Negotiated vs tendered bus service procurement - recent NZ experience

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NZ public transport reforms

- **Previous model** (1991-2015)
  - Based on UK ‘deregulation’ approach (1985)
  - Mix of ‘commercial’ (25%) and subsidised/tendered (75%)
- **New model** (2015 -)
  - Public Transport Operating Model (PTOM)
  - Urban bus and ferry services
  - Goals/objectives:
    - grow patronage
    - reduce subsidies
    - competitive/efficient supplier market
    - ‘partnership’ approach
  - Almost all services contracted with RC

Procurement and contracting procedures – 'Holy Grail'??

- **Procurement approaches:**
  - CT (9 years) – 48% km AKL, 67% WLG
  - NC – 'L4L' (12 years – legislated 'reward' for commercial services
  - NC – 'Other' (6 years) – high CR services, discretionary
  - Allocation CT v NC not random
- Similar procurement procedures – RfT, tender, evaluation/ negotiation
- CT contracts awarded first, cost rates then benchmarks for NC price negotiations

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Contract conditions (CT, NC):

- Identical for all contracts (except duration)
- Operator provides buses, depots
- Gross cost basis (+ patronage incentive)
- Same KPIs, incentives
- Same partnership provisions – joint business planning, etc

Holy Grail (*"an elusive object or goal that is sought after for its great significance"*)

Contract costing model –formulation/application

Contract costing model: $TC = C_H + C_K + C_V$

$$= (UC_H * hrs) + (UC_K * km) + UC_V * vehicles)$$

Allows for range of bus size categories (4), out-of-service running

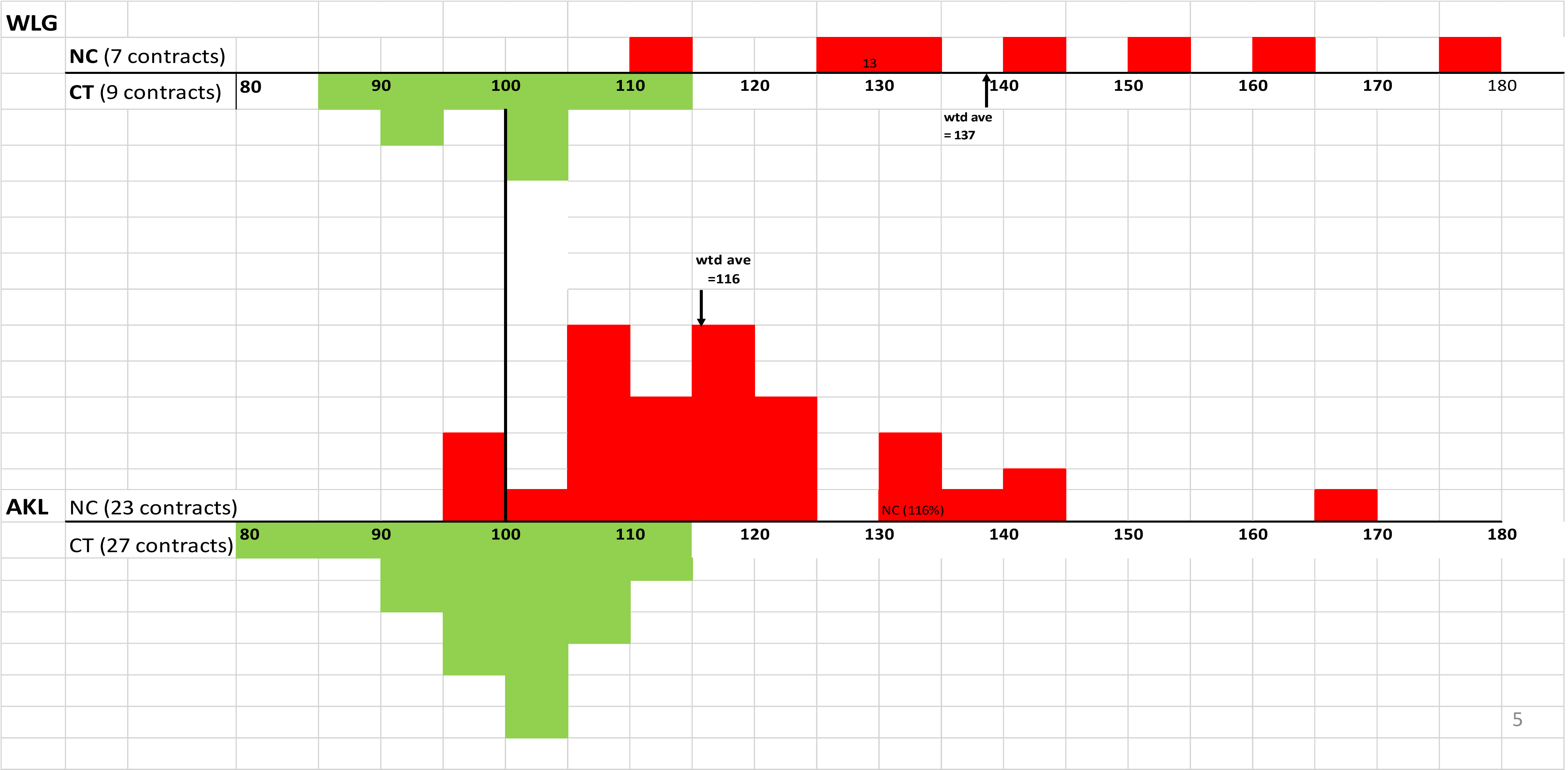
Calibrate model to match total CT contract prices (AKL, WLG)

Apply calibrated model to each contract to derive contract cost estimates (based on CT calibrated unit rates)

Derive (for each contract) ratio actual contract cost: modelled contract cost (based on CT rates)

Contract cost summary NC vs CT (relative to mean CT cost)

NC: CT cost ratios (averages): AKL = 116%, WLG = 137%



Comparative costing results – comments

- **Overview of findings**
  - CT costs reflect keen competition (5-6 bidders/contract) – reasonable indication of efficient costs
  - Cost modelling - NC costs average **16% higher (AKL)** and **37% higher (WLG)** than CT costs
- **Primary factors 'driving' NC cost premium = procurement constraints**
  - L4L NCs (c.75% of total NC): **RCs had to reach agreement on prices**, but minimal leverage (could not walk away/revert to CT) – major weakness, resulting from legislation/regulations
  - 'Other' NCs: most negotiated in package with L4L contracts
  - All NCs: RCs under time pressure to complete negotiations (for new service introduction)
- **Other potential factors**
  - Operator negotiation tactics – CT bids; stone-walling
  - CT vs NC choice not random – CT bias towards outer areas (depot sites more available and cheaper) - for NC comparability, CT likely costs +c.5% average
  - Cost model may be too simplistic (eg opex inner v outer areas)

Conclusions

Have we found the Holy Grail??

Yes (almost?) – first opportunity internationally to compare NC and CT costs for a substantial sample of urban bus contracts in closely comparable situations (procurement and contracts)

But

- ❑ Conclusions compelling in this case – primarily results of policy/regulatory deficiency.
- ❑ No basis for generalising conclusions to other NC v CT situations
- ❑ Successful contract negotiation harder (for authority) than successful CT?
- ❑ Key requirements for NC success -- PTO ⟶

Challenges

Negotiated contracts

- Appropriate policy/regulatory settings
- Good cost benchmarking – critical role, comparable contract T&C
- Clear guidelines for negotiation process
  - documents modelled on CT
  - mediation/arbitration procedures
- Strong negotiation skills and perspectives – throughout process
- Realistic 'Plan B' essential
- Plenty of elapsed time for negotiation process

Competitively tendered contracts

- Asset availability to potential bidders
  - depots, buses
  - major influence on # bidders, bid pricing and contract prices
- Sustainability of tender prices
  - provisions to reject too low bids
  - good cost benchmarking
- Labour arrangements
  - provisions re staff transfer from existing operator, no worse terms and conditions