



Subject **Public transport procurement interim review – a supplement to the Competitive Pricing Procedures Manual Volume 2: Public Passenger Transport**

Circulation

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Purpose

- 1 To promulgate some interim changes to the procurement procedures for public transport services as a supplement to the Competitive Pricing Procedures Manual Volume 2: Public Passenger Transport.

Background

- 2 Land Transport NZ is currently reviewing its policies on passenger transport procurement procedures (the Review) to align them with the requirements of the Land Transport Management Act 2003 (LTMA).
- 3 The current Competitive Pricing Procedures (CPPs) for passenger transport were developed under the Transit New Zealand Act 1989. These are set out in the Competitive Pricing Procedures Manual Volume 2: Public Passenger Transport (the Manual) and have been in effect since 1991 without any substantial review.
- 4 Land Transport NZ is also currently reviewing the procurement procedures for physical works and professional services. This review includes a number of features that are common to all procurement procedures which are intended to meet the requirements of section 25 of the LTMA. The completion of work on these common features will take some time. The work will be coordinated jointly across the two reviews to avoid the duplication of effort and confusion that would occur if these common features were developed separately.

- 5 Given the time it will take to complete work on the common features, Land Transport NZ has decided to make some interim changes to the procurement procedures aimed at improving the opportunities that regional councils and ATRA have to obtain better value for money and increase the competitive market. These changes are set out in the sections that follow.

Interim steps to improve public transport procurement

- 6 These changes to the procurement procedures are issued as a supplement to the Competitive Pricing Procedures Manual Volume 2: Public Passenger Transport (the Manual) and not as a formal amendments to the Manual pending completion of the full Review. Regional councils and ARTA may adopt the changes subject to them seeking Land Transport NZ agreement that they have developed an appropriate procurement strategy that sets out its overall strategic approach to public passenger transport procurement. The strategy will demonstrate how the approved organisation's public transport procurement procedures will encourage efficient and competitive markets and, in particular, will address the sustainability of a healthy market. If regional councils or ARTA desire other changes then they will need to seek Land Transport New Zealand approval of an amendment to the procurement procedures.
- 7 The procurement strategy is to include, but not limited to:
- The steps that will be taken to encourage efficient and competitive markets
 - The structure of contract packages to ensure that large and small operators are able to compete.
 - Ensure that the tendering strategy is designed to provide a reasonable offer of work to the market at regular intervals so that competition is maintained.
 - The basis on which service level variations to contracts will be adjusted
 - The basis on which the contract price will be adjusted
 - The rationale for the lead times between contract award and commencement of services under the new contract
 - Any proposal for area based contracts and the justification for this approach.
- 8 The interim changes are summarised below:

General Circular Interim Review

Contract price adjustments	3.9	<ul style="list-style-type: none"> ➤ Multiply change in service kms by the variable cost rate (usually marginal cost/service km). 	<ul style="list-style-type: none"> ➤ RFT to specify a separate method for small (e.g. less than 10%) and large adjustments established on an equitable basis that recognises changes in costs and investment for any contract having a duration of more than 2 years.
		<ul style="list-style-type: none"> ➤ Inflation adjustment to gross price using Land Transport NZ index or equivalent. ➤ Price of net contracts can be adjusted for fare changes. 	<ul style="list-style-type: none"> ➤ Inflation adjustment is to be based on Land Transport NZ index only (once current review of indexation is completed). ➤ No change proposed pending completion of Land Transport NZ fare policy development.
Contract scope		Current procurement procedure is based on routes only. (Note; while the Manual does not specifically exclude “area based” contracts, general practice is to only tender on a “route basis”.)	Contracts may be route or area based. Area based requires Land Transport NZ prior approval.

- 9 The requirements of the Competitive Pricing Procedures Manual Volume 2: Public Passenger Transport will continue to apply to the full extent and in all respects that are not varied by the content of this General Circular².

Completion of the public transport procurement review

- 10 The passenger transport procurement review has the objective: “to develop procurement procedures and guidelines to facilitate a good quality, integrated and continually improving bus and ferry services for a fair price with a reasonable return for operators, while contributing to the purpose of the Land Transport Management Act 2003 (LTMA) and the New Zealand Transport Strategy’s objectives of: assisting economic development; and assisting safety and personal security; and improving access and mobility; and protecting and promoting public health; and ensuring environmental sustainability”.
- 11 The interim steps proposed in this General Circular will meet the immediate needs but do not fully satisfy the review’s objective. However, we do not propose to review these interim changes unless there is a need to adjust them to meet any statutory requirements that may

² The Manual contains a wide range of mandatory requirements and guidelines. These will continue to apply but, subject to Land Transport NZ’s agreement referred to in paragraph 6 above; the provisions in the Manual may be amended by the change set out in this General Circular.

result from the Public Transport Management Bill or the legislation necessary to establish the new transport entity combining Land Transport NZ and Transit NZ. Subject to this qualification the interim changes set out in this General Circular will be incorporated into the outcome from the full review.

Enquiries

- 12 For further information, contact the Partnership Manager at your Land Transport NZ Regional Office.



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