

# CONTRACT 655 PASSENGER TRANSPORT SERVICE – CONTRACT TERM EXTENSION

**To:** Infrastructural Services Committee

**Meeting Date:** Tuesday 7 December 2021

**From:** Russell Pearson, Roading Manager

**Approved:** Erin Moogan - Group Manager - Infrastructure Services

**Approved Date:** Friday 19 November 2021

**Open Agenda:** No

**Public Excluded Agenda:** Yes

## Reason(s) for the Public Excluded:

Section of the Act	Subclause and Reason under the Act	“Plain English” Reason	When Report Can Be Released
S7 (2) (b)(ii)	(b) protect information where the making available of the information - (ii) would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information	Contract terms need to be negotiated	Report will contain costs of contract. Can be released when contract is complete.

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## Purpose and Summary

The purpose of this report is to seek approval to extend the current passenger service contract (No 655) by an additional two years, being until 30 June 2024.

The contract is reaching the end of the term however it is believed to be beneficial to agree an extension.

Waka Kotahi New Zealand Transport Agency (WK) have been asked to consider if they are agreeable to allow this as it is outside of the original Request for Tender. A Council approval should be subject to receiving WK approval to ensure that subsidy is still able to be claimed for this service.

## Recommendations

1. That the Infrastructural Services Committee receive the report "Contract 655 Passenger Transport Services – Contract Term Extension"
2. That the Infrastructural Services Committee approves that a contract offer can be made to extend Contract 655 Passenger Transport Services for an additional two years (until 30 June 2024) subject to approval from Waka Kotahi.

## Implications and Risks

### Strategic Consistency

The proposed recommendation is aligned and consistent with both the Regional Land Transport Plan and Activity Plan for transport in supporting a cost effective cost efficient passenger service is provided.

The recommendation is not aligned to the Rooding Procurement Strategy which outlines that the contract would be retendered for June 2022.

### Financial Implications

The recommendation may require a budget adjustment (if other costs cannot be prioritised) and reforecast over the three year approved National Land Transport Programme.

It is likely that the Minimum Living Wage would be required to be paid to drivers (as a requirement from Waka Kotahi) and this would be around \$60,000 per year (of which 53% is subsidised).

The extension of the contract (approximate value of \$2M) would not be tendered (if approved) and accordingly it is recognised that this would need to be acknowledged as an approved variation to the draft Procurement Policy scheduled to be tabled for approval at the December 2021. An amendment will also be required to the Rooding Activity Procurement Strategy (NZTA Endorsed) to document the variation.

### Legal Implications

No legal issues have been identified by approving this recommendation to extend, on the basis of the considerations within this report and that it is subject to the agreement of Waka Kotahi.

### Risk

The risk considered with this recommendation are low as the likelihood of legal challenge is very low. The current operation is running smoothly and has had no contractual issues over the term. There is also no current competition in the local market.

## **Background**

The current passenger services contract was publically tendered in 2012. The contract was a 5 year + 4 year 7 month term in the RFT. This means the contract term is from 1 December 2012 to 30 June 2022.

At time of tender three tenders were received. Two local and one from Christchurch.

Our current supplier is GoBus (was Invercargill Passenger Transport until sold to GoBus).

Council has had a very productive and collaborative working relationship with the current contractor. We have high delivery and good customer service from GoBus.

Changes in route/timetables and other operational issues such as implementation of RITS and COVID responses have been undertaken in a collaborative way and been implemented in an effective and professional manner.

In late 2018, GoBus replaced the fleet operating on the City runs, with ICC agreement, with 6 newer single door, 28 seat buses which are well suited to service the current demand. These buses were refurbished for Invercargill and have had good reliability since.

ICC has recently changed (May 2021) the routes and timetables for the urban services to a pulse based approach to seek improvements in service and increase the passenger numbers. This implementation had been delayed due to the RITS implementation and Covid issues.

The route changes and delivery of the change by the staff and management of the Invercargill GoBus Depot has gone very well and without any contract issues. Customer service and response from GoBus is very satisfactory and the teams work well together.

This has been a significant change to the Invercargill service.

The only other local supplier (McDermott's) who did tender (in 2012) has recently been sold to GoBus and McDermott's MOE school routes have recently been tendered and awarded to GoBus.

It is unlikely given the volume of business available in Southland that any other suppliers are likely to establish in Invercargill in the short term.

We have seen no external interest from any of the main players in NZ. It is also noted that one of the other bigger PT business activities in Southland is for bus transport to and from the Tiwai Smelter (for NZAS) and with potential changes in its future operations, it would be unlikely that another competitor would seek to establish where this uncertainty exists.

This contract should have been tendered at an earlier time however all the underlying issues relating to the industry changes, Covid constraints and market suppliers along with climate responses (electric vehicles) would have been still in an unclear state. The current contract is seen as cost competitive.

## **National PT Direction**

Our future services may lie in On Demand services but the trials elsewhere in NZ are at the very early stages and changing a contract and then negotiating a significant variation in scope

(to on-demand) would be contractually difficult and extremely complex to try and incorporate without significant consultation with contractors.

On Demand services would need significant consultation and would limit any time available to develop a contract and seek costings in a managed manner.

The proposed extension and new timing of the contract would allow for better alignment with the national direction of decarbonising the fleet and in this area ICC ratepayers and the NZ taxpayer would be best served by waiting until some of the bigger players have landed this first.

We anticipate that the large metro Councils would be able to take the higher risks and be at the leading edge in this transition as there is still much to be resolved in the PT electrification model – for example who will own the charging infrastructure.

Some of these issues would be difficult to anticipate and document accurately into a tender in the next few months. We would not expect bus operators to own fuel stations and the cost of electrification will be significant unless it has a public model attached.

These issues will take some time to resolve to make the model work.

Placing our contract in a cost effective holding pattern, with appropriate benefits for all parties would seem to make fiscal and practical sense.

## **Issues and Options**

### **Analysis**

The current contract contract has been for a 9 year term and will have a total expenditure of around \$9.5M. The additional proposed term will be an additional cost of \$2M.

Normally a new contract looks to refresh the fleet to meet the next period. With newer buses comes additional charges (i.e. the depreciation on a new bus is likely to be higher). Extension of the existing contract maintains pricing stability at this time.

The current size of buses is right sized for the passenger usage. There are no local competitors for the contract and it will take some time to encourage others to consider entering the market.

There are a number of national initiatives currently underway in the PT space. Developing a new contract once the outcomes of this work are known is considered a preferred position for Council and a contract extension is required to facilitate this.

### **Significance**

The proposed options within this report do not meet the significance requirements in terms of Council Policy and accordingly it is anticipated that consultation is not required.

Whilst the value of the extension is around \$2 million (total for two years) this is also the cost which would be incurred in delivering the service directly.

## Options

Three options have been identified and are listed below:

3. Tender a new contract.
4. Extend current contract one year.
5. Extend contract two years (preferred option).

### Option 1

The key issues is the limited time available to prepare and undertake a robust and complete tender process and for a new contractor to potentially acquire fleet to deliver the solution. It is noted that this extension and process could have been considered earlier to allow for this however competing priorities have not allowed for this. It is likely that new fleet and a new tender may deliver a higher annual cost.

### Option 2

This option would be a minimum period to extend to allow for a retender process. This period does not give any advantage to monitoring new technology and electric fleet options and seeing how they would best fit our solution. This period is a realistically the minimum period to run a well-managed process.

### Option 3 (Preferred)

This two year extension would allow for market analysis and technology monitoring whilst a managed tender and implementation process is run. This may also be of sufficient time to encourage other tenderers to consider to bid in Invercargill.

Two years is seen as the optimum period.

## Community Views

It is considered that an extension to the current contract would bring value to the community for both the level of service and money.

The customer surveys undertaken have had reasonably positive feedback. Current cost is at an acceptable level and extending this approach gives some ongoing certainty.

An extension would not directly adversely impact any local supplier and could be an advantage to allow more time for new players to enter the local market.

An update to the roading procurement strategy will be required.

It is the view of the Transport Team that existing service provided by the contractor has been to highly responsive, willing and a well delivered standard.

## Next Steps

If Council is agreeable to a Contract extension and with the approval of Waka Kotahi, Council would then negotiate with GoBus over the extension. It is expected that the existing terms and levels of service will be agreeable and no significant cost increased would be sought other than aligning to the payment of the living wage for drivers. This has been a request from Waka

Kotahi at an industry wide level and Council is one of two who have not adopted this approach.

## **Attachments**

Not Applicable