Report from 'Down Under'
- Recent Developments in Australia & New Zealand

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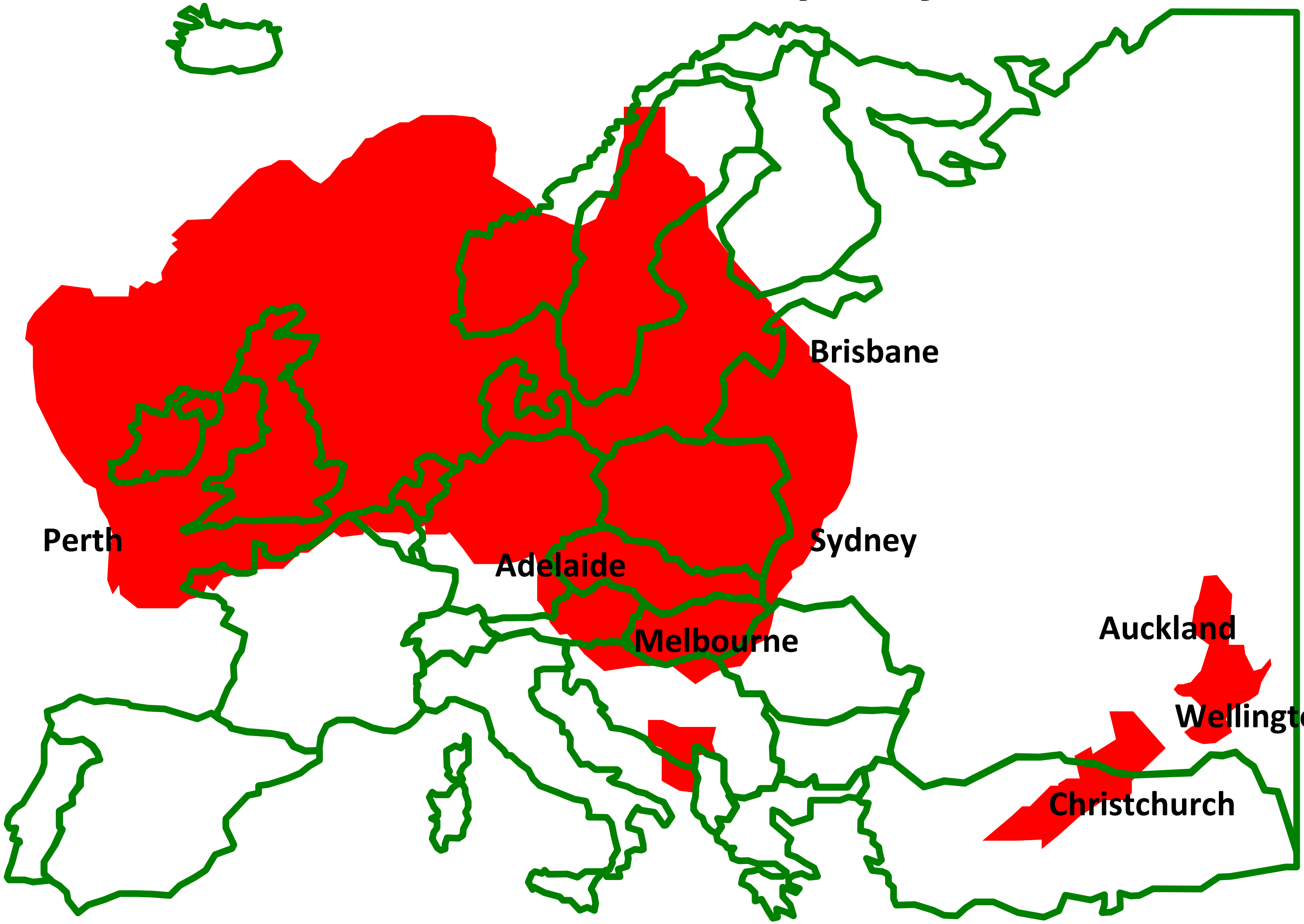
'Down Under' and 'Up Top'



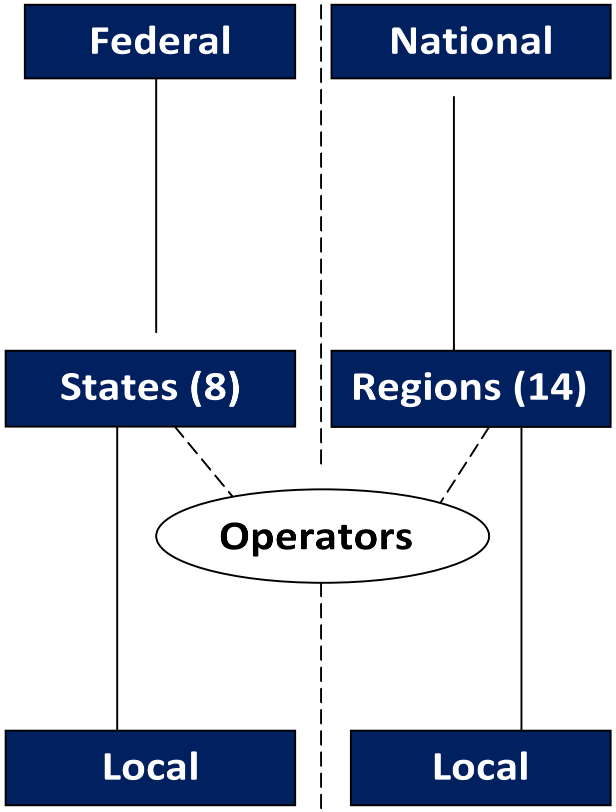
OZ/NZ – Allocation Of PT Functions

Australia

- Funding contributions (major projects, limited)

- Legislation
- Regulations
- Funding
- Procurement & contracting
- Service levels & fares
- Performance monitoring

- Road-based infrastructure & facilities
- Traffic regulations



New Zealand

- Legislation
- Regulations & policy guidelines
- Funding (contribution)

- Regional policies & plans
- Funding
- Procurement & contracting
- Service levels and fares
- Performance monitoring

- Road-based infrastructure & facilities
- Traffic regulations

OZ/NZ Competition & Ownership Models - Overview

	MONOPOLY PROVISION		*CONTROLLED COMPETITION*	*MARKET LIBERALISATION*
	Public	*Private*	*(Competitive Tendering)*	*(‘Deregulation’)*
AUSTRALIA **Bus/Ferry**	**Sydney (B)** **Brisbane (B)** **Canberra (B)** **Tasmania (B)**	**Sydney (B)** **Melbourne (B)** **Brisbane (B)** **Tasmania (B)**	**Adelaide (B)** **Perth (B/F)** **Brisbane (F)**	**Interstate coaches***
Rail/Tram	**Sydney (R)** **Brisbane (R)** **Adelaide (R/T)** **Perth (R)** **Regional rail (R)**		**Melbourne (R/T)**	
NEW ZEALAND **Bus/Ferry**			**Most regions (80% average)**	**Most regions (20% average)*** **Inter-regional coaches***
Rail	**Wellington (R)** **Inter-regional rail (R)***		**Auckland (R)**	

***** Denotes unsubsidised services

Overview of Bus Contracting Models - OZ/NZ Metro Areas

City	*Operator Ownership (Private/Government)*	*CT or Negotiation*	*Area or Route Basis*	*Contract Duration Years*	*Contract Size (buses)*	*Funding Model Gross, Pax, Quality)*	*Asset Provision (Buses, Depots)*
AUSTRALIA							
Sydney	G/P	Neg	Area	7+7(?)	100-150 ave	G+P+Q	Op → Govt
Melbourne	P	Neg	Area	7+3	50 ave	G+P+Q	Op
Brisbane	G/P	Neg	Area	7+2	20–700	G	Op
Perth	P	CT	Area	7+7 → 10 (new)	40-180	G+P+Q	Govt (primarily)
Adelaide	P	CT	Area	5+5	60-220	G+P+Q	Govt (primarily)
NEW ZEALAND							
Auckland	P	CT	Route → Area	5 typically → 5+7?	→ 50 typical	N → G+P+Q	Op
Wellington	P	CT	Route → Area	5 typically → 8+4	→ 10-80 typical	N →G+P+Q	Op
Christchurch	P/G	CT	Route (grouped)	5	5-20 typical	G+P+Q	Op

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OZ Bus Developments – Western Australia

Perth Metro

- CT round 3 under way – policy to continue CT, not Negotiation
- Annual tender rounds for next few years – keen competition expected
- 10 year contracts (no rollover)

Regional Towns

- New 10 year negotiated (mostly) contracts
- Govt taking bus and depot ownership – will facilitate future CT

OZ Bus Developments – South Australia (Adelaide Metro)

- **Restructuring of the regulator?**
  - bus contracting now run by DoT
  - may transfer to public (corporatised) operator of train/ tram services
- **Renationalisation of the bus operations???**

- **Current 5/10 year CT contracts expiring 2010:**
  - been successful in terms of cost reductions, service development, quality of delivery and patronage
- **Govt considering future contract arrangements:**
  - CT or negotiated contract extensions???

OZ Bus/Ferry Developments – New South Wales

Sydney Metro

- **Negotiated contracts since 2005/06 – initial 7 year term**
- **Govt moving to own bus/depot assets**
- **Market risks – revenue sharing above threshold**
- **Service planning:**
  - operators retain primary role
  - major network review very slow
- **Performance monitoring/ incentives**
  - KPI system
  - influence contract renewal

Regional Centres

- **New contracts under negotiation**
- **Rates based on standard cost model**
- **Extensive industry consultations**
- **No radical changes from previous**

Sydney Ferries

- **Tendering out previous Govt operation**

OZ Bus /Ferry Developments – Queensland

Greater Brisbane Metro

Bus

- **Service development very successful:**
  - BUZ concept – regular, high frequency services, 7 days
  - excellent patronage response
- **Integrated fares/ticketing**

  - led to substantial patronage growth, but less revenue?
- **Current negotiated contracts expire 2014**

– what to follow?

Regional Centres (route/ school services)

- '3G' contracts under development - by negotiation
- Performance monitoring/ incentive system – KPIs etc
- Payment rates based on cost benchmarks

Brisbane Ferries

- New operating contract to be awarded shortly
- No patronage incentives this time!

OZ Bus Developments – Victoria (Melbourne Metro)

- **Negotiated contracts, started July 2008:**
  - 29 operators, 1500 buses
  - industry structure/areas unchanged
  - 7 years + 3 years (NBC/MBL 5 years)
- **Barriers to CT:**
  - asset ownership
  - limited cost information
  - risk of legal challenge
- **Policy for new services to be open to CT**

– but not happened so far??

- **Cost benchmarking/ negotiation process:**
  - established benchmark cost rates (interstate evidence)
  - negotiated cost rates where operators substantially above average/benchmark
  - resultant cost savings 0.3%
  - more than offset by upward adjustment for one 'unsustainable' contract
- **Performance monitoring/ KPI system:**
  - operational, service quality, patronage growth
  - incentive payments max 2% contract value
  - part implemented to date

OZ Developments
– New Melbourne Train/Tram Contracts

Train Operator	Tram Operator
• **Metro Trains Melbourne ('Metro'):** - MTR (HK) with John Holland/ United Group • Franchise turnover $800Mpa, patronage c. 220Mpa	• **Yarra Trams:** - Keolis with Downer EDI • Franchise turnover $350Mpa, patronage c. 170Mpa

Contract duration	• 8 years initial (from Nov 2009) • 7 years extension, subject to performance and open-book negotiations	**Assets**	• Key assets leased by state/3rd parties to operators • New investment primarily state responsibility (with operator participation)
Funding model	• 'Net Cost' principle: Franchise (bid) sum = Op cost + Margin – Forecast revenue • Revenue risk sharing – 'cap and collar' • Profit sharing mechanism – performance above target EBITDA • Cost risks – some shared or borne by state	**Performance Regimes**	• Operational performance regime: - reliability, punctuality - pax weighted minutes delay relative to target - cap $1.0M/$0.5M per month • Customer experience performance regime: - customer satisfaction, personal safety, cleanliness, passenger information • Rollingstock availability regime – fleet availability % in peak periods

Melbourne Train/Tram Contracts
- Some of the Transition Costs

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New Zealand Railways
– Regulatory Cycle

NZ Railways

- Freight – rail, ferry and truck distribution
- Passenger – urban (AKL/WGN)
- Passenger – long distance
- (Formerly bus/coach passenger services)

Ongoing Issues

- Freight
  -financial viability
  -Govt investment requirements
  - international shipping developments
- Passenger (urban)
  - major network upgrading (AKL)
  - asset replacement
  - coping with growth in demand

Government Department	< 1982	NZ Government Railways Dept
Corporatisation	1982	NZ Railways Corporation
Road freight deregulation	1983	
Financial/organisational restructuring: - sale of bus/coach businesses	1990	NZ Rail Ltd
Privatisation - integrated freight/ passenger railway and ferry operation	1993	
Rebranding	1995	Tranz Rail Ltd
IPO	1996	
Auckland rail network sold to Government, operations outsourced	2002	
National rail network renationalised	2003	On Track
Rail business sold	2004	Toll NZ Ltd
Rail business renationalised	2008	Kiwi Rail

Regulation Of Local PT Services - NZ & UK

UNITED KINGDOM

UK (ex London) 'deregulation' reforms, 1986
- c. 80% commercial services
(Transport Act 1985)

Quality/ Voluntary Partnership Agreements	Quality Partnership Schemes (statutory)	Quality Contracts
Transport Act 2000, Local Transport Act 2008		

London reforms
- all contract

MARKET LIBERALISATION
('Deregulation')
- Operator initiative

CONTROLLED COMPETITION
(Competitive Tendering)
- Authority Initiative

NZ 'deregulation' reforms 1991
- generally modelled on UK 1986 reforms
- c. 30% commercial services
(Transport Services Licensing Act 1981)

NZ 2010 Reforms(??)
- Greater emphasis on development of commercial services - remove/ reduce controls
- Remove 'all contract' provision
(PTMA Amendment 2010?)

NZ 2008 Reforms
- Less emphasis on commercial role for PT
- Authorities able to impose 'controls' on commercial services
- Provision for 'all contract' system
(PT Management Act 2008)

NEW ZEALAND

NZ – Bus/Ferry Procurement Policies

Item	*Previous Policy*	*New Policy (2008)*
Contract size	• Max c. 25 buses	• Max 60 buses
Contract duration	• Max 5 years, or 8 years including intermediate review	• Max 12 years, including intermediate review
Contact scope	• Route basis (presumed)	• Route or area basis
Contract lead time	• Min 4 months contract award to commence services	• Min 9 months contract award to commence services (larger contracts)

NZ – Bus Contract Funding Models

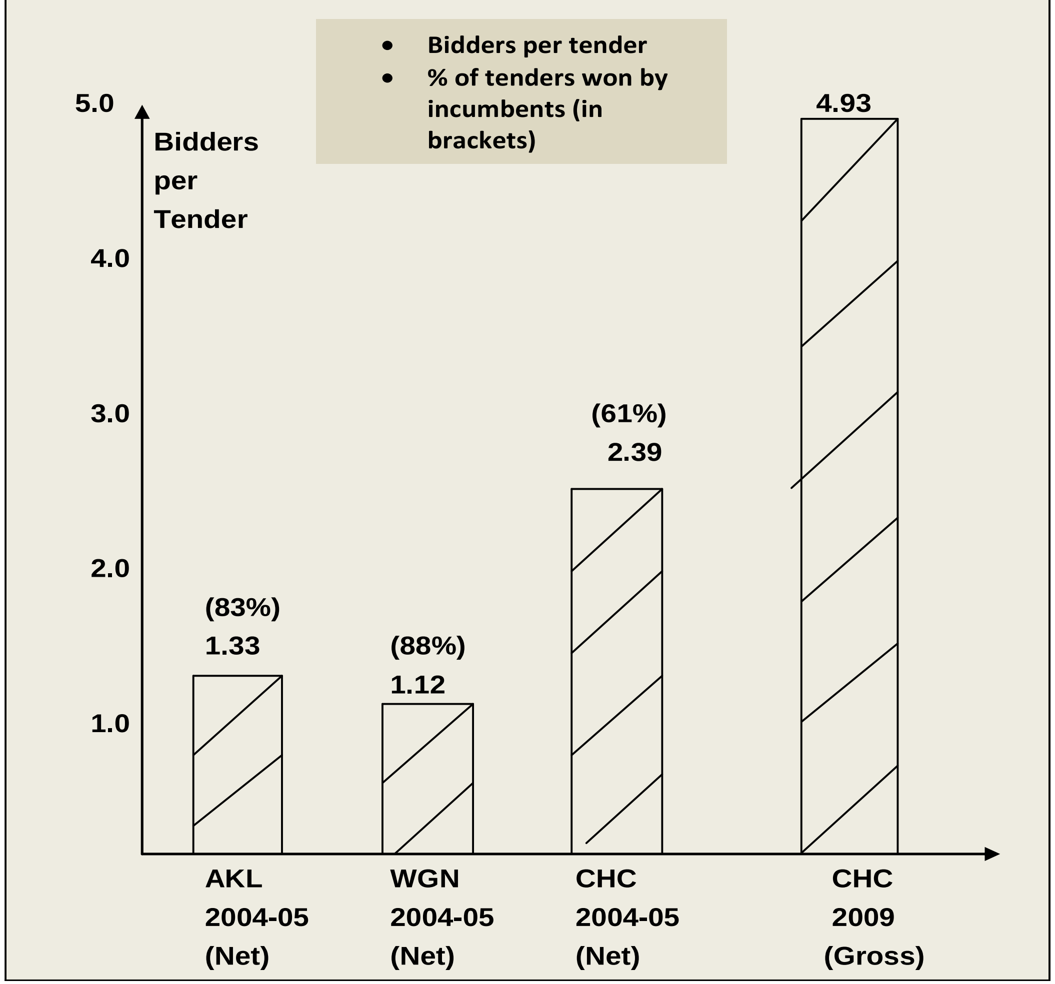
Centre	*Funding Models*		*Notes*
	Previous	*New*	
Auckland	**Net**	**??**	• **Considering change to Gross + Input + Pax model**
Wellington	**Net**	**Gross + Input + Pax**	• **Recommended in draft Procurement Strategy under consultation**
Christchurch	**Net**	**Gross + Input + Pax**	• **Changed 2009 – regarded as successful**
Hamilton	**Net**	**Gross + Input + Pax**	• **Changed 2005/06 – regarded as successful** • **Considering removing the Pax component**
Dunedin	**Net**	**No change**	• **Not contemplating any change**

NZ Local Bus Operator Market

Main Operators

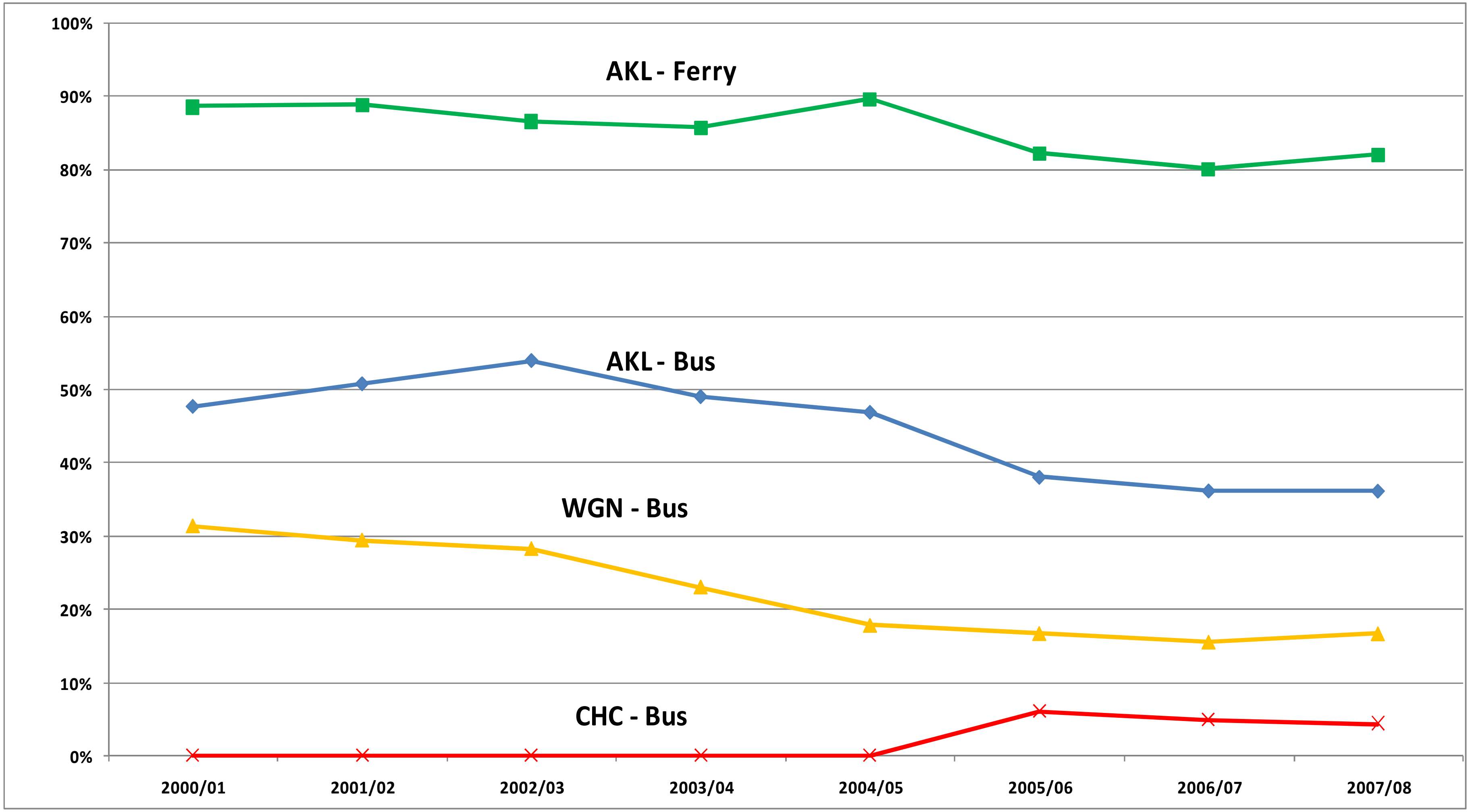
- ***NZ Bus (Infratil)***
  - **ex Stagecoach**
  - **68% of AKL bus market, 74% of WGN bus market**
- ***Souter Holdings***
  - **9% of AKL bus market, 24% of WGN bus market**
  - **major AKL ferry operator**
- ***Ex-municipal operators***
  - **Red Bus (Christchurch)**
  - **Citibus (Dunedin)**
- ***Numerous NZ private operators***
  - **many also provide substantial tour/charter operations**

Competition for Contracts



NZ Local PT Services – Commercial Market Shares

% Passengers on Commercial Services



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A : Overview

B: Australia

C: New Zealand

D: Ongoing Issues

Summary – Ongoing Issues *(for T12?)*

- **‘Deregulation’ (operator initiative services) – what role, and how? (B, NZ)**
- **CT v Negotiation choice – CT systems**
  - Negotiated systems (B, OZ)
- **Encouraging the competitive supplier market – asset supply**
  - other contract features (B/R)
- **Allocation of market risks – what funding models? (B/R)**
- **Improving service performance – KPI systems and incentives (B/R)**
- **Enhancing rail-based system efficiency – greater role for CT?**
  - other reforms (R)
- **Evolution of the bus operator market – consolidation?**
  - locals v multi-nationals? (B)
- **Government bus operators – what future? (B, OZ)**
- **NZ railway – what future?**
  - ownership, funding and network issues (R, NZ)