

# Transport Activity Procurement Strategy

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## **Executive summary**

This Procurement Strategy explains the Taranaki Regional Council's (the Council) approach to the procurement of transport activities and services funded from the Council's annual plans and the National Land Transport Programme (NLTP). The intended audience is primarily the New Zealand Transport Agency (Transport Agency), Council itself and provides a signal to the suppliers of services.

### **Summary statement of key issues and opportunities to obtain value for money**

The Council's *Transport Activity Procurement Strategy* is based on the value for the money spent in procuring the Council's transport related activities that are not funded, or either funded in part or fully funded from the National Land Transport Fund.

Key issues and opportunities include:

- Changes to the Transport Agency's funding assistance rates leading to potential changes in levels of service.
- Packaging work so that local suppliers with sufficient capacity/capability can compete.
- Developing good long term supplier/client relationships.
- Developing partnering relationships with contracted public transport service providers
- Consideration of joint procurement arrangements with other regional councils and interested parties.

### **Recommendation that the New Zealand Transport Agency**

Endorses the *Transport Activity Procurement Strategy*.

Approves the use of in-house professional services.

### **Evidence of corporate ownership or internal endorsement of the Procurement Strategy**

The Council's Chief Executive has endorsed this Procurement Strategy.



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## Part A Policy context

### 1 Introduction

The purpose of this Procurement Strategy is “to document the Taranaki Regional Council’s (the Council) long term approach to the procurement of all transport activities, such as public transport services, supporting the Regional Transport Committee and professional services”.

It is intended that the Strategy will:

- be a living document, that is regularly reviewed, guiding procurement decisions and is responsive to change.
- be relevant to the Taranaki region.
- have corporate ownership and commitment within the Council.
- be endorsed by the Transport Agency, pursuant to Section 25 of the *Land Transport Management Act 2003* (LTMA). The Transport Agency’s *Procurement Manual* acts as the regulatory guideline for procurement of subsidised transport activities.

### 2 Statutory context

At the highest level the statutory objectives of the LTMA and *Local Government Act 2002* (LGA) apply to the Council. The LGA empowers the Council to play a broad role in meeting the current and future needs of its communities for good quality local infrastructure, while the Council’s responsibilities under the LTMA include contributing to an effective, efficient, and safe land transport system in the public interest.

The LTMA introduces a new approach for the funding, procurement and contracting of public transport services - the Public Transport Operating Model (PTOM). The aim of PTOM is to grow public transport patronage with less reliance on subsidies. Section 115 of the LTMA includes the following set of public transport principles:

- a. All regional councils and public transport service providers should work in partnership and collaborate with territorial authorities to deliver the regional public transport services and infrastructure necessary to meet the needs of passengers:
- b. The provision of public transport services should be coordinated with the aim of achieving levels of integration, reliability, frequency and coverage necessary to encourage passenger growth:
- c. Competitors should have access to regional public transport markets to increase confidence that public transport services are priced efficiently:
- d. Incentives should exist to reduce the reliance on public subsidies to cover the cost of providing public transport services:
- e. The planning and procurement of public transport services should be transparent.

Any public transport service operated in a region must be provided under contract with a regional council as part of a unit unless it is an exempt service. A regional

council must contract for the provision of every unit on an exclusive basis (*LTMA* s116).

This updated Procurement Strategy will be used to implement the Council's approach to the PTOM.

### 3 Organisational goals

#### 3.1 Strategic objectives

The strategic objectives of the Council are defined by the *2012/2022 Long-Term Plan* (LTP). The strategic objectives in relation to transport activities can be summarised as:

- **Regional land transport planning** – promoting an affordable, integrated, safe, responsive and sustainable land transport system within the region.
- **Passenger transport** – promoting the provision of community passenger transport in Taranaki and assist the special transport needs of the transport disadvantaged.

The Transport section of the LTP details levels of services, performance measures and funding requirements for the next 10 years (refer to pages 61 to 63 of the LTP).

#### 3.2 Community outcomes

The Taranaki community has identified their aspirations or outcomes for the region as follows:

- **Connected Taranaki** – A region that delivers accessible and integrated infrastructure, transport and communications systems, which meet the needs of residents, business and visitors.
- **Prosperous Taranaki** – A region that boasts a sustainable, resilient and innovative economy that prospers within the natural and social environment.
- **Secure and Healthy Taranaki** – A region that provides a safe, healthy and friendly place to live, work or visit.
- **Sustainable Taranaki** – A region that appreciates its natural environment and its physical and human resources in planning, delivery and protection.
- **Together Taranaki** – A region that is caring and inclusive, works together, and enables people to have a strong distinctive sense of identity.
- **Vibrant Taranaki** – A region that provides high quality and diverse cultural and recreational experiences, and encourages independence and creativity.

The Council's contribution to achieving these aspirations and the measures to be used, are set out in Council's LTP.

Procurement of Council's goods and services for transport activities (as specified in the LTP) using this strategy and achieving the best value for the money spent in procuring the Council's needs, will contribute to the outcomes listed above.

## **4 Procurement principles**

### **4.1 Best value for money**

The following definition of 'Best Value for Money' accessed from the Transport Agency's *Procurement Manual* Section 3.2 has been adopted for this strategy:

**The best available outcome for the money spent in procuring the Council's needs.**

### **4.2 Competitive and efficient markets**

The transport budgets in the LTP provide a statement to the community of what the Council intends to procure during the period of the LTP. This statement provides information to the market about how much is anticipated to be spent per annum for the next ten years. However, the Council and suppliers will still need to have regard to the following uncertainties:

- climatic changes
- changes in legislation, such as the Emissions Trading Scheme
- changes in land use
- limited contractor competition due to isolation, or changes in the labour market
- changes to the national funding priorities, and
- a change in funding assistance rates.

The purpose of this Strategy is to acknowledge the above and ensure that a competitive market is still maintained. The Council's *Transport Activity Procurement Strategy* also needs to be flexible to adapt to rapidly changing political and economic factors, whilst still allowing for innovation. This Strategy therefore provides for an approach to transportation procurement that ensures competition is maintained, without creating costly inefficiencies through a 'one size fits all' rule.

### **4.3 Fair competition amongst suppliers**

The Council uses the Transport Agency's *Procurement Manual* to ensure that fair competition in the market is maintained. This resource was designed to ensure that transport activities procured achieve the best value for money spent and promotes a whole of business strategic approach to public transport services. That approach is endorsed by this Strategy.

The principal means of achieving this objective is by giving confidence to the market that everyone who is willing and able to provide the outputs necessary to undertake an activity has an equal chance of obtaining work, in an environment where they know all the rules. For example, conditions of a public transport service contract could require service providers to disclose patronage and fare revenue information, therefore allowing for full market information disclosure.

### **4.4 Scope of the Transport Activity Procurement Strategy**

This *Transport Activity Procurement Strategy* is not an organisation-wide document. It focuses on the procurement of those land transport activities (land transport planning, public transport, Total Mobility and professional services) that receive funding from the Transport Agency's National Land Transport Fund only.

## 5 Procurement framework

The Council's procurement framework is referenced through a hierarchy of guidelines, regulatory requirements and best practice (as outlined in this section).

### 5.1 Delegations manual

The *Delegations Manual* for the Taranaki Regional Council sets out the authority to approve purchases, authorise payments and enter into contracts on Council's behalf. This Manual provides a baseline for expenditure authorities.

### 5.2 Passenger transport service manuals and contracting documents

The Council has a number of manuals and contract agreement documents all of which are used in assessing Tenders and letting Contracts. These include the *Public Transport Services: Tendering and Contracting Manual*, *'Total Mobility Wheelchair Hoist Funding Policy Manual'*, *Total Mobility Concession Fare Scheme Agreement* and *Total Mobility Scheme Approved Taxi Organisation Contract* and a number of other minor Agreements.

### 5.3 Public Transport Operating Model

The *Regional Public Transport Plan* (RPTP) provides the statutory framework for implementing the PTOM. A high level overview of the procurement approach to implement PTOM is included in the RPTP. The RPTP includes the principles for working together between Council and service providers:

- A joint commitment to improve efficiency, effectiveness and safety of the public transport network.
- A collaborative approach to decision-making and working together.
- Joint partnering based on mutual trust and respect, with openness and transparency in all activities.
- A recognition of the value and contribution of each sector in the design and delivery of public transport services.
- A joint commitment to improve value for money in the services delivered.
- A joint commitment to promote a flexible, innovative and responsive approach to the delivery of public transport services.

The PTOM is being implemented in the Taranaki region, with the *Regional Public Transport Plan 2014/2024* due to be adopted in July 2014.

### 5.4 Transitioning to PTOM

The Council is introducing the requirements of PTOM as part of retendering the Council's public transport services which receive investment funding from the NZ Transport Agency.

The following table indicates the likely period the services will be retendered.

Service	Request for Tender release date
New Plymouth, Bell Block, Waitara and Oakura service	August 2014
Opunake to New Plymouth return service	August / September 2014
Opunake to Hawera return service	August / September 2014
Waverley to Hawera return service	August / September 2014

## 5.5 Vehicle type

In contracting public transport services, the Council aims to raise the overall quality of the public transport fleet, subject to affordability. The Council intends to comply with the Transport Agency's *Requirements for Urban Buses* (RUB) for the urban unit for buses operating on the urban routes. The Council may seek a procurement variation where value for money or safety concerns can be shown.

The Council will continue to seek a procurement variation for the school buses operating within the urban unit. This is due to the potential cost implications of RUB-compliant vehicles for the school bus services.

The Council intends to introduce the use of the Operator Rating System for all units.

## Part B Procurement programme

The LTMA requires all services, except exempt services, be arranged into units. A unit is “at a minimum, all services on a route for the full timetable, but can include more than one route where a group of routes forms a marketable whole”.

### 6 Unit procurement

The Council has identified the bus units to be procured and provided the details of these in the *Regional Public Transport Plan 2014/2024*. In effect each of the current contracted services will be one unit.

The network comprises one urban unit, three rural units and one connector unit. These provide a mix of service frequency and coverage throughout the region and remain fit for purpose. The network is:

- Citylink unit (Monday to Saturday, requiring approximately 30 buses),
- SouthLink units (three once-a-week services requiring one bus per service), and
- Connector unit (Monday to Friday, requiring one bus) which commenced in February 2014.

### 7 Exempt services

Exempt services are any inter-regional services that drop off or pick up passengers outside the region, registered commercial ferry services as at 30 June 2011, registered commercial bus services as at 30 June 2011 that don't offer fares in accordance with the fare schedule, services beginning operation after 30 June 2011 without subsidy and not identified in a RPTP, and other public transport services made exempt through Order in Council.

There are a number of known commercially registered public transport services that will become exempt services. These are identified in Appendix II.

### 8 Tendering strategy

The Council's tendering strategy is to tender units as they fall due.

For the urban service (Citylink) the retendering process will commence no less than twelve months prior to the expiry date of the contract.

For the rural services (SouthLink) the retendering process will commence no less than four months prior to the expiry date of the contract.

For the daily Hawera to New Plymouth service (Connector) the retendering process will commence no less than nine months prior to the expiry date of the contract.

Due to the limited number and scope of the units, the length of contract for each unit will be:

- Urban unit – nine years
- Rural unit(s) – six years
- Connector unit – six years

The rural contracts are due to expire at the end of June 2014. An extension of these contracts will be required to facilitate retendering of the services. The applicable requirements of the PTOM will be implemented through new contracts.

The Council views a term of six years for the rural units is appropriate given the low capital investment required, that is, these are 'one' bus units. A six-year term allows for the cost to be competitively assessed more frequently than a nine-year term as benchmarking will not be likely for these services.

The term will also allow Council's public transport service contract expiry dates to be staggered rather than all expiring after nine years within the same twelve-month period as is currently the case due to the rollout of the PTOM. Within the period that the services have operated there has been a change in the service provider for two of the three services.

The urban contract is due to expire at the end of October 2015. The nine-year contract term is aligned with the PTOM.

The Connector unit, having commenced in February 2014 is operating on a twenty-four-month trial and at this time the intention is to continue the service beyond the trial period. The service does not receive Transport Agency investment funding, but is funded by TRC and partner organisations whose customers benefit from the service (mainly to tertiary students and District Health Board patients and visitors). While the service is not funded by the Transport Agency and therefore not subject to Transport Agency procurement requirements, the Council has decided to adopt most of the features of PTOM. Where Council policy departs from PTOM requirements is in relation to contract term and the application of a financial incentive mechanism for the contract. The proposed term is six years and this reflects some uncertainty about the long-term viability of the service. In turn, no FIM is proposed at this time because of uncertainty about the financial implications for TRC's funding partners.

## **8.1 Alternative tenders**

The Council may, when issuing a Request for Tender (RFT), permit alternative tenders. The reason for this is:

- To allow tenderers to demonstrate how the alternative tender achieves better value for money while still achieving the outputs required.

Full details of the criteria for alternative tenders applicable to a unit will be detailed in the RFT.

The Council proposes that service enhancements such as route changes will be managed as part of the unit contract the Council enters into with each successful service provider.

## **8.2 Group tenders**

In some instances group tenders will represent good value for money. With the configuration of units there is limited opportunity for group tenders unless the Council goes out to tender with more than one unit. The only opportunity for this is the rural units where the Council has previously invited group tenders. However, a group tender may have the potential to harm small service providers as they may not be able to compete on economies of scale with larger transport providers.

Council will allow group tenders where this is considered to provide best value for money, using criteria appropriate to the RFT and consistent with Transport Agency policy.

Any service provider that wishes to submit a group tender must also submit a conforming tender. Where a group tender is successful each unit will be contracted separately and each will remain a discrete entity.

## Part C Procurement environment

### 9 Current services

#### 9.1 Bus services

The following tables outline the services that the Council currently procures, including contract details.

Service	Provider	Value	Contract start date	Contract expiration date	Contract duration	Annual km	PVR
Citylink (New Plymouth, Bell Block, Waitara and Oakura) service	Tranzit Coachlines Taranaki Ltd	~\$2.3M	01/07/2008	31/10/2015	7 years	600,000	~30
Hawera to New Plymouth service via SH3	Pickering Motors	~200,000	24/02/2014	24/02/2016	24 months	99,500	1

The following services are all low-value contracts that are less than \$50,000 as these operate only once a week targeting the transport disadvantaged.

Service	Provider	Contract start date	Contract expiration date	Contract duration	Annual km	PVR
Opunake to New Plymouth return service	Pickering Motors	01/07/2009	30/06/2014	5 years	6,500	1
Opunake to Hawera return service (via Kaponga and Eltham) Manaia to Hawera* return	Weir Bros**	25/02/2014	30/06/2014	4 months	7,200	1
Waverley to Hawera return service	Weir Bros	25/02/2014	30/06/2014	4 months	9,900	1

\*This service is operated as a service variation to the Opunake to Hawera return contract.

#### 9.2 Total Mobility services

The expenditure for Total Mobility (TM) services is dependent on the number of trips users take each year. The majority of trips occur within New Plymouth city. The operating budget for Total Mobility services (excluding Ironside Vehicle Society) is approximately \$290,000 per annum.

Urban centre	Current provider	Contract start date	Contract expiration date	Contract duration
New Plymouth region	New Plymouth Taxis Energy City Cabs	15/07/2009	14/07/2014	5 years
	Driving Miss Daisy	01/06/2012	03/04/2015	3 years
Stratford	Stratford Taxis	30/09/2010	31/08/2015	5 years
Hawera	Energy City Cabs	28/04/2014	14/07/2014	3 months

The Council also procures TM services from Ironside Vehicle Society Incorporated, recognising their role in providing transport for the disabled within the Taranaki community. Expenditure is capped at \$50,000 per annum.

Other service	Days of operation	Contract start date	Contract expiration date	Contract duration
<b>Current services</b>				
Ironside Vehicle Society (New Plymouth, Oakura, Waitara and Inglewood)	Daily	01/07/2012	30/06/2015	3 years

It is intended that all the above providers will be invited to sign new contracts as part of maintaining TM services in the region. The term for new contracts will be six years.

In addition to the funding of TM trips, the Council may provide funding assistance for one vehicle per year (up to a maximum of \$25,000) for the provision of new or refitted wheelchair hoist equipment.

### 9.3 Professional services

The Council engages both in-house and external professional services to undertake its transport activities.

#### Professional service - Internal

The Council maintains a management team to oversee its transport activities, refer section 14.1 for the staff positions and functions. This team is supported by other in-house professionals where there is capability and capacity as detailed in the following table.

Professional service	
Policy and planning	Development and analysis of programmes and plans i.e. RPTP, RLTP
Information management	Website (development and maintenance) Publicity (press releases and advertising copy) Graphics and artwork (timetables, posters, maps and notices) Marketing (managing marketing initiatives)
Information Technology management	Total Mobility database development and maintenance GIS

In-house professional costs are captured by staff submitting weekly timesheets with their time coded directly to the Council's general ledger. Each general ledger code is allocated to the applicable NZ Transport Agency work category. A charge-out rate is used to calculate the value of the professional service. This is to capture the true cost of the staff's time when they work on an activity. The scale of charges for staff time is set through Council's Long Term Plan and updated each year through the Annual Plan.

These professional services are managed through Council's internal procedures. Refer Section 14 for additional details.

#### Professional service – External

Includes professional services typically provided by transport consultants, planners, legal and marketing. Can include strategy or policy development, planning and advice, investigation and design services.

The following table outlines the external professional services that the Council currently procures or that may be procured in the next three years. The value of these services is likely to be low dollar value as specified in the Transport Agency's *Procurement Manual*, Section 10.9.

Professional service	Current provider	Contract start date	Contract duration
<b>Current services</b>			
Ticketing system	Electronic Ticketing Systems	1 January 2015	3 years
Legal services	Till Henderson King	As required	Ongoing
Passenger transport service cost assessor	-	As required	As required
Transport planning and passenger transport consultancy services	Traffic Design Group Booz Allen Hamilton Mr Brian Baxter Opus International Mr Fraser Cameron Mr Warwick Walbran	As required	Ongoing
Total Mobility eligibility assessment provider	Access Ability	2010/11	Ongoing
Marketing consultant	The Marketing Company	As required	Ongoing
Graphic screen printers	Various	As required	Ongoing
Radio advertisers	Various	As required	Ongoing
Print advertisers	Various	As required	Ongoing
Printers	Various	As required	Ongoing
Total Mobility Training Provider	Taranaki Disabilities Information Centre	2014/15	To be determined
Tender evaluator	To be determined	As required	As required

The following table outlines future external services that the Council will likely need to procure.

Professional service	Provider	Contract start date	Contract duration
Electronic ticketing machine system and on-board equipment	To be determined	To be determined	To be determined
National Total Mobility Administration System	To be determined	To be determined	To be determined
On-board audio/visual display equipment	To be determined	To be determined	To be determined

All external consultants and contractors costs are coded directly to the Council's general ledger code, allocated to the applicable NZ Transport Agency work category.

## **9.4 Infrastructure**

District councils in the region carry out all infrastructure procurement i.e. bus stops and associated infrastructure improvements. The Council does not provide any direct financial assistance for these activities. However, the Council does collaborate with the district councils in infrastructure planning and placement.

## **9.5 Road safety**

Road safety services are provided by the three district councils with the Taranaki Regional Council having no financial involvement.

# **10 Analysis of supplier markets**

## **10.1 Bus services**

The region's market for bus services is seen as reasonably competitive. For the urban unit there is one local experienced public transport service provider and one service provider who has the potential to be a provider. For the Council's rural units there are at least four local service providers with the capability of providing these services. These service providers already provide a mix of services such as charter, Ministry of Education and some limited public transport services. The diversity of their services helps drive efficiencies in fleet utilisation.

There are also a number of other commercial transport services operating in the region. The main focus of these services is to take students from rural and other regional centres to the major secondary/intermediate schools in New Plymouth or to link to public transport services. Some of the services carry other passengers, mostly tertiary students, if they have additional capacity. The known services are shown in Appendix II.

The urban unit operating across New Plymouth, Bell Block, Waitara and Oakura is the only service viewed as being attractive to service providers outside of the region to bid for. This is due to the service being identified as one unit and the contract duration being nine years.

However, it is likely there are still barriers to entry for new service providers but this is only applicable to the urban unit. Potential barriers are:

- The availability of centrally located land and facilities for securing and maintaining vehicles. It is a mandatory contract requirement that all service providers have a depot and office within the unit's operating area.
- The availability of drivers. With only one service provider providing a daily urban service there is likely to be limited additional driver resources available to a new entrant at the time of tendering and also potentially if they were successful in winning the contract, at the commencement of the contract. They would likely need to have additional resources available, if required.

The Council views that there is little it can do to minimise or improve the above barriers to entry but they are not insurmountable. The barriers present are largely standard commercial realities all passenger transport service providers are faced with when looking to establish in new operating territories.

## 10.2 Total Mobility

In general the delivery of the TM service in the region is taxi-based and therefore constrained by the location of these services. However two specialist providers also provide TM services. There are five suppliers of TM transport services as follows:

- New Plymouth Taxis
- Energy City Cabs
- Stratford Taxis
- Driving Miss Daisy
- Ironside Vehicle Society Inc

The number of operators in the taxi industry has remained reasonably static in recent years, and this situation is not expected to change.

The Council requires any new operator wanting to become an approved TM transport provider to complete an application form. The operator must provide sufficient information for the Council to be assured that the operator is able to meet the standards and expectations required. The Council is under no obligation to accept an application. An application may be declined where:

- sufficient operators are already contracted,
- an existing operator's sustainability may be compromised,
- no additional service benefit to the TM clients is proposed such as wheelchair hoist capability, or
- they do not deliver value for money services.

Ironside Vehicle Society is currently the only approved TM provider with hoist vehicles. Demand for the service is high which means that TM members may not always be able to secure transport when required. The lack of hoist vehicles in the region is an issue. In response the Council will look to work with other organisations such as the District Health Board, NZ Red Cross, the St John Ambulance Service and where possible, other providers to investigate options to address the issue.

Annually, the Council makes available funding assistance for the replacement or installation of new hoist equipment to approved TM transport providers. This is to help attract new providers and to ensure ageing equipment can be replaced.

Council understands the Transport Agency is reviewing the national TM policy and will consider such policy as it becomes available.

## Part D Delivering the work programme

### 11 Procurement approach

The Transport Agency's *Procurement Manual* specifies rules for the delivery of transport activities. The Council has selected the following approaches to procure its transport activities.

Information on each of the proposed delivery and supplier selection methods can be found in Appendix I or the Transport Agency's *Procurement Manual* s 8.4 (<http://www.nzta.govt.nz/resources/procurement-manual/>).

#### Bus services

Approximate annual operating expenditure	\$2,600,000
Proposed delivery method	Urban - partnering Rural – staged Connector –staged
Proposed supplier selection method	Urban - price quality (without disclosure of the estimate) Rural - lowest price conforming or price quality for weekly services Connector - price quality (without disclosure of the estimate)

#### Total Mobility

Approximate annual operating expenditure	\$342,000
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The Council will procure Total Mobility services using the Transport Agency's *Procurement Procedure 4 – Public transport fare subsidy schemes*. Selection of an operator will be based on Council's application criteria and evidence that they will provide additional benefit for the TM clients and value for money for the Council.

#### Professional services - external

Approximate annual operating expenditure	\$50,000 - \$75,000
Proposed delivery method	Staged
Proposed supplier selection method*	Direct appointment Lowest price conforming Price quality

\*The proposed professional services supplier selection method used will depend on the type of professional service required, using criteria such as achieving best value for money, the value of the contract, the number of suppliers and the quality attributes of the suppliers.

### 12 Pricing model and change control

During the term of any unit either the Council or the service provider may request a service level variation, for example changes to the route, frequency and timings of a service to meet changing circumstances.

Changes will in the main be identified, planned and implemented as part of a contract's annual business planning process. Where necessary the contract price will be amended to take into account the nature of the changes.

Any contract price adjustment will use the contract variation rates established at the time of the tender.

Refer the Council's *Tendering and Contracting Manual* for the full terms and conditions.

## **13 Benchmarking for gross price resets**

The Council is expected to reset the contract gross price of its urban unit at year six of the nine year term in accordance with section 10.28 of the Procurement Manual.

As the Council only has one urban unit, suitable benchmarking information is unlikely to be available. Therefore the Council will apply the following policy.

If there is no suitable benchmark information available, the contract price will be reconfirmed at the current contract price. The current contract price is defined as the original winning tender contract price (i.e. the initial contract price) plus the price of any contract variations (for service level adjustments) made during the first six years of the contract, each adjusted for input price variation using an index approved by the Transport Agency in accordance with section 10.25 of the Procurement Manual.

The Contract Price may be adjusted from this level if either party can provide evidence<sup>1</sup> that the current Contract Price is unsustainable, and both parties agree to a revised price that is consistent with this evidence.

## **14 Performance management**

Performance management will be a critical component of the contractual relationship in ensuring that the delivery of Council's public transport contracts are successful.

The following Council staff will be involved in the contract management process.

The executive management team will be:

Chief Executive

Director – Corporate Services

The Council's day-to-day contract management team will be:

Transport Services Manager

Passenger Transport Officer

Further information on the roles for each staff member is provided in Section 22 Capability and Capacity.

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<sup>1</sup> Evidence will typically relate to factors outside those envisaged when the contract was established e.g. changes to the roading network that were not planned prior to contract commencement, which affect running time and consequently operating costs.

## 15 Key performance indicators

Key performance indicators (KPI's) set a minimum standard to be achieved by all contracted public transport service providers and will be used to assess overall contract compliance, enforcing breaches of contract, and for the urban unit, financial incentive payments. Contractor performance will be reviewed regularly against the KPI's.

At a minimum this will be monthly as part of the monthly service reporting requirements. This will help ensure that compliance is achieved and allows the contractor to advise of circumstances outside of their control that have impacted on their ability to meet the minimum KPI's.

The following are the key performance attributes, indicators, measures that will be the minimum used to monitor any public transport service.

Performance attribute	Performance indicator	Method
<b>Service reliability</b>	Percentage of scheduled trips operated in full. (note that a trip leaving the origin stop >59 seconds early or >9 minutes and 59 seconds late is deemed not to have operated)	Monitoring <sup>2</sup> and/or ETM reports
	Number of unauthorised route deviations	Reported or observed
	Number of times bus did not stop for passenger	Reported or observed
<b>Cancelled service trips</b>	Percentage of timetabled service trips that were cancelled.	Cancelled service trips
<b>Service punctuality</b>		
a. trip start	a. Percentage of scheduled trips leaving origin stop between 59 seconds before and 4 minutes and 59 seconds after the scheduled departure time.	Monitoring and/or ETM reports
b. en route and at destination	b. Percentage of scheduled trips between 59 seconds before and 4 minutes and 59 seconds after the scheduled departure time at the selected points	Monitoring and/or ETM reports
<b>Patronage</b>	Recording passenger boardings per trip operated	ETM reports and on-board monitoring
	Recording passenger boardings by passenger category (eg child, adult, SuperGold).	ETM reports and on-board monitoring
	Number of over-riding of passengers	Reported
<b>Reporting timeliness</b>	Number of specified data reports delivered within timeframes.	6 working days following the end of the preceding month
	Number of failures to provide material information required under the Contract e.g. invoice or passenger data	6 working days following the end of the preceding month
<b>Customer satisfaction</b>	Percentage satisfaction of public transport users with defined public transport attributes	Transport Agency passenger surveys
<b>Passenger facilities (on-bus)</b>	Score (on a scale of 1 to 5) for specific passenger facility attributes (e.g. cleanliness, temperature, ride comfort, driver courtesy).	On-board monitoring

<sup>2</sup> Monitoring includes use of any Real Time Passenger Information (RTPI) system, reporting or query facility

Performance attribute	Performance indicator	Method
<b>Safety and security</b>	The maintenance of an up-to-date incident register, disaggregated by: <ul style="list-style-type: none"> <li>▫ nature</li> <li>▫ severity</li> <li>▫ external factors.</li> </ul>	Incident register
<b>Contract conformance with fleet composition</b>	Comparison of fleet composition in use with tendered fleet composition and vehicle replacement policy conducted at random intervals (at a minimum, annually).	Monitoring
<b>Destination signs</b>	Incorrectly displayed route sign or not working	Monitored
<b>Security camera operation and data provision</b>	All cameras must be in operation during in-service hours.	Monitoring
	Requests for data images must be supplied within 24 hours	Monitoring
<b>Complaints</b>	Number of complaints received, disaggregated by service attributes (e.g. punctuality, vehicle cleanliness, comfort).	Complaints register
	Percentage of complaints cleared up within 10 working days.	Complaints register
<b>Driver standards</b>	Drivers must be tidily dressed whenever driving a bus, must be courteous at all times to the passengers, drive in a safe and legal manner, and be capable of communicating with passengers in the English language.	Monitoring / surveys
<b>Back-up vehicle/s</b>	In the event that a scheduled service is full <sup>3</sup> , or a scheduled service is not able to operate, a back-up vehicle is required to be called to take over the operation of the Service.	Reported
<b>Electronic Ticketing Machines</b>	Number of services operated without an ETM	Reported
<b>Contract compliance</b> Default under any other material requirement requested by the Council	Council has requested compliance and the service provider fails to remedy within 5 working days	Assessed by the Council
<b>Revenue protection</b>	Managing the security of any cash carried by drivers. Recording and reconciling monies received against the financial information generated by the electronic ticketing system	Assessed by the Council / driver audits

The KPI's (excluding patronage) will all have a monetary value applied to them for non-compliance (that is failure to meet the performance indicator). The value of the non-compliance deduction will be specified in the Council's *Tendering and Contracting Manual* or *Request for Tender* document.

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<sup>3</sup> The Council will cover the cost on any back-up vehicle used for this purpose but not where a service fails to operate

In the event that the contractor is in breach of any of the performance standards, the Council may withhold any payment otherwise due to the company for that service which is in breach. In addition, the Council may also deduct from any payment otherwise due to the company, any costs which the Council has reasonably incurred in rectifying the breach.

## 16 Annual business planning

The service provider and the Council will form a business team for the purposes of jointly developing a business development plan for all units under contract (the Business Development Plan). The Business Development Plan process is viewed as a way for the parties to work collaboratively in a structured and systematic manner to improve the service and grow patronage, and in managing the contract obligations. The Business Development Plan will set out activities in the form of resourced project plans (action plans), to be carried out during the ensuing 12-month period and may include but will not be limited to:

- Service improvement initiatives;
- Plans for the development and/or introduction of new services;
- Infrastructure projects;
- Plans for the development and/or introduction of new technology;
- Co-branding or promotion of services;
- Performance review against Plan targets; and
- Any other joint business and/or marketing activities.

The Business Development Plan will be created within thirty (30) working days of the Commencement Date of a Contract and reviewed annually.

When accepted by the parties, the Business Development Plan will form part of the Contract for the relevant contract and the parties will be bound by its terms.

The performance of the parties against the Business Development Plan and action milestones specified in the Business Development Plan will be reviewed quarterly or upon such other dates as the parties agree to.

Refer the Council's *Tendering and Contracting Manual* for the full terms and conditions regarding Business Development Planning.

## 17 Relationship management

The Council seeks to work with all service providers using the partnering philosophy, including those providing the rural services. This will deliver the best results for all the stakeholders involved in the Council's public transport services. The elements of successful partnering include high levels of collaboration, integration of shared business processes, mutual transparency and trust.

The Council has adopted partnering principles including:

- Devising strategies that will grow and expand the public transport network as a whole
- Collectively market the network

- Plan for the initiation of new, improved or expanded services
- Define service standards and innovations to benefit passengers
- Identify the need for desirable business processes, infrastructure and supporting requirements for the network, such as passenger terminals, bus exchanges, ticketing systems and the like
- Share information that will benefit the network as a whole
- Identify and implement incentives for commercial behaviour that will attract and grow patronage.

Guiding principles of partnering are as follows:

- A one-team approach
- Focus on total benefit for all partners
- Commitment of people and organisations to agreed outcomes and decisions
- Open, honest, transparent and non-adversarial communication
- Keep each other informed – “no surprises”
- Respect confidentiality
- Reduce duplication and waste
- Seek early corporate alignment with agreed partnership directions to eliminate sign-off blockage
- Timely action upon request.

Where a dispute may arise between the Council and service provider the applicable dispute resolution process outlined in the Council’s *Tendering and Contracting Manual* will apply.

## 18 Financial incentive mechanism

A financial incentive mechanism (FIM) ensures that the Council and service provider, of partnering contracts, have a mutual interest in the positive performance of a public transport service unit, to incentivise them to collaborate to improve performance by growing patronage with less reliance on public subsidy.

A FIM is required for partnering contracts, with the exception of partnering contracts for commercial units, which can include a FIM by mutual agreement (Appendix J of the Transport Agency’s *Procurement Manual*). The Council will apply a FIM to the urban unit which will be a partnering contract.

The financial incentive mechanism approach to be applied to the urban unit will be:

- Revenue-based sharing, which allocates a share of passenger fare revenue growth on a proportional basis: Council 60%, Service Provider 40%.
- This will be done on an annual basis, commencing in year two of the contract, comparing the fare revenue growth with the fare revenue from the previous year.
- It will share up-side fare revenue growth only. There will be no down-side penalty for a decrease in revenue.
- There will be no financial cap placed on the proportional amount payable to the service provider.

## 18.1 Rationale

The Council views that fare revenue is an objective measure in that the up-side fare revenue growth is easily compared from one year to the next.

The FIM will not be capped to incentivise the Service Provider to seek continual improvement in the performance of the Unit. The greater the up-side in fare revenue growth the more financial reward the Service Provider is able to receive.

The level of FIM has been set at 40% for the following reasons:

- To recognise the Service Provider's areas of expertise and input into the overall success of the Unit.
- To recognise other external factors impact on patronage revenue and not all of these are controllable by the Service Provider.
- To recognise the Council as the contracting partner carries the greater level of exposure to the risk and reward factors.
- The Council has in its Regional Public Transport Plan set targets to increase its Fare Box Recovery ratio, reducing the overall level of public subsidy required, so increases in fare revenue is a key input to achieving the targets. This will ensure that the efficiency and effectiveness of the Unit improves and the Unit continues to receive funding.

The rationale for sharing the up-side fare revenue only is that many externalities can affect patronage. The unit's passenger base is predominantly school students so changes in the educational sector which could affect student numbers could have a significantly detrimental effect on total passenger numbers and therefore total annual fare revenue.

The reason the fare revenue will be compared with the previous annual fare revenue is to set a consistent timeframe when the assessment of the financial reward will be carried out, providing certainty to the service provider. It also allows benchmarking on fare revenue growth (or decline) throughout the following year.

The FIM is consistent with the Transport Agency's stated principles for FIM (Appendix J of the Transport Agency's *Procurement Manual*). It is simple to apply and administer based on the up-side change in fare revenue from one year to the next. It incentivises both parties to collaborate and to promote the service with the aim of growing passenger numbers and therefore fare revenue. Not setting a financial cap ensures the service provider remains engaged, thereby achieving greater reward. It contributes to value for money as the greater the fare revenue the more likely the required level of public subsidy will decrease.

We have discussed the FIM with our two local operators and each are comfortable with our proposal. In terms of advising operators outside the region we have used central region bus operator / regional council/ BCA/Transport Agency meeting to advise our position on the FIM.

## 18.2 Areas of influence for the Service Provider

Historically, the Service Provider's ability to influence fares, service routes and frequency of routes is limited as these are controlled by the contracting party, which

is the Council. However, in the spirit of a partnering contract the Service Provider will be expected to offer their expertise and professional advice on all aspects of the Service both on a day to day basis and as part of the annual business development planning process. The Council will consider all information and advice in good faith and carry out open and frank discussion with the Service Provider on ways to enhance the service to ensure a win/win for both parties. However, the Council will retain the right to make any final decisions.

### **18.3 Changes**

Flexibility should be retained to enable negotiation with the service provider and reset with both parties agreement through the annual business planning process to reflect changing transport patterns, revenue growth and changing input from either of the parties in the success of the Unit. To determine such variation, a clear value for money rational will be required.

Further details of the FIM applicable to the urban unit will be detailed in the Council's *Tendering and Contracting Manual* and the *Unit Request for Tender*. A worked example of the FIM is provided in Appendix III.

## **19 Performance measuring and monitoring**

The Council will comply with the performance measurement and monitoring requirements as stated in the Transport Agency's *Procurement Manual* section 11.1. Included in the Council's *Regional Public Transport Plan 2014/2024* is the policy framework for managing, monitoring and evaluating unit performance. Section 15 of the *Procurement Strategy* above details the minimum Key Performance Indicators to be monitored.

### **19.1 Surveys**

Council will continue to conduct passenger satisfaction surveys in accordance with the Transport Agency's requirements. Along with the regular service performance monitoring Council will monitor the success of this strategy by measuring:

- Public transport operating model.
- Contract negotiations.
- Average number of qualifying bids.
- % of tenders with only one bid.
- Service provider turnover of contracts.

The Council may also undertake its own surveys to monitor other activities such as Total Mobility or as part of investigating service changes or introducing new services.

### **19.2 Commerciality ratio**

All public transport services are required by the Transport Agency to be measured to determine a service's efficiency and effectiveness. These measures provide a management tool in identifying poorer performing units and allowing regional comparisons between services to be made.

The Council will make available the regional and individual service commerciality ratios in its *Regional Land Transport Planning and Passenger Transport Annual Significant Activity Report*.

The Council will also monitor and report the farebox recovery ratio on an annual basis.

### **19.3 Contractor performance report**

The Council will, at the conclusion of a contract, compile a Contractor Performance Report. This performance report will evaluate the overall satisfaction level of the Council with the Contractor's performance. The Council will allow the Contractor to comment on the performance report before it is included in the Contract file.

## **20 Public transport technology**

Council's current public transport information technology feature set is:

- Electronic ticketing/automatic fare collection – Wayfarer electronic ticketing system utilising contactless smartcards for the Citylink and Connector units;
- Administration and back office – Total Mobility membership and records database;
- Google Drive – passenger booking system for the Connector unit;
- Customer services – toll free telephone number (allocated to the Citylink service provider);
- Transport website – providing TM and bus service information e.g. timetables, fares, and route details;
- Vehicle tracking – EROAD GPS locator unit provided for the Connector bus and Ibright telematics computer units installed in the Citylink urban buses.

The Council is also looking to the future to enhance its technology feature set. The Council is participating in several joint procurement projects with the Transport Agency and a number of other regional councils. These are:

- Replacement electronic bus ticketing system (on-board ticketing machines and data warehouse); and
- National Total Mobility Administration System (NTMAS).

## **21 Strategy objectives**

This Procurement Strategy seeks to promote transport activity services to meet the strategic objectives outlined in the Long Term Plan (as outlined in section 3.1 of this Strategy).

## Part E Management and implementation

### 22 Capability and capacity

#### 22.1 Organisational chart

The Council's current structure, role and responsibilities relating to transport activities are as follows:

Role	Responsibility
Elected members	Set the community outcomes and approve the LTP i.e. the community plan
Chief Executive	Approves the Procurement Strategy. Overall responsibility to the Taranaki Regional Council for all passenger transport operational activities and transport policy (including regional land transport plan and regional public transport plan).
Director – Corporate Services	Oversees the management of passenger transport operational activities and transport policy (including regional land transport plan and regional public transport plan).
Policy and Strategy Manager	Oversees all transport policy related activities undertaken by the transport policy analyst.
Policy Analyst	Prepares and oversees the development of regional land transport policy documents (for example the Regional Land Transport Plan), convenes the Regional Transport Committee and the supporting Advisory Group and convenes other transport working parties.
Transport Services Manager	Manages the implementation of the Council's public transport activities such as the Total Mobility Scheme, public transport contracts, community transport services, assists with public transport infrastructure development and other related activities.
Passenger Transport Officer	Assists in the implementation of public transport activities such as the Total Mobility Scheme, public transport contracts, community transport services, and other related activities.
Transport support staff	Assists the public service and transport policy staff with the day-to-day management of transport activities in a support capacity.

The Transport team currently has adequate planning and operational capacity. The present resourcing level (two operational and one policy staff) and individual skills of the team members are sufficient to deliver the procurement programme and provide back-up support where necessary. Other individuals involved in transport activities within the Council are balanced by various levels of experience and abilities. The close liaison between different work teams ensures open and effective communication is maintained.

#### 22.2 Organisational risk

The key organisational risks and management of risks relating to transport activities implemented by the Council are shown in the following table:

Organisational Risk	Managing the Risk
Retention of trained staff	Building staff capacity and providing additional support as required
Infrequent tendering, multitasking roles and limited specialist contracting/tendering experience	Engaging consultants to provide advice and carry out projects as required

Organisational Risk	Managing the Risk
Lack of standard contracting/tendering templates – necessary to gather information for other councils	Consultation with New Zealand Transport Agency in developing standard terms and conditions as evidenced by the Transport Agency's cost escalation contract clause
Effective training in transport contracting/tendering procedures	Providing ongoing training for staff such as Contract Management courses
Changes to the Ministry of Education policies relating to the provision of school transport services	Discussions between Ministry of Transport and Ministry of Education are ongoing
Project outcome risk (or involving technical or safety issues)	Ensuring that appropriate skills and expertise are utilised as and when required

## 23 Internal procurement processes

The Taranaki Regional Council has a *Delegations Manual* that defines Council officer and committee spending authority. This is available from Council on request. The *Working for the Taranaki Regional Council* policy document also specifies how services are to be procured, when there are no other 'activity based' procurement strategies available.

All contracts are based on New Zealand Standards e.g. NZS 3910 that is widely understood in the market and which creates a level of certainty and comfort due to its familiarity. The Council's intention is to encourage a collaborative approach, with more direct Council/contractor interaction to promote empowerment of individuals in order to create greater efficiencies and innovation in an environment of genuine risk share.

## 24 Performance measurement and reporting system

The Council has a range of monitoring systems for internal performance and external reporting. However, the Council intends to align its performance measures in the near future, and monitor the following indicators to determine the success of this Strategy in the interim:

### Achievement of value for money

- Time – estimated duration of key contracts versus actual duration of contracts.
- Cost – estimated cost of key contracts versus actual cost of contracts.
- Quality – Council's satisfaction with the goods or services procured.

### Regard for markets

- Fairness – whether or not the supplier selection process was an open or closed contest, and the reasons for these decisions.
- Competitiveness – number of bids received and whether alternative bids were permitted and/or received.
- Innovation – whether alternative bids that added value for money were permitted; whether alternative bids were received and accepted or rejected; what added value did alternative bids achieve and their cost.

### Efficiency of procurement procedures

This area of monitoring aims to measure whether the procurement procedures are cost effective and to ensure they are not overly complex. This will be broadly

measured by comparing the overall cost of the procurement function to the total cost of contracts let.

#### **Compliance with procedures**

This area of monitoring aims to measure how well Council is complying with this Strategy. This will be broadly measured by the number of complaints received on the purchasing process. Council will also use the Transport Agency's audits to ensure compliance with funding requirements.

Overall success is measured by achievement of the Council's transport programme as specified in the *Regional Land Transport Strategy*, *Regional Land Transport Programme* (both these documents will be superseded by the *Regional Land Transport Plan*) and LTP.

#### **Data collection**

Data will be collected in accordance with the Transport Agency's requirements, for example monthly for SuperGold Card patronage, monthly for public transport services patronage, and yearly for other KPI's such as vehicle kilometres and customer satisfaction levels.

## **25 Communication**

### **25.1 Internal reporting**

The *Procurement Strategy* will be available to transport staff and situated in the office library. The size of the Council is such that informal communication occurs, via email, between staff and departments.

Council's Executive Committee receives formal reports and approves operational changes on public transport operational matters.

Formal reports and operational updates are also provided to the Regional Transport Committee of Council as and when appropriate. The Regional Transport Committee approves other regional planning matters such as the *Regional Land Transport Plan*.

### **25.2 Professional service providers / supplier market / other approved organisations**

The *Procurement Strategy* will be distributed to our providers where they have a major input into delivery of the Council's transport programme. In respect to transport procurement methods, this communication will be by letter and meetings (if required).

The Council seeks open communication with all service providers. Meetings will be held with current and future contracted service providers where required.

Additional meetings may occur if significant changes are occurring. A tender meeting with prospective service providers may occur if requested. All service providers that submit a tender are advised of the outcome in accordance with the Transport Agency's requirements.

When a RFT for a public transport unit is released the Council will advertise the RFT in both print and electronic media. This may include the local regional paper, national dailies and Government Electronic Tenders Service (GETS).

For other activities of Council, consultation will generally be via the Long Term Plan and Annual Plan processes. Notwithstanding that, Council operates an open door policy which encourages suppliers to discuss future procurement options with Council staff.

### **25.3 New Zealand Transport Agency**

The Transport Agency is a multi-disciplinary organisation with separate functions. The Council will ensure that necessary procurement information is provided to the Transport Agency in a timely and accurate manner.

### **25.4 Updating and review**

The *Transport Activity Procurement Strategy* will be reviewed in conjunction with each *LTP* and *Regional Land Transport Plan*, unless updated prior.

## **26 Corporate ownership and internal endorsement**

The *Transport Activity Procurement Strategy* is owned and approved by the Council's Chief Executive, therefore any significant procurement issues will be discussed with the Council's executive team.



## **Appendix I**

### **Summary of delivery models and supplier selection methods**



## Summary of delivery models and supplier selection methods

The following is a summary of the delivery models and supplier selections methods to be used by the Council when procuring land transport activities. Full details for each can be found in the Transport Agency's *Procurement Manual*.

### Delivery models (Chapter 8.4)

#### Staged

- Scale is small to medium
- Complexity, uncertainty and risks are low
- The Council wishes to maintain some form of involvement and control over the activity
- Scope is well defined and the opportunity for innovation is low.

#### Partnering

- For scheduled public transport services identified as units in the RPTP
- Medium and large scale procurement
- There is value in the purchaser and suppliers collaborating closely
- There is scope for risk to be shared between approved organisations and suppliers to incentivise both parties to work together to innovate.

For negotiated and like-for-like units that will be directly appointed.

### Supplier selection methods (Chapter 8.5)

- Direct appointment – is a service provider selection method where the Council (Purchaser) selects a single supplier and negotiates terms including price.
- Lowest price conforming – is a service provider selection method in which the preferred service provider meets all the requirements set out in the Request for Tender (RFT) and offers the lowest-priced proposal, after deducting any added value premium.
- Price quality – is a supplier selection method where the quality attributes of service providers whose proposals meet the RFT's requirements are graded, and the preferred service provider is selected by balancing price and quality through the use of a formula.
- Price quality without disclosure – is a service provider selection method where the quality attributes of service providers whose proposals meet the RFT's requirements are graded, and the preferred service provider is selected by balancing price and quality through the use of a formula. However, the estimate of the contract is not disclosed in the RFT. This is used because Council views disclosure of the estimate will significantly influence prices tendered, or the Council is not confident of the accuracy of its estimate and wishes to mitigate the risk that it will distort service provider quality premium values by being significantly different from the lowest price tendered.





**Appendix II**  
**Exempt services**



The following table shows the transport services registered as exempt as per section 130 of the LTMA.

<b>Service type</b>	<b>Frequency</b>	<b>Route</b>	<b>Number of service providers providing this service</b>
School	Mon to Fri	Stratford to New Plymouth and return	One
	Mon to Fri	Inglewood to New Plymouth and return	Two
	Mon to Fri	Tikorangi/Lepperton to New Plymouth and return	One
	Mon to Fri	Okato to Oakura and return	One
	Mon to Fri	Bell Block to Inglewood and return	One
	Mon to Fri	Mokau to Waitara and return	One
	Mon and Friday only	Opunake to New Plymouth and return	One
Inter-regional	Monday to Sunday	Services travelling either to or through Taranaki via New Plymouth (SH3).	Two



## **Appendix III**

### **Financial incentive mechanism**



## Assessment period

The assessment period that will be used to set each year's fare revenue benchmark throughout the term of a partnering Contract will be every twelve month period from the Contract commencement date.

## Methodology

The Council proposes the following method be used to assess the FIM.

Year one will set the first year patronage revenue benchmark. Therefore no financial incentive payment will apply in the first year of operation.

Fare revenue from year two will be compared to the year one benchmark. If fare revenue has increased then the Service Provider will be entitled to an incentive payment. This will be 40% of the increased fare revenue growth (GST exclusive).

Fare revenue from year three will be compared to the year two benchmark. If fare revenue has increased in year three then the Service Provider will be entitled to a financial incentive payment. This will be 40% of the increased fare revenue growth (GST exclusive).

The figures from year three then becomes the next benchmark and is repeated over the term of the Contract.

## Example

FIM assessment	Year 1
Fare revenue	\$850,000
Financial incentive payable	No

FIM assessment	Year 2
Fare revenue Year 2	\$905,000
Revenue benchmark (Year 1)	\$850,000
Up-side growth	\$55,000
Financial incentive payable	Yes
Payable by Council (40%) to Service Provider	\$22,000

FIM assessment	Year 3
Fare revenue Year 3	\$930,000
Revenue benchmark (Year 2)	\$905,000
Up-side growth	\$25,000
Financial incentive payable Service Provider	Yes
Payable by Council (40%) to Service Provider	\$10,000

FIM assessment	Year 4
Fare revenue Year 4	\$900,000
Revenue benchmark (Year 3)	\$905,000
Down-side loss	(\$5,000)
Financial incentive payable to Service Provider	No

The example shows year one of the Contract sets the benchmark fare revenue. Year two shows fare revenue of \$905,000, an increase in fare revenue of \$55,000. The Service Providers share or incentive payment is \$22,000 ( $\$55,000 \times 40\%$ ).

Year three shows fare revenue of \$930,000, an increase in fare revenue of \$25,000. The Service Providers share or incentive payment is \$10,000 ( $\$25,000 \times 40\%$ ).

Year four shows fare revenue of \$900,000, a decrease in fare revenue of \$5,000. The Service Providers does not receive an incentive payment

### **Service changes**

During the course of the annual business development planning process variations in service levels are likely to be identified and/or planned for in the coming year. Service variations include changes to routes, frequencies, timing, and improvement initiatives.

Where a variation is only a minor change, for example, enhancements or improvements to existing services (which could include a reduction in route kilometres) no reassessment of the fare revenue will be carried out. That is, the previous year's benchmark figure will remain unchanged.

Where a variation includes a more significant service level change, for example a new route or restructure of an existing route a reassessment of the benchmark may be warranted. Where changes of this type are planned and no previous passenger information or fare revenue figure is available the change will operate for a minimum of 12 months or until the end of the next assessment period, being 1 November. This will allow a full 12 months (minimum) passenger and fare revenue to be recorded and for the changes to bed in. Following this period the annual fare revenue benchmark figure will be adjusted to include the revenue from the service level variation.