

6. CENTRAL CITY SHUTTLE CONTRACT TENDER

General Manager responsible:	General Manager Environment
Officer responsible:	Transport and City Streets Unit Manager
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PURPOSE OF REPORT

1. The purpose of this report is to seek a Council decision on a number of issues beyond the delegated authority of the Transport and City Streets Unit Manager in relation to the recent tender for the central city shuttle.

EXECUTIVE SUMMARY

2. Following an extensive review and public participation process during 2004, the Council in December 2004 approved a level of service change for the shuttle and also decided to re-tender the contract, which expires on 30th June 2005.
3. In December 2004 and January 2005 tender documents were distributed to interested parties. One tenderer submitted a proposal (the incumbent operator - Red Bus Ltd.). The tendered price to meet the specification for the service with the stated terms and conditions exceeds currently budgetted amounts and so in accordance with the Council's resolution of 9 December 2004 (see attached) a Council decision is sought.
4. Officers from both the Transport and City Streets Unit and Corporate Services Unit have met on a number of occasions with Red Bus senior managers to established the reasons behind the price increase and also to explore and develop a number of options to mitigate some of the cost increase.
5. There are trade-offs identified through a number of options in this report to more closely align the tendered sums with the budget, however it has been established through lengthy discussions with Red Bus that unless a significant level of service to central city users is sacrificed, the budget for this activity will need to be increased to meet the current market situation.
6. For the preferred option identified in this report (with the level of service approved in December 2004), there is a requirement for an additional \$219,000 in the coming financial year. It is recommended that this sum be sourced from within existing Transport and City Streets operational budgets to ensure a cost neutral effect. For subsequent years (2006/07 to 2009/10) it is recommended that the budget be adjusted through the 2006/16 LTCCP consultation process.

FINANCIAL AND LEGAL CONSIDERATIONS

7. The preferred option requires an additional \$219,000 in the budget for 2005/06. It is proposed to source this sum from additional revenues in the Transport and City Streets operational budget anticipated from unbudgetted extra subsidies from Land Transport NZ (i.e. with a cost neutral effect) to achieve an alignment of the contract price and budget in 2005/06. The budget for subsequent years will require adjustment through the LTCCP development process.

STAFF RECOMMENDATIONS

It is recommended that the Council:

- (a) Agrees to award the contract to Red Bus Ltd for an initial three year period, with a right of renewal by the Council for a fourth and fifth year thereafter; and that the level of service be as decided by the Council in December 2004.
- (b) Agrees to the Transport and City Streets Unit Manager incorporating in the draft annual plan for 05/06 the additional \$219,000 by offsetting this sum against operational savings for transport planning projects resulting from an unexpected increased revenue from Land Transport NZ.
- (c) Agrees to the Transport and City Streets Unit Manager identifying appropriate budgets beyond the 2005/06 financial year in the 2006/16 LTCCP development process, to align the budget with the tendered sums.

BACKGROUND

8. The free central city shuttle arose from a desire to promote central city revitalisation by linking retail areas primarily associated with Colombo Street (and later the Polytechnic and Casino) – in effect creating a ‘moving footpath’. The intention was to make the central city ‘smaller’ for shoppers on foot, encouraging them to spend more time and money in the central city.
9. The first tender for the service was won by Red Bus Ltd. and the service commenced on 1 December 1998, with three shuttles. The service was ground breaking at that time as it was the first to employ electric hybrid vehicle technology on a passenger service vehicle. Construction of the vehicles was by Designline Ltd of Ashburton. The nature of this first contract recognised the experimental and leading edge environment in which the service would operate, acknowledging that Red Bus had taken on board a considerable level of risk in buying these vehicles, and uncertainty as to the full costs of maintaining and operating a hybrid electric fleet of vehicles.
10. With the success of the service and the Council’s desire to improve service levels in early 2001, a fourth shuttle was bought by Red Bus Ltd from Designline, and the contract extended by one year to allow Red Bus some additional time to recover their capital investment on this additional vehicle. To date the shuttles have carried over 6.5 million passengers, linking the Casino to the north and the Polytechnic and Hoyts to the south. Recent public surveys show the free shuttle is a much relied upon service that reflects the clean green image of Christchurch, used by locals and visitors alike to shop, to commute and to get to know the city.
11. In accordance with the Christchurch Public Passenger Transport Strategy (2003) and in anticipation of contract expiry (which was then 30 November 2004), the shuttle service underwent a review in 2004, gathering stakeholder and community views on the service in addition to an assessment of the technical aspects of the service. Various recommendations were made by officers and adopted by the Council as a result of the review process. This included proposed route and timetable changes to the service, and also a decision to re-tender the contract following legal advice on the requirements of the Local Government Act 2002 “to consider all practicable options”. To allow time for this process to be undertaken, the contract was extended by seven months, to 30 June 2005.
12. The tender was open through December 2004 and January 2005, with further dialogue taking place with the preferred (and only) tenderer Red Bus Ltd. in February and March 2005. Through dialogue with Red Bus, officers sought to establish the reasons why the tender price exceeds the present budget by around 30%, since no rationale existed at the time of the last budget setting to expect any more than a proportionate increase (12%) in line with the level of service improvements.
13. Red Bus management have stated that the costs now associated with maintaining and operating the electric shuttle vehicles are not being recovered through the current contract. In their view the market has moved significantly since 1998 and the company is now seeking an adjustment to reflect current market conditions. At the time of writing, the actual cost to the Council has risen by 50% since 1998, however it must be remembered that in that time the amount of kilometres travelled has increased by up to 40% with the introduction of the fourth vehicle and the Casino route in the evenings. Despite inflation adjustments which have increased the price over the years since 1998, in real terms the price the Council has been paying has changed little since the introduction of the service. In addition, research that officers have undertaken into the current hybrid electric market has revealed that the current price being paid by the Council is below the market, and also that the tendered amounts represent good value in comparison to prices already being paid elsewhere in the country.
14. Six options are presented in this report, representing various trade-offs of length of contract, terms, conditions and levels of service which have been negotiated with Red Bus in an effort to achieve greater alignment between cost and budget.

OPTIONS

15. Six options are presented for consideration. The first is the tendered price in response to the tender documents, followed by five further negotiated price options that trade various features of the contract for a cheaper contract price.

Option 1

This is the first tendered price. Key differences between the proposed contract in the tender documents and the current contract (n.b. to improve service delivery) are as follows :

- level of service improvement (12% increase in km travelled) as decided by Council in December 2004.
- 3 year term with right of renewal annually for a further two years (called 3+1+1), instead of current five years. This is in common use in service contracts as a means to reward contractors for meeting required performance levels in the first three years and then annually for up to a maximum of a further two years.
- Penalty clauses introduced as a means for the Council to recover payment for poor performance. This was excluded from the first contract in recognition of the research and development conditions of 1998, but is now included in the tender given the technology is now well understood.
- All advertising revenues passed on directly to the Council. The current contract allows Red Bus to retain any revenue they can achieve from advertising on shuttles, but must pass on an agreed fixed annual discount to the Council.

The prices for this option were tendered as follows :

	Tender	Budget	Difference
2005/06	\$981,246	\$716,468	\$264,778
2006/07	\$981,246	not set	
2007/08	\$981,246	not set	
2008/09 (if awarded)	\$1,040,930	not set	
2009/10 (if awarded)	\$1,056,914	not set	

The Council could potentially secure annual revenue from advertising on the shuttles in the region of \$45,800 p.a, which is in line with the revenue Red Bus currently receives from Smith's City. In this case, the net shortfall would be about \$218,978 p.a. (\$264,778 - \$45,800). Additional Council overheads (associated with staff time selling and administering the advertising contract) would reduce the net benefit to Council. Selling advertising is also an inherently risky operation, due to its cyclical nature governed by the varying marketing budgets of advertisers. To remove this risk, long term arrangements can be entered into, however typically at a reduced rate.

No revenue has been planned for from penalties passed onto Red Bus. Its purpose is to maintain ongoing good performance and not to provide a revenue stream.

Option 2

Option 2 was as a result of initial negotiations with Red Bus, and comprised the as-tendered arrangements but Red Bus retaining the responsibility (and risk) for maximising advertising revenue, with the Council receiving a fixed annual discount of \$45,800 on the tendered prices. The Council could retain control over the content of the advertising via conditions in the contract.

The prices for this option were negotiated as follows :

	Tender (with discount)	Budget	Difference
2005/06	\$935,446	\$716,468	\$218,978
2006/07	\$935,446	not set	
2007/08	\$935,446	not set	
2008/09 (if awarded)	\$995,130	not set	
2009/10 (if awarded)	\$1,011,114	not set	

This option is essentially the same as option 1, but the risks and overheads associated with selling the advertising are kept by Red Bus. The Council receives cost certainty throughout the contract and a fixed annual discount guarantee of \$45,800. Again, no revenue has been anticipated from issuing penalties.

Option 3

Ongoing discussions with Red Bus took place to identify how any further price reductions could be developed whilst still delivering the level of service approved by the Council in December 2004. Option 3 comprises contractual arrangements very similar to the existing contract, i.e a five year contract, the removal of proposed penalty clauses and a fixed annual discount (as above, \$45,800 p.a.) to the Council for advertising revenues.

The prices for this option were negotiated as follows :

		Budget	Difference
2005/06	\$904,516	\$716,468	\$188,048
2006/07	\$929,591	not set	
2007/08	\$957,479	not set	
2008/09	\$986,203	not set	
2009/10	\$1,015,789	not set	

Option 4

In order to understand to what degree the market may have moved since 1998, Red Bus were asked what the current level of service with the existing terms and conditions would cost for five years in today's prices. The prices below underline Red Bus' assertion that the actual present day costs of providing the technology and the service are some way off the originally tendered prices, even with five years of inflation adjustments to the price, permitted in the current contract.

The prices for this option were negotiated as follows :

		Budget	Difference
2005/06	\$884,027	\$716,468	\$167,559
2006/07	\$909,102	not set	
2007/08	\$936,990	not set	
2008/09	\$965,714	not set	
2009/10	\$995,300	not set	

Option 5

Red Bus indicated an option for consideration that would address some additional costs they incur in paying drivers to operate the service late Friday and Saturday nights when they are occasionally subject to harassment from unruly passengers. This option would be the existing route and timetable but running two hours less on Friday and Saturday nights, finishing at 10.00 pm instead of midnight. It should be noted that the level of service approved by the Council in December 2004 would also see the proposed service terminate near this time (at 10.30 pm when passenger numbers are very low), in order to mitigate cost increases for improvements at peak times.

The prices for this option were negotiated as follows :

		Budget	Difference
2005/06	\$877,527	\$716,468	\$161,059
2006/07	\$902,602	not set	
2007/08	\$930,490	not set	
2008/09 (if awarded)	\$959,214	not set	
2009/10 (if awarded)	\$988,800	not set	

Option 6

Staff asked Red Bus what level of service was achievable with the current budget. In response Red Bus outlined an option representing a 30% decline in service level, as follows:

Monday – Thursday	8am to 6pm
Friday	8am to 9pm
Saturday	9am to 6 pm
Sunday	10am to 5pm
(10 minute frequency, day route only)	

This price was only given for 2005/06, as part of a “stop-gap” option where only the budgetted amount was spent in that year, during which time additional budget provision for future years was sought through the 2006/16 LTCCP development process following which the costs and level of service would revert to the tendered amounts.

Each of the six options are outlined in the table below:

Year	Option*						Budget**
	1	2	3	4	5	6	
2005/06	981,246	935,446	904,516	884,027	877,527	716,468	716,468
2006/07	981,246	935,446	929,591	909,102	902,602	-	737,962
2007/08	981,246	935,446	957,479	936,990	930,490	-	760,101
2008/09	1040,930	995,130	986,203	965,714	959,214	-	782,904
2009/10	1056,914	1,011,114	1,015,789	995,300	988,800	-	806,391
total	5,041,582	4,812,582	4,793,578	4,691,133	4,658,633	-	3,803,826

Prices exclude GST.

*- CPI adjustments will apply.

** - 2005/06 budget as shown with subsequent years adjusted at 3% inflation for illustrative purposes only.

16. A number of other matters have been investigated by staff in relation to the cost of providing the service, including looking at a longer (10 year) term and establishing whether the hybrid electric market has moved since 1998.
17. In relation to the hybrid electric bus market, staff have contacted officers of the Auckland Regional Transport Authority (ARTA) to establish the nature and costs of their central city electric hybrid service. Auckland operates a similar service, with three hybrid electric shuttles operating on a 4.1 km route from 8am to 6 pm Monday to Sunday. This is a lower level of service than our own (30% lower), whilst it is charged at a comparably high rate of \$6.23 / km. ARTA staff indicated they would expect a higher tender rate if their service were tendered now.

18. The table below provides a comparison of existing per kilometre rates for Auckland and Christchurch, together with the options developed for our service as discussed above. What the table shows is that the current rate we pay is significantly below what Auckland pay, and for a better service. This would confirm the Red Bus position that the market has moved since 1998 and that the costs developed are realistic in the current market.

	\$/km
Auckland (existing service)	6.23
Christchurch (existing service)	5.14
Option 1	7.05
Option 2	6.73
Option 3	6.69
Option 4	7.02
Option 5	7.25
Option 6	7.73

19. Staff have also investigated the potential of tendering a contract for 10 years. Whilst it is understood that this could potentially attract new interest in tendering for the service (it would have to be re-tendered), and perhaps lower overall prices in the long run, certain potentially expensive risks are always associated with pursuing this option, namely:
1. Technological improvements and transport policy changes are almost certain to take place over time, and for the Council to respond to these in a mid-term situation would require a re-negotiation of the contract terms and price, or early termination, not necessarily on terms advantageous to the Council.
 2. The benefits of cost certainty now with such a contract could be outweighed by the cost of terminating it early, should the Council conclude at some point in the future (and before the end of the contract) that savings can be made from a competitive tender.
 3. In the real world, a 10 year contract term is not conducive to competition in the market place or ongoing and consistently high contractor performance.

PREFERRED OPTION

20. Option 2 is the recommended preferred option. This would provide the level of service requested in the public consultation process during 2004 and agreed by the Council in December 2004.
21. The contract would be awarded for three years initially, with the Council having the right of renewal annually for up to a further two years (i.e. 3+1+1), depending on satisfactory contractor performance, before the contract had to be tendered again.
22. Penalty clauses would be kept in the contract. Advertising revenue would be retained by Red Bus, the negotiated prices being discounted prices on the original tender.
23. The benefits of this option, and thus the reason it is the recommended preferred option are as follows:
1. It provides the improved level of service requested by the community and approved by the Council.
 2. It gives the Council power to withhold payments for poor performance.
 3. It gives the Council flexibility to reward consistent performance with contract extension(s) or to re-tender after three years.
 4. The effort, risk and overheads associated with selling advertising are kept by Red Bus, whilst the Council receives a fixed discount.

24. The only dis-benefit of this option is the cost. It exceeds the 2005/06 budget by \$219,000, however this could be balanced by unexpected additional Land Transport New Zealand (formerly Transfund) revenues coming into the Transport and City Streets operational budget. This would allow the contract to be awarded, whilst longer term cost alignment for years 2-5 would be achieved through adjustments made to the budget via the 2006/16 LTCCP process.
25. Whilst there are other options that achieve greater cost alignment with the budget, they trade off to varying degrees the Council's ability to deliver a quality public service and the preferred service level itself. There are diminishing returns by these trade-offs of contract conditions and levels of service. This is demonstrated clearly by the incremental increases in rates per kilometre in the table above for progressively lower levels of service and loss of Council control through the terms and conditions (for example the length of the contract and the penalty clauses for poor performance).
26. Close to option 2 is option 3. This would deliver the desired level of service at a marginally cheaper price (albeit only \$19,000 less over five years or \$3,800 average p.a.). This saving would be at the expense of losing the option for renewal at the end of year 3 and year 4, whilst also losing the ability to withhold payments for poor performance. Retaining these options is considered more valuable to the Council in a modern contractual environment than the modest \$19,000 saving (over 5 years).
27. Options 4 and 5 represent a greater cost saving over 5 years than the preferred option (\$121,000 and \$154,000 respectively) however they also represent less value for money (i.e. higher \$/km rates), less Council control on quality and a level of service to the community well below what has been asked for.
28. Option 6 would be a significant backward step for levels of service to the community and is not recommended.

Assessment of Options

The Preferred Option

This is option 2.

	Benefits (current and future)	Costs (current and future)
Social	Free transport in and around the central city allowing equitable access to central city attractions.	None.
Cultural	Maintains free transport to cultural attractions around the central city	None.
Environmental	Mitigation of traffic growth in the central city with associated CO2 and other emissions savings.	None and less than other options that offer a lower level of service.
Economic	Increased spending in the central city through improved levels of service.	\$219,000 more than currently budgetted for in the coming year, but can be funded through proposed extra revenue streams pending development of the 2006/16 LTCCP.

Extent to which community outcomes are achieved:

Primary alignment with community outcome “A City with a sustainable and natural environment”
 Also contributes to “A prosperous City” and “A liveable City”.

Impact on Council's capacity and responsibilities:

This option represents the best value of the options identified and is in line with market conditions.
 Flexibility has been retained in the proposed contract to maximise the Council's ability over time to ensure the highest quality public service is provided and maintained.

Effects on Maori:

No more so than any other member of the community.

Consistency with existing Council policies:

Consistent with the Council's Public Transport Policy.

Views and preferences of persons affected or likely to have an interest:

This option has been negotiated with Red Bus to meet the level of service requested by the community, in a most cost effective manner.

Other relevant matters:

None.

Maintain The Status Quo (If Not Preferred Option)

This is option 4.

	Benefits (current and future)	Costs (current and future)
Social	Less than the preferred option.	None.
Cultural	Less than the preferred option.	None.
Environmental	Less than the preferred option.	More than the preferred option.
Economic	Less than the preferred option.	Less than the preferred option but also more than budgetted for.

Extent to which community outcomes are achieved:

Primary alignment with community outcome “A City with a sustainable and natural environment”
 Also contributes to “A prosperous City” and “A liveable City”, but in each case to a lesser extent than the preferred option.

Impact on Council’s capacity and responsibilities:

This option represents less value for money compared to the preferred option. The Council would be locked in to a five year term, losing flexibility over the longer term to maximise the Council’s ability to ensure the highest quality public service is provided and maintained.

Effects on Maori:

No more so than any other member of the community.

Consistency with existing Council policies:

This option would be inconsistent with the intent of the Council’s Public Transport Policy and strategy, in that it will not contribute to improved use or image of the Christchurch public transport system.

Views and preferences of persons affected or likely to have an interest:

The views and preferences of shuttle users (as recognised by a Council resolution in December 2004) expressed a desire to improve the levels of service as specified in the preferred option. This option is inconsistent with that desire.

Other relevant matters:

None.

Another option

This is option 6.

	Benefits (current and future)	Costs (current and future)
Social	Less than for the existing service.	More than for the existing service as the level of service is declining.
Cultural	Less than for the existing service.	More than for the existing service as the level of service is declining.
Environmental	Less than for the existing service.	More than for the existing service as the level of service is declining.
Economic	Less than for the existing service.	Same as the existing service.

Extent to which community outcomes are achieved:

Primary alignment with community outcome “A City with a sustainable and natural environment”
Also contributes to “A prosperous City” and “A liveable City”, but in each case to a considerable lesser extent than the preferred option.

Impact on Council’s capacity and responsibilities:

This option represents a considerable drop in the level of service and detracts from the Council’s ability to manage and meet the transport needs of central city visitors. This option would also work against the Council’s stated interest and responsibility to promote central city vitality.

Effects on Maori:

No more so than any other member of the community.

Consistency with existing Council policies:

This option would be inconsistent with the intent of the Council’s Public Transport Policy and strategy, in that it will not contribute to improved use or image of the Christchurch public transport system.

Views and preferences of persons affected or likely to have an interest:

The views and preferences of shuttle users (as recognised by a Council resolution in December 2004) expressed a desire to improve the levels of service as specified in the preferred option. This option is inconsistent with that desire.

Other relevant matters:

None.

