellers need bus stops to be marked and information about routes and timetables displayed. Other enhancements may include bus shelters, copies of timetables, or parking facilities at rail stations to encourage motorists to park their cars and take the train.

Findings

819 Canterbury and Wellington both place value on amenities in sustaining patronage on public passenger transport. Legislation precludes regional councils from owning passenger transport facilities, but Canterbury and Wellington both help fund local authorities or operators to develop and maintain them.

820 Since 1 July 1991, Auckland has continued to view the provision and maintenance of infrastructure as the responsibility of the operators or local authorities. In the new environment, where operators are required to compete, the council cannot be sure that past practices will continue to meet the needs of travellers. This indicates a need for the council to ensure that the necessary amenities continue to be available.

Service Adjustment and Co-ordination

821 As noted above, it will not always be in the immediate interest of individual operators to work together. However, this may result in a transport system where passengers' needs are not met.

822 A number of changes to the transport system came into effect on 1 July 1991:

- New or changed services began operating;
- New operators took the place of previous incumbents;
- Timetables were changed;
- Fares increased, or new fare structures were introduced; and
- Different services or types of vehicles appeared on the roads.

823 These changes had the potential to fragment the service network and confuse the travelling public. Countering these negative effects was, in our view, a role

of regional councils in planning and funding passenger transport services in their regions.

Findings

- 824 The outcome of the tendering process in Canterbury and Wellington created a need for co-ordination and integration of the new services.

Canterbury

- 825 On 1 July 1991, many of the travelling public in Christchurch faced changes to bus routes and timetables. In some cases, the costs of taking public transport also changed, as the council replaced section fares with zonal fares, and introduced a three-hour transfer ticketing scheme. The late delivery of new timetables caused confusion for some travellers. The council's decision to allow operators to set their own timetables also created some dislocation between connecting services. These changes gave rise to a number of complaints from the public.
- 826 We studied a selection of these complaints and found that the council was active in dealing with the problems of operating the new system. The council acknowledged concerns, and, where they were related to particular services, discussed them directly with the relevant operator. Where they were more general, it addressed them subsequently in reviewing the transport policies and services for the region.

Wellington

- 827 Travellers in the Hutt Valley faced a mix of operators and of subsidised and commercial services all on the same route. The effect of this was that users faced paying different fares at different times of the day for the same service. In addition, the various operators each had their own ticketing arrangements and would not honour those of the others. Travellers faced a need to carry more than one set of multi-trip tickets.
- 828 The council addressed this problem by negotiating with operators to achieve standardised fares across both commercial and subsidised services. Passengers now pay the same fare for the same travel, irrespective of the operator.
- 829 To solve the problem of duplicate tickets, the council developed its own RIDEWELL ticket, which is honoured by all affected operators. This means that passengers need carry only one ticket. The council acts as a clearing house for allocating the revenue.
- 830 In the period immediately following 1 July 1991, the council received a variety of complaints from the public about the new timetables or routes. The council investigated and accepted the validity of many of these. It took action to

remedy them by interceding with operators or negotiating appropriate service changes.

Auckland

- 831 Although few services changed in Auckland, a problem arose in relation to fares. The council passed the concerns on to the operators involved, but did not take further action itself.

Conclusions

- 832 Canterbury and Wellington take an active role in promoting individual transport services as well as public passenger transport in general. They serve as a focal point for the public. They also take responsibility for making ongoing adjustments to the system to meet user requirements.
- 833 Auckland provided public information about the 1 July changes. However, it does not promote public passenger transport generally, leaving this to the individual operators. The potential consequences of this approach are a system which fails to meet user needs and thus exacerbates the decline in patronage.

Recommendation

- 834 Councils should take responsibility for the ongoing operation of their transport networks; where necessary, in conjunction with other local authorities and operators.

CHAPTER 9

MONITORING AND REVIEW

- 901 Running the public transport networks in the three regions will cost more than \$85 million of public money in 1991–92. It is essential that regional councils and Transit protect this investment by monitoring and reviewing transport services and the way in which they are provided. They can also use this information to improve services in the future.
- 902 This chapter looks at two separate areas of monitoring and review. First, how regional councils perform this function. Second, the work carried out by Transit as part of its accountability for funding of regional public passenger transport.

REGIONAL COUNCIL MONITORING AND REVIEW

- 903 Regional councils need to respond to changes in their transport systems and remedy adverse effects. Operators may withdraw commercial services or register new ones. Shopping or hospital visiting hours may change so that different timetables are required. Demand may change; for instance, if a major employer closes down or a new housing area opens up.
- 904 We consider it essential that regional councils monitor and review in three areas:
- Operator performance;
 - Patronage; and
 - Service improvements.

Operator Performance

- 905 Operators of subsidised services are contracted to provide a certain quantity and quality of service. Councils should ensure that these contractual obligations are met.
- 906 Poor operator performance also alienates passengers and turns them away from public passenger transport. The ultimate effect of this can be a reduced level of service or higher subsidy costs.

Findings

Canterbury

- 907 Canterbury has two staff monitoring operator performance in Christchurch. They operate throughout the city, checking that services are being provided as required and vehicle standards are maintained. They systematically record their findings and the action taken in each case. The council has sent written warnings to operators who have failed to perform as contracted.

MONITORING AND REVIEW

- 908 The council also receives complaints or compliments direct from the public. Again, these are systematically recorded and, in the case of complaints, the council seeks an explanation from the operator concerned.

Wellington

- 909 Wellington Regional Council has five inspectors checking vehicles and monitoring that required services are provided. They have a standard check sheet for this work and the data will eventually be fully computerised. They also run an incidents register recording special problems not accommodated by the standard form.
- 910 The council also encourages people to come directly to the council with any concerns about public passenger transport, and it follows up reported problems with the operator concerned.
- 911 The council has been active in following up on performance problems, and warning letters have been sent to a number of operators.
- 912 We had expected to find, as part of monitoring operator compliance with their contracts, that the council was monitoring the use of trolleybuses. As noted in Chapter 10, the infrastructure subsidy payment was predicated on using trolleybuses rather than diesel buses whenever possible. The council should ensure that it is gaining both the financial and environmental benefit for which it has paid \$1 million. However, this monitoring did not receive any special priority.

Auckland

- 913 Auckland had only limited information on operator performance. There are several reasons for this:
- Four monitoring staff had been employed but were still being trained;
 - The public are encouraged to deal directly with the operators so that the council receives little direct feedback;
 - There is no incentive for operators to bring complaints to the council's attention; and
 - The council does not systematically record those complaints which it does receive. Thus, no operator history is being developed, despite the fact that Auckland's contracting manual states that an operator's performance will be a factor in the evaluation of future tenders. We do not consider that the mandatory complaints register kept by operators is an adequate substitute for performance records compiled independently by the council.

Patronage

- 914 Councils need to know how many people are using services. For example, falling patronage may indicate traveller dissatisfaction or changing needs. This

MONITORING AND REVIEW

may require councils to make service changes or, where necessary, to consider whether services should be discontinued.

- 915 Canterbury and Wellington introduced substantial changes to existing services on 1 July 1991. As we have noted, there were problems which adversely affected passengers in the period immediately after that date. We therefore expected the changeover period to have an impact on patronage, at least in the short-term.
- 916 Each council required all operators to provide Key Factor Reports. These record details of passenger travel. We expected the councils to ensure that the reports were submitted as required, and to interpret the information supplied.

Findings

Canterbury

- 917 Since 1 July 1991, Canterbury has carried out patronage surveys on trial services and services due to be re-tendered. The council plans to evaluate each trip three times a year.

Wellington

- 918 Before services are re-tendered, Wellington is conducting patronage surveys and providing the information as part of the RFT. The council has conducted special surveys where it identified that services required review.

Auckland

- 919 Once the monitoring staff are fully operational, Auckland intends to carry out patronage surveys, targeting under-utilised services. The council has done some preliminary surveys and implemented service changes as a result.

Service Improvements

- 920 We expected that councils would obtain and analyse the necessary information to keep current services appropriate and to anticipate future demands. This is essential if they are to maximise value for money from their investment in the network.

Findings

Canterbury

- 921 Canterbury has evaluated the service innovations introduced on 1 July 1991. It is reviewing policies and individual services in conjunction with a public consultation process for its 1992 Regional Passenger Transport Plan.

Wellington

- 922 Wellington has now developed a two-tier consultation system to obtain more information from the public about its needs:
- Public forums to discuss general questions on public transport; and
 - Relevant community input into particular services, as they come up for re-tendering.

Auckland

- 923 As noted in Chapter 2, Auckland proposes to undertake a substantial review of all services in the future. It intends to do this on a geographical basis to coincide with the renewal of the first round of contracts. The first of these expire in 1994, and the last in 1996.

Conclusions

- 924 Canterbury and Wellington are putting considerable effort and resources into ensuring that operators perform satisfactorily. Auckland is not obtaining the information necessary to adequately evaluate the performance of its contractors.
- 925 None of the regions is maintaining its operator performance material in a way which will allow trends to be established. This means that they will find it difficult to identify patterns of complaints or the longer-term patterns of individual operator behaviour.
- 926 None of the councils monitored the effects of the 1 July changes on patronage. Without this information, they could not establish their impact. Canterbury and Wellington are now building up their knowledge of current patronage levels.
- 927 None of the councils was successful in ensuring that all operators complied with requirements to provide patronage information. They had also done little analysis on the reports they did receive.

MONITORING AND REVIEW

- 928 Canterbury and Wellington had set in place systems to identify the need for service improvements. Auckland had yet to begin work in this area.

Recommendations

- 929 **Regional councils must give a priority to obtaining patronage information so that they can ensure their services match needs.**
- 930 **Councils also need to ensure that they collect the necessary information for reviewing services and monitoring the performance of operators. The information must be maintained in a way which allows councils to use it for managing their networks.**

TRANSIT MONITORING AND REVIEW

- 931 The key objective of the CPPs was to enable Transit and regional councils to procure subsidised public passenger transport services in the most efficient way, through competition among potential suppliers. In carrying out its functions, Transit was required also to have regard to the overall goal of maximising national economic and social benefits. We therefore expected Transit to have reviewed the outcomes of the tendering process in each region against specific performance targets to establish whether those objectives had been met.

Findings

- 932 Section 6 of the Transit New Zealand Act empowers Transit to audit the performance of local authorities against their statements of intent as set out in the relevant land transport programme. To carry out this mandate, Transit has set up a review and audit group with the broad objective of evaluating the effectiveness and efficiency of activities wholly or partly funded from the Land Transport Fund.
- 933 Transit has therefore interpreted its review role in the widest sense, encompassing not simply the monitoring of compliance with set standards, but also the assessment of value for money. Despite the wide-ranging charter which Transit has drawn up for its review and audit group, evaluation of Transit's passenger transport programme to date has been confined to Transit's responsibilities in respect of the CPPs.
- 934 Transit has sought the views of regional councils and transport operators on their experience with the CPPs and has reviewed the content of its manual. The review identified shortcomings in the manual in the light of practice and Transit has addressed them. It has also audited the tendering processes undertaken by regional councils for compliance with the CPPs. However, neither exercise focused on the quality or quantity of passenger transport services which Transit is supporting from the Land Transport Fund.

MONITORING AND REVIEW

- 935 Relevant and meaningful performance measures are necessary if an organisation is to know how well it is performing and to account for the use of the funds allocated to it. Transit requires regions to supply aggregated data on seat-kilometres, percentage utilisation, and subsidy per passenger. In our view, and Transit's, these are of little value in measuring regional council performance.
- 936 These quantitative measures do, however, show substantial variations between regions; for example, in the levels of utilisation. Transit should know the significance of these divergent results since they provide a measure of relativity between councils. To date, Transit has not done this work.

Conclusion

- 937 Transit has set in place mechanisms to review and monitor certain of its areas of responsibility. However, it does not review whether the funding which goes to public passenger transport is being spent effectively and efficiently.

Recommendation

- 938 Transit should develop performance measures which enable it to evaluate whether it obtains value for money from its contribution to public passenger transport in the regions.

CHAPTER 10

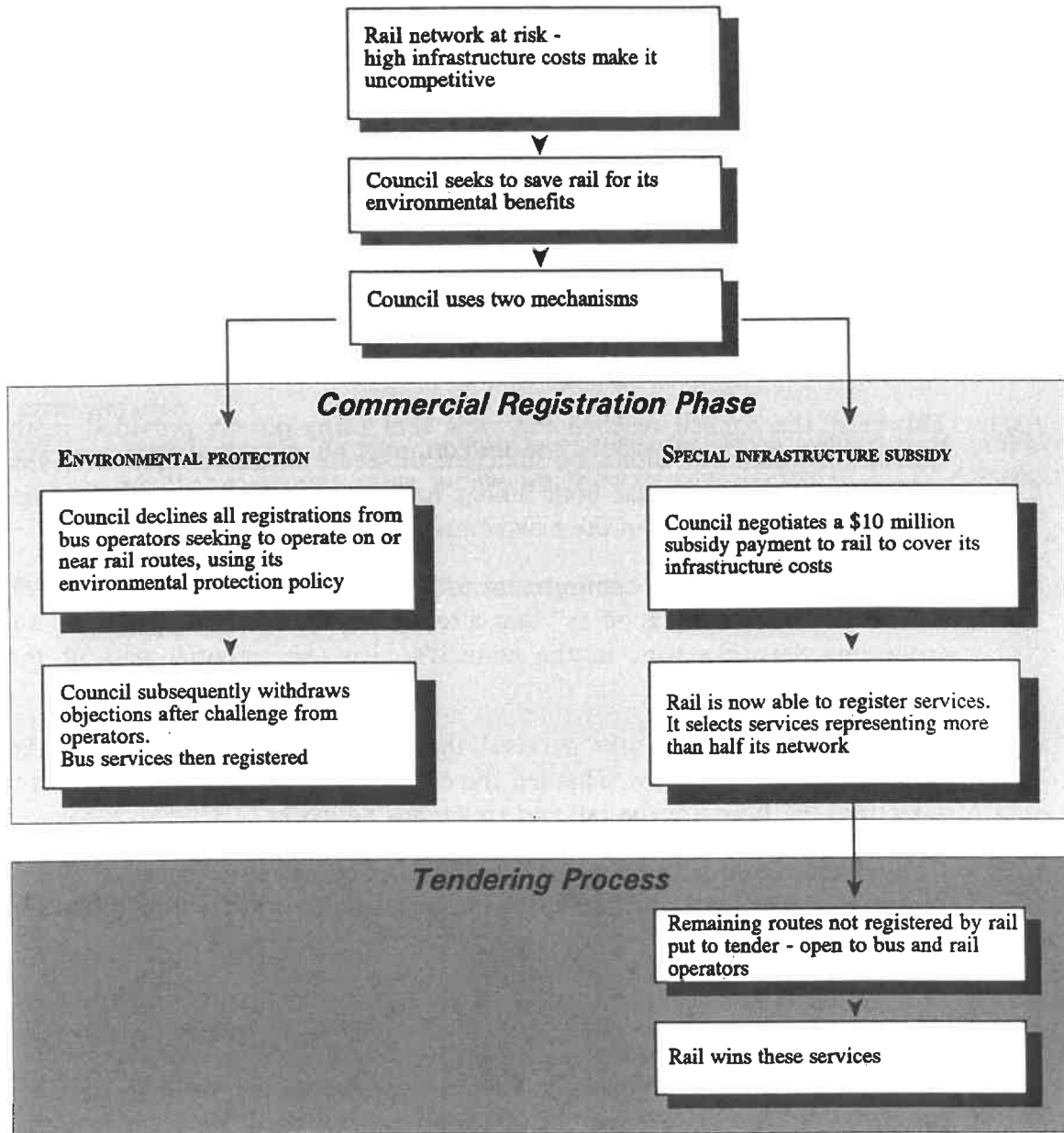
A SPECIAL CASE: WELLINGTON RAIL AND TROLLEYBUS SERVICES

- 1001 There were two features peculiar to Wellington's regional passenger transport network. One was a trolleybus system in Wellington City. The second was an extensive suburban rail system which catered for a large number of passengers travelling in and out of Wellington City. These modes were seen as offering special benefits to the region.
- 1002 This view flowed from Wellington Regional Council's early political decision to adopt a policy of favouring what it termed "environmentally friendly" modes. Both rail and the trolleybuses came within this definition since they were powered by electricity, a preferred energy source. The council was able to give preference to these electric modes by making use of the powers available to it under the Transport Services Licensing Act 1989.
- 1003 However, the council reached the view that using powers provided in the legislation would not, alone, be sufficient to secure future rail and trolleybus services. This was because both modes had to carry high fixed costs which threatened their success in the new competitive tendering environment.
- 1004 The council had made a commitment to provide a network after 1 July 1991 which was at least "as good as" that already in place. Retaining the rail and trolleybus networks was, in the council's view, an essential part of that commitment.
- 1005 Thus, to ensure the networks' survival, the council had to devise some further means of protecting them. This led the council to develop special policies to safeguard the future of the rail and trolleybus networks.
- 1006 This chapter examines how the council applied its environmental policy, discusses the rationale for the special policies, and evaluates how these were implemented.

RAIL

- 1007 Wellington's rail operation is a key component in the region's transport network. It carries around 30,000 commuters each day and receives approximately half of the region's total subsidy expenditure on public transport services. Therefore, securing the future of the rail network was an important consideration for the council in the period leading up to implementation of the transport reforms.
- 1008 In this section, we evaluate how the council protected the rail network. Figure 6 shows the process which the council followed.

FIGURE 6
WELLINGTON REGIONAL COUNCIL PROTECTION
OF RAIL NETWORK



- 1009 We examined the way in which the council:
- Addressed the inability of rail to compete in the passenger transport market;
 - Applied its environmental policy to protect rail from competition during the commercial registration process; and
 - Reached an agreement with NZ Rail to provide rail services within the region.

The Environmental Policy

- 1010 As discussed in Chapter 4, regional councils were able to refuse to register services which, in their view, would be contrary to any environmental factor identified as being of importance to the region. This was one of the mechanisms which the council used to ensure that it retained the rail services.
- 1011 Although the legislation did not require it to do so, the council developed a theoretical justification for its environmental policy. This had two components. Firstly, it listed those environmental factors which it would take into account when considering applications for registration. These included benefits for the region such as the reduction of noise and air pollution, and benefits which extended beyond the region such as the use of fuels which were renewable and sourced in New Zealand. The council recognised that a key environmental benefit of the rail network was its contribution to reducing congestion on the roads.
- 1012 Secondly, the council specified those services to which it would apply its environmental policy. Its intention was to decline applications from non-electric modes where these would run within or parallel to a corridor available to an electric mode.

Applying the Environmental Policy

- 1013 We expected the council, in applying its environmental policy, to identify the environmental benefits of using trains.

Findings

- 1014 The council declined 32 applications to register bus services on routes running alongside the three rail corridors—West Coast, Hutt and Johnsonville. These applications included existing services to Wellington from Paraparaumu, Stokes Valley and Upper Hutt. Complaints from the operators affected led the council to review these decisions. It surveyed users of the existing services and concluded that the environmental costs of approving the registrations would do little to increase congestion on the roads. Accordingly, it approved them subject to minor route changes to avoid direct conflict with the rail corridor.
- 1015 This demonstrates that, although the council had developed a theoretical rationale for its environmental policy, it did not have the evidence necessary to

support its decisions. Although this was not required by the legislation, we believe that it was important if the council's decisions were to be capable of being defended. The council did not, however, systematically identify or quantify the detrimental environmental effects of replacing rail with bus services in particular cases. It did so only where challenged, and was forced to reverse its original decisions in these cases.

- 1016 The political motivation for the environmental policy, led to rail being protected even where there was no compelling environmental benefit. This was exemplified in the case of the Johnsonville rail line.
- 1017 The council included the Johnsonville rail line under its environmental policy. It was aware from its own studies, however, that there were no significant traffic congestion implications from replacing rail services with buses on that line. At the time, Transit had also questioned the basis for protecting the Johnsonville line using the traffic congestion argument. It subsequently formalised its view by designating only two of the rail lines in the region as "critical corridors"; that is, deserving special protection. The Johnsonville rail corridor was not one of these. Despite the absence of evidence that bus services would lead to an increase in road congestion or produce any other detrimental environmental impact of any significance, the council declined an application from an existing operator to register bus services along the Johnsonville rail corridor.
- 1018 What this showed was that the council was prepared to protect the financial viability of the rail network even where the environmental benefits could not be demonstrated. This was despite the fact that the declined services would also have been provided without any subsidy.

Subsidising Rail Services

- 1019 NZ Rail had submitted to the council that it was unable to register any services because of the high fixed costs which each individual service would have to carry. It argued that no single service could be profitable unless all costs of providing and maintaining the rail system could be met through a separate payment from the council. This led to the idea of an infrastructure subsidy for which, in turn, NZ Rail agreed to register some of its services at no additional cost. Transit gave the council its approval to fund the rail infrastructure in this way, through a special CPP.
- 1020 This subsidy payment was intended to remove rail's competitive disadvantage by separating out those infrastructure costs which were incurred by rail but not by other transport modes such as buses.
- 1021 By funding NZ Rail in this way, rather than through the competitive tendering process, the council was facing significant risks. These derived from:
- The absence of pressure on NZ Rail from competing operators;

A SPECIAL CASE: WELLINGTON RAIL AND TROLLEYBUS SERVICES

- The appropriateness of the infrastructure subsidy being dependent on the quality of information held by the council on NZ Rail's costs; and
- The high cost of funding the regional rail network. In 1990–91, this cost road users (through Transit) and regional ratepayers (through the council) together \$19.3 million.

1022 Given these risks, we expected the council to have developed a strategy which would allow it as far as possible to control the negotiations. There were a number of objectives which the council needed to achieve. These were:

- To secure transport services which the council wanted for the region, at a price which was reasonable given the council's budget and the costs of providing the individual services;
- To secure the maximum environmental benefit in accordance with the council's environmental policy and budget; and
- To maximise opportunities for competition for those services where the costs of rail services exceeded the council's expectations.

Findings

1023 The council allowed the operator to take the initiative on important matters of negotiation. These were:

- The composition of the infrastructure subsidy payment to NZ Rail; and
- The services which NZ Rail would register in return for the subsidy payment.

1024 The council engaged consultants to give it assurance that the infrastructure funding costs prepared by NZ Rail for the 1991–92 financial year were appropriate. This review did not, however, evaluate the validity of the infrastructure payment in relation to the services offered; nor did it establish whether that payment would put rail on an equal footing with buses.

1025 The rationale for the infrastructure subsidy was to allow the operator to continue to run rail services at no cost disadvantage compared with alternative modes of transport. Equally, it was important to ensure that the subsidy did not create an advantage for NZ Rail over other modes. This meant that costs should have been included only to the extent necessary to ensure that rail services were able to compete with other modes on an equal footing.

1026 The council had no evidence that the infrastructure costs put forward by NZ Rail represented accurately the cost difference between bus and rail, either over the rail network generally or on any specific service. Without this detailed information about the relative costs of rail and buses, the council could not know that it was paying NZ Rail the right amount to compensate the operator for the high costs of the rail infrastructure.

1027 While council documents refer to them as "commercial services", the rail services for which it was paying through the infrastructure payment were no less subsidised services than those for which the council subsequently went out

to tender. Given that the council was providing a benefit to rail, using public money, it should have specified the services which rail was to provide in return for the subsidy.

- 1028 The level of services which the rail operator was able to provide was dictated by the size of the subsidy payment. The council was not clear, however, how much it should cost to save the rail network. Thus, in January 1991, the expected cost to the region was \$5.9 million. A further proposal from the operator to provide 90% of existing rail services suggested a figure of between \$16 and \$19 million.
- 1029 For any given level of subsidy, we expected the council to specify the services it required the operator to provide in return. To do this, it was essential that the council have information on the costs and revenues relating to individual rail services. This would also have enabled the council to maximise environmental benefits from protecting the network. The council did not have this information. The council thus accepted a proposal from the rail operator without knowing whether it was obtaining value for money for the subsidy it was paying.
- 1030 This proposal involved the council agreeing to pay NZ Rail \$10 million for 1991-92, in exchange for which the operator agreed to register 60-70% of rail services. NZ Rail subsequently won contracts for an additional \$7.2 million of rail services through the tendering process. Thus, the council was able to retain existing rail services for a total cost of \$17.2 million.
- 1031 Documented exchanges between the council and NZ Rail indicate that the council allowed the operator both to influence the level of infrastructure subsidy and to specify the services it would provide for that money. This also gave the operator the opportunity to dictate the terms under which it would compete for the remaining rail services in the tendering process.

Implications for the Tendering Process

- 1032 As discussed, the infrastructure subsidy was designed to preserve the viability of the rail operation. It was also designed to enable NZ Rail to compete on an equal footing with bus operators in the tendering process. We expected the council, having secured the future viability of the core rail network, to promote effective competition for the remaining rail services by specifying those services which NZ Rail would have to compete for in the tendering process.

Findings

- 1033 There is evidence that the council expected the infrastructure subsidy to provide a competitive advantage for NZ Rail in the tendering process, and was prepared to intervene to secure the desired outcome. The way in which the council subsidised the rail network was consistent with this approach.

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- 1034 The council's approach gave the rail operator an important strategic and, potentially, financial advantage over its competitors.
- 1035 The council faced the risk that, in the tendering round, it was subsidising the rail operator for services which were, in fact, commercially viable. This is because the infrastructure subsidy supported all services (with the exception of the Melling and Johnsonville lines) and not just those which NZ Rail had chosen to register. The infrastructure subsidy removed rail's overheads across its entire network. As the council had not obtained NZ Rail's costs, we were not able to establish the cost relationship between the infrastructure subsidy and individual rail services. What is clear, however, is that, for those services which NZ Rail won through the tendering process, it received two lots of subsidy; the infrastructure payment and the price for the tendered service.

Conclusions

- 1036 The council had identified the rail and trolleybus services as essential components of the region's passenger transport system. It was successful in safeguarding these modes and thus obtaining the network it set out to achieve. In doing so, it avoided the problems which it believed would be caused if the rail and the trolleybuses were unable to survive the competitive tendering process.
- 1037 The council will pay a total of \$17.2 million to preserve the rail network for 1991-92. This compares with a subsidy figure for 1990-91 of \$19.3 million, representing a saving of \$2.1 million. There were two costs to the council of this:
- Services which would have been run without a cost to the regional ratepayer were declined; and
 - A \$10 million infrastructure subsidy was paid to NZ Rail.
- 1039 The council's commitment to protecting rail led to the environmental policy being applied without evidence of the likely detrimental effects on the environment of using an alternative mode.
- 1040 The council did not analyse how the fixed costs of the rail infrastructure related to the costs of operating individual rail services. Without this information, the council could not be sure that it was not paying too much to support rail.
- 1041 The protection of the regional rail network was achieved through negotiations which the council failed to control. This gave the rail operator the strategic opportunity to influence the outcome of the tendering process. In taking this approach, the council failed to promote a commitment to competition, even where the survival of the rail structure had been assured and no additional protection was necessary.

- 1042 Although the infrastructure subsidy therefore proved effective in securing rail services for the region, we are not satisfied that it was negotiated in such a way as to ensure that it obtained the most cost-effective outcome for the region.

TROLLEYBUSES

- 1043 Like rail, trolleybuses carry high fixed costs which make it difficult for them to compete with other modes.
- 1044 Research commissioned by Wellington City Council had shown that trolleybuses were inherently more expensive to run than diesel buses. This was because of the additional cost of maintaining their overhead wiring. What also made Wellington's trolleybuses uncompetitive was that they were not being fully utilised. The research had established that the more the trolleybuses were used, the less they cost to run—because the fixed overheads could be spread over a greater number of trips.
- 1045 These factors created a threat to the continued viability of Wellington's trolleybus network. However, the research indicated that there was public support for the trolleybuses and that they offered environmental benefits.
- 1046 The cost structure of the trolleybuses meant that no service could be profitable on its own. Consequently, the operator would not be able to register any services. This, in turn, would allow other operators the opportunity to register services on trolleybus routes. As with rail, moreover, this cost structure gave the trolleybuses little chance of winning services in the tendering round, particularly if diesel bus operators had already registered services on trolleybus routes.
- 1047 The council decided to protect the trolleybus network because it met the requirements of the council's environmental policy. It also subsidised trolleybuses by funding the network infrastructure consisting of the overhead wiring system.
- 1048 We expected the council to have developed a sound basis for protecting the trolleybuses. We also expected the council to have minimised the costs of doing so and maximised the benefits. This section examines how the council achieved its objective of retaining the trolleybus network to secure its environmental benefits.

Findings

- 1049 As discussed above, the fixed costs of the overhead wiring system were a threat to the viability of the trolleybuses. As with rail, the council addressed this problem by funding those infrastructure costs. This enabled the operator to register services "commercially", which it did for all but one of the major trolleybus routes. The support provided by the subsidy also made it possible for the operator to compete for the remaining trolleybus services in the subsequent tendering process.

- 1050 In contrast to its approach to funding the rail infrastructure, the council tested the costs of the subsidy payment for the trolleybus overhead wiring system. It identified which components of the infrastructure it would fund and then put these out to tender. The successful tender, together with an amount to meet outstanding loans on the trolleybus infrastructure, produced a subsidy figure of \$1,018,940.
- 1051 The payment of the subsidy was made on the assumption that the operator would maximise the use of the trolleybuses. This was consistent with the objectives of minimising subsidy costs and maximising environmental benefits. In order to achieve these objectives, it was important for the council to specify the services which the operator should provide, before it made a commitment to paying an infrastructure subsidy. This principle applies even where the infrastructure payment is made not directly to the operator but to a third party. In this particular case, a company other than the operator receives the payment in return for undertaking maintenance of the trolleybus infrastructure.
- 1052 The council did not analyse the costs of running particular trolleybus services. Rather, having reached agreement on a formula for the subsidy payment, the council allowed the operator to decide which services it would register. This allowed the operator to specify both those trolleybus services for which it required protection through the registration process and those which it believed it would win in the tendering process.

Conclusions

- 1053 The council used a competitive process to test the price which it paid for the infrastructure subsidy. This gave it an assurance that the price was reasonable.
- 1054 The costs and benefits to the ratepayer of protecting Wellington's trolleybus network are not clear. The regional council did not relate the infrastructure subsidy to individual trolleybus services to ensure that it was not subsidising services which the operator was able to run commercially. In our view, therefore, the council failed to manage the process to ensure it secured the trolleybus services for the least cost.

Recommendations

- 1055 **Wellington Regional Council should take a more active role to identify and secure benefits for the region from the rail and trolleybus networks, and test subsidy costs in order to better protect the interests of the ratepayer, road users and the travelling public.**

CHAPTER 11

OVERALL CONCLUSIONS

- 1101* It is not possible to calculate the net benefits of introducing the Competitive Pricing Procedures. The information which the councils collected under the old system does not allow comparison, and not all effects are quantifiable.
- 1102* Benefits we identified were:
- The total amount of subsidy money being paid out for passenger transport services by the three councils for 1991–92 is some \$14 million lower than it was for 1990–91;
 - Services which were previously subsidised are now provided commercially, without public funding; and
 - Municipal bus operators have changed their operations to become more competitive.
- 1103* We also identified a number of other outcomes.
- 1104* The reforms created restructuring costs for ratepayers in Canterbury and Wellington, where municipal operators lost contracts. These costs totalled \$53 million in the year to 30 June 1991.
- 1105* As no comprehensive patronage surveys have been conducted since 1 July 1991, the effect of the reforms on users of public passenger transport remains unknown. It is essential to establish this, since the transport system exists to meet the needs of passengers.
- 1106* There were two situations where regional councils failed to identify the true costs and benefits of their decisions. These were:
- Auckland Regional Council's support of the Yellow Bus Company; and
 - Wellington Regional Council's application of its environmental policy to protect the rail and trolleybus networks.
- 1107* The three regional councils we visited faced an enormous administrative task in preparing for 1 July 1991. We would like to acknowledge this, and commend them for completing the task within the limited time available. Regional councils will not face an effort of the same magnitude in the future, since all subsequent tenders will be carried out on a staggered basis. Their work may become more complex, though, if competition increases, as instanced by the situation faced by Wellington Regional Council in the Hutt Valley.
- 1108* We found that regional councils have different views of their roles in the new passenger transport regime.
- 1109* Auckland Regional Council placed reliance on operators for running the network. Canterbury and Wellington Regional Councils saw their responsibilities more widely, and took an active part in the ongoing operation of their systems.

OVERALL CONCLUSIONS

- 1110* Canterbury and Wellington Regional Councils saw the reforms as an opportunity to introduce change. They undertook research to identify regional needs, and from the results developed appropriate service specifications. Auckland Regional Council made a conscious decision to limit change as far as possible. It argued the need both to avoid disruption to the travelling public and to secure the survival of the Yellow Bus Company. The council's decision has simply deferred the impact of the transport reforms.
- 1111* Competition was a key objective of the CPPs and the reforms generally. All three regions were successful in encouraging new operators to enter the market and in reducing subsidy costs. However, Auckland and Wellington Regional Councils took decisions which effectively inhibited competition:
- In Wellington, the political decision to protect rail led to the cheaper option of buses being rejected on certain routes. This policy also resulted in some \$10 million of funding being removed from the competitive process, in order to support rail. As a result of its preference for rail, the council did not explore opportunities for buses. These might have offered greater benefits to users or a price advantage.
 - Auckland Regional Council, in electing to use the longest possible contract periods, locked in the existing network for at least three more years. The rationale for this decision and the final choice of contract periods were explicitly designed to protect the Yellow Bus Company from the effects of competition.

Management of Public Passenger Transport in the Future

- 1112* There are a number of areas where, in our view, Transit and regional councils need to direct their efforts in the future.
- 1113* A key priority for Transit, if it is to fulfil its statutory responsibilities, is to decide how best to use taxes collected from road users to support public passenger transport. Transit has yet to develop a defensible policy for subsidising passenger transport and to devise funding mechanisms which would enable it to know how its contribution to regional passenger transport is spent.
- 1114* Within the constraints of Government policy, Transit is responsible for making choices about how much money the Government should spend on roading, passenger transport and other land transport activities. As long as central government and ratepayers accept that there is a relationship between public transport and the amount of money spent on roading, and there will be an urgent need for Transit, regional councils, or both, to develop a means of making the choices required.
- 1115* Compiling detailed information about patronage is essential for regional councils to ensure that they support only those services which continue to meet the travel requirements of passengers and ratepayers. Only by reviewing routes and timetables can councils know where subsidies can be used most effectively

OVERALL CONCLUSIONS

and efficiently in the interests of users. This must be accompanied by research to establish the emerging transport needs of the region and the demand for new services to meet those needs.

- 1116* Regional councils must review service specifications, such as fares and vehicle features, to ensure that there is a balance between subsidy costs and the needs of the travelling public.
- 1117* There is a need for regional councils to actively pursue strategies to maximise opportunities for competition and thereby maximise subsidy savings. These include grouping services in the tendering process so as to attract bids from a variety of operators, and establishing accurate benchmarks for evaluating service costs. The tendering process saw few major services contested. Where services are not contested, regional councils need to test prices in order to obtain the best result for the region.
- 1118* Transit and regional councils are both supporting public passenger transport out of public funds. This carries with it the obligation to monitor and review how that money is spent. There is only limited scrutiny of how regional councils are using the funds collected and distributed by Transit. All regional councils need to take an ongoing interest in the system and its operation. More generally, they must continually review how services are being used and, where necessary, make changes to accommodate the changing requirements of the travelling public and to maximise value from the subsidy paid.

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