



Insights from Australia / NZ

Bus franchising masterclass

8 June 2017

DRAFT

L.E.K.

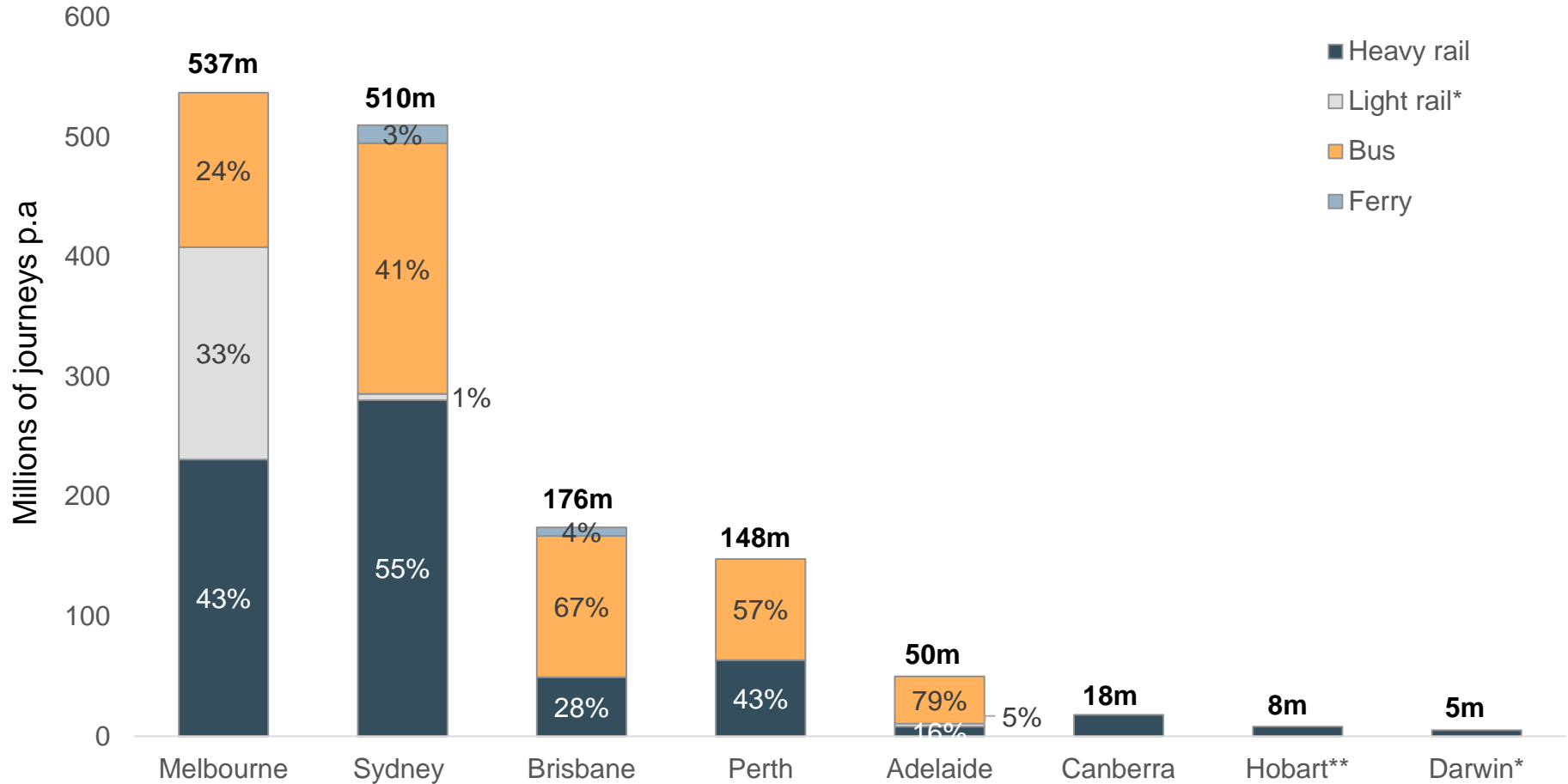
Orientation







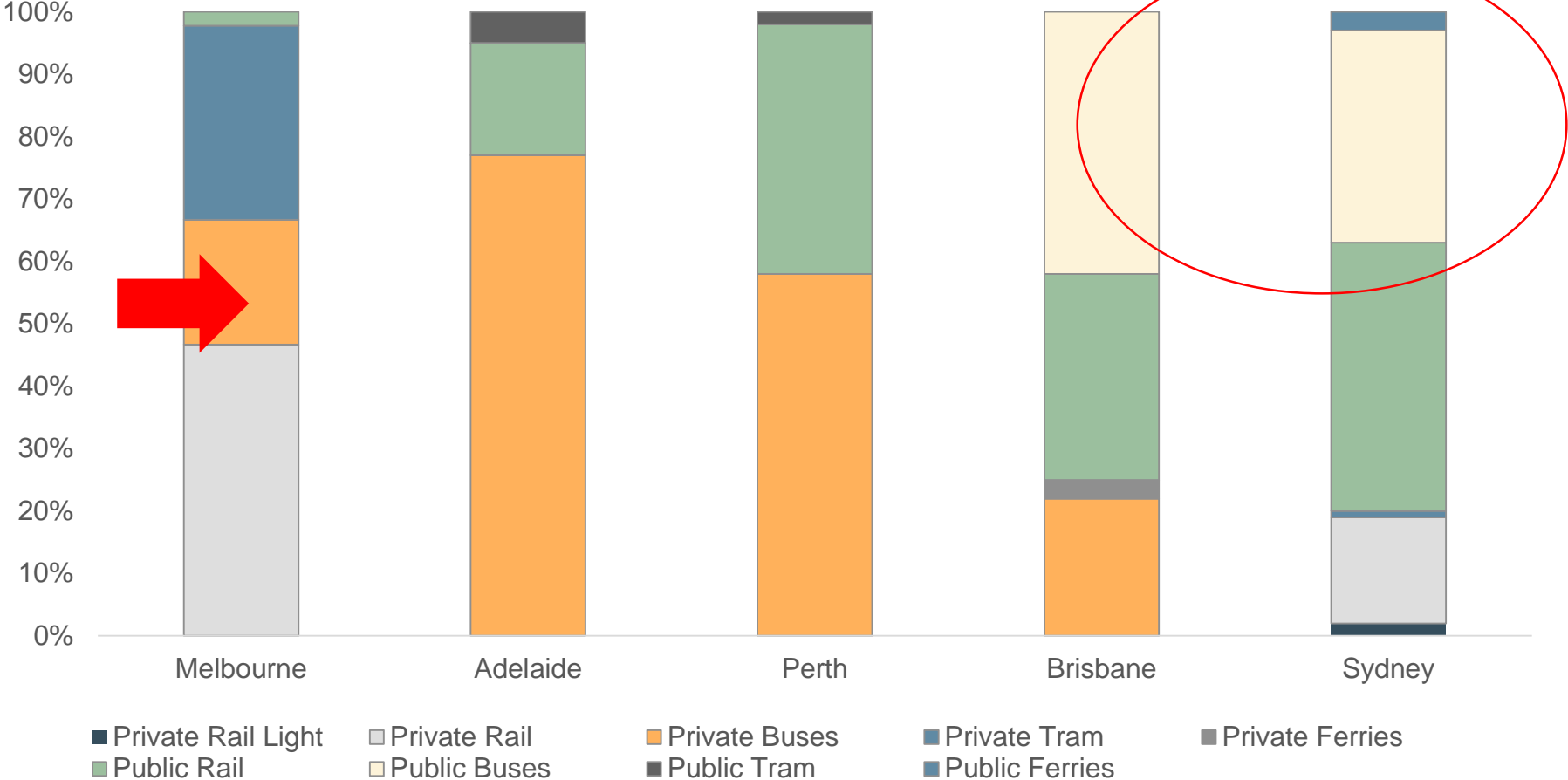
Agenda



Source: Company and government annual reports and websites

Public v private buses

Passenger boardings by mode of transport and ownership in major cities (2010)



Source: Company and government annual reports and websites

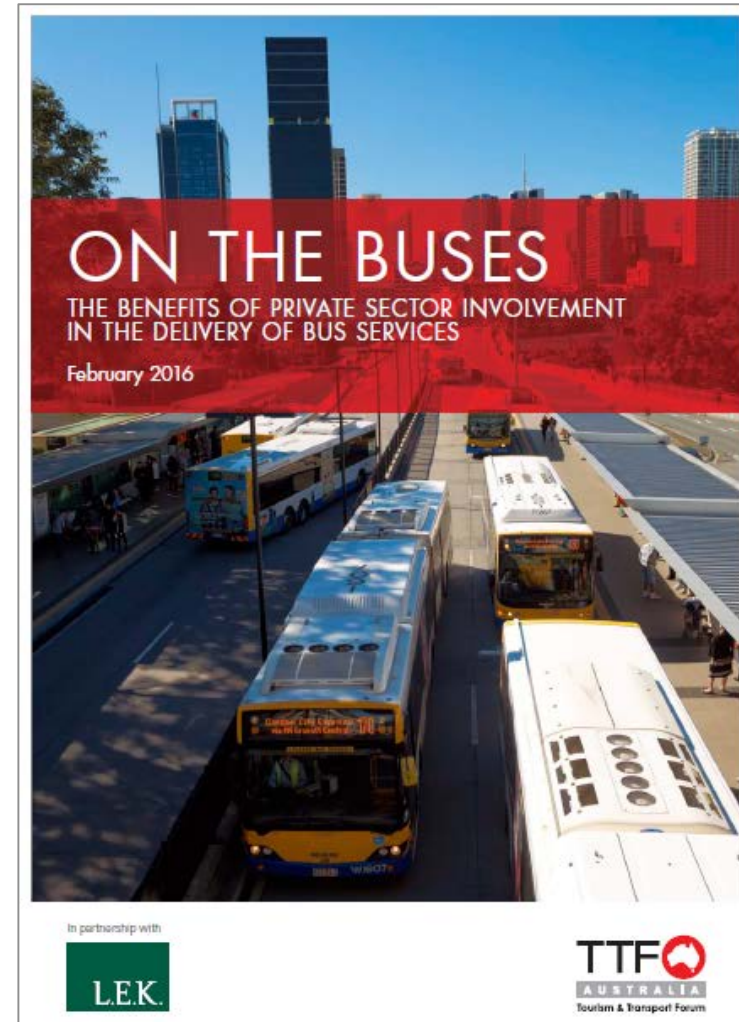
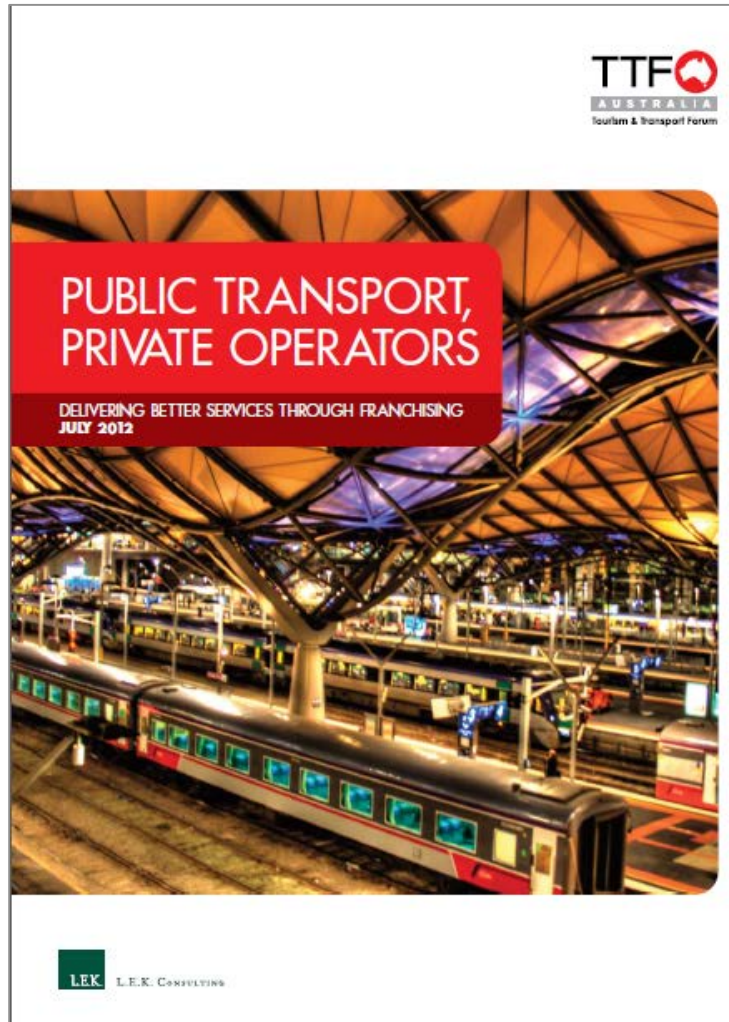




PRIVATE

PUBLIC

Reference materials

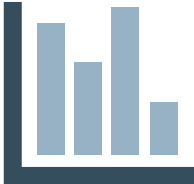


Best practices

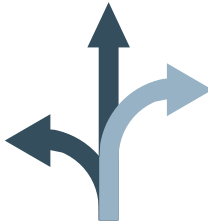
Term



Scale



Scope



Depots



Fleet



Tendering



Performance regime



Risk allocation



Payment mechanism



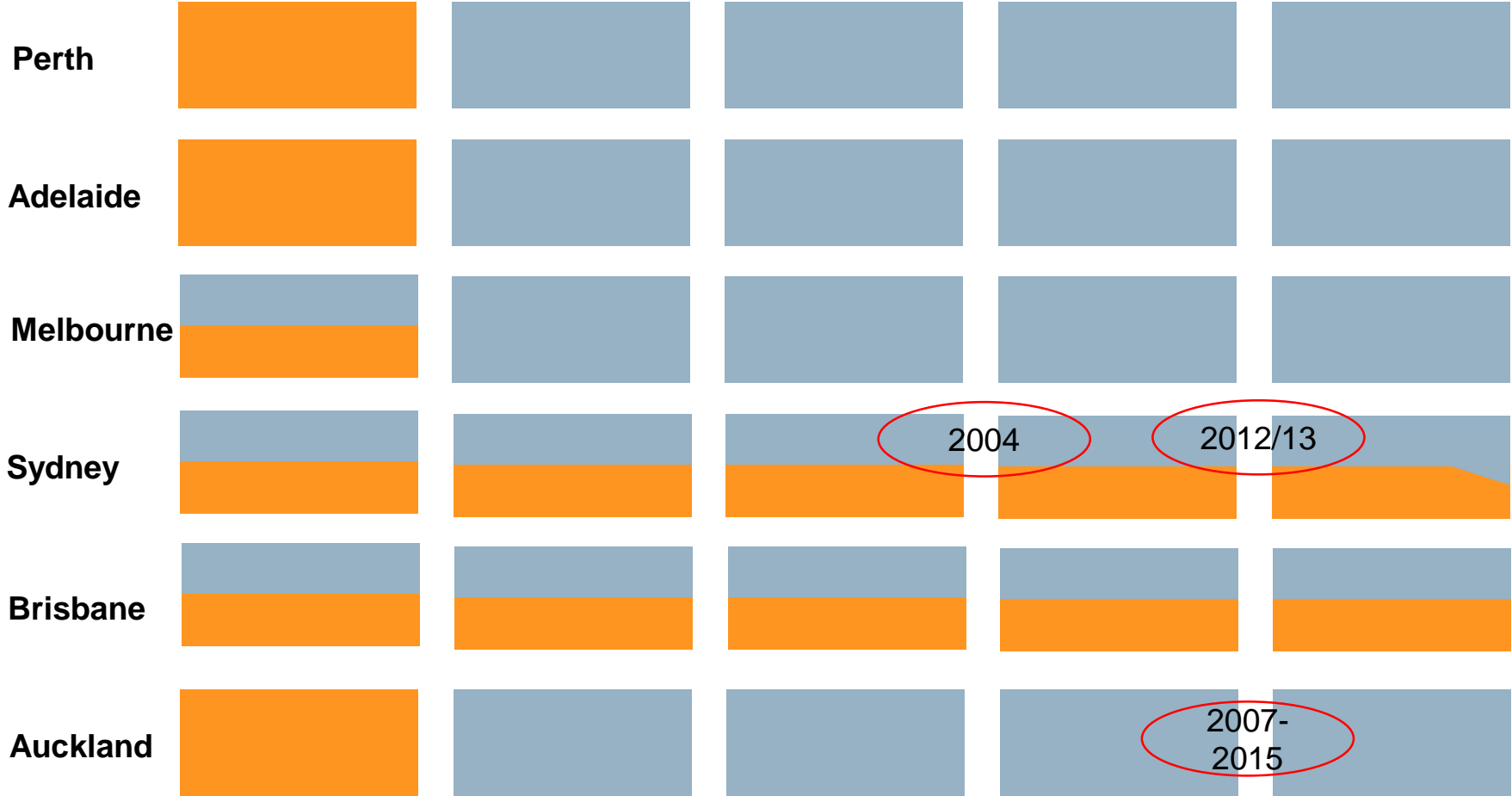
Operator concentration



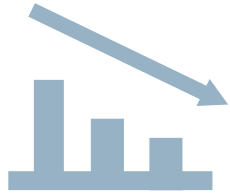
Tender evaluation



Most interesting transitions



Sydney 2004 - Critical ingredients



- Financial distress



- Strong leadership



- Broken funding model



- “Carrot and stick”



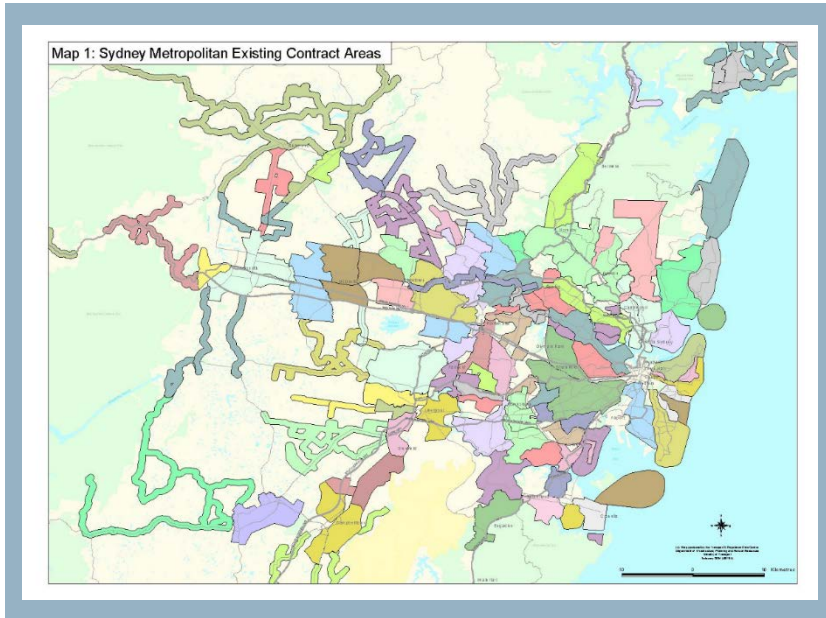
- Public report (ex-Premier)



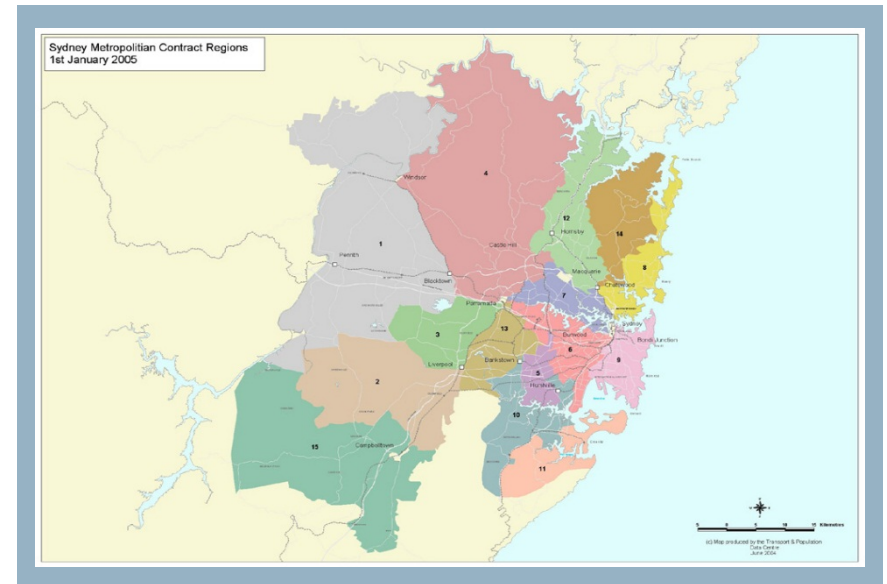
- Collaboration / negotiated agreements

Sydney - 2004

Before



After



Sydney – 2012/13

The good news

- 11 private contracts tendered
 - First time subject to true competition
- 4 new contracts awarded
- \$45m pa saving over 10 years
- New customer performance regime

The bad news

- Only one new entrant
 - Three other contracts all went to operators in adjacent areas
- Depots a significant barrier to effective competition

Exports we are not that proud of



NZ: From an effectiveness perspective, the model appeared to have several major shortcomings, but some good features

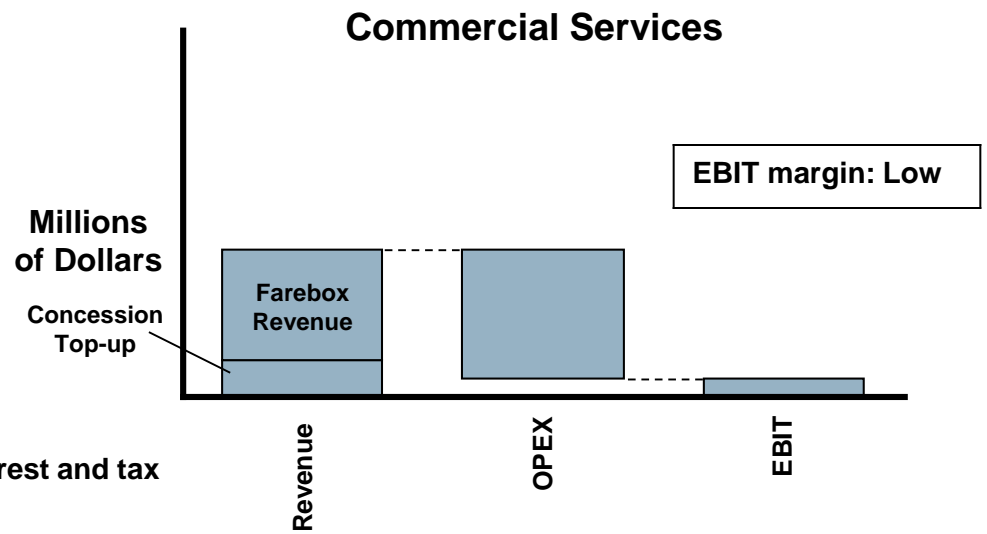
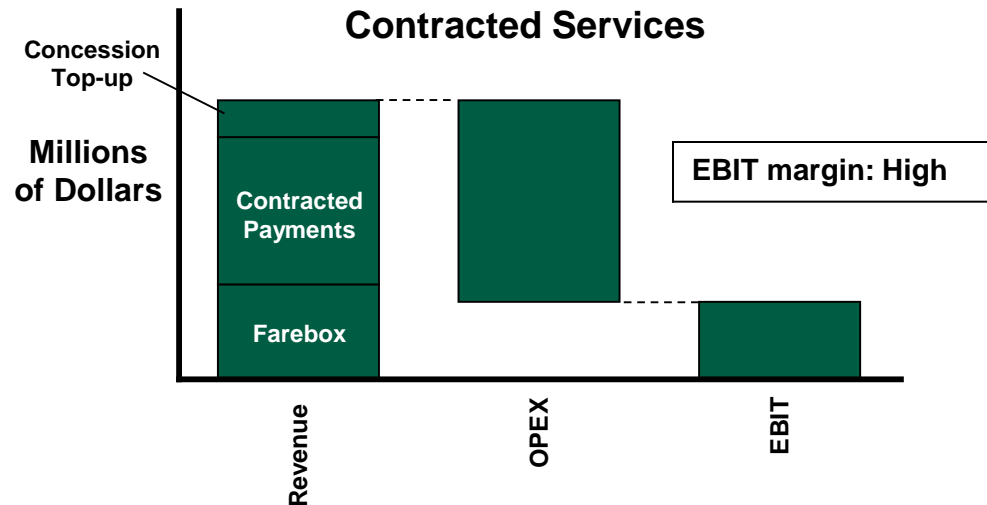
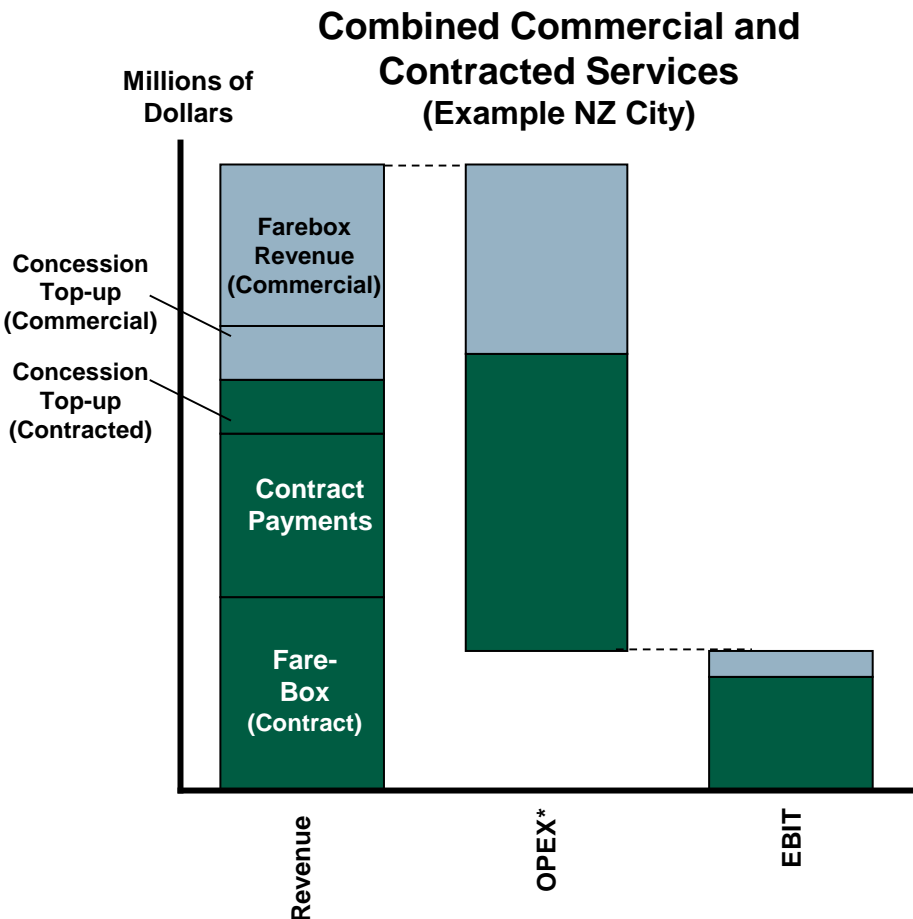
- Positive features appear to be:
 - operators that are strongly motivated to grow patronage
 - operators have some degree of freedom to implement changes and service innovation without a long / difficult evaluation process by public authorities
- Shortcomings include:
 - creation of a poor environment for implementing service changes and collaborative service planning
 - significant constraints on the ability of public authorities to implement integrated fares and ticketing
 - insufficient transparency of service quality factors (which have a material influence on patronage)
 - incidents of abrupt service suspension, through withdrawal of commercial services
 - disincentives for authorities to increase fares or service levels, due to revenue risk residing with operators



There is a marked lack of consensus between Regional Councils and Operators about these shortcomings

Analysis revealed a substantial cross-subsidy with low profits on commercial services and higher returns on contracted services

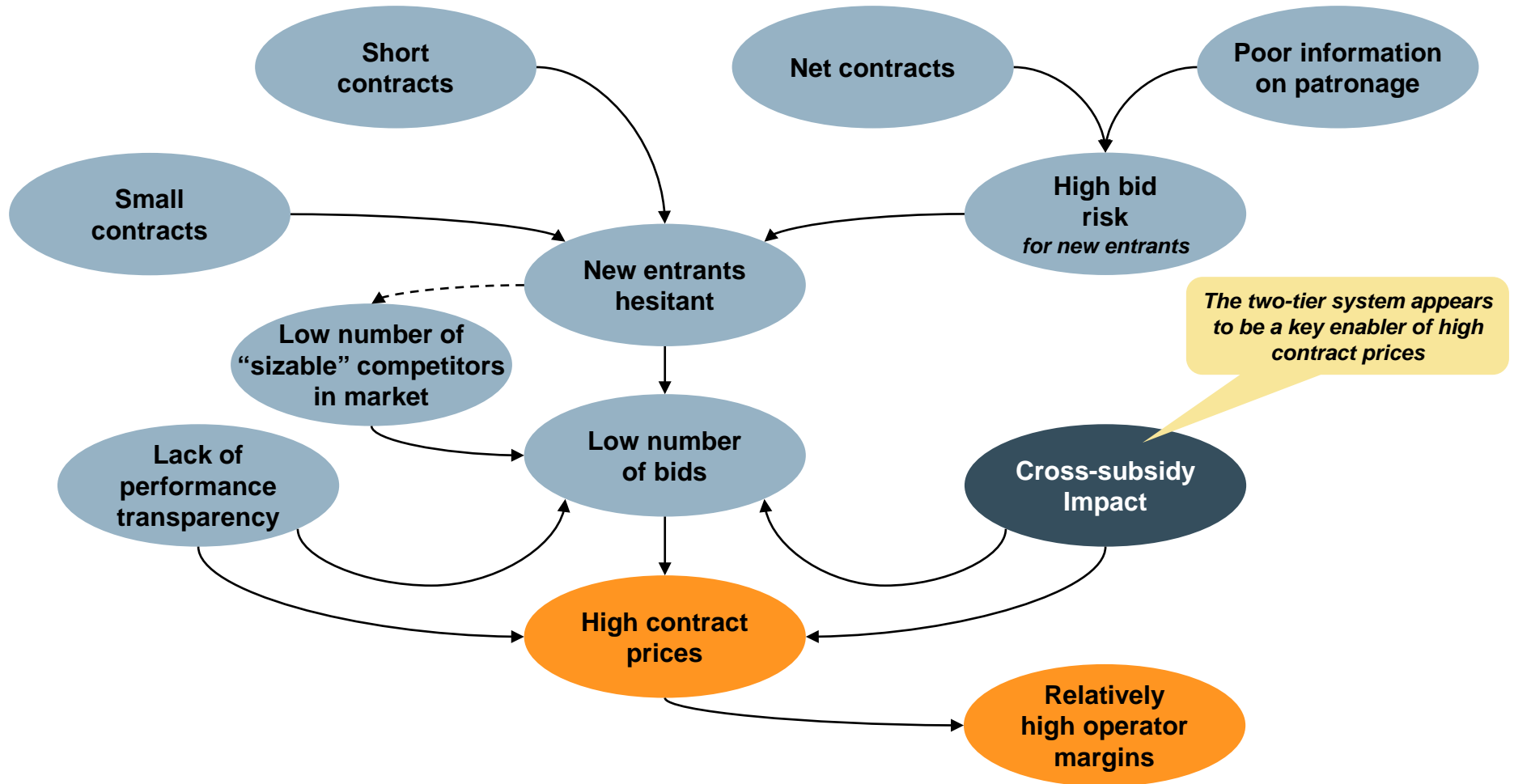
ILLUSTRATIVE



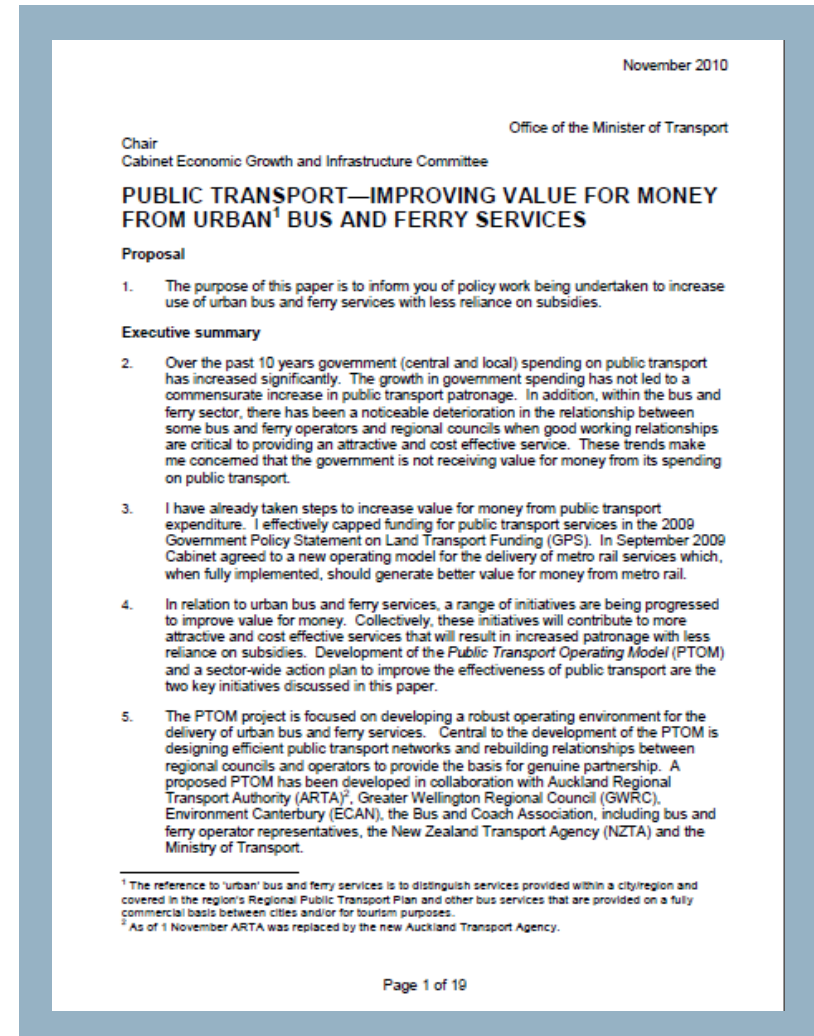
Commercial Services
Contracted Services

EBIT = Earnings before interest and tax

NZ: Both legislation and procurement procedures required substantial change



NZ: PTOM implementation (2006- 2015)



Chess board





Your L.E.K. team

Option A

Simon Barrett
Partner, Sydney




 Areas of expertise
Surface transport
Rail and bus franchising


 Education
BSc (Hons) Melbourne
PhD Cambridge

 [Simon Barrett](#)

John Goddard
Partner, London




 Areas of expertise
Public transport
Franchising


 Education
Imperial College
Massachusetts Institute
of Technology

 [John Goddard](#)

Monica Ryu
Partner, Sydney




 Areas of expertise
Public transport
Franchising


 Education
MA Harvard

 [Monica Ryu](#)

Andrew Allum
Partner, London




 Areas of expertise
Public transport
Franchising


 Education
Imperial College
University of Oxford

 [Andrew Allum](#)

Jonathan Metcalfe
Senior Advisor, Melbourne
(Formerly CEO Transdev Aust/NZ)




 Areas of expertise
Public transport
Franchising

 Education

 [Jonathan Metcalfe](#)

Jonathan Simmons
Partner, London



 Areas of expertise
Public transport
Bus operations

 Education
Queens College, Cambridge
Harvard Business School

 [Jonathan Simmons](#)