



Competitive Tendering in New Zealand: Evolving Policies and Experience

Ian Wallis

*Managing Director
Travers Morgan (NZ) Limited*

Abstract:

Passenger transport in New Zealand was 'deregulated' from 1 July 1991. While in many respects the NZ 'deregulation' legislation is modelled on the 1985 UK Transport Act, there are a number of important regulatory differences and substantial differences in the market and financial environments. As a result, only around 15% of NZ's urban passenger transport services were registered to be provided commercially from July 1991, as compared with about 85% in the UK following deregulation. The remainder of the NZ services are being provided through a competitive tendering process, which took place in February-May 1991. It is evident that this process is central to the overall success (or otherwise) of 'deregulation' in NZ.

This paper describes the principles and approach adopted by Transit NZ (the central government agency) in developing competitive tendering procedures (building on experience of other countries), and the way that these principles have been translated into practice by regional councils, which are the main tendering authorities. It also reports on the experience and results from the first tendering round, recently completed.

Contact author:

Mr I P Wallis
P O Box 11-525
Wellington
NEW ZEALAND

Telephone (04) 710 303 Fax: (04) 710 353

Introduction

Structural reform of the land transport sector in New Zealand has been under way throughout the 1980s. The major reforms of passenger transport services were contained in the Transport Law Reform Bill, which was passed by the NZ Parliament in September 1989. This introduced what is commonly known as 'deregulation' of the passenger transport sector - but is referred to as 're-regulation' by many involved in trying to understand the legislation and translate it into practice. The 'deregulation' legislation is based broadly on the UK Transport Act 1985, but with many significant differences (as described later).

While some provisions of the new legislation came into force from November 1989, the key date for the start of the 'deregulated' services is 1 July 1991 ('D'-day). For the 12 months leading up to this, government authorities and operators involved in passenger transport have been preparing, under intense time pressure, for the introduction of the new regime. Whereas in the United Kingdom the majority of existing services were registered commercially and only a minority (c.15%) subject to competitive tendering, in NZ the converse has proved to be the case - about 80% of all local services are to be subsidised through a competitive tendering process. Thus the tendering process is crucial to the overall success of 'deregulation' in New Zealand.

This paper describes the NZ experience with the first round of competitive tendering, leading up to 'D'-day. It concentrates on tendering for local passenger transport services, principally in the urban areas, as longer-distance services have not in practice been subsidised. The paper describes the tendering policies which were developed by central government (building on overseas experience); the way these have been applied by the regional councils (the principal tendering authorities); the response of operators in the first tendering round; and the overall outcome in terms of services, fares and subsidy levels. The paper particularly details some of the problems that have arisen in putting the tendering procedures into practice, notes lessons learned to date, and discusses how these problems might be best addressed for future tendering rounds. Some tentative conclusions are also drawn on the overall success (or otherwise) of 'deregulation' in New Zealand.

The paper is written from the perspective of one who has been intensively involved as a transport consultant in assisting others prepare for 'deregulation': in helping prepare government policies relating to competitive tendering; in helping regional councils translate these into practice; in developing tender and contract specifications; in assisting operators to appraise and improve their efficiency and to prepare tender bids - while trying to avoid any blatant conflicts of interest

throughout this process!

The rest of the paper is structured as follows:

- Section 2 - provides an overview of the passenger transport system in New Zealand, the 'deregulation' legislation, and the passenger transport planning roles of the regional councils.
- Section 3 - summarises the policies and processes relating to commercial services and the extent and nature of services which have been notified commercially.
- Section 4 - describes the government procedures formulated to guide the tendering process and to ensure that the competitive and efficiency objectives of the legislation were achieved.
- Section 5 - describes the tendering processes adopted by the regional councils (following the government procedures) and discusses key issues arising.
- Section 6 - summarises the outcome of the tendering process, in terms of the extent of competition, winners and losers, and the impacts of different tendering practices.
- Section 7 - presents a summary and conclusions, including highlighting of issues that need to be addressed for future tendering rounds.

Passenger transport 'deregulation' in New Zealand

Urban passenger transport in New Zealand

This sub-section provides a brief overview of the urban passenger transport market in New Zealand, the key players in it and its funding, so as to provide a context for the following parts of the paper. It focuses on local passenger transport services, as longer-distance services are not generally subsidised and therefore only a passing concern in this paper.

New Zealand has a population of about 3.4 million, of which 2.9 million live in urban areas and 1.5 million of these in the three major cities: Auckland (0.85 million), Wellington (0.33 million) and Christchurch (0.30 million).

Subsidised passenger services operate around 72 million vehicle kilometres per year and carry around 125 million passenger journeys. This represents an average of some 37 journeys per person per year over the entire population, or some 43 journeys per person for urban area residents. In the three major cities, average trip

rates are in the range 40 - 105 journeys per person per year. This is considerably lower than trip rates in most European cities (usually in the range 100 - 300 pa per capita), on a par with trip rates in Canada and Australia, and higher than in most USA cities. Car ownership is high compared with most European countries, at about 0.55 cars per person.

Public transport operators in New Zealand may be considered in three groups:

- 'Municipal' bus operators - 10 operators, ranging in size from 540 buses (Auckland) down to 9 buses, and providing the majority of services in major urban centres.
- NZ Rail - providing urban rail services in Auckland (loco-hauled) and Wellington (suburban electric units)
- also providing bus services in seven regions, but these are in the process of being divested to the private sector.
- Private operators - a large number of bus operators ranging in size from some 50 buses downwards, and often providing route, school, contract and charter services (also a few ferry operators, principally in Auckland).

The municipal bus operators carry about 71% of total passengers on subsidised services, urban rail services about 11%, NZ Rail bus services about 6% and private bus/ferry services about 12%.

In 1990/91 the total subsidy to passenger transport services throughout New Zealand was some \$106 million, broken down by region and operator as shown in Table 1. The regions containing the three major cities account for 92% of this total subsidy. The subsidy is funded approximately 45% from central government sources (via Transit NZ) and 55% by regional councils through local rates.

On a per capita basis, the passenger transport subsidy averages some \$31 per person, equivalent to about £10 per person. This compares with a UK average of some £14 per person in 1990/91 for all expenditure on public transport (Transport Advisory Service, 1991). Wellington receives the highest per capita subsidy of around \$110 per person, equivalent to about £37 per person: the UK Passenger Transport Executive areas average about £47 per person.

The New Zealand per capita subsidy levels may appear high relative to the UK, given the much lower public transport trip rates in New Zealand. However, average cost recovery for urban services in New Zealand is 50-55%, very much lower than the UK average of around 85%. Thus the New Zealand subsidy per trip

Table 1: New Zealand subsidy allocation by region and operator type, 1990/91. All figures in \$million

Region	Operator type					Total
	Municipal buses	Private buses	NZR buses	NZR rail	Ferries	
Auckland	40.00	2.95	1.25	4.78	0.23	49.20
Wellington	13.54	0.89	3.70	19.22	0.05	37.40
Canterbury	11.01	0.04	0.05	-	0.11	11.20
Otago	3.09	0.38	0.38	-	-	3.85
Waikato	-	1.19	-	-	-	1.19
Manawatu-	0.62	0.21	-	-	-	0.83
Wanganui	0.69	-	0.06	-	-	0.75
Taranaki	-	0.53	-	-	-	0.53
Northland	0.49	-	-	-	-	0.49
Southland	-	0.11	0.18	-	-	0.30
Hawke's Bay	0.19	-	-	-	-	0.19
Gisborne	-	-	0.08	-	-	0.08
Bay of Plenty	-	0.02	-	-	-	0.02
West Coast						
TOTALS	69.61	6.31	5.72	24.00	0.38	106.03

Source: National Land Transport Programme, 1990-91, Transit New Zealand June 1990.

is substantially higher than in UK.

The passenger transport market structure in New Zealand was seen, in advance, as rather fragile and less favourable to healthy competition than the markets in either the UK or USA, for a number of reasons:

- The NZ supplier market is relatively concentrated, with the market in each centre being dominated by a single (public sector) operator, and with the legislation not requiring these operators to be split up.
- The distances between substantial centres are large by UK standards, and there were no major operators expected to compete throughout the country.
- Passenger demand is relatively limited (on account of high car ownership and relatively dispersed development patterns): thus there are likely to be relatively few commercially-viable services compared with the UK.
- Tendering in NZ would take place more-or-less simultaneously throughout the country, giving no opportunity for a gradual encouragement of competition.

In this situation, there seemed a real danger that there would be little or no threat of real competition in many areas. In the absence of reasonable contestability, there would be no incentive to efficiency, and 'deregulation' would

not achieve its objectives. Therefore it was considered crucial that the competitive tendering process should provide every encouragement to increase competition and develop a stronger supplier market. The extent of success (or failure) in achieving this is discussed later.

The 'deregulation' legislation - key features

This sub-section summarises key features of NZ's Transport Law Reform legislation, to provide the context for the later discussion of the commercial market and the tendering procedures. (Further detail is given in the paper by Fiona Knight, to Workshop No. 6).

Key features of the new regulatory situation are as follows:

- (A) Separation of policy from operations
 - Transit NZ will oversee public transport and other land transport sectors.
 - Regional public transport policy will be under the control of the regional councils, which will not be permitted to own any passenger transport operation, either directly or indirectly.
 - Local authorities will not be permitted to engage in passenger transport operations, except indirectly through corporatised Local Authority Trading Enterprises (LATEs).
- (B) The competitive situation
 - The legislation is to apply equally to all passenger transport modes (unlike the UK legislation).
 - Passenger transport licences will be available to all operators through the Ministry of Transport.
 - Any holder of a passenger transport licence, including a LATE, will be permitted to notify regional councils of its intention to operate any land transport service at least 21 days before commencement of operation. The notification must specify details such as routes or service areas, schedules, fares, etc.
 - Regional councils will have 21 days to register a notified service, or to decline registration. Registration may be declined on certain specific grounds only (discussed later).
 - Regional councils may contract for service from licensed operators, subject to competitive pricing procedures established by Transit NZ. Contracted services must be registered by the regional councils.
 - Only registered services will be permitted to operate
 - Non-contracted services may be abandoned or varied with at least 21 days'

notice by the operator.

(C) Other provisions

- Any services to be subsidised by a regional council are to be specified in a Regional Passenger Transport Plan prepared by the council (refer below for further discussion).
- Regional councils will be required to ensure that the public is supplied with adequate information on public transport services that are operating.

While the NZ legislation differs from the UK Transport Act 1985 in many respects, two key areas of difference that should be noted here are:

- The NZ legislation covers all passenger transport modes on a similar basis, whereas the UK legislation covers bus services only. Some issues that have arisen in relation to the wider NZ legislation in this respect are outlined later.
- The UK legislation severely limits the ability of a council/region to interfere with a commercially-registered service; whereas the NZ legislation gives regional councils significantly more powers in this regard, eg:
 - they can 'contract over' a commercial service which does not meet its desired service specification;
 - they can refuse any commercial service applications which would adversely affect a contracted service.

These additional powers will substantially affect the balance between commercial and contracted services, and the rate of commercial service changes.

The role of the regions and the regional passenger transport plan

The NZ Transport Law Reform legislation clearly gives New Zealand's 14 regional councils the primary responsibility for the registration of commercial passenger services, and for the planning, contracting and funding of non-commercial passenger services.

Under the 1989 Transport Service Licensing Act (as subsequently amended), each regional council is able to prepare a **Regional Passenger Transport Plan**. Such a Plan is to specify the passenger services which the regional council proposes be provided in its region, and additionally may specify:

- the conditions of these services
- their routes, capacities, frequencies and fare structures
- any special provisions for users of specified services
- any other matters the regional council thinks fit.

The Plan is to be prepared in consultation with the district authorities in the region, and is to be made available to the public.

Under the previous legislation (the Urban Transport Act 1980), the main urban regions were required to prepare an Operational Plan and an Urban Transport Scheme. These are no longer required and, in effect, the Regional Passenger Transport Plan supersedes the public transport components of the Operational Plan.

However, preparation of a Regional Passenger Transport Plan is not a statutory requirement on regional councils. It is only required if the region wishes to contract to subsidise passenger services, which have to be specified in the Plan. The Plan can be updated at any time, without the need for formal legal procedures.

In the event, all major regional councils have prepared Regional Passenger Transport Plans. (A plan was not prepared by one of the rural regions, which in the past has not subsidised any passenger services). In most cases, the regional councils have gone to considerable length to develop and draw together all their policies relating to passenger transport in these Plans, as well as fulfilling the minimum requirements of specifying those services which the council wishes to see provided in the region.

Typically, a council's Regional Passenger Transport Plan has included an outline specification of the services required in each route/corridor; and the desired fare levels, fare structures, ticketing arrangements, etc. These service and fare specifications provide the basis for the specifications to be included in any request for tender documents, if the service (or a similar service) is not offered commercially.

Through its ability to define desired service levels and fares, a regional council can effectively be the major influence on the balance between commercial and tendered services in its region. If it stipulates a low fares policy, very few services will be commercial and the whole network may end up being tendered (as in London): this has occurred in one major city. On the other hand, acceptance of a high fares policy will encourage commercial registrations, and a situation more similar to the remainder of the UK is likely to result.

The commercial market

Registration procedures for commercial services

The procedures for notification of commercial services by operators and their registration by the regional councils are along broadly similar lines to the equivalent UK procedures, but with some significant differences. The NZ procedures are, in

summary:

- December 1990-January 1991: any operator could notify services for commercial operation from July 1991, with the regional council being able to reject the notification only on traffic management or environmental grounds.
- February-October 1991: in this period further notified services were only likely to be registered if they were considered by the regional council not to have a material adverse effect on already-registered services, either contracted or commercial (to start operation on 1 July 1991).
- November 1991 onwards: further notifications of commercial services may be rejected if they adversely affect contracted services, but not on the grounds that they affect other commercial services.

Depending on how regional councils choose to interpret these procedures, it seems that the scope for starting any new (or substantially varied) commercial services after July 1991 will be very limited, as these are almost certain to affect a contracted service (given the high proportion of contracted services in the main areas). This is likely to result in much more stability of services in New Zealand than has occurred in the UK, but maybe unnecessarily high levels of subsidy support.

Another significant difference between the NZ legislation and that in the UK is that regional councils may 'contract over' any commercial service if its service details or fares differ in any way from those specified in the Regional Passenger Transport Plan. Such 'contracting over' has already occurred in a number of instances where:

- the timetable for the commercial service is such as to make 'gap-filling' unsatisfactory;
- the commercial fares are significantly higher than those specified in the Regional Passenger Transport Plan.

(I believe such 'contracting over' practices would not generally be allowed under the UK legislation and code of practice)

The prospects for commercial services

Compared with the UK situation, there are a number of factors which would tend to result in a lower proportion of existing services being notified by operators and accepted by regional councils as commercial services. These are:

- The much lower average cost recovery of existing services in NZ (50 - 55%, compared with c.85% in UK); a major contributor to this is the lower average fares in NZ, and secondarily the lower average loadings (reflecting in part the

lower demand levels)

- The restrictions on increasing existing fares to levels above those specified in the Regional Passenger Transport Plan (generally about existing levels).
- The lack of any expectation of being reimbursed for offering fare concessions to disadvantaged groups (this situation has now changed).
- The possibility of the regional council 'contracting over' a commercial service which differed from that specified in the Regional Passenger Transport Plan.
- The possibility of incumbent operators being given preference in the tendering stage (see later), giving them less incentive to notify their services commercially.

For these reasons, it was expected that only a minority of existing services would be taken up commercially: it seemed likely that even many of the trunk corridor services in the main centres would not be regarded as commercial, and so it proved.

The extent and nature of registered services

The proportions of existing services (or similar) registered commercially up to June 1991 vary by region between zero and 100%! Overall we estimate that 21% of urban services will operate on a commercial basis from 1 July 1991. Statistics by region are given in Table 6 (at end of the paper).

In general, the commercial services are characterised by:

- operating on weekday daytimes (say 0600 - 1800), but often do not provide the full peak service or school special services
- involving a relatively even level of service all day
- operating in the major urban corridors.

There is no clear-cut pattern to the differences in commercial service proportions between regions, although the present fare and cost-recovery levels and the regional council's attitude to higher fares is a major factor behind the differences. The following notes explain some of the patterns in selected regions.

- *Auckland:* The main commercial services are those of two of the larger private bus operators (30-40 buses each), who registered most of their existing services (or variations of them) operating in the 0600-1800 weekday period. Some harbour ferry services were also registered. These together account for around 8% of all services in the region. The large municipal bus operator initially registered a substantial proportion of its services (it is believed for tactical reasons), but subsequently withdrew these.
- *Wellington:* Wellington had the highest level of commercial registrations of the major cities, to a substantial degree due to a decision to fund fixed infrastructure of urban rail and trolley bus services separately (see below). Registered services

were principally:

- most existing urban rail services, but excluding many early morning/late evening services and with the peak service at only around half the present level
- trolley bus services on the main routes in Wellington City, in the weekday daytime period only
- the stronger routes of private bus operators, again mainly in the weekday daytime period.

Overall just over half of the existing Wellington services were registered, with the urban rail and trolley bus services accounting for over three-quarters of the registered services.

- *Canterbury*: The only significant service registered was one private bus route into Christchurch from an outer semi-rural area. The municipal operator did not register any of its services: this was unsurprising, given that its previous average cost recovery was under 40%.
- *Taranaki*: The main town, New Plymouth (population c.40,000) had been served by a municipal bus operator with about 20 peak buses, with cost-recovery around 45% and a subsidy of nearly \$1 million pa. The city council had decided to divest, rather than corporatise, the bus company. Surprisingly, a private bus operator stepped in to register the bulk of the services commercially, with little change in existing fares. It remains to be seen whether this will be an enduring situation.
- *Manawatu-Wanganui*: The main town of Palmerston North (population c.60,000) had a situation similar to that in New Plymouth. Again, somewhat against prior expectations (and shortly before contracts were to be awarded), the local taxi company notified virtually all the existing services commercially. Typically, it proposes to replace each existing service with two 10-seater vans/minibuses (or with one such vehicle at lower demand periods), and charge slightly higher fares than hitherto. The economics of this seem sound, provided that capacity can be closely matched to demand and good vehicle utilisation is obtained (Typical taxi costs would be around \$20 per hour, compared with \$50-60 per hour for conventional buses). The effect of this will be to reduce the regional council's total subsidy requirements from some \$1.4 million pa to around \$0.6 million pa. This is the largest scheme in New Zealand involving replacement of buses by taxis: it will be of wider interest to see how successfully it operates.

Services not registered

Regional councils were able to reject services notified commercially by operators on traffic management or environmental grounds, or (from 1 February 1991) because of their adverse effects on other services. The only council that rejected any significant commercial service notifications was Wellington: it has to date rejected about 50 such notifications in three main categories:

- Services by diesel buses along corridors which are currently served by electric train or trolley bus services (these of course, tend to be the main radial corridors into Wellington CBD) These were rejected on environmental grounds (whether or not the rail/trolley service had been registered), in conformity with the regional council's policy to give preference to 'environmentally-friendly' modes
- Services which would have extended some of the present bus routes further into the Wellington CBD and would have involved a new city terminal which had not then been agreed by the City Council. These were initially rejected on traffic management grounds, but have since been accepted.
- Services notified since 1 February which would have adversely affected patronage on services which had already been registered. (In some cases, services similar to those rejected have since been put out to tender, in order to 'top up' the commercial service to restore existing service levels)

Treatment of fixed infrastructure

As noted earlier, one of the key respects in which the NZ 'deregulation' legislation differed from the UK legislation is it embraces all passenger transport modes, not only buses. This was considered desirable in order to ensure a 'level playing field' across all modes and to thereby enable the full potential efficiency gains to be achieved. It was seen as particularly relevant to Wellington, where over half of current subsidies go to the urban rail services.

In the event, this brave attempt at achieving equal treatment for all modes encountered major difficulties in Wellington, in respect of two key groups of services:

- The **trolley buses**, which form the major component of the bus system in Wellington City, were known to be more expensive to operate than the diesel buses. On commercial grounds it was therefore likely they would not be deployed by their present operator. This was seen by both the City Council and the Regional Council as most undesirable, on environmental/political grounds. An arrangement was therefore negotiated whereby the overhead wiring system

would be owned and funded separately from the bus operating company ("a roadway in the sky"), with a maintenance contract for it being competitively tendered. The municipal operator of trolley and diesel buses could then pursue its policy in regard to use of trolley buses on commercial and tendered services without taking into account the overhead wiring costs. This achieved the objectives of the two councils, as most of the trolley services were then registered on a 'commercial' basis.

- Similarly, the two councils were keen to retain Wellington's electric **urban rail** system. This forms the main public transport spine in the region, caters for over half the total public transport task (passenger kilometres) and provides a relatively high level of service: its retention was seen as highly desirable on both traffic management grounds (reduces road congestion) and environmental grounds (minimises pollution and 'greenhouse' gases). However, its cost recovery is around 50%, so it was unlikely that any substantial parts of the network would be truly commercial; while it was likely that buses could replace some of the rail services on a commercial basis. NZ Rail itself identified a further difficulty in developing its policy towards commercial registrations: the high costs of infrastructure operation and maintenance (track, signals etc) are relatively fixed, independent of the extent of service operated. This meant that NZ Rail would have to recover these full costs in pricing its 'commercial' services, thus making them uncommercial - as they could have no guarantee at the time of winning any tenders for additional services. Similarly to the trolley bus situation, an arrangement was negotiated between the regional council, NZ Rail and Transit NZ whereby the urban rail infrastructure would be funded separately (for at least the first year), and NZ Rail's consideration of its strategy for commercial and tendered services could then ignore these infrastructure costs.

Thus, the 'level playing field' philosophy in Wellington appears to have been severely tilted in favour of the electric modes, with non-competitive subsidies being allocated to rail infrastructure (c.\$10 million pa) and the trolley overhead system (c.\$1.0 million pa). These subsidies have been sufficient (as they were designed to be) for the operators benefitting to then register a large proportion of their services commercially: the urban rail and trolley commercial services together account for over three-quarters of all commercial services in Wellington and about 40% of the total public transport system. These modes have further benefitted from the regional council's traffic management and environmental policies, which have prevented the commercial registration of competing diesel bus services.

My conclusion is that, while there may well be traffic and environmental reasons to favour the electric modes, the infrastructure subsidy payments have not been

justified. The intent of the legislation to create a level playing field for all modes appears to have been subverted in this regard. I suggest this issue ought to be reviewed before the next tendering round, as part of Transit NZ's further development of public transport subsidy policies. Such a review will also need to address how long-term investment requirements, particularly for the railways (eg for new rolling stock) can be sensibly considered when contracts will be operating for a maximum of 3 years.

Competitive pricing procedures

The role and purpose of competitive pricing procedures

Under the Transit NZ Act 1989, from 1 July 1991 and with limited exceptions, no public funds are permitted to be used to subsidise passenger transport services in NZ unless the payments have been determined through a competitive pricing procedure (CPP).

Transit NZ was required to approve such CPPs. These were required, by the Act, to have regard to:

- the efficient use of funds
- the cost of administering the system
- the desirability of encouraging competition in the supply of services (and the undesirability of excluding any party from competition)
- safety and other public interests.

(It might be noted, in passing, that the Transport Law Reform Bill, which preceded the Transit NZ Act was more prescriptive in the sort of procedures to be adopted, and left less flexibility to Transit NZ. It specified that all passenger transport funding had to be subject to competitive **tendering** (not just a competitive pricing procedure); and that tenders other than the lowest-price one could only be accepted on specific defined grounds. Following the Select Committee hearings on the Bill, these requirements were made less prescriptive and more scope given to Transit NZ to develop or approve appropriate competitive procedures.)

Development of the procedures

In early 1990, Transit NZ appointed Travers Morgan (NZ) Ltd in association with

Wendell Cox Consultancy to develop competitive pricing procedures as required under the Transit NZ Act

One major issue that arose immediately was that of how detailed or prescriptive the procedures should be. The Act permitted Transit NZ to define procedures in considerable detail, consistent with the specified objectives; alternatively it could leave virtually all development of procedures up to the tendering authorities (regional councils) and merely approve the procedures developed by them. In the event, Transit NZ adopted a course between those two extremes, but somewhat closer to the detailed approach - and rather more detailed than the corresponding procedures laid down by the UK Government (refer below). It felt that such an approach was appropriate as part of making a managed transition from the previous highly regulated passenger transport regime to the less regulated situation.

This reasonably detailed approach has drawn considerable criticism for being over-prescriptive, both from tendering authorities and at a political level; and Transit NZ has indicated that some of the more prescriptive requirements may be relaxed in the near future.

The procedures were developed over a period of only a few months by the consultant team working closely with Transit NZ. During the process consultations were held with tendering authorities and operators through a number of workshops to discuss drafts of the procedures. The procedures were virtually finalised by July 1990, prior to the change of NZ Government.

The advent of a new (National) government in October 1990 gave an opportunity for those opposed to the new 'deregulated' system and the CPPs to press for changes in the legislation and regulations. A major concern of some regional councils, operators and unions was that a council-owned bus company would not be able to achieve sufficient efficiency gains in the short-term to become fully competitive, and thus might lose the majority of its services in the initial tendering round and have to make a large proportion of its staff redundant (with consequent large redundancy payments to be funded from local rates). Such parties lobbied for a slower transition to the 'level playing field', with a measure of protection for incumbent operators in the early stages and with extended contract lengths to allow more time for them to achieve the required efficiencies. In the event, these parties were successful in persuading the Minister of the merits of their case, and the Minister instructed Transit NZ to insert some key transition provisions in the CPPs: these are described below.

The competitive pricing procedures - key features

Table 5 (at end of the paper) presents a summary of the key features of the Competitive Pricing Procedures now adopted by Transit NZ and applied by the tendering authorities in the initial tendering round recently completed (Transit New Zealand, 1991). Against each procedure, it also summarises for comparison the requirements specified by the UK Government in the UK Transport Act 1985 and the associated regulations and tendering code of practice. The following paragraphs summarise and comment on some of the most important (and controversial) aspects of the NZ procedures, to supplement the material in the table.

Competitive tendering requirements: The NZ procedures (Table 5, item A) stipulate that the competitive procedures for the award of subsidies to passenger transport services are normally to involve competitive tendering (CT), except in the specific case of concessionary fare payments (see below). In the UK, the Transport Act itself (Section 89) specifies the general requirements for competitive tendering.

Expedited procedures and exemptions: Aside from the case of concessionary fare payments, the UK legislation allows two other main exemptions from the CT requirement:

- 'De minimis' case, for small amounts of service. The NZ procedures allow the use of expedited CT procedures for such situations (item R).
- Where urgent action is required to retain or replace an existing service, or to meet an unexpected requirement. The NZ procedures allow exemption from all CPP requirements for up to 2 months in such cases (item T); and allow for use of expedited CT procedures for contracts of up to 6 months (item R).

Specification of services and fares: The CPPs are generally more specific about what should/should not be included in the request for tender (RFT) documents than are the UK Government's regulations/code of practice.

The CPPs require the RFT to specify:

- routes, termini, minimum frequencies and minimum capacities by time of day;
- fares to be charged (actual or maximum);
- which requirements are mandatory, which are optional.

The service and fare specifications should be consistent with those set out in the authority's Regional Passenger Transport Plan. Unlike in the UK, there is no requirement in the NZ procedures for fares on tendered services to have regard to commercial fares in the same area, so as not to adversely affect commercial services. This is a significant difference between policies in the two countries, on

which further comment is given below.

Vehicle specification: The CPPs merely require that tendering authorities should not include in the RFT "any specifications that have the effect of unreasonably limiting competition, or which favour one operator or category of operator over another (for example, specification of modes, vehicle sizes, vehicle age or vehicle features)". This is broadly similar to the UK guidelines in this regard (item E).

In the event, a number of tendering authorities have adopted mandatory standards for maximum vehicle age, maximum step height etc (but not such as to unduly limit competition); and have given further recognition to tenders that improve on these minimum standards, through trade-offs between vehicle features and price (refer discussion in next section).

Tender size: The UK requirement relating to maximum tender sizes is very broad, only requiring that authorities should bear in mind that competition may be inhibited if they invite "tenders for such substantial packages of services that only one or a very limited number of operators have the resources to respond" (UK Code of Practice on Tendering). In practice in the UK (outside London) maximum tender sizes appear rarely to have been a significant issue, as most of the services to be tendered have been evening, weekend or rural services, or sometimes additional peak (worker, school) services: these have generally involved one or two vehicles at most, and hence most tender packages have been naturally small.

In NZ, maximum tender size is a major issue if competition is to be encouraged, as:

- the majority of services have been subject to the tendering process, particularly in the major cities (rather than the small minority tendered in the UK);
- the tendered services in the major cities include routes (or route groups) requiring up to 35 peak buses;
- in any region there are relatively few medium/large operators and distances between urban centres are large, compared with the UK.

The CPPs therefore stipulated the maximum size for individual tenders in precise terms. The actual CPP specification is in terms of seat kilometres and peak seats in service, so as to give a fair yardstick for vehicles of different capacities (item H gives a simplified version applicable to standard size (40 seater) buses). In practice, the requirement to have no more than 12 buses in service at any time is usually the limiting factor on RFT size in the major regions.

However, it was recognised that operators may be able to provide services more economically by combining together the services of several RFTs. Therefore a provision was made to permit tendering authorities to issue combined RFTs

comprising up to 3 individual RFTs which cover adjacent areas and which have a common expiry date (item I). However, so as not to discourage smaller operators, authorities still had to accept bids for the individual RFTs within the combined package

In the event, the issue of maximum tender size and combined tenders has proved one of the most interesting and controversial points in the application of the procedures, as discussed in later sections.

Contract revenue type: gross cost or net cost (subsidy) basis: There are two basic systems for tenders:

- "(gross) cost" bids, in which the operator bids on the basis of the full costs of operation and passes all revenue to the authority; and
- "net cost (or subsidy)" bids, in which the operator bids for a payment to cover the difference between gross costs and revenues, and retains the revenue.

There are also a number of variants possible on these basic systems.

In the UK, the Government has not imposed any restrictions on the system to be adopted. The majority of tendered services (outside London) use net cost contracts, with a minority using gross cost or other types of contract. Some authorities invite tenderers to submit on either or both bases.

In the development of the CPPs, our review of international experience and evidence did not lead us to conclude that there were compelling advantages in general to adopting either the gross cost or net cost basis as the best means of achieving Transit NZ's CPP objectives; rather both approaches had advantages and disadvantages and the balance between them would depend on the specific situation being faced. Therefore the CPPs do not require adoption of one approach or the other. However, two specific provisions were inserted in the CPPs on this topic (item K):

- Each RFT is to specify whether gross or net (or other type) of contract is required, and all tender bids have to adhere to this specification. (If this provision were not included, it was considered that tender evaluation would be substantially more complex).
- If net contracts are adopted, then the RFT is to include recent passenger counts and composition data (This was included so as not to give the incumbent operator an undue advantage in bids for net contracts).

These CPP requirements and their interpretation have been another controversial part of the tendering process, on which further comment is provided later in the paper.

Tender evaluation: The CPPs specify in reasonable detail the procedures to be used

in evaluating tenders and require that the RFTs stipulate how tenders will be evaluated, particularly in terms of the specification of mandatory and optional factors and the basis of trade-offs between optional factors and price (item M) CPP provisions include:

- The RFT shall specify mandatory evaluation factors, to which all tenders must conform to be given further consideration
- The RFT shall also specify optional evaluation factors, including their public policy objectives and the basis to be used in evaluating the public benefits arising from such factors
- Tenderers may submit tenders not meeting all aspects of the primary service specification, but to be eligible they also have to submit a tender conforming to the primary specification (item L).
- The lowest-priced conforming primary specification tender shall be preferred, unless the tendering authority determines another tender is preferable in the public interest because either:
 - the demonstrable public benefit from optional factors in the other tender exceeds its difference in price from the lowest-priced tender; or
 - the saving in price from a lower-priced alternative tender exceeds the demonstrable loss in public benefit associated with it.
- If only one conforming tender is received, the tendering authority may negotiate with the tenderer on price (item O). Negotiation is not permitted in other cases.

The UK legislation requires that the successful tender should be selected "solely by reference to what in (the authority's) view is the most effective and economic application of the funds at their disposal for the payment of service subsidies" (Transport Act 1985, S.89(7)). The UK Act amplifies this policy by noting factors which the tendering authority may take into account in making this judgement, including "any matter appearing to be relevant to determining whether the particular service ... would be effectively provided by (the tenderer)".

In essence, it appears that the overall thrusts of the CPP requirements and the UK legislation are quite similar. In each case the emphasis is on the most cost-effective provision of service (not necessarily the lowest cost provision). While the CPPs are more specific about the treatment of optional evaluation factors in the tender selection process, similar judgements would be needed under the UK system.

Preference to particular operators: The UK legislation states the tendering authorities have a duty not to inhibit competition between operators and potential operators, and in this regard indicates that awarding all (or a substantial majority) of contracts in an area to the same operator may be contrary to this duty. The legislation/guidelines contain no other provisions which either favour or disfavour

particular operators or categories of operator.

The original CPP Manual went to considerable lengths to avoid favouring particular operators or categories of operator (ie to achieve the 'level playing-field'). However, as noted earlier, the new Minister of Transport was persuaded that certain transition provisions were desirable before it would be appropriate to introduce the truly level playing-field. In November 1990, the Minister directed Transit NZ to include transitional provisions in the CPPs to allow regional councils to give limited preference to existing operators in the award of contracts. In essence these provisions were (item N):

- For contracts let before July 1992, preference may be given to the existing operator of a service provided his tender bid was not more than 25% above the lowest-priced bid.
- For contracts let in the period July 1992-June 1993, preference may be given to the existing operator provided his tender bid was not more than 12.5% above the lowest-priced bid.
- These transitional provisions are not mandatory: it is the decision of each regional council whether or not to adopt them, and whether to adopt the full preferences (25%/12.5%) or lesser preferences.
- If these provisions are adopted, they shall be applied equitably and not to favour particular operators. (However, the Ministry of Transport later advised that the provisions could be applied selectively, although not in such a way as to favour one existing operator but not others.)
- Where these provisions are adopted, initial contracts may be awarded for terms of up to 5 years (rather than the 3 years maximum originally specified in the CPPs).

Potentially, application of these transitional provisions could give existing operators very substantial protection from meaningful competition for contracts until 1997 or 1998, that is for 6-7 years after 'D'-day. Depending on how regional councils chose to use these provisions, many of the potential benefits of introducing a competitive regime might not eventuate until 6-7 years later than the previous government had intended. Later sections describe how regional councils have used these provisions and the results that have emerged.

Contract duration: The original CPP Manual specified a maximum contract duration of 3 years, and a normal minimum of 1 year, with contract expiry dates reasonably spaced between this minimum and maximum. This 3 years maximum duration compares with the 5 years maximum specified by the UK Government (and compares with 6 years previously adopted for school service contracts in NZ). The CPP team considered that a relatively short maximum contract period was

appropriate initially, in view of the likely limited degree of competition in the initial tendering round and the desirability of encouraging more competitors in the market within a reasonably short time period. Such a short maximum contract period was of course opposed by a number of the existing operators.

The Ministerial directive (above) introduced contracts of up to 5 years in cases where preference was to be given to existing operators. While most regional councils did not intend to make use of this preference to existing operators, several of them believed that lower priced tenders and administrative savings might be achieved with longer contracts. In the light of these views, Transit NZ decided it would be fairer to allow contracts of up to 5 years in all regions in the initial tendering round, but with the 3 year limit being applied in subsequent rounds (item J).

Service variations: In developing the CPPs, it was considered important that the formalities of the contracting process should not inhibit future adjustments of services in response to changes in demand. Thus a provision was included which allows services to be varied by up to 25% (in terms of contract value) without cancelling the contract and re-tendering (item V). However, it was also considered that such service variations should be covered by a standard formula in the contract, rather than by negotiation of a variation in the contract price without a well-defined basis. Thus RFTs are required to contain a service variation clause, with tenderers specifying their variable price rates (per bus hour, bus kilometre, peak bus etc) for any variation in level of service. It remains to be seen how this works out in practice.

Price indexation: Here again it was considered that the basis of adjusting contract prices for future cost and fare changes should be spelt out in the RFT and incorporated in the contract, rather than being the subject of negotiation part-way through the contract.

On the gross cost side, Transit NZ has developed an index which may be applied for indexation of operator costs. It is intended to be applied annually, except in the case of fuel where it may be applied quarterly if substantial price fluctuations occur.

For net (subsidy) contracts, indexation of the revenue side is difficult, and has not been specified in detail in the CPP Manual. Desirably procedures are required that could be applied throughout the contract life (and without further negotiation) to cover situations of:

- general increases in fares;
- fare system restructuring;
- underlying increases or decreases in patronage (which have occurred rapidly over

the last few years).

No such satisfactory procedures have yet been developed (by either Transit NZ or individual regional councils) and it appears likely that revenue allowances in net contracts will be renegotiated annually with each operator (or with representatives of all operators in a region).

Concessionary fares: This is another area of the CPPs which has not yet been fully resolved, and has been affected by legislative changes since the completion of the consultancy work on the CPP Manual.

The original Transit NZ Act exempted from CPP requirements any payments relating to:

- any standard fare system for passenger services; and
- any system of reduced fares for specified group(s) or users of passenger services.

While there was no definition of a 'standard fare system', it was subsequently realised that these exemptions could potentially be used by a regional council to avoid any competitive tendering procedures and maybe to retain the existing non-competitive system in large measure. Therefore these two exemptions were removed by an amendment to the Act. One result of this amendment was that any concessionary fare payments would then be subject to CPPs; and further, unless the CPP requirements were amended, they would be subject to the competitive tendering process.

In February 1991 and then again in June 1991, Transit NZ published amendments to the original CPP Manual to cover concessionary fare schemes. In effect, the amended policy means that concessionary fares can be subsidised without being subject to a competitive tendering procedure, provided that certain requirements are fulfilled (Fulfilment of these requirements is taken to constitute a competitive pricing procedure, complying with the Transit NZ Act).

Aside from various transition provisions, the main provisions in the amended policy are:

- The tendering authority (regional council) is to specify the groups of passengers eligible for concessionary fares. Concessionary fares are defined to be any fares that are less than fares paid by non-eligible groups.
- Concessionary fare schemes are to be developed through meetings between representatives of the tendering authority, public transport users eligible for concession fares and the operators involved.
- These meetings are to decide on the mechanisms for delivering concessionary fares and the amount of fare concession applicable to eligible groups on each service.
- Any concessionary fare scheme is to be equally available to all operators of

contracted and commercial services, but participation is not mandatory in the case of commercial services.

At this stage, the CPP provisions regarding concession fares are very general, and may be contrasted with the much more detailed regulations and guidelines issued by the UK Government for concessionary fare schemes. In particular, the CPP provisions are not specific in regard to:

- the basis of recompensing operators for offering fare concessions (there is no stipulation equivalent to the UK requirement that operators should be 'no better and no worse off');
- the extent to which 'disabled transport' services and similar services may be funded under this heading;
- how concessionary fares are to be funded (between central government and regional/local governments).

Currently, regional councils are only just starting to get to grips with the ramifications of policies for concessionary fares, as they have largely been pre-occupied with the tendering process over the last few months. The concessionary fare policies have limited impact on contracted services, greater impact on commercial services. The late introduction of the policies has meant that operators have to date largely registered commercial services without any expectation of recompense for offering fare concessions; and indeed some authorities have suggested no such recompense will be forthcoming (the CPP provisions do not specify any basis for recompense). In other cases, tendering authorities may be faced with making payments which will provide a 'windfall gain' to commercial operators who were already offering the concession.

It is clear that further review and evolution of policy in relation to concessionary fares in NZ is still to occur, over the next year, and will be linked in with the further development of subsidy policy by Transit NZ (refer paper by Fiona Knight). In the short term it appears certain that concessionary fare funding will comprise a very much smaller proportion of total passenger transport funding than is now the case in the UK.

Tendering process and issues

This section of the paper summarises the key features of the tendering approach and process adopted by the regional councils (within the framework of the CPPs described above) and discusses some of the particular issues that have emerged in

the process.

Tender 'packaging'

The services to be tendered by the regional councils throughout New Zealand from 1 July 1991 were divided into over 500 RFT 'packages': 87% of all RFTs were for the three most-populated regions (Auckland, Wellington, Canterbury).

While the CPPs stipulate the maximum size of individual tenders (in terms of peak buses and bus kilometres pa), the regional councils were otherwise free to 'package' services in any way they wished. While the basis adopted differed somewhat between regions, most councils took a broadly similar approach:

- to first divide services on a corridor (or area) basis;
- to further sub-divide services in each corridor by day/time period, particularly so as to separate out those periods of low demand, which would be appropriate for operation by smaller vehicles.

As an example, in Wellington services were split on the following basis:

- By corridor/area - with any cross-corridor school services being grouped with the most appropriate corridor, and corridors being defined so that no RFT would involve more than the 12 peak bus limit and so that there would be a reasonable distribution of tender size from this limit downwards (ie. 12-1 peak buses).
- Within each corridor/area, split into:
 - weekday
 - Saturday
 - Sunday.

(Given the lower service levels at weekends, a single Saturday or Sunday tender might cover more than one weekday corridor, so as to achieve better vehicle utilisation).

- As an exception to the general corridor principle, selected low demand services (eg shoppers' services off the main route network) were often the subject of a separate RFT, so as to encourage use of smaller vehicles.

In Auckland, the services were also split between weekdays, Saturdays and Sundays. Additionally, the late evening services (after 2000) on all days were grouped into separate RFTs: this recognised that the demand in the evening is substantially lower than at other periods and would maximise the opportunity for these services to be provided by small vehicles; and would also give the regional council scope for cutting back these services if funding proved to be insufficient.

Service specification

The approaches of the different regions to the way services were defined in the RFTs were reasonably similar, although some regions provided more detailed specifications than others.

In Wellington, which is one of the best (and most successful) examples, the required services were specified in terms of the following:

- Termini
- Suggested route (variations would be considered)
- Days of operation (eg. school-days only, specific public holidays)
- By time period (eg. 0700-0900, 0900-1500):
 - minimum frequency (or number of trips)
 - minimum capacity
 - special timing requirements (eg. to match school start times, to connect with trains)
- Other desirable timetable features, eg:
 - desirability of clockface departure times
 - desirability of even headways on common route sections
- Special school service requirements (detailed routes, timings).

Also, for many services in Wellington, an illustrative timetable was provided, which had been developed by the regional council to satisfy the service specification in an efficient manner: the council considered that this would be a useful aid to potential tenderers and would help to encourage competition (particularly from operators unfamiliar with the present services), especially given the tight timescale for the tendering process. While tenderers were not required to conform to this timetable, they have generally done so and this has considerably simplified both the tenderers' task and the regional council's evaluation task.

Any tender bid adhering to the RFT service specification in all material respects (but not necessarily to the illustrative timetable) was known as a 'primary' bid. Additionally, operators were able to submit 'alternative' bids, which do not comply in some material respect with the specification, but provide a service with broadly similar functions (eg. involve a somewhat different route, or a lower frequency). In such cases, the CPPs required the operator also to submit a conforming primary bid (Table 5, item L).

Fare specification

The general practice adopted for specifying fares in the RFTs was to provide a fare

table (based on sections or zones travelled) for different classes of traveller/ticket (eg. adult single cash, student monthly pass etc). All tender bids generally had to adopt these fares or, in some cases with net tenders, these fares were to be taken as a maximum (in a few such cases, tenderers did offer lower fares for selected groups). Generally the fare tables and section boundaries were based on the current fares of the dominant operator in the area (with some adjustments for inflation); in some cases where commercial services had been registered at somewhat higher fares, these were followed for tendering purposes, so as to try to achieve consistency in a given area. Fares for concession groups were specified as an integral part of the fare table, and there were no separate reimbursement arrangements for these.

In some of the larger centres (Canterbury and Wellington in particular), the advent of 'deregulation' has more-or-less coincided with moves from section-based tickets valid on one vehicle only towards zonal/time-based systems with integrated ticketing and maybe revenue-sharing arrangements between routes and operators. These moves have been facilitated by the progressive introduction of electronic ticketing machines (ETMs).

However, deregulation makes such new systems considerably more complex to institute and administer. As a result, the introduction of fully-integrated systems in both Canterbury and Wellington has been delayed, for further consideration over the next 12 months. (Issues of fares and ticketing systems in relation to 'deregulation' are a complex area and would warrant a separate paper: they are not covered further here.)

Contract revenue type

The CPPs with respect to contract revenue types were described earlier. As in the UK, most NZ tendering authorities had a preference for net subsidy contracts, so that the operator would bear the revenue risks and would have incentive to provide a high standard of service, and so that regional council monitoring and auditing requirements would be minimised.

However, a number of councils would have had difficulty in requiring net tenders and complying with the CPP requirement to provide recent passenger count and composition data: either such data was not available at all, or it was held by the incumbent operator who was not prepared to release it (for obvious reasons). In the event, Transit NZ took a lenient approach to councils in this situation to enable them to request net tenders, for example:

- In Wellington, Transit NZ stated that it would be sufficient if the regional

council stated the required capacity of the specified services, rather than their expected (or past) patronage levels. Consequently the RFTs merely state that the expected patronage on each service is consistent with the Council's own service guidelines (it could vary by a factor of 3 to 4, consistent with these guidelines).

- In Auckland, the council's RFT documents generally provided aggregate patronage data by ticket type for each operator based on the last full year's statistics, with no breakdown by route or RFT.

Given this lenient approach, all except two of the regions with significant amounts of service to be tendered adopted net cost contracts as a general policy, but with some gross cost RFTs being used for new or experimental services: a summary of practices adopted is given in Table 6. The two councils which followed different policies (Waikato, Manawatu-Wanganui) complied with the letter of the CPPs and, given the unavailability of patronage data, initially selected gross cost contracts despite operator preference for net contracts. Subsequently Waikato was given approval by Transit NZ to adopt a procedure whereby contracts would be on gross basis for the first 12 months, then be converted to a net basis in accordance with a pre-specified formula.

Contract duration

The CPPs specified that contracts would normally be of between 1 and 5 years' duration, but with each region having to adopt a spread of durations of at least 2 years (Table 5, item J). Table 3 summarises the actual breakdown of contract durations in each region.

Of the 6 regions issuing 10 or more RFTs, 4 (including Canterbury and Wellington) adopted the minimum duration approach, ie. contract durations in range 1-3 years; while 2 regions (including Auckland) adopted the maximum duration approach (3-5 years range).

Auckland adopted an interesting variant on the procedures envisaged under the CPPs (which, I believe, resulted from a misinterpretation of these procedures): the RFT document specified merely that the contract would be for 3-5 years; at the time of actually awarding contracts the duration of each was then determined so that 3, 4 and 5 year contracts were equitably spread amongst selected operators. In this case it will not be possible to draw any conclusions on the effects of contract duration on tender prices!

Combined tenders bids

The CPPs specified that tendering authorities could issue combined RFTs comprising up to 3 individual RFTs covering adjacent areas and having a common expiry date. In developing the CPPs it was envisaged that this would provide a balance between on the one hand allowing operators to take advantage of operational economies between services (through running etc); and on the other hand not unduly complicating the tender evaluation process nor unduly advantaging large operators over small operators.

In the event, some regional councils expressed interest (under pressure from major operators) in being able to consider multiple combination tender (or group) bids, in which the tenderer could offer a discounted price for a combined bid on any group of RFTs nominated by himself. While this was not contrary to the CPPs, it had not originally been envisaged. This approach was accepted by Transit NZ, although with qualifications about being 'mindful of the desirability of encouraging competition' (as required under the Transit NZ Act).

In the light of this acceptance, almost all regions permitted 'group' bids and the combined RFT concept set out in the CPPs became largely irrelevant. Some regions imposed specific restrictions on these group bids, eg. all contracts within a group must:

- be of the same revenue type
- be of the same contract duration
- relate to the same time period (weekday v Saturday v Sunday, etc).

In the event, a large proportion of all RFTs were awarded through group bids and some interesting consequences for the encouragement of competition have arisen.

Tender evaluation procedures - optional factors

The CPP requirements in relation to tender evaluation were detailed earlier. Tender evaluation factors may be considered in two groups - those that are mandatory and those that are optional.

The mandatory factors specified in the RFTs were similar in most regions and relatively straight-forward. For example, those specified in Canterbury were:

- Holding of current Passenger Service licence
- Arrangements for performance bond
- Adequate public liability insurance and vehicle insurance
- Evidence of ownership/access to appropriate vehicles (including back-up

vehicles)

- Vehicle conformance with minimum requirements (re age, etc)
- Adequate vehicle maintenance and driver training programmes.

The specification and treatment of optional evaluation factors was much more difficult. The CPPs allow, but do not require, preference to be given to bids other than the lowest-price (primary) tender provided that the demonstrable public benefits of such a bid exceeds the extra price associated with it. It was thus necessary for any region wanting to incorporate optional (non-price) factors in the tender evaluation to rigorously specify such factors and incorporate them in a suitable evaluation framework related to the public benefits they are likely to produce.

In trying to define an appropriate evaluation framework (on behalf of Canterbury Regional Council) we reviewed practice in this area in UK and USA. Certainly in the UK, we found that the approach of trading-off optional factors against tender prices has rarely been adopted, or even considered. It appears one reason for this is the difficulty of establishing appropriate trade-off procedures: this is very subjective for all those factors where trade-offs tend to be most required (eg. vehicle age, environmental factors).

The approach finally adopted by Canterbury Regional Council, following our advice, is given in Annex A. This focuses on two of the Council's public policy objectives for public transport:

- to provide more attractive services, which would then be reflected in increased patronage;
- to assist transport disadvantaged (especially elderly/disabled) users.

(Other policy objectives relating to environmental and safety issues are largely covered through the mandatory factors).

With reference to Annex A, it might be noted that:

- The relative weightings given to scores on each optional factor are essentially subjective - the judgement of transport professionals,
- The difference between a perfect score and a zero score on all factors has been set at equivalent to a 5% difference in tender price - a decision of the Regional Council. This means that a tender priced more than 5% higher than the lowest-price primary tender can never be successful: typically the difference between two tenders in terms of optional factors would be equivalent to a price difference of only 1-2%.

As a second example of treatment of optional factors, Wellington used an even more sophisticated system, which gave weightings to the following aspects:

- Alternative fuel types - impacts on local noise/pollution and global emissions (greenhouse effect): up to 7.5% price differential

- Vehicle quality - allowing for 9 vehicle features (similar to Canterbury): up to 2.5% price differential
- Level of service - particularly higher frequency (associated with smaller vehicles): up to 2.5% price differential
- Road congestion - impacts of greater/lesser congestion, assessed using a regional transport network model: up to 10% price differential.

It is apparent that, in theory, a tender up to 22.5% more expensive than the lowest price primary tender could be preferred.

Auckland, the largest centre, was the only region to apply the Ministerial Directive giving preference to existing operators for tenders let before July 1993 (Table 5). Auckland was the principal region from which the Minister of Transport had been lobbied to introduce these transitional provisions. Auckland's declared policy was to give the full 25% preference to existing operators in the initial tendering round, but not to apply any other optional evaluation factors. In the next section we comment on the results of this policy.

Outcome of the tendering process

Where are we now?

This first round of tendering/contracting in New Zealand is only just being completed. Most RFTs were issued in March/April and tender evaluation largely took place in May. Contracts are now (early June) being signed and operators preparing, under considerable time pressure, for the new services to start on 1 July. At the same time, several major municipal operators are negotiating new award conditions with staff, involving substantial reductions in conditions and payments. Regional councils are also rushing to finalise contracts, print and distribute timetables and publicity material, organise telephone enquiry services etc prior to 1 July.

It is obviously premature to produce any definitive statements on the results of 'deregulation' in New Zealand, and this section does not attempt to do so. It does summarise the results of the initial tendering round, to the extent that time has so far permitted, and draws some tentative conclusions on the experience to date. (Some further appraisal is proposed, but has not been completed at this stage).

The extent of competition - overview

Table 6 shows (item C1) the distribution by RFT of the number of tender bids (excluding multiple bids from a single operator). The percentage distribution for the three largest centres is as shown in the following table.

Christchurch, the main centre in Canterbury, is a metropolitan area of some 300,000 population, a substantial distance from other major population centres, and where 98% of services are currently provided by the municipal operator. Not surprisingly, the extent of competition was limited: the average bids per RFT was 1.22, and over three-quarters of the RFTs had only one bidder, generally the existing operator.

The Wellington region has a similar population to Christchurch but has been the base for a number of significant-sized operators (5 bus operators with over 10 buses each), each hitherto operating in its own suburban territory. Consequently, there was substantially greater competition, with an average of 2.12 bids per RFT and with only 30% of RFTs having only one bidder.

At least as much competition might have been expected in Auckland as in Wellington, as Auckland offers a larger market and has a larger number of bus operators than Wellington. The actual extent of competition was most disappointing: there was an average of only 1.36 bids per RFT and 70% of RFTs had only one bidder. Possible reasons for this are canvassed in the next section.

Table 2

Number of bids	% of RFTs		
	Auckland	Canterbury	Wellington
0	-	2	-
1	70	76	30
2	26	20	42
3	3	2	17
4	1	-	8
5+	-	-	3
Total bids	388	61	280
Total RFTs	285	50	132
Ave bids/RFT	1.36	1.22	2.12

Not surprisingly, these measures of the degree of competition are low by UK standards. Typical UK figures for the average number of bids for tendered services are (Transport Advisory Service, 1991):

English Shires	4.0
English PTES	2.8
Scottish Regions	3.2
Welsh Counties	<u>3.8</u>
Total UK	<u>3.5</u>

Aside from any possible reasons connected with the nature of the tendering process itself, the lower New Zealand figures will reflect the lower populations in each centre, the greater distance between centres, the lower public transport trip rates and the previous extent of near-monopoly by a single operator in several centres.

The outcome in the major regions - winners and losers

Auckland: Auckland has the largest population of any region (c.850,000). While around 80% of all service were previously provided by the 'municipal' operator (which, in fact, is owned by the regional council), there were three private bus operators which together operated around 100 buses on urban route services plus a number of other private operators in localised suburban areas. As noted above, the extent of competition was very disappointing

A major reason for this is, I believe, Auckland's decision to apply the Ministerial Directive which enabled it to give a 25% price preference to existing operators. This meant that the chances of an operator being able to succeed in winning tenders in another operator's territory were vastly reduced: not only would the incumbent operator have all the normal advantages that go with incumbency (better knowledge of the market, better revenue information, local depot premises etc), but would additionally have a 25% price advantage. Not surprisingly, other operators were discouraged from tendering!

A second reason for the lack of competition may well be that private operators were concerned that, if they competed for services now provided by the municipal operator, this operator would use its financial power to undercut them in their traditional territory: faced with such a prospect, they were more inclined to not attempt to expand their services.

A large proportion of RFTs had only one tenderer; and a large proportion of those with more than one tender were for relatively small evening/weekend services where taxi operators were bidding against the incumbent private operator.

The result has been that relatively few services have been awarded to other than the existing operator, and the reduction in subsidies has been relatively slight (see below). The following table summarises the share of subsidies going to each of the main operator types for the 1990/91 financial year (pre-deregulation) and for 1991/92.

Table 3

Operator group	% of total subsidies - Auckland region	
	1990/91	1991/92
Transportation Auckland Corporation ('municipal' operator)	81.3	78.0
NZ Railways - Cityrail	9.7	10.4
NZ Railways - Cityline Bus	2.6	2.6
Private bus operators	6.0	7.7
Taxi companies	-	0.5
Ferries	0.5	0.8
Total	100.0	100.0

The changes in funding shares are relatively slight, and would hardly suggest that the Transit NZ Act's requirement for the CPPs to encourage competition has been achieved. The amount of services provided by Transportation Auckland Corporation (the high-cost 'municipal' operator) has reduced only marginally, with the private bus operators and the taxi companies taking on some extra services. The taxi companies are a new player in the field of providing fixed route services and have had reasonable success in their bids: three taxi companies have together won 13 RFTs (in all cases from existing private bus operators), but these are mostly for shoppers services and for evening/weekend services and the total subsidy involved is only some \$225,000 pa.

The most controversial aspect of the Auckland tender evaluation has been the treatment of group bids. These were permitted by the regional council, subject only to the conditions that they should not cover the territory of more than one existing operator, nor cover more than one time period. The municipal operator (TAC Ltd) submitted group bids to cover all its services, incorporating up to 10 individual RFTs in a single group and offering discounts of typically 10-20% off the individual bid prices. It was successful in all its group bids, including 6 group bids for weekday

economies from a group bid were greater than the economies achieved by a competing tender. The policy was only relevant to two RFTs, and was used in one of these cases: the result in this case was to select the existing operator when his price was \$40 pa more than the competitor. Thus the direct costs of applying the policy are only \$40 pa! The indirect costs in terms of discouraging competition are undoubtedly many times this.

Canterbury: As noted earlier the extent of competition in Canterbury was limited, with only 61 separate operator bids for 50 RFTs. The main Christchurch Monday-Saturday services (which account for the great majority of the region's subsidy) were split into 25 RFTs, each on a net subsidy basis and together involving about 130 peak buses. There was only competition for 7 of these: 6 of these were won by one private operator (without a current Christchurch base), the other by a second private operator. In each case the loser was Christchurch Transport, the present near-monopoly municipal operator: it was undercut by a substantial margin (at least half) in each case, although its group bids were much more competitive. For most of the other RFTs, Christchurch Transport was the only bidder.

Since the initial tendering, there has been great local controversy about the loss of jobs at Christchurch Transport, and concern about the possible redundancy payments that might have to be borne by ratepayers. There have also been further developments:

- Christchurch Transport was given the opportunity through a negotiation process to submit revised (lower) prices for those RFTs for which it was the only tenderer, but for which its original prices were considered too high. These new bids have now been accepted
- The successful private operators have turned down the offers of 3 of the 7 RFTs they were to be awarded
- Christchurch Transport proposed to make almost all its staff redundant and contract a limited number of drivers on a self-employed basis, as the only way it could remain viable on a reduced scale given its revised tender prices. However, following union negotiations, this proposal was withdrawn and the required driving staff are to be employed under the general private operators' award (under which average pay is around 20% less than under the municipal operators' award).

The end result is that Christchurch Transport will take up 20 of the 25 weekday/Saturday RFTs in Christchurch, but will be a substantially slimmed-down operation under a new award structure. Most of the Sunday services have been awarded to taxi companies.

One outcome is that the region's annual subsidy bill of nearly \$15M has been

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reduced by almost one-third, with only slight changes in services or fares. This is equivalent to an average reduction in gross operating costs (as reflected in tender prices) of almost 20% from the 1990/91 figures.

Wellington: As noted earlier, competition in the Wellington region was more extensive than in either Auckland or Canterbury, despite the adoption of net subsidy tenders without provision of patronage and revenue data.

Interesting features of the results include:

- As the tendering period was still open in Wellington when the initial Christchurch tender results were made public (see above), in the light of Christchurch Transport's loss of tenders the major municipal operator (Wellington City Transport) revised downwards its group bid for most of its existing services. This was sufficient for it to retain these services (some of which would otherwise have been awarded to a private operator new to the region), with significant savings to the Council. Wellington City Transport is currently in the middle of award negotiations with its unions, in the attempt to bring down its costs to a level consistent with its successful bid.
- In the Hutt Valley, one of the major population areas of the Wellington region, there were several existing operators and the tender awards were such that many routes were re-allocated between operators. The result will be extra positioning trips and as many as 3 operators on some routes (2 of which had registered commercially). These seem to be undesirable side-effects of the process, even though it is resulting in reduced subsidy costs. (We understand that already some of the operators involved are negotiating with each other about possible swapping of contracts.)
- There was very little competition for the 'rail corridor' tenders, to supplement the 'commercial' rail services, and almost all were won by NZ Rail: therefore a fully integrated rail service (combining commercial and tendered components) similar to the present service will continue to operate.
- Taxi companies have been successful in 15 RFTs, mainly for weekday shopper and weekend services. However these services account for only a few percent of the total tendered services in the region.

The estimated public funding requirement for passenger transport in the region in 1991/92 is some \$31.5M, made up of:

• Scheduled service contracts	\$16.0M
• Rail/trolley bus infrastructure support	\$11.5M
• Concessionary fares reimbursement	\$ 1.5M
• Para-transit	\$ 0.5M

- Contingency \$ 2.0M
\$31.5M

This compares with \$37.5M in 1990/91. The saving is \$6.0M, or 16%. In practice the saving may well be nearer \$8.0M (21%), as it seems unlikely much of the contingency will be required. This is equivalent to an overall operating cost reduction of around 10%.

Tender prices and costs

One of the features of this initial tendering round was the large variation between tenders in price bids:

- Some examples for Auckland were given in the previous section (these are some of the more extreme ones).
- For the 7 Christchurch weekday RFTs for which 2 operators competed, the higher tender was in every case except one more than double the lower tender, and in some cases around three times the lower tender.

Apart from genuine differences in operator costs, there may be a number of reasons for the wide variation, such as:

- different revenue estimates
- differences in services to be provided
- non-serious tenders, at high prices (maybe accompanied by a keener group bid covering that RFT).

Further investigation would be needed to clarify some of the causes involved.

Evidence from the UK counties/regions is that the ratio of highest to lowest tender price was rarely more than 2.0 (Transport Advisory Service, 1991). It is obvious that the first round of tendering in New Zealand shows considerably greater price variations than this. It would be reasonable to expect that the extent of such variations would reduce in subsequent tender rounds, particularly as information on the range of tender prices is being published in each region.

As part of Travers Morgan's work with regional councils and operators relating to the tendering process, we constructed a cost model to reflect the gross cost component of the expected tender prices for different types of operators (municipal, private etc) using various vehicle types/sizes. Additionally in Wellington, revenue estimates for every RFT were made, using a variety of survey sources. Despite the wide range of tender prices submitted, in general it was found that the cost model provided a good approximation to the prices of successful tenders. More detailed review would be needed to identify the situations in which the model performed less well, with a view to adjustments to it for future use.

Impacts of non-price factors

The relatively sophisticated procedures adopted in some regions for making trade-offs between optional evaluation factors and price is described earlier. In practice, out of the more than 500 RFTs issued, we believe that only in 3 cases were the lowest-priced tenders that conformed with all mandatory factors rejected in favour of a higher-priced tender (aside from the treatment of group bids, discussed earlier):

- In Auckland, the Ministerial Directive in favour of existing operators was applied once, with a \$40 pa cost penalty (as described earlier).
- In Waikato, higher price tenders were preferred for two RFTs where the lowest tender involved vehicles about 25 years old. The net extra cost involved was around \$20,000 pa.

It is interesting to note that neither in Wellington (where non-price factors could equate to a price differential of up to 22.5%) nor in Canterbury (where the price differential could be up to 5%) were higher-priced tenders selected on any occasion. This somewhat-unexpected outcome reflects the relatively low number of bids per RFT and the wide range of tender prices noted above. In the light of this outcome, some regional councils may wish to review their trade-off approaches before the next tendering round.

Impacts of contract duration

The conventional wisdom is that longer contracts tend to result in lower prices and probably higher standards of service, but maybe with some loss of flexibility in adjusting services (although this latter problem may be overcome by the service variation provisions in the CPPs). I am not aware of any quantitative research on this issue.

While a full analysis of the NZ tender prices against contract duration has not yet been carried out, there is little evidence from our various contacts with operators that they would submit lower tender prices for longer contracts (except possibly in the case of operators new to an area, who have to establish depot facilities, etc). Indeed on net subsidy contracts, we believe prices may tend to be higher for longer contracts, as the revenue uncertainty increases substantially with time.

In this first tender round, there has been great nervousness on the part of established operators and a pre-occupation with at least retaining their existing services; the focus has generally been on retaining market share, rather than

maximising overall profitability. It seems unlikely that there will be substantial capital investment during the life of these initial contracts. In subsequent tender rounds, when vehicle replacement becomes essential, it may be that prices for shorter contracts will tend to be higher than for longer ones, although I remain to be persuaded. This is an aspect which could warrant some careful research.

Impacts of contract size

As noted earlier, maximum tender sizes are a major issue in the New Zealand context and the CPP specifications were drafted to achieve a sensible compromise between the advantages of larger tenders (operating and administrative economies) and their disadvantages (discourage competition from smaller operators). At the time of drafting the CPPs there were strong lobbies from some regional councils and some major operators to permit larger tenders.

In the event, large contracts have in many cases been achieved through the group bid approach, although maybe at a longer-term cost in terms of discouraging future competition from smaller operators. Through these large contracts and for other reasons, there will be very few cases of more than one contracted operator providing services in the same corridor, and thus any coordination/user comprehension problems should be minimised (with the exception of Wellington's Hutt Valley)

On the face of it, the group bid approach has resulted in substantial (at least short-term) cost savings to regional councils: overall tender prices in major centres would probably be in the order of 10% higher if group bids had been discounted. I believe this 10% apparent saving is more the result of operators' present pre-occupation with market share (rather than profitability) and considerably over-estimates any real economies of scale resulting from larger service packages. Given this, I suspect that if group bids had not been permitted, operators would have priced more keenly on the individual RFTs, and the final total costs would not necessarily have been any higher. Certainly the problems referred to earlier in Auckland would not have arisen.

What needs to be resolved for the future is the policy to adopt in relation to tender/contract size to secure the optimum balance between any economies of scale and the desirability of encouraging competition from smaller operators.

Impacts of revenue type

It was noted earlier that the majority of regional councils adopted net subsidy contracts for most of their services, but in several cases did not supply operators with patronage or revenue data relevant to the services specified. My view is that this approach would be expected to act as a considerable deterrent to other than the incumbent operator, and would result in tenderers building into their prices a substantial margin to cover revenue uncertainty both for the first year and for future revenue trends

In developing the CPPs we noted that:

"Net tenders tend to give incumbent operators an advantage, greatly increasing the risk to other operators, and discouraging competing tenders. This is particularly so if information about existing patronage and revenue is not readily available."

This view is supported by other commentators, eg:

"The issue of whether the authority or the operator carries the risk on revenue predictions would appear to be the single most significant factor (in influencing the number of bids received)". (Transport Advisory Service, 1991).

"Revenue prediction seems to account, overall, for the greatest degree of uncertainty and difference in price for contracts". (Huntley, 1989)

While the theoretical advantages and disadvantages of gross v net tenders are reasonably clear, the actual evidence on the impacts on total subsidies of the two types is less so. For example:

"By and large, full cost tenders...require less total subsidy than net subsidy tenders. Unpublished evidence suggests that for the former prices are generally increasing and for the latter prices are generally decreasing." (Preston, 1989)

"The evidence on the comparative costs of net cost and full cost contracts is patchy and conflicting. The only conclusion which it is safe to draw is that the merits of different types of contracts in practice seem to depend very much on local circumstances". (Blackledge, 1990)

Given that there have been relatively few gross tenders in New Zealand, it is unlikely that analysis of the tendering results would shed much light directly on the relative subsidy impacts of the two contract types. However, we hope to analyse a sample of tender bids to see how revenue estimates compared with existing revenue levels: this should be a fruitful exercise, to assist regional councils in determining their future policies in this regard. It should also be helpful to Transit NZ in reviewing its CPP requirements on the provision of patronage data for net contracts.

Negotiations and service adjustments

The CPPs allow negotiation on tender price in cases where only one conforming tender is received, but not otherwise (Table 5). Given the relatively large proportion of RFTs which attracted only one bid, this negotiation process could potentially be an important means of reducing subsidy requirements.

In practice, there seems to have been remarkably little serious negotiation, and we believe that very little price reduction has been thereby achieved. One reason for this is the limited time that was available, both for negotiation and for re-tendering if the outcome was unsatisfactory. In cases where negotiation was considered, the basis for it was usually a comparison of the tender price with gross cost estimates from cost models and recent revenue estimates.

It is suggested that it would be worthwhile for regional councils to give further time and consideration to such negotiation in future tendering rounds.

One other aspect worthy of passing comment is the practice of the operator adjusting services in negotiation with the regional council **after** the contract award but prior to service commencement. We are aware of one case where an operator has won a whole network of services in which, by fine-tuning his timetable (with regional council agreement) from that specified in his tender bids, he is likely to save in the order of \$0.5M pa, but his contract price will be unaffected. While such fine-tuning results in a more efficient operation and is to be commended (and should have happened in the previous regulated environment), it may be regarded as somewhat inconsistent with the basis of tender award. (Arguably, if the fine-tuning takes place after the contract is formally in place, then a portion of the cost savings should be passed on to the regional council, through the contract variation clause).

Overall impacts on subsidy levels and operating costs

The bottom section of Table 6 indicates the overall impact of 'deregulation' and the tendering process on subsidy levels in New Zealand.

In summary:

- Services have generally been retained at very similar levels, but with some reduction in vehicle capacities on poorly patronised services; while fares have been largely unchanged or adjusted for inflation (c.5% increase).
- In this situation, total subsidies have been reduced from around \$108M pa to \$91M pa, a \$17M pa (16%) saving
- This saving is equivalent to an average reduction of 7-8% in overall operator

(gross) costs, assuming these are reflected in tender prices.

- In the main regions, the equivalent reductions in overall gross operator costs are about:

Auckland	c. 4%
Canterbury	c.20%
Wellington	c.10%.

Those operators that previously had the highest unit cost levels, the municipal operators in the main centres, have had to make the greatest adjustments in response to introduction of the competitive environment, and the major part of these cost savings relates to their services. In my paper to the Thredbo conference (Wallis, 1989) I noted that I would expect the municipal operators to be involved in cost reductions and cost-efficiency improvements involving:

- restraint on basic pay rates;
- new award arrangements, with multi-skilling and reduced penalty rates;
- major improvements in bus maintenance efficiency;
- slimmed-down management structures, with increased decentralisation;
- reduced staff numbers, through attrition and redundancy;
- reductions in capital asset bases, including reduced new vehicle purchases and moving out of valuable central area premises.

Changes in all these aspects have been occurring, much as predicted, over the last 12 months and look likely to continue for at least the next 6-12 months. (The operator response to 'deregulation' would warrant a separate paper and is not described further here).

Conclusions

1 July 1991 is 'D' (deregulation) day in New Zealand. While the NZ legislation is modelled broadly on the UK 1985 legislation, it differs significantly in a number of important respects. The NZ legislation is wider, in that it embraces all passenger transport modes. It also allows the individual regional councils to have greater influence over the services (and fares) to be provided, as they are able to 'contract over' commercial services to secure their desired service and fare policies, rather than having to fit their policies around the commercial market.

Certainly the outcome of 'deregulation' in NZ is going to be very different from the UK. While in UK over 80% of existing services were registered commercially, in New Zealand the corresponding proportion is only 20% (and a substantial

proportion of these were only 'commercial' thanks to separate infrastructure funding). In many ways, the New Zealand deregulated system has more similarities to the system which has so far been developing in London, with most competition being for the market (through the competitive tendering system) rather than in the market (ie on-the-road competition for commercial services). Thus in NZ the tendering processes adopted are crucial to the overall success of 'deregulation'.

Some commentators have suggested it will take 15 years before the success (or otherwise) of UK deregulation can be assessed. Notwithstanding this, I believe some sensible initial conclusions can already be drawn on the impacts of 'deregulation' in NZ, even before 'D'-day: this paper has (perhaps prematurely?) attempted to do so.

First, the broad overall impacts of the transition from the previous (area monopoly) situation to the first year of the 'deregulated' situation in NZ appear to be:

- very little change in service levels, other than some reductions in vehicle capacity on services where conventional-size buses were not necessary (eg. replacement by taxi-vans/minibuses);
- very little change in fares (additional to normal inflationary adjustments);
- overall reduction in subsidy of \$17 million (16%) in the first year.

The architects of the New Zealand legislation would probably be reasonably pleased with this outcome: the worst fears of many users, unions and on-lookers (relating to fare increases and service cuts) have not been realised, while the subsidy savings will probably be regarded as a reasonable pay-off in many quarters.

In the major centres, the subsidy savings correspond to the following average operating cost reductions (as reflected in tender prices):

- Auckland c. 4%
- Wellington c.10%
- Canterbury c.20%.

These savings appear to result principally from the municipal bus operators reducing their unit cost levels, in order to become reasonably competitive and to retain the majority of their existing services. Costs are being reduced through a combination of operational efficiency improvements, reducing staffing levels, lower wage rates and penalty provisions, and reduced investment in new vehicles. There is no doubt that a major proportion of these costs savings are at the expense of the employees of the municipal operators: they are being expected to work longer for lower pay (a situation they share with many other groups of workers in NZ at present).

In my Thredbo paper (Wallis, 1989) I suggested that the major NZ municipal operators would need to reduce unit costs by in the order of 15-25% in order to

become competitive, and this has been confirmed by subsequent work. The above figures suggest that this order of saving is close to being achieved in Canterbury (Christchurch), but that only slight progress has so far been made in Auckland (or else the company is going to make unusually high profits). I believe that further unit cost reductions can be expected in subsequent tendering rounds: although in Auckland, where the greatest potential remains, the next round will not occur until 1994.

How successful has the tendering process itself been? In general, I believe reasonably successful - given the sheer amount of work that had to be done by regional councils and operators in a very short time and with limited experience in the field.

The limited extent of competition in this initial round was not unexpected. However the low ratio of tender bids to RFTs in Auckland was disappointing: the procedures allowing preference to incumbent operators undoubtedly contributed to this, and will effectively mean that the full benefits of deregulation in Auckland will not occur for another 4-5 years.

The following table shows six factors that are believed to influence the levels of competition for tendered services, together with my comments on the NZ performance to date against each factor. (One factor that should be added to this list in the NZ context is the policy of giving price preference to the incumbent operator.)

This table gives some guide to issues that need to be reassessed before the next tendering round, in order to further encourage competition and promote operator efficiency. The following key issues for further attention have been identified here and earlier in this paper:

- The merits of gross cost or net subsidy contracts, and the provision of adequate revenue information in the case of net subsidy contracts.
- The arrangements for and merits of combined or group bids, given that they can be a strong impediment to competition from new/smaller operators and yet they appear to encourage significantly lower overall prices from larger, established operators.
- Whether the proposed maximum contract duration of 3 years (after the initial tendering round) should be increased.
- How the 'level playing field' philosophy is best applied between modes, and particularly the issues of:
 - separate funding for infrastructure (urban rail and trolley buses)
 - how best to secure long-term investments (eg. new rollingstock) in a situation where contracts typically run for 3 years only.

Table 4

Factors believed to influence level of competition for contracted services ⁽¹⁾	Assessment of NZ performance
1 Willingness to accept liability for revenue deficiencies by allowing bids on a 'minimum cost' basis (single most important factor).	Generally poor: most tenders required on a net subsidy basis, but only limited patronage/revenue information provided.
2 The degree of impediment to tendering e.g. bonding requirements, complex tendering procedures, requirement to satisfy tight criteria, etc.	Reasonably good
3 The amount of positive action taken by tendering authorities to attract bidders - operator briefing sessions, wide publication of prices and tender results, assistance to new bidders, etc.	Generally good: CPPs require such action.
4 The period of notice allowed for 'gearing up' for a new contract and the length of the contract period itself	'Gearing up' period not long enough, due to difficulties in introduction of new system over short timescale. Expected to be better in future
5 The 'packaging' of contracts to form pieces of work that are economic for new operators to bid for.	Tendering packaging generally satisfactory. Incentives to new operators reduced by group bid practices
6 The tendering authority's willingness to consider alternative or 'non-conforming' tender bids and be flexible in requirements	Reasonable: few alternative tenders submitted in practice (again due to limited timescale available).

Notes: (1) From Transport Advisory Service, 1991.

- The treatment of optional factors in tender evaluation, including environmental and traffic management issues.
- The need to give greater attention to systematic negotiation procedures in situations of only one tenderer (which have so far occurred in a majority of all cases).

In 1993, I hope to be able to report that we have reached the perfect solutions to all these issues!

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Table 5

Z competitive pricing procedures - summary and comparison with UK requirements

Z procedures ⁽¹⁾	UK government requirements ⁽²⁾
All passenger transport services subject to CPP are to be competitively tendered, except in the case of concessionary fare schemes (refer also item T)	Competitive tendering procedures required for subsidising local services, except for urgent requirements, 'de minimis' cases and concessionary fares (see below).
A service should not be competitively tendered if it could be provided commercially at lower overall cost.	Local authorities' subsidy powers are limited to securing services which would not otherwise be provided
The RFT is to provide a primary service specification, defining routes, minimum frequencies, minimum capacities etc	RFT service specification largely left to discretion of the tendering authority
The RFT is to specify fare levels and structures (consistent with the RPTP). (There is no requirement for fares to relate to prevailing commercial fares)	Fares may or may not be specified by the tendering authority. The authority is likely to be in breach of duty not to inhibit competition if tendered fare levels are significantly out of line with commercial fares in the same area
The RFT specification is not to unreasonably limit competition or favour particular operator categories, eg it cannot unreasonably limit vehicle ages, vehicle sizes or modes.	Tendering authorities have a duty not to inhibit competition. Vehicle specifications are left up to individual authorities, but they should have regard to the needs of elderly/disabled people. (Some authorities specify maximum vehicle age and other features)
The RFT may not specify labour arrangements or practices	RFT may not specify employment conditions of persons to be providing the service
The RFT is to specify mandatory evaluation factors and optional evaluation factors, including for the latter the way in which public benefits will be measured in the evaluation	The tendering authority is to specify in the RFT the sort of considerations to be taken into account in tender evaluation
The maximum individual tender size may not exceed the least of (for a 40 seater bus): <ul style="list-style-type: none"> • 500,000 bus kms pa • 12 buses in service at any time • 20% of all bus kms on tendered services in the region 	Authorities should not invite tenders in such substantial packages that only a very limited number of operators are able to respond
Combined RFT's may be issued to cover up to 3 single RFT's which are geographically adjacent	Tenders may be arranged so that operators may tender for single tenders or groups of tenders - so allowing potential efficiency gains without reducing opportunities for smaller operators
The normal minimum contract duration is 1 year; the maximum is 5 years for the initial tendering round, 3 years thereafter. Contract expiry dates are to be reasonably spaced with a minimum 2 years spread.	The maximum contract duration is 5 years. (3 years is a more typical duration)
RFT's are to specify whether tenders are to be on a gross cost basis or net cost (subsidy) basis. All tenders have to conform to the specified basis. For net tenders, the RFT has to provide recent patronage data for the service	There are no government restrictions on tender revenue type. (Some authorities invite tenders on either or both (gross/net) bases)
Tenders may submit alternative tenders not conforming to all aspects of the primary service specification but also have to submit primary tenders	
Tenders have to conform with the mandatory evaluation factors. The preferred conforming tender is then selected through trade-off approach: the lowest-price primary tender will be preferred unless the authority determines that the demonstrable public benefit from optional factors in another tender exceeds the additional price involved (or alternatively the loss in benefit is less than the price saved for a lower-priced alternative tender)	The successful tenderer is to be selected solely by reference to what in the authority's view is "the most effective and economic application of the funds at their disposal for the payment of service subsidies". There is no requirement to accept the lowest-priced conforming tender
Where the tendering authority has adopted a formal policy on giving preference to existing operators, the existing operator may be selected provided his price does not exceed the lowest-price conforming tender by: <ul style="list-style-type: none"> • more than 25% in the initial tendering round • more than 12.5% for tenders in year 1992/93. 	Tendering authorities should not award a substantial majority of contracts to one operator, especially if this is likely to diminish future competition. (There is no means of giving preference to the existing operator).
Fluctuation on the tender price is permitted if only one conforming tender is received, not otherwise.	

NZ competitive pricing procedures - summary (continued)

NZ procedures

UK government requirements

- P Special tendering provisions apply to Critical Corridors, defined as corridors in which a non-road passenger service carries a substantial proportion of all passengers, and which would experience substantial additional road congestion if that mode were eliminated (refer text for discussion).
- Q Normally contracts should be awarded at least 4 months before required start of service (2 months for initial round)
- R Expedited tendering procedures may be used for:
 - additions to commercial services up to 6,000 bus kms pa
 - emergency situations in which there is insufficient time to follow the full procedures (maximum 6 months contract length in this case)
- S Concessionary fare subsidies may be paid without going through a competitive tendering procedure (refer text)
- I Competitive pricing procedures are not required for a period of up to 2 months to replace a service from which an operator has withdrawn
- U Contract prices may be adjusted in accordance with a standard inflation indexation formula (for gross costs) and specified standard adjustment practices (for revenues in net contracts)
 Contract prices cannot otherwise be negotiated during the contract
- V Service levels may be varied by the authority during the life of the contract, with prices being adjusted according to tendered variable price rates, provided the total contract price does not vary by greater than +/- 25%.

- UK legislation not applicable to non-road modes
- Concessionary fare reimbursement may be paid without going through competitive procedures, but is subject to a separate set of procedures
- Competitive tendering is not required where action is urgently required to maintain or replace an existing service, or to meet an unexpected requirement CT also not required in 'de minimis' situations - where annual subsidy is less than £8,000, provided the operator does not receive more than £40,000 pa subsidy from the same authority by this means

Notes (1) Refer Transit NZ 'Manual of Competitive Pricing Procedures Volume 2: Public Passenger Transport', January 1991

(2) Refer: Transport Act 1985; Service Subsidy Agreements (Tendering) Regulations 1985 and Code of Practice on Tendering (UK Department of Transport Circular 5/85)

Competitive Tendering In New Zealand

file 6

Analysis of New Zealand tendering process - provisional

	Auck-land	B.Pty	Canter-bury	Hawkes-Bay	Man-Wang	Otago	South-land	Tara-naki	Waik-ato
Existing services									
Existing total services in region - 000 veh km	37,250	260	8500	432	1100	2600	453	750	1522
Commercial services									
% existing services registered commercially	8	c30	1.7	14	99	5	0	100	39
% commercial services not using standard buses	<5	0	0	0	99	100	<5		0
Requests for tender									
Total no. of RFIs issued	285	4	50	8	16	23	12	1	7
Total service covered by RFIs:									
0.000 Veh Km pa	34 300	c180	8360	370	1100	2477	232		591
Peak Buses	?	?	121	9	25	65	??		19
% tendered services by revenue type:									
Gross Cost	0	25	4	0	96	0	0		0
Net Cost	100	75	96	100	4	100	100		0
Other	0	0	0	0	0	0	0		100
% tendered services by contract duration:									
Up to 1 year	0	0	26	100	1	0	0		0
1 + to 2 years	0	25	34	0	97	4	0		0
2 + 3 years	30	75	32	0	2	26	16		0
3 + 4 years	40	0	8	0	0	35	42		29
4 + to 5 years	30	0	0	0	0	35	42		71
Bidding results									
Number of tender bids by RFI (separate operators)									
0 bids	0	0	1	0	0	0	0		0
1 bid - incumbent	199	0	33	8	6	0	12?		0
1 bid - other operators	0	0	5	0	0	0	0		0
2 bids	74	3	10	0	9	17	0		1
3 bids	8	0	1	0	1	4	0		2
4 + bids	4	0	0	0	0	2	3?		4
Total	285	3	50	8	16	23	15?	0	7
Number of bids/awards by vehicle type:									
Articulated bus		0/0	0/0	0/0	0/0	0/0	0/0		0/0
Standard bus (35-50 seats)		6/3	?/27	8/8	27/3	52/21	19/?		31/7
Small bus (13-34 seats)		0/0	0/0	0/0	1/1	2/2	6/?		0/0
Taxi/van		0/0	?/8	0/0	1/1	0/0	0/0		0/0
Train/Ferry		0/0	1/1	0/0	0/0	0/0	0/0		0/0
Total		6/3	?/36	8/8	29/5	54/23	25/?	0	31/7
Number of bids/awards by operator type:									
Bus operator providing services in region		3/3	?/15	8/8	28/4	52/23	10/?		7/3
Bus operator - other		3/0	?/12	0/0	0/0	2/0	15/?		24/4
Taxi/van operator		0/0	?/8	0/0	1/1	0/0	0/0		0/0
Other operator		0/0	?/1	0/0	0/0	0/0	0/0		0/0
Total		6/3	?/36	8/8	29/5	54/23	25/?		31/7
Number of awards to existing/other operators:									
Existing operator & awarded	252	3	?	6	2	19			3
Existing operator bid awarded to other operator	12	0	?	0	2	1			0
Existing operator did not bid	0	0	?	0	0	3			4
New service	0	0	?	0	1	0			0
Total	264	3	?	6	5	23		0	7
Outcome									
Total service to be provided compared to previous service	Sim serv	Similar service	Similar freq, red veh capcty	Similar freq, red veh capcty	Similar freq, smaller vehs	Similar service	Some service reduction		Sim serv
Total public funding 90/91 - \$M	48.0	0.085	14 768	0.184	1.4	3.24	0.661	1.10	1.258
Total est. public funding 91/92 - \$M	44.4	0.104	10 000	0.188	0.6	2.80	0.60-	0	0.987
Funding Reduction - \$M	3.6	-0.019	4 768	-0.004	0.8	0.44	0.061+	1.10	0.271
- %	7.5	-22	32	-2	57	14	9+	100	22

**Annex A: Optional factors in tender evaluation
- Canterbury Regional Council procedures**

Each tender being compared is to be rated for each optional factor given below on a scale of 0 to 4, where 0 is the minimum requirement and 4 is the best feasible performance. The range of possible performance for each factor is defined below. For example, for Vehicle Age, a 0 score would be given to a tender which had an average fleet age of 12 years, while a tender with all brand new buses would be rated at 4.

The optional factors do not all have an equal public benefit, and therefore will not be given equal weighting in the tender evaluation process. The relative weightings that the Council will give each factor when assessing tenders are also outlined below.

After the optional factor performance points are assigned for competing tenders, the weighted points rating for each tender is 'normalised' such that a perfect score on all factors would be set equal to 5. The lowest primary tender price is then set at 100, and all other tender prices are scaled relative to this. The normalised points rating is then subtracted from the scaled tender price. The tender with the lowest total score is then the preferred tender.

Competitive Tendering In New Zealand

Optional factor	Range of performance	Relative weighting (%)
Vehicle age	0 = average fleet age 12 years 4 = all new vehicles	10
Step dimensions	0 = first step height of 410mm, step rise of 300mm, and step depth of 200mm 4 = dimensions of 250mm, 250mm and 300mm	7
Door width	0 = 600 mm 4 = 1200 mm	3
Grab rails	0 = none 4 = throughout all doorways and all seat backs	3
Passenger bell/cord	0 = none 4 = every seat pair	2
Service frequency	0 = specified minimum trips 4 = 100% or more above minimum level	40
Express services	0 = no express trips 4 = 4 express trips in each peak period	12
Access to service	0 = maximum walk of 500 metres to service for all passengers 4 = pick up from door for all passengers	12
Timetable	0 = no direct conformance with guidelines 4 = conformance with guidelines on all points	11
Total		100