



Public Transport  
Authority



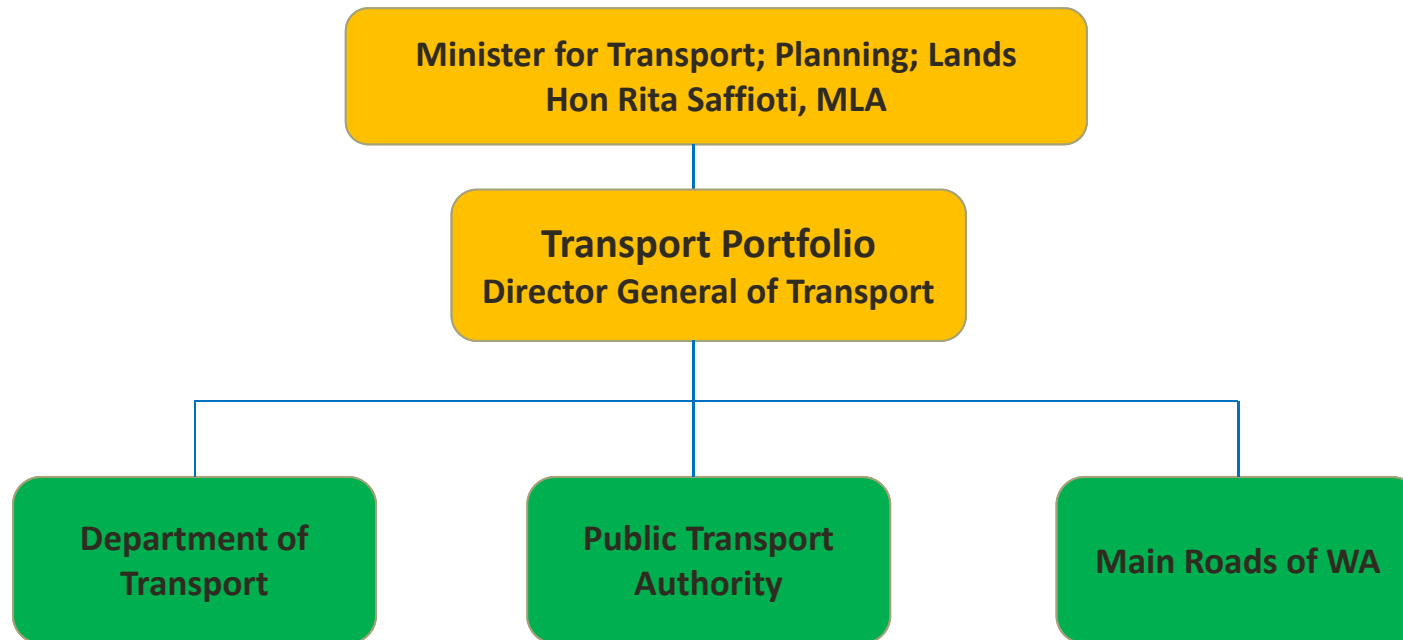
# Transperth Bus Contracting Model

## Bus Service Franchising Masterclass

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# Public Transport Authority - Transperth



# Context

- Perth is most isolated city in the world.
- Population – approx 2 million.
- Services a huge area about 130 km north / south and 20 km east / west.
- Perth's population density - 300 people per km<sup>2</sup>.
- Perth's love of space and cars - our biggest challenge.
- “*Transperth*” is the brand name of Perth's public transport system – bus, train and ferry.
- Fully integrated services with buses typically feeding train stations for main lines to Perth.
- Fully integrated (smartcard) ticketing – one fare for bus / train / ferry.

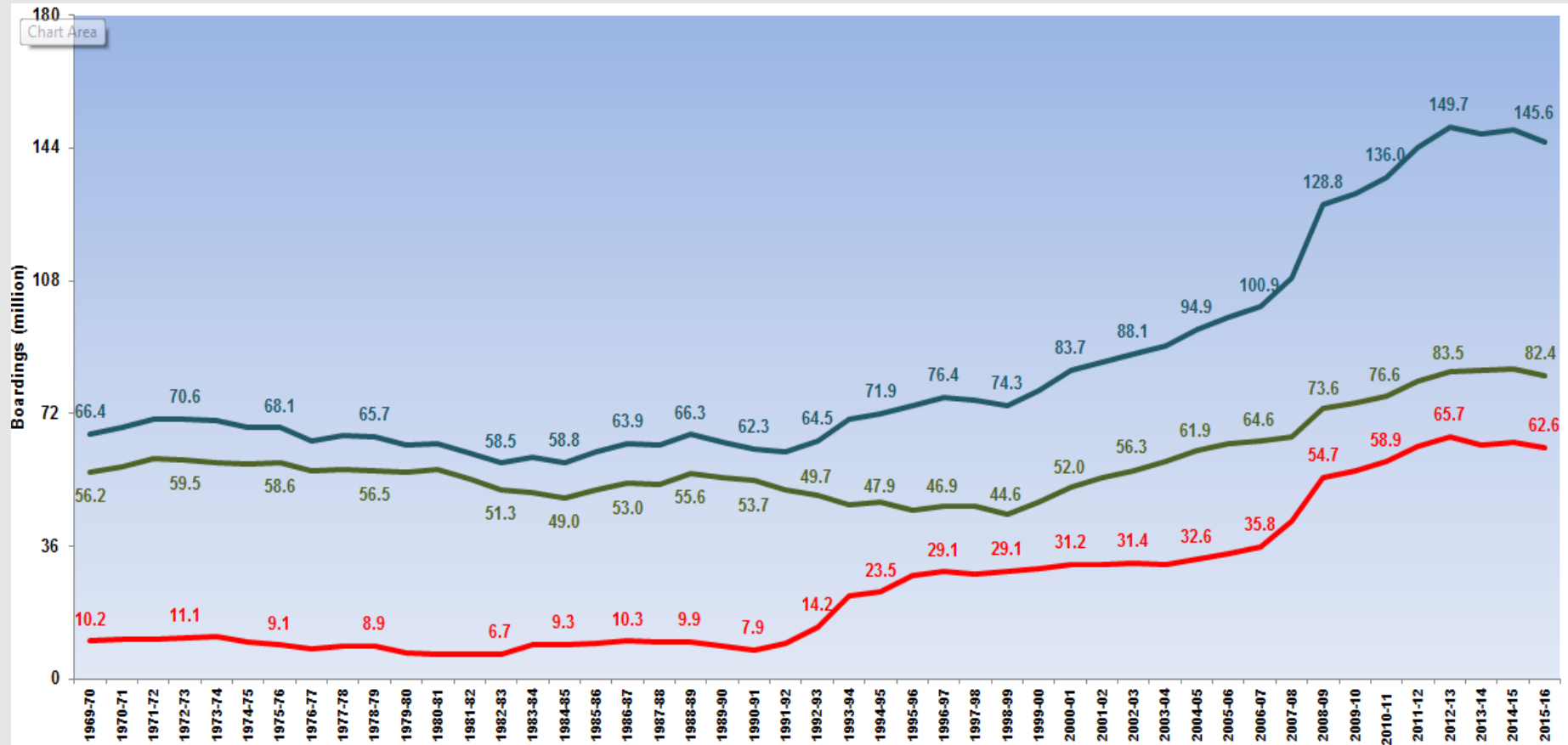
# History

- Pre 1958 - private companies operated in an informal and adhoc manner.
- 1958 – all bus services nationalised with MTT being created (services under State Govt).
- 1992/93 - McCarrey Review.
- Sept 1993 - Cabinet directed that MTT be split into “Co-ordination” (Transperth Unit) and “Operations” (Contractors) functions and that services be put to competitive tender.
- Tendering of all services in two main tranches from 1994 to 1997.
  - First, two small outlying contracts, then bigger and bigger.
- July 1998 - all Transperth bus services (and key support functions) have been operated under contractual arrangements with private companies.
- July 2003 – creation of PTA and transfer of “co-ordination” function to PTA.

# Transperth Bus Network

- Transperth - also name of a small Branch (61 staff) within the PTA who provide a system "co-ordination" role.
- Transperth responsible for the delivery of all PT and support services to ensure a seamless "Transperth" public transport experience.
- Single Call Centre arrangements for all modes.
- Government owns the bus fleet, bus depots and ticketing system.
- On a typical weekday Transperth operates 16,872 bus trips.
- 347,000 boardings on a typical weekday.
- 82.4 million boardings (2015/2016).
- Modal split of boardings is 57% on buses and 43% on trains (less than 1% on ferries).

# Public Transport Patronage 1969-70 to 2015-16



# Transperth Bus Contract Model

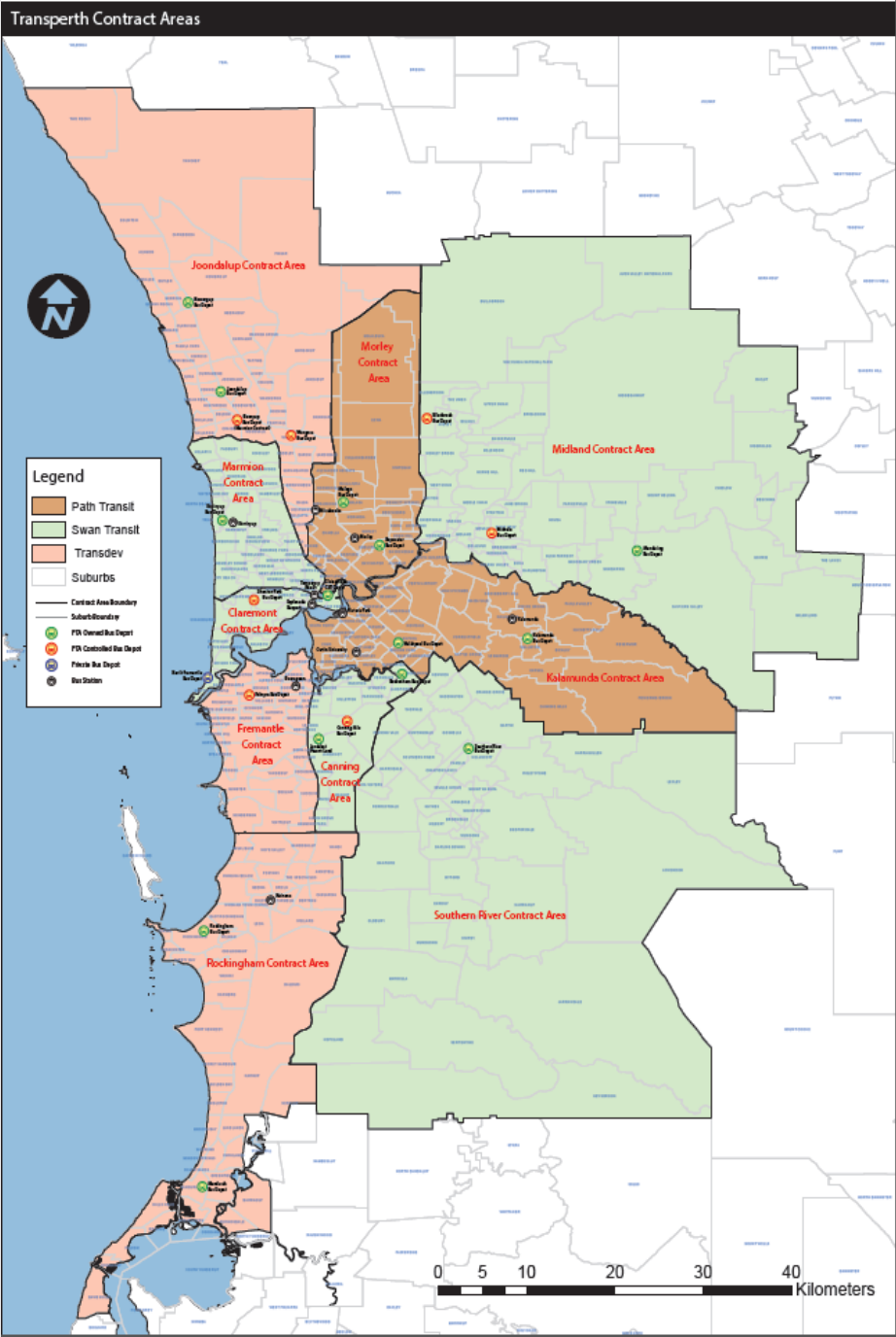
- Bus services have not been “deregulated” - all changes must be negotiated and approved by Transperth.
- “Gross” contracts with an incentive arrangement.
- Contractors paid monthly for fixed management costs, plus Variable Costs (paid per Km), plus patronage payments.
- Separate Diesel and CNG Variable Cost Rates.
- Patronage incentive payments.
- All “fare revenue” accrues to PTA but cash fares collected are “netted-off” contract payments.
- Contract terms – mostly 10 years.
- 50% Rule – no contractor can operate > 50% of network.
- Viable retender strategy – competitive tenders of 1,2 or 3 contract areas approximately every two years.

# Transperth Bus System

- Three contractors provide bus services in 11 bus contract areas:
  - Transdev - 40%
  - Transit Systems - 35%
  - Keolis Downer (Path) - 25%
- Current Stats:
  - Service Kilometres pa – 68.8 million
  - Buses – 1,481 (512 CNG & 969 diesel)
  - Number of Bus Depots – 21
  - Number of Bus Stations – 11
  - Compressed Natural Gas (CNG) Facilities – 8
- Competitive tendering arrangements saved approx. 25%



# Bus Contract Areas



# Tendering Issues

- Access to key infrastructure:
  - Depots, Buses, Ticketing system, Common user infrastructure (bus stations).
- Skilled Co-ordinator Staff:
  - Contract Managers – policy, documentation, compliance
  - Fleet Managers – compliance, trials, procurement
  - Service Planners – what, when, where
  - Marketing – timetables, signage, education, campaigns
  - IT Systems and management of...(we could not operate without TRIS).
- Transmission of Business:
  - Concept whereby an incoming contractor must abide by the existing contractors pay rates and conditions of employment – potential to significantly erode savings.
  - Don't be seduced by cheap prices based on flawed employment arrangements.
  - Get a good IR lawyer!!!
- Strategic Benefits:
  - Structural reform of operations – become much leaner and focussed operations
  - Subject to transmission of business – potential work practice reform
  - Poor performance managed out, not promoted up/sideways

# First Phase Tendering Issues

- **Doubts/Fears:**
  - Existing workforce.
  - The public.
- **Access to Required Assets:**
  - Depots, buses, ticketing systems, bus stations.
  - Access to / ownership of / or rights to must be secured.
  - The market will not just work this out – barriers to entry - ‘level playing field’ needed.
- **Co-ordinator Staff:**
  - Need staff skilled in key areas to deal with contractor staff.
  - Need IT systems to manage and control key data areas.
- **Controlled/Careful Tender Planning:**
  - Set reasonable and achievable timeframes.
  - Breakup of network – tie buses to depots/contract areas.
  - Reduce (stop) significant service changes during tendering period.
  - Provide for bus disaggregation issues.
  - Understand IR environment - develop employment strategies around IR environment and legal framework – would do it differently now.
- **Sabotage:**
  - Existing operators / staff / public???
- Where you are now will determine your required approach and strategy to get to where you want to be.....

# Ongoing Tendering Issues

- **Continued Access to Key Infrastructure:**
  - As previous plus some minor assets (depot furniture, driver lockers, work benches etc).
- **Quality Co-ordinator Staff and Systems:**
  - As previous plus major focus on:
  - IT Systems and management of....(we could not operate without TRIS):
    - TRIS controls route, timetable, bus stop database, buses (and where located etc).
    - TRIS has web-based process control system to vary contracted routes/services.
    - TRIS exports all key data for contract management and web/call centre data feeds.
  - Management of ticketing and revenue data for contract payment and revenue off-sets.
- **Contract Management Strategy:**
  - Contractor “interest” cycle - typically keen at start, obnoxious in middle, keen at end.
  - A rolling retender strategy keeps the cycle level - parties more honest and even keeled.
  - Retender strategy – every two years to give time for process and transition – limited resources (both sides) can’t do everything – avoid project teams that drop and run.....
  - Contract transitions - difficult for all and comes with some risks – must pursue as market messaging prevents incumbent lethargy and maintains interest from others.
  - Predatory pricing – bid low then ‘work’ contract to claw back financial position – ignorant and informed tenderers both guilty – tender assessment must be thorough - need to see and understanding pricing detail.

# Staff Transition Management

## ■ RFT / Contract Obligations:

- Access to existing staff is critical to business continuity and for staff morale.
- For drivers, PTA requires that:
  - “similar” employment conditions are offered to their staff.
  - 90% of the staff made available by the incumbent are offered jobs.
- Other employees are usually actively pursued for their unique skill sets.
- Leave entitlements are paid out by incumbent contractor if they are legally owing.
- Sick leave and LSL entitlements accrued but not payable are transferred to the new Contractor and not viewed as a break in service.
- Objective – remove IR uncertainty.

## ■ Responsibilities:

- Pre-tender - incumbent reviews staff requirements if the contract area is lost and advises estimated numbers of staff (by category) not required – this is advised in RFT.
- Bidders can prepare their bid on basis of staff that may transition plus any gaps required to be filled.
- Bidders must offer employment to 90% of staff offered.
- PTA facilitates tracking of staff movements/offers to new contractor to ensure compliance with RFT requirements.

# Bus Transition Management

- RFT / Contract Obligations:
  - Incumbent contractor provides bus maintenance history information to PTA for RFT.
  - PTA end of contract bus inspections – commences 5/6 months prior to contract expiry
  - Transition day – each bus handed over with full tank of fuel – visual checks – 3 parties present to affirm and deal with issues as they arise – controlled chaos.
  - Transition day - livery, radios and ticketing system changes/updates for new contractor.
  - New contractor entitled to a 30 day warranty on engine / transmission – inspections undertaken over 1 – 2 weeks.
  - Tyres - minimum 50% average tread wear on handover.
  - New contractor responsible for providing its own maintenance equipment.

# Depot Asset Transition Management

- RFT / Contract Obligations:
  - PTA will provide a fully (modestly) furnished depot with all equipment necessary to operate as a functional depot – includes desks, chairs, CCTV, fridges, shelves, cupboards, workbench, lockers etc.
  - Avoids the need for contractors to refurnish depots on day one of contract – low value but significant logistical issue.
  - Proprietary computer systems, heavy duty maintenance equipment typically remains property of contractor.
  - New contractor responsible for arranging its own communication and IT systems.
  - New contractor must arrange for all bulk storage tanks (fuel / oil etc) to be filled – arrange licencing and access arrangements.
  - All manuals, access codes, keys etc must be handed over to new contractor.

**Schedule 2 of Contract:**

<b>Management Costs</b>	<b>Cost</b>	<b>%</b>	<b>Diesel Variable Costs</b>	<b>Cost</b>	<b>%</b>
Depot Ownership/Lease Cost	\$ -	0.0%	Driver Wages	\$ 13,280,000	55.3%
Depot Maintenance Costs	\$ 22,000	0.1%	Driver Workers Compensation	\$ 295,000	1.2%
Depot Operating Costs	\$ 65,000	0.3%	Driver Superannuation	\$ 1,090,000	4.5%
Depot Administration Costs	\$ 33,000	0.1%	Driver Payroll Tax	\$ 790,000	3.3%
Depot Costs Other	\$ -	0.0%	Driver Training/Safety Costs	\$ 35,000	0.1%
Support Vehicles	\$ 61,000	0.3%	Uniforms	\$ 40,000	0.2%
Stationery	\$ 14,000	0.1%	Operations Salary	\$ 470,000	2.0%
Audit Costs	\$ 8,000	0.0%	Operations Workers Compensation	\$ 13,000	0.1%
Cash Collection	\$ 8,000	0.0%	Operations Superannuation	\$ 54,000	0.2%
Telephone/Fax/Communications	\$ 16,000	0.1%	Operations Payroll Tax	\$ 4,000	0.0%
Electricity/Gas/Water Charges	\$ 44,000	0.2%	Security Costs	\$ 95,000	0.4%
Computer Systems	\$ 13,000	0.1%	Bus Cleaning	\$ 230,000	1.0%
Insurance Costs	\$ 5,000	0.0%	Diesel Cost	\$ 3,400,000	14.2%
Security	\$ 6,000	0.0%	Oil Cost	\$ 120,000	0.5%
Administration Salary	\$ 260,000	1.1%	Tyres	\$ 220,000	0.9%
Admin Workers Compensation	\$ 6,000	0.0%	Batteries	\$ 25,000	0.1%
Administration Superannuation	\$ 23,000	0.1%	Contracted Maintenance Costs	\$ 50,000	0.2%
Administration Payroll Tax	\$ 15,000	0.1%	Regular Maintenance Parts	\$ 560,000	2.3%
Staff Training/Safety Administration	\$ 32,000	0.1%	Major Maintenance Parts	\$ 140,000	0.6%
Quality Assurance Coasts	\$ 7,000	0.0%	General Body Maintenance	\$ 150,000	0.6%
Advertising/Marketing Costs	\$ 5,000	0.0%	Window Repair Provision	\$ 50,000	0.2%
Legal Fees	\$ 20,000	0.1%	Waste Disposal	\$ 20,000	0.1%
Interest/Finance Costs	\$ 30,000	0.1%	Heavy Equip/Tools Provision	\$ 7,000	0.0%
Other Management Costs	\$ 20,000	0.1%	Consumables	\$ 30,000	0.1%
Damages Provision	\$ 38,000	0.2%	Two Way Radio Expenses	\$ 20,000	0.1%
Bus Lease and PTA Charges	\$ -	0.0%	Accident Repairs (excess)	\$ 120,000	0.5%
Management Fee	\$ 850,000	3.5%	Bus Inspection Fees	\$ 15,000	0.1%
			Maintenance Wages	\$ 885,000	3.7%
			Maint. Workers Compensation	\$ 20,000	0.1%
			Maintenance Superannuation	\$ 85,000	0.4%
			Maintenance Payroll Tax	\$ 53,000	0.2%
			Mechanical Training/Safety Costs	\$ 14,000	0.1%
			Other Costs	\$ 45,000	0.2%
<b>Total Management Cost</b>	<b>\$ 1,601,000</b>		<b>Total Diesel Variable Costs</b>	<b>\$ 22,425,000</b>	<b>93.3%</b>
			<b>Total Contract Price</b>	<b>\$ 24,026,000</b>	<b>100.0%</b>



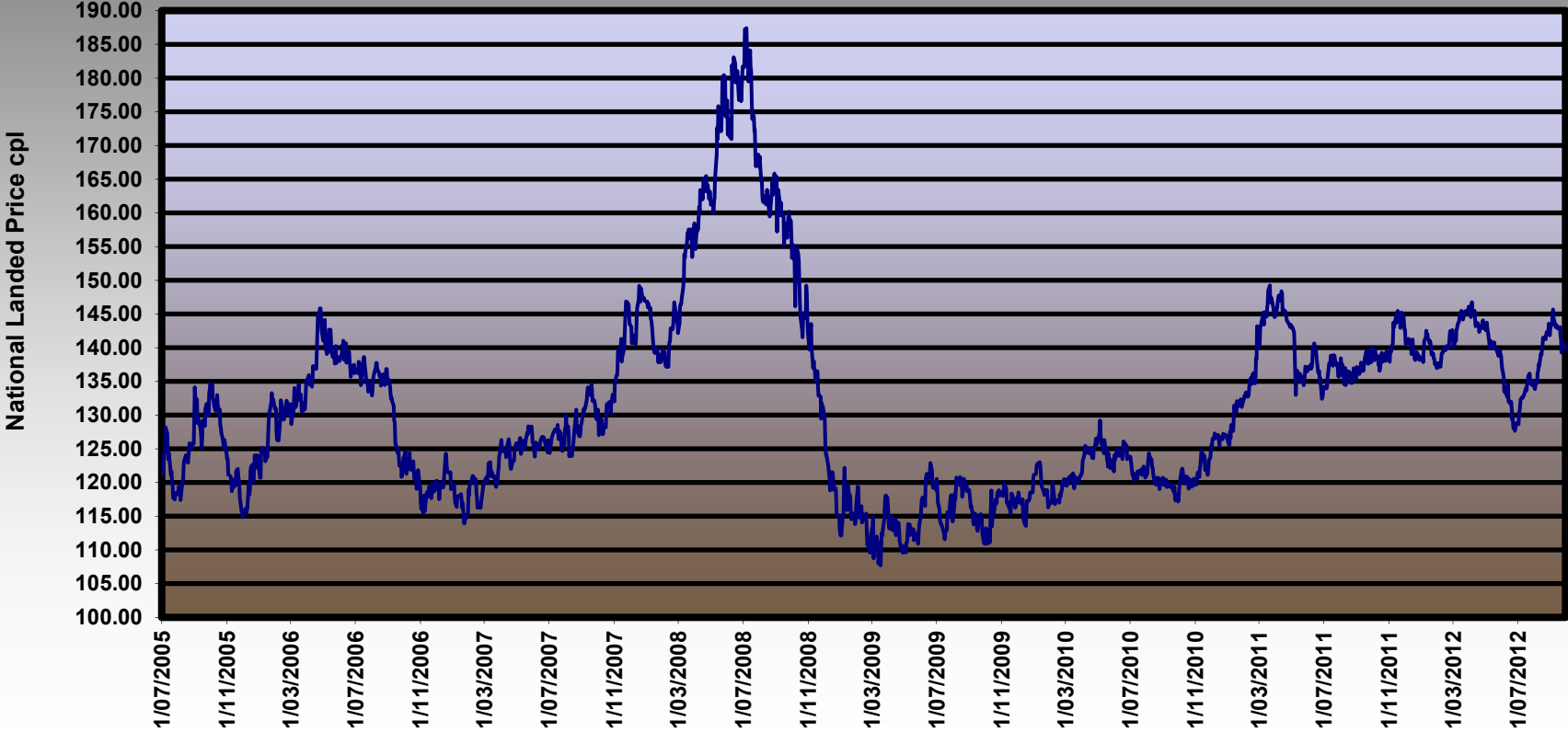
# Price Review Mechanisms

- **Salaries/Driver & Mechanical Wages** – independent (Govt.) third party salary/wages index – 6 monthly/annual and must be passed on to staff
- **Diesel Cost** – independent landed price index incorporating all fuel taxes - monthly
- **Run Speed Index** – a variable running speed index to increase driver wages costs as a result of lower operating speeds (congestion factor) and to recover driver wages savings from new bus priority measures - monthly
- **Statutory (Government) Charges** - in accordance with actual % movement - annual
- **Other Costs** – official government general inflation index – annual

**General Philosophy – Government should bear external risks where possible – lower risk, lower price....**

# APMM Cost

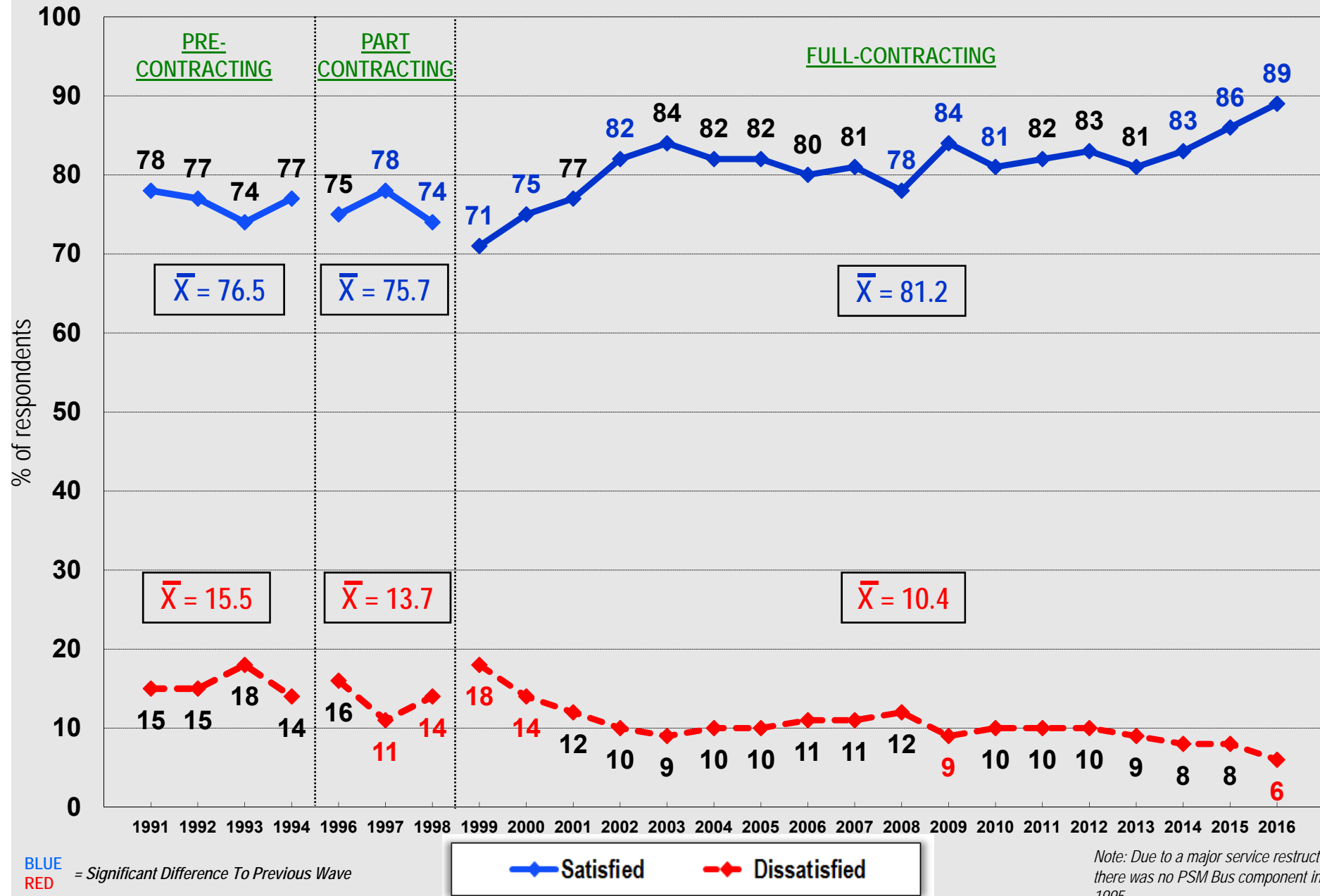
5 cent / litre increase equates to \$2M pa (diesel & CNG)



# Ongoing Management Regime

- Patronage Incentive Arrangement:
  - involves benchmarking of patronage rates per KM in first year of operation – excess payments made if contractor beats the benchmark and is penalised if not.
  - Represents less than 15% of Variable Cost rate - too much patronage ‘risk’ exposure can stifle innovation and new services.
  - Patronage incentive “safety net” currently in operation due to significant and protracted downturn in Perth’s economy.
- 1% of all trips checked for timetable compliance and damages claimed (\$100 to \$300) for services delivered out of specification.
- Suite of KPI’s measured relating to a range of issues – patronage, punctuality, complaints, service delivery, maintenance and safety audits, traffic infringements and D & A testing.
- Monthly Bus Operators Forum – full review of KPI’s by PTA of all contractors.
- Passenger Satisfaction Monitor and associated review.
- Open and pragmatic contract management relationship.

Figure 1: Overall Satisfaction With The Transperth System: BUS  
 A 26 Year History of the PSM  
*"How satisfied are you with the Transperth Bus system overall?"*



# Questions

- ?????