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Committee Policy, Finance and Strategy
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Trolley Bus Operating Contract with Wellington City Transport Limited

1. Purpose

To seek approval for the Trolley Bus Operating Contract (the Contract) between Greater Wellington Regional Council (GWRC) and Wellington City Transport Limited (WCTL).

2. Significance of the decision

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

3. Exclusion of the Public

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

That the public conduct of the whole or relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists, that is, to carry on without prejudice or disadvantage negotiations.

4. Background

GWRC have been negotiating a new contract for the operation of trolley bus services with WCTL. These negotiations were concluded for the most part in July 2006 at which stage issues were raised by Land Transport New Zealand (LTNZ) over the contracting methods employed by GWRC, in that the trolley bus contract had not been put out to competitive tender. GWRC's rationale for contracting these services on a sole supplier basis was, and still remains, based on recognition that there is no other bus operator in the country with the specialist equipment necessary to operate trolley bus services and that it was

likely that potential new operators would be faced with costs far greater than those faced by WCTL as incumbent operator.

LTNZ's questions over GWRC's contracting methods also followed a Commerce Commission investigation into Infratil (as owner of WCTL) and their application for approval to purchase Mana Coach Services, following Infratil's withdrawal of that application.

Subsequently, LTNZ in consultation with GWRC set down minimum requirements for a sole supplier contract that required addressing through a procurement procedure to be prepared by GWRC that obtained best value for money. These minimum requirements were:

- A maximum term of five years plus provision for a further five years after a review of both operational and financial performance
- Assurances of best value for money through either open book disclosure or fully auditable accounts of profitability, operational efficiency, financial return and confirmation of fair market price (value for money audits)
- Allowance for full access to patronage and fare revenue information
- Mechanisms for negotiation over costs associated with service level changes
- Incorporation of LTNZ approved mechanisms for inflation indexation
- Provision for price negotiation following value for money audits, including accounting for benefit to WCTL through increases to fares
- Key performance indicators and reporting requirements driving continuous improvement
- Appropriate step-in rights for GWRC if contract conditions are not being met
- Access to GWRC of all information necessary to comply with its obligations to LTNZ

The procurement procedure was approved by LTNZ in August 2006. These aspects are covered in more depth in section 6.

5. The Contract

The Contract is designed to achieve the objectives of the Wellington Regional Land Transport Strategy through:

- Improving accessibility of public transport through more readily accessible buses

- Enhancing the quality, reliability and priority of public transport
- Attempting to contain the growth of commuter road traffic
- Minimising the impact of public transport on the environment through promoting environmentally friendly services

The Contract is a net contract, in that fare revenue is collected and retained by WCTL. Throughout the life of the Contract, WCTL's costs, operational efficiencies and financial returns will be subject to audit.

More detailed financial aspects are detailed in sections 6.2 below.

The Contract is for the provision of all trolley bus routes. It has been acknowledged that there will be a requirement to operate some services at the peak of the peak with diesel buses where the number of services exceed the number of trolley buses it is financially and operationally sensible to operate. Accordingly, the Contract requires that sufficient numbers of diesel buses are kept on hand. The supply of these diesel buses is not reliant on WCTL retaining any diesel bus contracts. Diesel buses will also continue to be used on weekend services until there are sufficient new trolley buses available to justify their introduction.

A final meeting with WCTL is to be held Monday 7th May to finalise some details within the contract that have been raised by them in recent days. These details do not affect the principles of the Contract.

6. Contractual Terms

6.1 Contract Start Date and Duration

The new Contract is due to commence 1 July 2007. The Contract duration is 5 years, incorporating allowance for a further five years provided WCTL meet obligations of financial and operational performance. Financial performance will be measured through value for money audits and operational performance through reporting and monitoring. Benchmarks for operational performance are set via key performance indicators measured monthly.

Should WCTL fail to meet their obligations, GWRC have the right to a first offer of refusal for the purchase of the trolley bus fleet and operation in order to ensure service continuity. This includes a provision that WCTL must retain ownership of the trolley buses.

6.2 The Annual Contribution / Financial Provisions

The Annual Contribution for the first year of the Contract is established based on the existing contract price plus an adjustment for: inflation, and costs associated with Vector's asset upgrade works on the overhead network power supply.

The Annual Contribution is adjusted annually for inflation by indexation of gross costs less fare revenue, taking account of any service variations in the

year. The indexation on gross costs uses a model based on an approved LTNZ index methodology for WCTL operating costs and the Consumer Price Index for the Vector asset upgrade costs (consistent with the WCTL/Vector contract).

6.3 Value for Money Audits

An initial audit will take place at three years, following delivery of the last refurbished trolley bus. The second will take place at 5 years, prior to a decision being made on renewal of the Contract.

Audits will be conducted by an independent auditor who will furnish a report based on financial statements, management accounts, budgets, business plans, financial forecasts and details of the basis for allocation of direct and indirect revenues and costs.

A report will then be compiled detailing whether or not the auditor considers that GWRC's annual contribution allows WCTL a reasonable financial return and that WCTL's costs are fair, reasonable and efficient representing value for money.

In the event that the auditor forms an opinion that WCTL's financial return is either higher or lower than the range that the auditor considers reasonable then either party will have the right to call for a renegotiation of the annual contribution.

6.4 Key Performance Indicators and Renewal Benchmarks

The Contract contains significant amounts of meaningful performance measures to establish whether or not services are being delivered satisfactorily. These include:

- Service reliability (% of services operating, and total kilometres operated compared with timetabled kilometres)
- Service punctuality (% of services operating on time)
- Cost effectiveness (in relation to passenger trips and passenger kilometres)
- Cost efficiency (in relation to bus kilometres vs. operating expenses)
- Customer service (complaints, complaint handling, passenger satisfaction surveys, mystery shopping and customer service training for drivers)
- Service delivery (maximum use of trolley buses, driver safety training and minimisation of serious incidents).

All key performance indicators are required to be reported on a monthly basis. This reporting is specifically included in contract management provisions detailed below.

Each of these indicators also form renewal benchmarks, for inclusion in the overall review of performance when considering a second five year contract term. Each benchmark requires an improving or stable performance trend.

6.5 Contract Management / Cure & Termination

Full provisions for managing performance issues have been included and these are as follows:

- specified contract non-compliance events
- steps for remedying of non-compliance events
- steps for implementation of temporary (stop-gap) measures
- ability for GWRC to require immediate remedy
- formulation of cure plans to solve problems
- provision for revision of cure plans
- provision for contract termination in the event that non-compliance events are either not cured or persistent in their occurrence.

6.6 New Trolley Buses

Two new prototype trolley buses will be introduced in September 2007. These buses will be very much like the first of the actual trolley buses that is due for delivery in January 2008. The prototypes will however trial different seating configurations in an effort to establish what works best. In any event, the new buses will be capable of carrying around 70 passengers and be:

- Modern and comfortable
- Wheelchair accessible
- Provided with a back-up battery system allowing self power away from the overhead wires
- Interiors compliant with modern accessibility standards
- Pre-wired for new technology including passenger information displays, audio, electronic ticketing and security cameras.
- New pole systems to minimise 'de-wirements'

The Contract requires that delivery of all new trolley buses must be completed by August 2009.

6.7 Quality of Services

The Contract requires WCTL to provide services in a manner that meets all key performance indicators and renewal benchmarks. They must also provide services in a way that helps GWRC achieve the policies and objectives of the Wellington Regional Land Transport Strategy.

6.8 Integrated Ticketing

The Contract provides for GWRC's retention of the ability to specify integrated ticketing systems.

6.9 Service Planning

Quarterly service planning meetings are programmed to assist GWRC in assessing WCTL's operational performance. These meetings will also form the basis for more regular reviews of timetables.

6.10 Service Variations

The Contract contains provision for the negotiation of costs of service changes. Essentially, cost increases or decreases will be based on pre-determined operating costs (subject to inflation) and estimates of effects on fare revenue, with reviews of actual revenue effects after three months which may trigger an adjustment to the variation cost.

6.11 Livery

All new buses will have a Metlink identity on front and sides.

6.12 Publicity and co-branding

All publicity will be co-branded between Metlink and Go Wellington.

6.13 Assignment

WCTL is not able to sub-contract or assign its obligations or rights without the permission of GWRC

6.14 Disputes

Either party has the right to seek arbitration if disputes remain unresolved.

7. Approvals

The Contract was approved in its present form (prior to signing) by NZ Bus's Board of Directors on 1 May 2007.

LTNZ confirmed 2 April 2007 that approval of the procurement procedure was their last requirement and that they did not require evidence of compliance.

8. Communications

A joint news release is planned following this meeting. In addition, a contract signing ceremony is being arranged, in the presence of the Honourable Annette King.

9. Summary

The new Trolley Bus Contract is designed to ensure value for money; is consistent with GWRC policies, in particular the Regional Passenger Transport Plan and the Regional Land Transport Strategy; complies with the LTNZ approved trolley bus procurement procedures; and delivers a fleet of fully accessible reliable modern trolley buses. Thus GWRC officers seek Council approval to sign the proposed Contract.

10. Recommendations

That the Committee recommends that Council:

1. *Receives the report.*
2. *Notes the content of the report.*
3. *Approves entering into a 5 year Trolley Bus Operating Contract with WCTL, including provisions for a further 5 years on the basis of satisfactory performance.*
4. *Authorises the Chief Executive to sign the Contract on the Council's behalf and to affix the seal of the Council.*

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