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

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

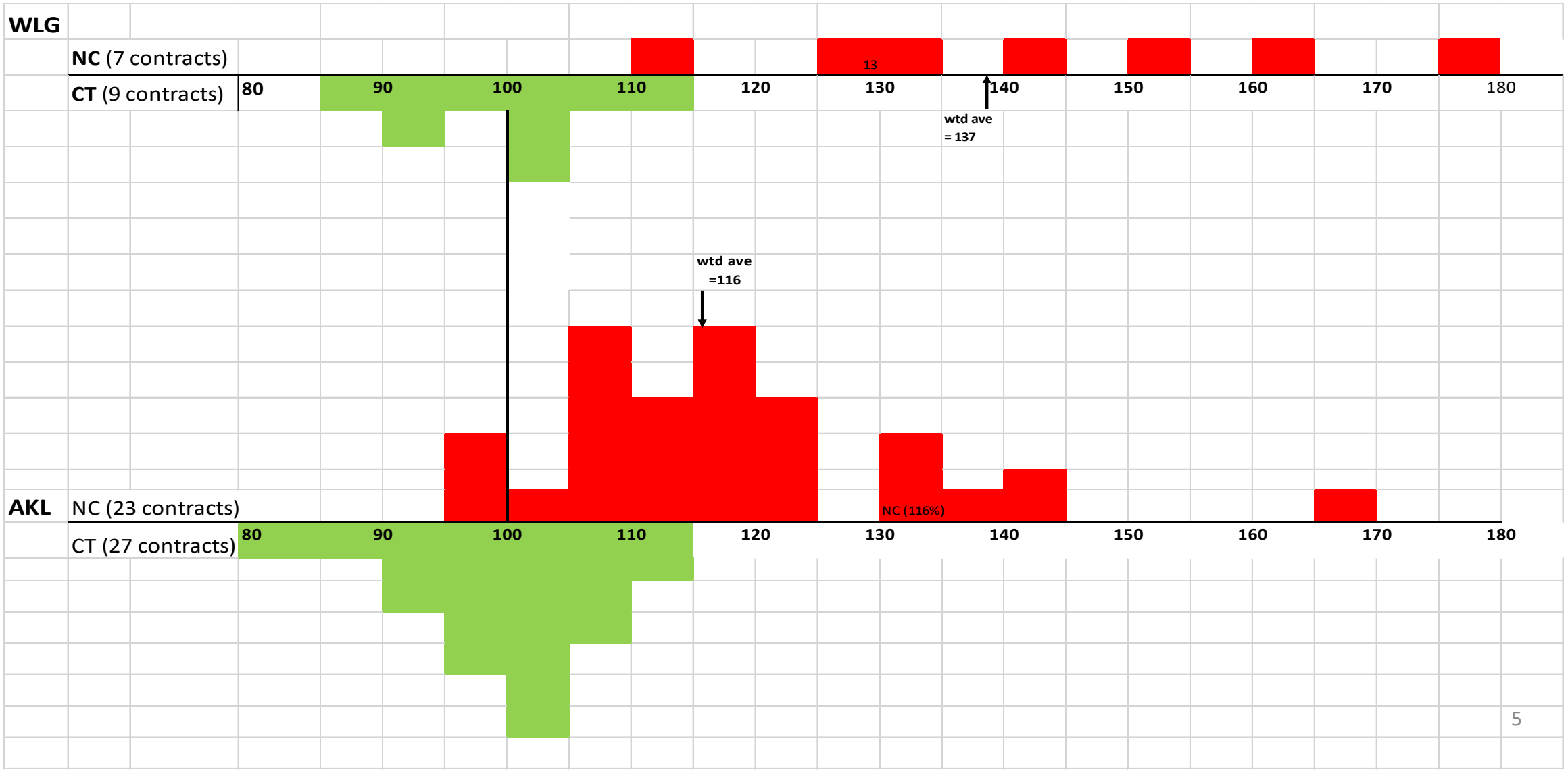
Calibrate model to match total CT contract prices (AKL, WLG)

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

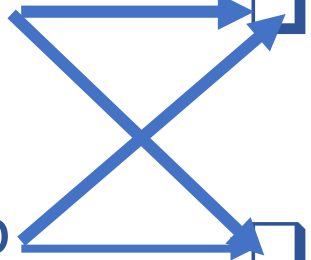
- ❑ Asset availability to potential bidders
  - depots, buses
  - major influence on # bidders, bid pricing and contract prices
- ❑ Sustainability of tender prices
  - provisions to reject too low bids
  - good cost benchmarking
- ❑ Labour arrangements
  - provisions re staff transfer from existing operator,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

Procurement and contracts

Procurement

Process for selecting supplier

- **Negotiated** – sole supplier
- **Tendered** – competition to choose supplier



Contracting

Ongoing management of service delivery

- **Performance-based** – KPIs, incentives, threat of termination
- **Other?** – no active monitoring or incentives

PTOM bus contract procurement approaches

Procurement type		Duration	Market share (service km)	
			Auckland	Wellington
Competitive tendering		9 years	47.2%	65.6%
Negotiation	Like-for-like	12 years	30.7%	28.3%
	Other	6 years	22.1%	6.1%

Competition for tendered contracts

Region	Tendered market		Bidders/contract	
	Units	Service km ($million)	Mean	Typical range
Auckland	23	27.8	5.65	4-8
Wellington	9	9.8	5.22	5-7
Medium centres (4)	17	18.8	3.94	2-6
Small centres (6)	12	2.4	2.63	2-5
NZ total	**61**	**58.8**	**4.66**	**-**

PTOM impacts on service levels and costs (AKL, WLG)

Item	After statistics	% change After: Before
Auckland		
Bus km (service)	58.12 Mpa	+33%
Bus hours (service)	2.672 Mpa	+41%
Peak buses	1108	+15%
Gross contract costs	$276.8 Mpa	+7%
Gross contract costs/service km	$4.76	-17%
Gross contract cost/service hour	$103.6	n/a
Wellington		
Bus km (service)	14.74 Mpa	+2%
Bus hours (service)	0.636 Mpa	n/a
Peak buses	390	n/a
Gross contract costs	$78.7 Mpa	-7%
Gross contract costs/service km	$5.34	-8%
Gross contract costs/service hour	$123.7	n/a

Changes in operator market shares (AKL, WLG)

Operator	Nat'l market share	Regional market share							
		Auckland				Wellington			
		Total pre-PTOM	Total post-PTOM	Tender	Neg'n	Total pre-PTO	Total post-PTOM	Tender	Neg'n
Go Bus	27.8%	-	16.5%	34.9%	-	-	-	-	-
NZ Bus	24.0%	61%	33.8%	1.4%	62.8%	73%	28.5%	-	82.8%
Ritchies/RMTS	15.2%	16%	24.5%	38.7%	11.7%	-	-	-	-
Tranzit	12.2%	1%	2.8%	5.9%	-	1%	59.6%	90.8%	-
All others	20.8%	22%	22.4%	19.1%	25.5%	26%	11.9%	9.2%	17.2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Market shares based on the proportion of total bus service km operated in the region.

The regulatory cycle

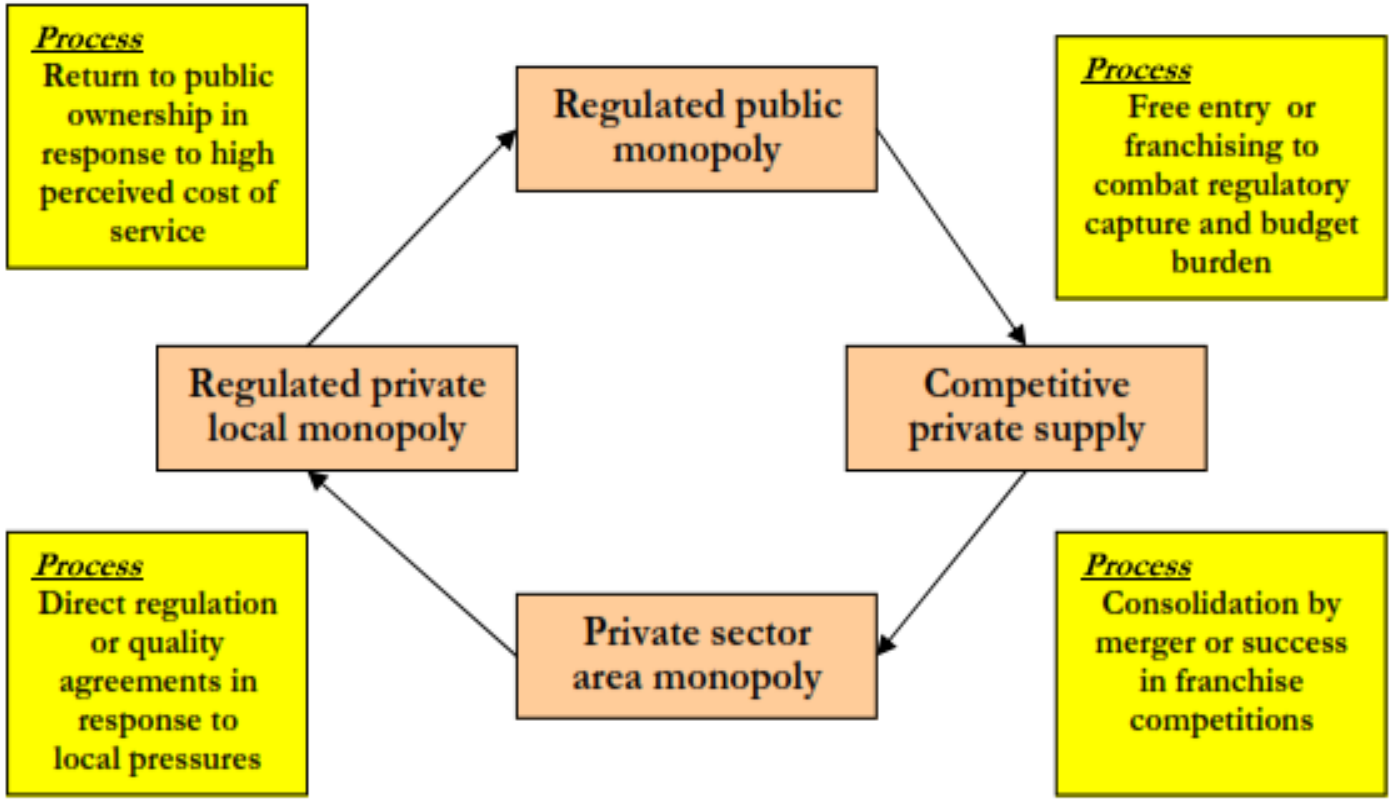
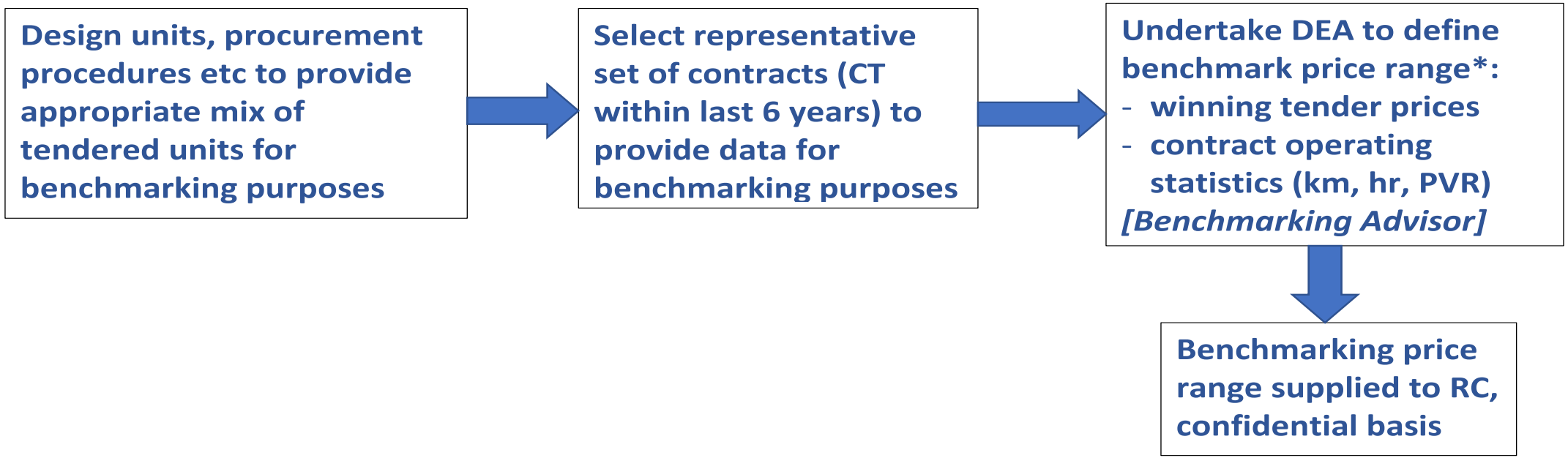


Figure 1: The industrialized country regulatory cycle

Source: Gwilliam, K (2007). Bus transport: is there a regulatory cycle. Paper to Thredbo 10 conference.

Benchmarking Procedures (to support negotiations)

- **Benchmark information used to estimate efficient market price, to inform the contract negotiation process.**
- **Benchmark price is the value that the contract would be expected to receive if it were procured under a competitive tendering process.**



*Benchmark price range taken as between the 'most efficient' market price and the 'least efficient' market price in the benchmarking set, as identified through DEA process.

Regulation of NZ Urban Bus and Ferry Services: the 40-year journey from monopoly suppliers to competition for the market