PUBLIC EXCLUDED

Report	**PE06.655**
Date	8 November 2006
File	T/11/33/02
Committee	**Passenger Transport Committee**
Author	**Rob Braddock Contract and Quality Team Leader**

Bus and Ferry Procurement Review

1. Purpose

Following a Land Transport New Zealand (LTNZ) board resolution of 14 July 2006, Greater Wellington Regional Council (GWRC) was tasked with the establishment of a Bus Procurement Philosophy (BPP) in order to set guiding principles for the contracting of trolley bus, other bus and ferry services. The BPP has subsequently set the scene for the trolley bus contract currently being negotiated.

The purpose of this review is to establish a Bus Procurement Strategy and Plan (BPSP) for other bus and ferry services (and future procurement of trolley bus services), that is based on the BPP.

Public excluded

2. Exclusion of the public

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information and Meetings Act 1987 are:

That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist (ie because of the need to preserve commercial confidentiality and to enable Council to carry on negotiations, including commercial negotiations, without prejudice).

The report can be made available to the public as soon as negations with all relevant public transport operators has been complete with respect to the forthcoming contract period of two years.

3. Significance of the decision

The matters for decision in this report **do not** trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

4. Background

Over the last 18 months, LTNZ has been undertaking a review of procurement methods for public transport services. Although the review has not yet been fully completed, a recommended approach to changes in the procurement framework was released in September 2006.

During this review period, GWRC officers took part in discussions with LTNZ concerning the continuation of funding for trolley buses. Whilst committed to retention of trolley bus services, LTNZ were concerned about the resulting market dominance when operated by a sole provider (Stagecoach). As described above, the LTNZ board resolved that GWRC establish a BPP. The BPP is attached as **Attachment 1**. The BPP is now incorporated within the draft Regional Passenger Transport Plan.

In the same resolution, LTNZ withdrew our ability to tender for services under the existing competitive pricing procedures (CPP), with the exception of services for Wairarapa which are due to be tendered shortly. This was essentially because they were not convinced our methods created an ideal competitive environment, however it is important to note that our methods were just as prescribed in the CPP and had previously been audited and approved.

5. Current Situation

Public excluded

With the BPP in place, we must now complete the BPSP. As mentioned above, recommendations from LTNZ mean we can now start to plan what will be the best strategy for the Wellington Region going forward.

In terms of the LTNZ recommendations, some of these are quite significant changes - for example;

- Longer contract durations (possibly up to 12 years with renewal at 6 years)

  Currently maximum 5 years + 2 years by agreement

- Larger contracts (100-200 buses)

  Current maximum size of 1000 seats, approximately 22 buses

- Gross contracts with patronage incentives for operators

  Gross & Net contracts currently allowed but incentive payments are not common practise

- Operational performance regimes inclusive of incentives for operators

- Longer periods between the tendering of and commencement of bus service contracts to encourage competition

  Currently maximum of 8 months between the issue of a tender and the commencement of services

These recommendations represent what seems to be becoming recognised as best practice, both locally and overseas. Essentially, the thinking is that the best value for money can be achieved through longer term arrangements, including incentives for good performance. Longer term contracts provide a benefit through reduced cost as risks are spread over the longer term and investments can be made with more certainty.

Any of the above will require significant change to our current contracting processes, and what currently remains is for GWRC to determine exactly which options suit the local market best. It is understood that LTNZ will issue a final set of procurement guidelines which will include a number of procurements options for Regional Councils, but these options will be consistent will the recommendations above. Regional Councils will then have the ability to choose those options most appropriate to their local market. Each option will be designed as a mechanism to achieve best value for money. However the understanding is that within the LTNZ guidelines, each of the major Regional Councils will produce their own procurement procedures.

There is considerable work involved in the determination of what will achieve best value for money for GWRC, including analysis of the local market, strategy design, benchmarking, analysis of potential costs, creation of new contract documents and processes, peer review. Approvals of the final procedures will have to be sought from Council, LTNZ, and the Commerce Commission. We will need to obtain Commerce Commission approval to ensure that we retain a competitive market within the Wellington Region. It is our intention to work closely with the Commerce Commission and LTNZ as work progresses.

We anticipate that in order to complete some of this work, assistance of specialist consultants will be required.

Of benefit to us is the fact that as a Council we are not alone in effecting these changes. ARTA have already embarked on a similar project and have worked closely with LTNZ in this regard and will prove a valuable source of information. It is important to note though that the Auckland and Wellington markets have some significant differences - the largest of these being the different levels of current competition. Subsequently, thorough analysis of the local market is very important.

The project will consist of two main stages, namely establishment of the strategy and an implementation plan. Establishment of the strategy will consist of thorough analysis, creation of processes and analysis of costs. Creation of the implementation plan will focus on the transition from the current system and preparation of all necessary documentation, as well as gaining all approvals.

We believe a realistic timeframe for completion of this project - to the point we can release a tender under the new procurement procedures - is twelve months, however this creates issues around our current contract expiry dates which will be discussed in the next section. Below is a table showing anticipated project tasks and timeframes;

Public excluded

Task (Strategy)	**Timeframe**	**Elapsed timeframe**
Operator liaison regarding contract expiration dates	4 months	
In-house analysis of local market	6 weeks	
In-house strategy design, benchmarking, risk assessment (stage 1)	3 months	3 months (includes Christmas break)
Request For Tender for consultancy (design / specification / tender timeframe) - If necessary	6 weeks	
Process detail (mechanisms etc), benchmarking (stage 2)	3 months	
Consultancy assistance	2 months	
Cost analysis	1 month	
Task (Implementation Plan)	**Timeframe**	**Elapsed timeframe**
Transition/implementation plan	2 months	6 months
Development and preparation of: Request For Tender process Contract Evaluation process	3 months	
Peer review	2 weeks	9 months
Council / Commerce Commission / LTNZ approval	1 month	10 months
Events not programmed	2 months	12 months

Public excluded

5.1 Options/Issues

We have a number of significant bus service contracts which are due to expire over the next two years. The earliest expiration amongst these are contracts for Hutt Valley bus services in October 2007. The issue this presents is that under current processes we would be tendering these contracts around April 2007, prior to completion of the review. This is not at all ideal as this then means we will be tendering those services under the current terms, and not improved ones. In addition, special permission will be required from LTNZ to go to tender at that time under any circumstances, given that they have removed our ability to tender as mentioned above.

One option available to us is to consider 'rolling' affected existing contracts under the current terms, in order to allow a suitable timeframe for completion of the project plus the anticipated increase in tender and contract start timeframes. This option will also require permission from LTNZ as well as agreement from the bus operator.

Another option is to go to tender as we would under the current system, but only offer the contracts for a short term (say two years), allowing us to complete the project and implement it ‘next time around’. As above, this will require permission from LTNZ. Below is a summary of the possible advantages and risks

Option A ’Rolling’ a Contract

Advantages	**Risks**
Buys time with minimal risk	Unable to implement any significant change
Provides some certainty for all parties, including cost	Bus operators may not agree to ‘roll’ contracts

Option B Tendering a 2 Year Contract

Advantages	**Risks**
Able to implement change that does not incur significant costs	Cost implications are high, little certainty for bus operators as short term contract
May be able to introduce competition into the market	May preclude competition due to the lack of certainty a short term contract provides
	Unable to implement significant change if associated cost is to be spread over a short term

Public excluded

Using the upcoming Hutt Valley bus service contracts, we have costed the two options using our standard costing model. This model has proved itself to be quite accurate in costing previous contracts.

These costings are shown in the tables below;

Option A ‘Rolling’ a Contract

Hutt Valley Bus Services	**Base Price**	**Inflation**	**Total Price**
Current costs	$4,990,227	$1,671,092	**$6,661,319**
Anticipated costs 1st year (Option A)	$4,990,227	$1,679,273	**$6,669,500**
Anticipated costs 2nd year (Option A)	$4,990,227	$1,878,751	**$6,868,978**

Option B Tendering a 2 Year Contract

Hutt Valley Bus Services	Base Price	Inflation	Total Price
Current costs	$4,990,227	$1,671,092	**$6,661,319**
Anticipated costs 1st year (Option B)	$7,827,108	$0	**$7,827,108**
Anticipated costs 2nd year (Option B)	$7,827,108	$372,357	**$8,199,465**

Notes

- Revenue taken into account in the final cost of both Option A & Option B is based on actual figures
- Incorporated into Option B is an anticipated rise in contract costs of 20% over present. Stagecoach management have long been telling us that we can expect this increase in costs for the Hutt Valley and our first experience of this was in the recent receipt of tenders for Upper Hutt bus services. This was offset at the time by a reduction in service levels, which while considered prudent at the time, may not be an option for the other services. However, the option of reducing services should not be discounted at this time.
- In explaining the 20% cost increase, Stagecoach management maintain that the current Hutt Valley contracts were under-bid in 2003. Our modelled costs for Option B reflect that increase - not through allowing for Stagecoach's error in costing, but rather through our own standard analysis of operating costs.

5.2 Summary of Options/Issues

The anticipated costs of Option A are likely to be the most accurate, due to the fact that the base price has already been set and that we only require a projection for inflation for the short term.

The anticipated costs for Option B are probably more subject to inaccuracy, given that there may be costs associated with these services that we have not anticipated (this is more often the case with spreading risks across short term contracts),

Conversely, our costings in the past have been reasonably accurate but it would be fair to say that it is not often we receive a price that is less than we have anticipated. It is probably likely then, that a price received for Option B will be slightly higher than we have anticipated.

In conclusion, we believe it is preferable to roll the affected contracts, subject to the necessary approvals because;

- It is most cost effective
- It allows enough time to complete the review
- It eliminates the chance of unanticipated significant costs that a new short term contract may present.

Public excluded

In order to do this, we ask for the Committee's approval to approach both LTNZ and bus operators.

5.3 Project Costs

Indicative costs for project (based on information from ARTA)

2006/07 $100,000

2007/08 $110,000

5.4 Anticipated Project Outcomes

We expect the project to deliver a contracting process that:

- Obtains best value for money
- Provides delivery of a bus service that is in keeping with GWRC's vision for public transport
- Does not significantly increase the cost of providing those services
- Satisfies all relevant authorities
- Meets all stakeholders expectations

6. Recommendations

That the Committee:

1. ***Approve*** *the continuation of the procurement review project based on the recommended timeframe and;*
2. ***Approve*** *officers approach to bus operators and Land Transport New Zealand in respect to 'rolling' necessary contracts.*

Public excluded

Report prepared by:	Report approved by:	Report approved by:
Rob Braddock	**Rhona Hewitt**	**Wayne Hastie**
Contract and Quality Team Leader	Manager, Transport Procurement	Divisional Manager, Public Transport