

IS COMPETITION WORKING? : THE EXPERIENCE IN AUCKLAND N.Z.

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INTRODUCTION

1. Legislative amendments in 1989 introduced a deregulated and competitive environment for land passenger transport in New Zealand, which was implemented from 1991. Four years on, the experience of its application in New Zealand's largest urban area has been mixed. While unit costs have fallen, and service levels have increased the competitive market has failed to deliver the integrated and quality passenger transport system which Aucklanders say they need. Passenger transport continues to play a relatively small part in meeting the travel demands of Aucklanders, as the love affair with the private car continues unabated.
2. Can the deregulated and competitive marketplace bring about a change in the situation? To address this question, it is necessary to understand something of the historical context of passenger transport in the Auckland region.

PASSENGER TRANSPORT IN AUCKLAND

3. Auckland is New Zealand's largest urban area, with approximately 1 million residents, or 28% of the country's population. The urban area is characterised by low density residential development, with an average of 16 persons per hectare: low even by Australasian and North American standards.*
4. This pattern of development has been aided by transport investments which have focused on providing a high quality motorway system throughout the region. This commenced in the 1950s and was reinforced by a major study undertaken in the early 1960s (De Leuw, Cather 1965). The motorway system overcame some major

* Auckland density based on 1991 population within metropolitan limits, including vacant land 1981 density 14 p.p.ha. Similar data for Australia (1981): Sydney 19, Melbourne 16, Adelaide 14; for USA (1980): Los Angeles 20, New York 20. (Newman et al, 1987).

topographical barriers to development, and set the scene for accelerated residential expansion into areas outside the Auckland isthmus, including the North Shore, West and South Auckland.

5. Planning for Auckland's transport system in the early 1960s included proposals for the tandem development of a passenger rail system, but unlike motorway investment, this was never implemented. As a result, Auckland was left with an aging rail system, the location of which was becoming increasingly irrelevant to the travel needs of its residents.
6. In line with the residential expansion of Auckland came the decentralisation of employment, commercial and leisure activities. With the development of new centres of activity in sub-regional locations, the Auckland central business district declined in importance. By 1991, the CBD's share of regional employment had fallen to 12.3%, down from 19.1% in 1976 (Statistics NZ, 1991).
7. These changes had a dramatic effect on the performance of the passenger transport system. Although increased incomes and vehicle availability were reducing ridership in many parts of the world, the trend in Auckland was accelerated by this pattern of urban development. All of the key factors were against passenger transport.
8. Not surprisingly, patronage fell considerably over this period. Between 1955 and 1985 for example, total system patronage fell from approximately 100 million trips per annum to 60 million. Public ownership of passenger transport businesses expanded as profitability declined. This was accompanied by an increase in public funding including a major fleet replacement program initiated in the 1970's, and increasing levels of operational subsidy beyond that.
9. By the late 1980's therefore, Auckland was faced with a situation of a high and growing level of public financial input into passenger transport services, with a continuing, and accelerating slide in ridership. The following characteristics were evident:
 - A quantitative licensing system, with barriers to entry, and traditional areas of business based on licensed territory;
 - A large proportion of services in public ownership;
 - The Auckland Regional Authority's dual roles as both the funding agency and the owner of the largest operation, led to concerns over conflict of interest;
 - An accelerated fall-off in patronage, associated with reduced economic activity, and lower costs of motoring. Following a period of relative stability during the early 1980s, patronage fell by an estimated 40% between 1988 and 1991;
 - Increasing costs of operation, reflecting inflexible work practices, an inflationary environment, and a "cost plus" approach to pricing;

- Increasing public expenditure on passenger transport, which had grown to approximately \$44 million per annum by 1989;
- The pursuit of cost reductions through service cuts and rationalisations, leading to an increasingly fragmented and complicated routing and timetable structure;
- Ongoing concerns over the lack of ability for the system to respond to changing consumer needs;
- An overriding focus on “stopping the rot”, with retention of existing patronage more important than seeking out new potential markets.

TRANSPORT LAW REFORM

10. The inefficiencies inherent in the system did not rest comfortably with the direction of public sector reforms which had taken place in New Zealand since the mid 1980's. These reforms had primarily been aimed at increasing the efficiency of the New Zealand economy by removing subsidies, dismantling regulatory barriers, and removing business enterprises from direct government control, either as state owned enterprises, or through privatisation. Wherever public funding was involved, the emphasis was on a clear separation between policy and funding, and service provision.
11. The transport law reforms of 1989 directed these philosophies towards the transport sector, with the following stated aims (Ministry of Transport):
 - a) To provide integrated land transport planning
 - b) To provide a clear picture of transport system costs
 - d) To reduce bureaucracy
 - e) To encourage innovation in land transport
 - f) To devolve appropriate responsibility to local government
 - g) To provide for fair competition between commercial operators
 - h) To improve consumer service and safety
 - i) Greater efficiency in public expenditure
12. The law reform process resulted in a number of new pieces of legislation. The new arrangements broadly followed the British model, and provided the ability for operators to register “commercial” services, with relatively few restrictions. A competitive tendering system was put in place to enable the gaps, between commercially registered services as identified by the planning agency, to be filled. The key legislation included:

- The Transport Services Licensing Act 1989, which replaced the previous quantitative licensing system with a qualitative system with few restrictions on entry;
- The Transit New Zealand Act 1989, which established regional councils as the planning and funding agencies for passenger transport, and required all payments made by those councils to be subject to competitive pricing procedures;
- Amendments to the Local Government Act 1974, which prevented regional councils from having a financial interest in a passenger transport undertaking, to ensure a clear separation of the funder and provider roles.

IMPLEMENTATION

13. The new regime came into effect in 1991. A decision was taken in Auckland to minimise the extent of changes to routes in the initial tender round. This reflected concerns over the rapid decline in patronage, and fears that upheaval to the system would cause further losses in an already fragile market.
14. In recognition of the potentially high costs associated with the transition to the new system (including redundancy costs for municipal operators), a ministerial directive was issued which permitted regional councils, at their discretion, to favour incumbent operators by up to 25% in the tender evaluation process. In Auckland, the regional council announced its intention to apply the directive. Not surprisingly, this tended to discourage competition; a total of 388 bids were received for the 285 requests for tender (RFTs). 199 RFTs (70%) attracted only one bid (Audit Office, 1992). As a result of these decisions, there was limited change in services and operators in the first tender round in 1991.
15. Even in centres where the regional council made a decision not to apply the 25% ministerial directive, however, there was limited competition. In Canterbury, for example, the 50 RFTs in the initial tender round attracted only 61 bids (Audit Office, 1992), despite the regional council's decision not to apply the ministerial directive.
16. The initial service contracts in Auckland were for periods of between 3 and 5 years. This allowed for a staggered review of services between 1994 and 1996. The regional council is now part way through this process, with the second of three major tender rounds almost complete. The experience from these tender rounds has provided us some useful insights into the effectiveness of the competitive system.

OUTCOMES OF COMPETITIVE TENDERING

17. The main outcomes from the Auckland experience with competitive tendering have been as follows:

- Average contract prices have reduced, and a higher level of “commercial” registrations have been notified. This has enabled the regional council to purchase more service for less financial input than previously existed, without additional cost a higher level of service.
 - The level of competition, for the most part, has been limited. The North Shore tender round saw most RFTs attract competing bids, and two new entrants secured contracts. However, one of these exited from the business within six months, citing the difficulties faced with the competitive regime as a major reason for this move. The recent South Auckland tender round has attracted a much lower level of competition, with an increased proportion of tenders failing to attract more than one bid.
 - Where competition has emerged, this has often been at the expense of service quality. In some cases, successful tenderers have entered the service with poorer quality vehicles than previously existed, generating the inevitable complaints from existing users. Despite the implementation of both a minimum vehicle quality standard, and a “brownie points” system which provided for tender prices to be weighted according to variations in vehicle quality, the outcome on the road has been a general reduction in vehicle standards, with a “lower cost” approach to the market by some players. While cost reductions have been made, some industry sources have questioned whether these have simply been a result of lower investment levels, which may not be sustainable until the longer term.
 - The North Shore contract round was protracted by a number of strategic moves by operators to protect their market share, through commercial registrations of selected of services. In some cases this has resulted in different of operators at different times of the day, some operating commercially, others under contract. User confusion at this situation has been evident.
 - The requirement of the competitive pricing procedure to offer tenders of sufficiently small size to encourage competition and new entrants has in some cases lead to an inefficient and fragmented division of services which should logically have been offered as a single tender. Again, this has resulted in some user confusion, where different operators have won different parts of the tender package.
18. As a general observation, the competitive environment has driven operators to take what appears to be an excessively competitive view of the market and the other players in it, to the extent that opportunities for complimentary actions are sometimes lost sight of. Although an umbrella organisation does exist for bus operators, there is a clear lack of a generic, industry-wide approach to growing the total passenger transport market. The emphasis has been on market share, rather than market size. The competitive environment tends to have fostered short term decision making rather than a long term strategic view of the market. As a result, there has been little operator collaboration in the provision of joint timetables and information services, and little progress in the direction of integrated ticketing. On the contrary, most operators have approached these issues on an individual basis, preferring to develop their own brand identities.

19. This competitive attitude also appears to influenced the relationship between the planning agencies and service providers. In Auckland, the territorial local authorities (city and district councils) have taken an active interest in the passenger transport planning process. Some friction has developed between territorial local authorities, who have sought to articulate their own particular visions for the future passenger transport system; and service providers, whose objectives as commercial organisations are in many cases different.
20. The deregulated market has generally not resulted in the development of innovative passenger transport services as a result of commercial initiatives. This is perhaps not surprising given the focus of operators on retention of existing markets, but the system appears to be offering little encouragement to entrepreneurial moves by operators to expand into new markets.

DOES THE COMPETITIVE MARKET MEET OUR OBJECTIVES?

21. It is clear that the average unit cost of passenger transport services has reduced since 1991. The question remains however, as to the extent to which this has resulted from the advent of a competitive market place, or whether other initiatives, such as labour market reform, have been more dominant. While there is little doubt that the threat of competition, and the potential loss of contracted services has helped to keep the prices "keen", the ability for operators to actually deliver lower prices has undoubtedly owed much to the more flexible employment structures possible under the Employment Contracts Act, and the commitment of the management of those companies to address their cost structures.
22. Many of the problems outlined above can be traced to the inflexibility of the existing competitive pricing procedures. The Transit New Zealand Act requires all payments to be subject to an approved competitive pricing procedure, which must have regard to the following matters:
 - a) the efficient application of the Account (i.e. public funds);
 - b) the safety and other interest of the public;
 - c) the desirability of encouraging competition in the sector of industry likely to supply goods or services;
 - d) the undesirability of excluding from competition any party who might otherwise be willing and able to compete;
 - e) the costs of administration associated with the pricing procedure or of any contract formed pursuant thereto.
23. A passenger transport competitive pricing procedure has been developed by Transit New Zealand in an attempt to set in place a national framework within which the tendering process can be conducted, in a manner which complies with the legislative

provisions. Unfortunately, this approach fails to recognise the different market dynamics which exist in different centres within New Zealand, and appears to have placed too great an emphasis on the removal of real and perceived barriers to competition.

24. Some of the problems that have emerged can be addressed by taking a less rigid approach to the competitive pricing procedures. There remain, however, some fundamental difficulties with the competitive tendering approach which are of concern in Auckland. It is far from clear whether such an approach is actually an appropriate way in which to deliver passenger transport services where the market for those services is weak, and apparently unattractive to new entrants. By focusing our attention on establishing a competitive market, have we actually lost sight of the rationale for promoting and funding passenger transport services in the first place?

LAND TRANSPORT STRATEGY

25. The low density nature of Auckland's growth referred to earlier in this paper has contributed to a rapid expansion in vehicular traffic volumes in the region. Between 1963 and 1992, the daily number of vehicle trips in the region increased from 479,000 to 1,682,000, a 250% increase. Over the same period, population increased by 78% (Auckland Regional Council, 1993). Increasingly, Aucklanders are suffering the disadvantages of this expansion in traffic volumes: peak period congestion, environmental degradation, and community severance. The economic, social and environmental costs of adding further roading capacity to deal with this growth are becoming increasingly unacceptable. There is a growing recognition that continued provision for the single occupant vehicle is not sustainable, and that real changes in transport policy are needed.
26. As a result, Auckland has moved in recent years towards the adoption of a more proactive encouragement of alternatives to the single occupant vehicle. One of the catalysts for this has been a recent legislative requirement for regions to prepare a land transport strategy, the purpose of which is to establish an integrated framework for all transport investment in the region. In urban regions, this allows for investments in passenger transport to be considered alongside roading projects. In the review of the land transport strategy which is currently underway in Auckland, one of the key strategic directions to be followed is a greater emphasis on passenger transport, in recognition of its potential to contribute to the improved efficiency and effectiveness of the region's transport system (Auckland Regional Council, 1995).
27. In order to achieve this, the passenger transport system will need to become a lot more attractive to users and non-users alike. Recent research has highlighted the fact that passenger transport patronage in Auckland is now dominated by those who are effectively captive to the system. Over 90% of surveyed passengers did not have the alternative of independent transport available for the trip in question. Conversely, the number of "choice" users, who have a car available but choose to use the passenger transport system in preference, is very low.

IMPROVING PASSENGER TRANSPORT

28. For passenger transport to make a meaningful impact on Auckland's transport future, this situation must be turned around, with choice users attracted back to the system. Nobody pretends that this will be easy, but most observers agree that improvements in the quality and convenience of the system are an essential ingredient. For example, research undertaken prior to the review of services on the North Shore revealed a need to address the following issue (North Shore City Council, 1993):
- poor and irregular service frequency
 - limited range of destinations
 - indirect routes and slow travel times
 - difficulty of transfer
 - difficulty in understanding the system
29. The new system has resulted in improvements in some of these areas. Lower unit costs have enabled the regional council to purchase increased levels of service frequency, more regular headways, and service to new destinations. In other respects, however, the situation has deteriorated. The increased fragmentation of services has not aided the public's comprehension of the system, and transfers between some routes have become more difficult as a result.
30. A basic measure of the success of the system is the number of passengers the system is able to attract, particularly in the critical peak periods. Ironically, data on system performance has itself been one of the casualties of the competitive system. The "commercial sensitivity" attached to patronage data has meant that operators are reluctant to divulge passenger numbers on commercial services. However, the information that is available suggests that after years of decline, patronage is now beginning to pick up in Auckland. The regional council's annual cordon survey of peak period passengers entering the central business district showed a 17% increase in patronage in 1995, the first increase since the survey commenced in 1986 (Auckland Regional Council, 1995b).
31. It is difficult to ascertain whether this improvement has any relationship to the competitive market place. It may simply reflect an upturn in economic conditions. However, to the extent that lower prices have allowed for more services to be purchased, increased patronage is a reasonable expectation. For example, significant increases have been witnessed on Auckland's passenger rail system since improvements were made to both the frequency and regularity of service 12 months ago.
32. Despite these improvements, the competitive passenger transport market still falls some way short of delivering a system that meets the public demands. To some extent this is a function of limited funding. The public funding input to passenger transport in Auckland, for example, is only about a quarter of that in comparable Australian cities.

Even with increased funding, the 'system wide' improvements necessary to lift the profile of Auckland's passenger transport system can actually be achieved under the current arrangements.

33. Compared with many of the successful overseas examples, the missing link in Auckland appears to be an overall controlling agency for passenger transport. The extent to which the division between funder and provider has been pursued in the New Zealand legislation has meant that in some key areas, the planning agency (i.e. the regional council) is restrained in its ability to address some of the key problems facing the passenger transport system in the region.

INFRASTRUCTURE IMPROVEMENTS

34. A good example of this difficulty is a proposal to provide a bus priority lane alongside the northern motorway in Auckland. While the regional council has taken a lead in planning and design work for this project, its inability to literally "take ownership" of the project has meant that its implementation remains uncertain. The legislation has been written to preclude regional council ownership of any passenger transport infrastructure. It is also sufficiently uncertain to apparently preclude territorial local authority ownership of all but the most basic infrastructural components, such as bus stops and shelters. In the absence of a single agency committed to the development of the passenger transport system, and empowered to implement its proposals, the development of these system-wide facilities will continue to be stifled.
35. Another topical example in Auckland is the development of light rail transit (LRT). Auckland has long held ambitions to provide a modern commuter rail service, although many of the proposals, such as those for a rapid transit system developed in the early 1960s were simply too expensive. More recently the advent of more flexible LRT technology, combined with a recognition of the strategic importance of the existing rail corridors, and the demonstrated ability of an enhanced rail system to attract increased patronage, has led to renewed interest in an LRT system. A recent public opinion survey revealed strong public support for its implementation.*
36. Yet the ability to implement such a system within New Zealand's competitive environment presents some major challenges. These include:
 - a single, privately owned company (NZ Rail Limited) not only operates the existing passenger rail contract, but also owns the tracks. Ironically, there are no automatic rights for potential competitors to gain access to this infrastructure.
 - the commercial aspirations of competing bus operators who view the line-haul components of their services, adjacent to the rail corridors, as one of the potentially

* TVNZ One Network News/Colmar Brunton Poll, May 1995; 88% of Aucklanders polled thought that Auckland needs a new or improved public transport system; asked what type of system improvement they would prefer, 28% answered light rail, 24% train, 21% bus, 10% other rail.

profitable elements of their business. They are unlikely to be satisfied with being confined to the operation of feeder services to meet an LRT system, but for LRT to succeed, a high level of bus/rail feeder activity would appear necessary.

- As noted above, the prohibition on the passenger transport planning agency owning any infrastructure creates something of a vacuum.

37. While these issues are not insurmountable, they do produce barriers to achieving the outcomes that Aucklanders say they want. Further, they are symptomatic of a wider concern with respect to the competitive environment: that in focussing too narrowly on the achievement of a competitive market place for passenger transport services, we may have lost sight of the wider objectives of the passenger transport system itself.

DIFFERENTIATION OR INTEGRATION?

38. There remains a fundamental incompatibility between the development of an integrated passenger transport system, and a regulatory and funding regime which encourages businesses to compete for market share. As long as passenger transport operators wish to be more than simply suppliers and managers of labour, they will actively seek to differentiate themselves in the market. Yet it is exactly this differentiation that a planned and integrated approach will seek to minimise.

39. For example, a rational operator in a competitive market will want to develop its own ticketing product, its own fare structure, its own timetables, and its own telephone enquiry service. Yet an integrated transport system can only develop effectively in a complex urban area if these elements are delivered in a consistent, undifferentiated manner, where the user can follow the same steps to access any part of the system. There are obvious advantages in being able to market such a system to the wider pool of potential (choice) users.

40. Unfortunately, the situation in Auckland is that our passenger transport services, since the advent of a competitive market place, have become increasingly fragmented, with clear examples of individual operators wanting to maintain and enhance their differentiation in the market. There have been some joint initiatives to improve the situation, but progress on critical issues such as integrated ticketing has been slow. Operators, not surprisingly, are concerned at any initiatives which would take away their ability to operate in a fully commercial manner, and to develop products which gave them the edge over their rivals.

41. Clearly, there is no desire to return to the situation which prevailed prior to the reforms in 1989. The challenge however, is to settle on a system which allows all players - the planning agencies, the operators, the users, and the public generally- to achieve their objectives in a mutually reinforcing manner.

42. In my view, the Auckland experience, and the New Zealand experience in general, has highlighted some serious shortcomings of placing too great an emphasis on the establishment of a competitive market for its own sake. The New Zealand legislation,

and the way in which it has been applied, appears to view competition as an end in itself, rather than as one of the tools available to achieve a more efficient and effective transport system. In a market as fragile as passenger transport in New Zealand, such an approach is short sighted. If passenger transport is to be given a chance to achieve the potential which we believe it has in Auckland, we must face up to the challenge of adapting our system to maintain the advantages of contestability, but without the disadvantages that excessive competition brings.

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