KPMG

MOTT MACDONALD

Evaluation of the Public Transport Operating Model

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Glossary

Glossary	Definition
AO	Approved Organisation - Regional Councils or Auckland Transport
AT	Auckland Transport
BCA	Bus and Coach Association NZ (Inc)
CEA	Collective Employment Agreement
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
ECAN	Environment Canterbury/Kaunihera Taiao ki Waitaha
ERAA	Employment Relations Amendment Act 2018
ERA	Employment Relations Act 2000
EV	Electric Vehicle
FIM	Financial Incentive Mechanism
GWRC	Greater Wellington Regional Council
KPI	Key Performance Indicator
LTMA	Land Transport Management Act 2003
MOT	Ministry of Transport/ Te Manatū Waka
Passenger kilometres	Average trip length multiplied by total boardings over a specified time period.
PT	Public Transport
PTOM	Public Transport Operating Model
PTMA	Public Transport Management Act 2008
PVR	Peak Vehicle Requirements
RUB	Requirements for Urban Buses
RFI	Request for Information
RFT	Request for Tender
Service kilometres	The distance travelled by buses while in service (available to passengers).
Total cost per service kilometre	The sum of total farebox revenue and public funding divided by service kilometres.
Total public funding	The sum of Waka Kotahi's and local authorities' funding
VQS	Vehicle Quality Standards
Waka Kotahi	New Zealand Transport Agency/NZTA

Contents

1 Acknowledgments

The evaluation team would like to thank all those who participated in this evaluation, including Regional Councils, Auckland Transport, bus and ferry operators, industry groups, unions, Waka Kotahi and the Ministry of Transport ("MoT", or "the Ministry"). We appreciate the time and effort that participants put into providing information through interviews, written surveys and data requests and during the process to validate the findings presented in this evaluation report.

2 Executive summary

2.1 Overview

This report sets out the findings from KPMG and Mott MacDonald's evaluation of the Public Transport Operating Model ("PTOM"). It sets out:

- the background, purpose and scope of our work;
- the context of PTOM and public transport ("PT") provision in New Zealand;
- our evaluation methodology;
- an overview of the stakeholder engagement and data collation process followed; and
- our analysis and findings.

KPMG and Mott MacDonald have conducted an extensive stakeholder engagement process to which Regional Councils[1], bus service operators ("Operators"), Trade Unions, Waka Kotahi and the Bus and Coach Association contributed. A significant amount of qualitative and quantitative data was gathered. Our evaluation was limited in some areas due to limitations on the data (in particular quantitative data) that we were able to collect. Additionally, the stakeholder engagement process was interrupted by the impact of Covid-19[2]. This document describes that process and the analysis we have conducted. Our findings are based on the information that was available to us and are summarised below. They are presented in more detail together with supporting analysis in section 8.

The purpose and context of this evaluation are set out in section 3. It is important to note that since the design of PTOM there have been changes in the objectives and policy settings for PT. This evaluation considers the original objectives (focussed on commerciality and increased competition) and the performance of PTOM more generally. Stakeholders felt that the legislative settings were sufficiently flexible and any improvements would be possible through changes to how PTOM is implemented, rather than requiring legislative change.

Our findings are that:

1 The commerciality (as measured by the proportion of costs covered by fare revenues) of PT services has not increased following the introduction of PTOM in most regions of New Zealand. In many areas, it has decreased by a clear margin. However, we note some caveats in relation to this finding:
   - this has been accompanied by passenger fares per km becoming more affordable in real terms;
   - several Approved Organisations (as defined by the Land Transport Management Act and generally Regional Councils, but also including some District and City Councils and Auckland Transport) made decisions to expand networks and community access in accordance with local and central government policy priorities such as network accessibility (especially after 2017, when government public transport priorities shifted), knowing that this would entail greater provision of services with lower commerciality ratios; and
   - there is evidence that PTOM has coincided with improvements in other areas, such as significant investments in a newer, more comfortable and lower emissions fleet, and improved customer satisfaction.

2 The costs to government for PT services (relative to the level of service kilometres provided) appear to have decreased following the introduction of PTOM contracts. However, in some cases this impact is relatively short-term, following implementation. The reasons for this are not clear, although we note that the Waka Kotahi cost index applied to contracts has increased at a faster rate than general inflation (CPI), suggesting that above-inflation contract cost increases are consistently observed across other areas of the transport network[3]. Another potential

[1] Throughout this report the term Regional Councils should be interpreted as including Auckland Transport.

[2] Refer to sections 3.2 and 5.2.3.

[3] Refer to section 8.2.4.

explanation is contract variations resulting in cost increases post-award, although our evidence base is limited in this area (refer to Markets Finding 1).

3 In some regions, total public funding of PT has increased significantly, for example in Auckland, Otago and the Bay of Plenty. However, this may reflect changes in service levels or quality, and wider national and regional government policy changes separate to the introduction of PTOM.

4 In most regions the market for operating PTOM contracts is competitive and accessible to market participants. The level of competition for contracts has increased significantly following the adoption of PTOM, with Approved Organisations noting that they are receiving more tenders per contract, especially in the larger urban centres[4].

5 PTOM has enabled Approved Organisations to implement significant changes to their PT networks, especially in larger urban areas. This has included greater integration of networks and ticketing.

6 These network changes have coincided with a general rise in patronage and the service kilometres run, and a real-terms reduction in the average per km fare for passengers.

7 In most regions, price is the highest weighted evaluation criteria in tendering. This may have resulted in more competitive tender pricing (the reduced government cost following the introduction of PTOM could be a function of this), however there was also some qualitative feedback that suggested Operators had a reduced ability to differentiate on quality. We note that Approved Organisations' focus on price as an evaluation criterion does reflect the prevailing government and Waka Kotahi emphasis on increased commerciality at the time PTOM was introduced, and that government priorities, for example on driver wages, have changed since 2017[5]. There was no clear and consistent view from Approved Organisations that price was weighted too heavily or not heavily enough.

8 There is no clear evidence that PTOM has *required* Operators to reduce wage rates. Approved Organisations have the ability to include wages and working conditions in their evaluation processes. However, where relatively high price weightings are adopted, Operators with lower wage costs are likely to be advantaged in the tender process given the high proportion of operating costs accounted for by staff costs. In the pre-PTOM period, some Operators' pay structures were linked to driver seniority and the availability of bonus payments. In many areas and for many contracts, these have been replaced by simpler, flatter wage structures following a change in the Operator (as opposed to Operators amending their wage structures). As a result, some drivers with longer time in service and access to bonus payments have been made worse off by this change. The impact on drivers with less time in service is more variable. While there is no clear evidence that PTOM has caused this change, as opposed to labour market trends or other factors, flatter, simpler wage structures may make it easier for Operators to forecast labour costs, and therefore, tender for PTOM contracts more successfully. Overall working conditions are determined by more than wage levels alone, and wages and working conditions respond to wider industry factors. Approved Organisations tendering PTOM contracts can influence working conditions based on the requirements they specify for the service, for example route cycle times and drivers' layover allowances. Furthermore, the employment context in some regions has been influenced by Approved Organisations expanding their bus networks since PTOM was introduced, which has driven increased public procurement of bus services and increased demand for PT employees.

9 Qualitative feedback indicates that in some regions the partnership between Approved Organisations and Operators could be improved and may not reflect the original PTOM ambition of taking a "partnership approach"[6]. The following perceived barriers to a more effective relationship were identified by Operators:

- the relationship can be adversarial rather than constructive;
- elements of the risk allocation are unfair; and

[4] Refer to section 4.4 for an overview of the operator market. We note that while several M&A transactions have brought new investors to the sector, this has occurred via the acquisition of existing operators rather than the establishment of a new entrant. In addition, Auckland Transport provided additional data on market share analysis which is summarised in Appendix 6.

[5] GWRC noted that this is also true of decarbonisation, and that procurement plans heavily focused on achieving significant emissions reduction or EV use (at significant cost) would have been unlikely to obtain Waka Kotahi approval under pre-2017 government policy priorities.

[6] This was not an opinion held by all stakeholders. For example, Auckland Transport among others noted that its partnerships with Operators are working effectively.

- greater Operator input could drive better outcomes for the PT networks and passengers[7].

10 There is no clear evidence that PTOM has affected asset ownership arrangements. However, any widespread adoption of low-carbon vehicles would potentially have significant implications for the ownership of fleet, depot and wider infrastructure assets. In addition, Operators did express significant concerns with region-specific vehicle requirements, and believe these requirements increased costs and reduced flexibility. We note that since this evaluation was completed, Waka Kotahi has released a series of amendments to the Requirements for Urban Buses (" RUB") for consultation in September 2020.

Our findings were validated with stakeholders following submission of an earlier draft version of this Report. This was an important part of the evaluation, giving some assurance over our analysis. The validation process included:

— Sharing a draft version of this Report with Approved Organisations, Operators, Waka Kotahi and Trade Unions to validate the analysis and check appropriate context is provided for the key findings;

— Clarifying a number of specific queries regarding data previously submitted by stakeholders; and

— Considering areas where further information (particularly from Operators) would enable stronger or more comprehensive conclusions to be drawn if there were to be a future policy review work programme.

Other than clarification, no additional quantitative information was received from stakeholders during the validation process. Some qualitative responses were received, which has informed this final report. More evidence in some areas would help to confirm the findings set out above.

We have presented our findings based on the data and feedback collected.

2.2 Summary findings

When PTOM was introduced, its overarching objectives were to:

— grow the commerciality of PT services and create incentives for services to become fully commercial; and

— ensure services are priced efficiently and there is access to public transport markets for competitors.

The Ministry also specified four workstreams for this evaluation, considering how the introduction of PTOM impacted on: transport network planning, service procurement, contract management and exempt and excluded services. These included impacts on service provision, service users, and service providers, including employees.

PTOM also had wider objectives, including that Operators and Approved Organisations would develop a partnering model that enables effective planning and delivery of public transport networks that are both popular with the public, and affordable.

Many of the issues that have emerged relate to areas where the PTOM framework allows Approved Organisations significant flexibility in how they implement PTOM. While these reflect local implementation rather than specific PTOM requirements, they are an indirect consequence of the inherent flexibility of the framework and the latitude that it gives Approved Organisations for local interpretation. We note that the ability to tailor the framework to local/regional circumstances can be an advantage for Approved Organisations, although it can also have consequences, for example in terms of reduced standardisation and impacts on operators.

This Report has not made recommendations. We would seek to complete the data collection and analysis process to provide a firmer basis for any suggested improvements (refer to section 9 below).

The following findings have been grouped into two categories, those that apply to PTOM's two overarching objectives, for which there are six findings, and those that apply to the four evaluation workstreams, of which there are 16 findings. Our findings are as follows[8]:

[7] Further detail on these points is set out in section 8.

[8] Refer to section 8.2 for more detail on each of these.

Growing commerciality

Figure 1: Commerciality findings 1–3

Reference	Findings
Commerciality finding 1	The evidence suggests that introducing PTOM has resulted in decreased service commerciality, as indicated by the farebox recovery ratio. This has declined in a majority of the areas studied, in particular the urban centres of Wellington and Auckland, and the Otago region has been associated with declines of up to 12%. This has coincided with a reduction in the real cost of travel for passengers (expressed as the real cost per passenger kilometre) and increases in network reach in many areas[9].
Commerciality finding 2	Average farebox recovery ratios also tend to be lower in smaller regions. This likely reflects lower population and land use density, and lower congestion, resulting in car use being relatively more attractive.
Commerciality finding 3	Total public funding has increased significantly in some areas. However, the increase in public funding (for example in Auckland, Otago and the Bay of Plenty) has been influenced by Approved Organisations' transport policies. Depending on the nature and scale of investment, it is possible that as investments in transport services[10] increase, there are diminishing marginal returns in terms of increased patronage. Furthermore, evidence from customer surveys suggests increasing satisfaction. This suggests that perceived service quality is improving. At the same time real fare prices per passenger km have fallen, making services more accessible to the public (Approved Organisations have been granted local fare-setting powers under PTOM). We also note that the increase in costs may be due to incentive payments paid to Operators that have delivered a desirable improvement in service performance.

Ensuring markets are efficient

Figure 2: Markets findings 1-3

Reference	Findings
Markets finding 1	The price paid for PT services, expressed as the real cost per service kilometre, appears to decrease following the introduction of PTOM contracts. Auckland, Bay of Plenty, Taranaki and Wellington all showed significant initial reductions. Waikato also demonstrated reduced costs, although the benefit was not immediate. However, initial reductions were sometimes partly reversed two or three years after implementation. This may be a result of competitive tendering exerting pricing pressure on Operators, and the erosion of some of these cost reductions over the contract life may be due to contract variations, although the evidence base is limited. However, a number of factors may have contributed to this, for example imbalances between cost inflation and the wider CPI, the relative prices of fuel, wages and other inputs etc. The impact of variations is an issue that could be explored further (refer to section 9). We note that the relative attractiveness of PT versus other options for commuters is affected by factors such as the introduction of bus priority measures, or conversely, improved access to or reduced cost of parking. The relative attractiveness of PT in turn affects costs per passenger km.
Markets finding 2	Qualitative feedback from both Approved Organisations and Operators consistently supports the view that Operator margins have declined since the introduction of PTOM. The lack of detailed financial information from Operators means it has not been possible to corroborate this view.

[9] Some Approved Organisations also noted that service quality and the customer experience improved over this period, something not included in the farebox ratio.

[10] As opposed to discrete investments in transport infrastructure, e.g. new roads, bridges or rail routes.

Markets finding 3	PTOM contracts are competitive, and the market is accessible to, and targeted by, a wide variety of Operators, particularly in the larger and medium-sized regions. This is evidenced by the increases in the number of tenders received per PTOM unit contracted compared with the pre-PTOM era, and qualitative feedback from both Approved Organisations and Operators regarding the competitiveness of the tendering process[11]. However, tender processes in smaller regions do result in limited competition, potentially due to difficulty in attracting new entrants to a relatively small market.

Impact on service provision, users, providers and employees

The findings regarding the impact of the introduction of the PTOM on services, users and Operators) are set out by workstream below.

2.3 Workstream 1 findings

Scope: How has PTOM affected regional public transport planning, including network and ticketing integration, and fare setting?

Figure 3: Findings 1.1 – 1.3

Reference	Findings
1.1	PTOM has enabled Approved Organisations to implement significant changes to their PT networks, especially in larger urban areas such as Auckland, Wellington and Dunedin. This has allowed a transition to more co-ordinated models in a way that would not have been possible with less integrated, disparate networks. The changes in smaller regions have been less marked.
1.2	Passenger km (indicating patronage) has generally experienced modest growth following implementation of PTOM. Per km fare revenues have generally declined in real terms[12], that appears to have been driven by reductions in per km fare rates (which are set by Approved Organisations under PTOM). There is a general trend across regions for decreasing average real bus fares per km following PTOM implementation. This has a positive impact on service accessibility consistent with the objectives of Approved Organisations.
1.3	Implementation of PTOM has been associated with an increase in bus service km across most regions examined, indicating growth in the networks offered.

2.4 Workstream 2 findings

Scope: How has PTOM procurement affected competition for contracts, pricing, the financial viability of Operators, industry wages and working conditions, and asset ownership?

[11] Refer to section 4.4 for an overview of the market and 8.1 for a review of the impact on competition, and Appendix 6.

[12] Refer to section 8.1.

Figure 4: Findings 2.1 – 2.5

Reference	Findings
2.1	Based on limited tendering data, and qualitative feedback, competition (bidders per contract) has materially increased since the implementation of PTOM, and the structure of the market has become more competitive, especially in the larger cities. There was interest in the Auckland and Wellington markets from overseas bidders. Contract prices (as indicated by total cost per service km) have decreased in the immediate aftermath of PTOM implementation, but in the longer term have often climbed back up towards former highs (refer to Markets Finding 1 above). There are some exceptions to this, notably Auckland, which accounts for around half of the total market and experienced the initial drop in cost per service km without the subsequent increase. However, based on the limited evidence available, the reason for this is not clear.
2.2	No quantitative data has been provided on Operator margins and financial sustainability. Operators (and some Approved Organisations) have signalled that margins have been reduced since PTOM implementation and the introduction of competitive tendering. Nevertheless, overseas investment in the NZ bus industry (including Next Capital, Transdev and Kinetic) suggests that the industry is still seen to provide an acceptable level of return[13]. The impact of variations on prices paid to Operators is an issue that could be explored further (refer to section 9).
2.3	60% of evaluation marks were allocated to price for a majority of PTOM procurements. This may have contributed to the positive pricing trends described in 2.1. above. However, there was significant feedback from Operators and Trade Unions that this was excessive, and that the focus on price led to sub-optimal outcomes (including a reduced ability to differentiate on quality, and a need for subsequent contract variations[14]). There was no clear and consistent view from Approved Organisations that price was weighted too heavily or not heavily enough.
2.4	Based on qualitative data, there is no clear evidence that PTOM has required Operators to reduce wages. Powers granted to Approved Organisations under PTOM entitle them to include minimum thresholds such as the Living Wage in their evaluation criteria (several Approved Organisations have done this). However, if an Approved Organisation chooses not to evaluate tenderers' approaches to wages and working conditions, and also adopts a relatively high price weighting (the method followed by most Approved Organisations), Operators with lower wage costs will be at an advantage in the procurement process. In some areas, PTOM contracting has resulted in a shift towards Operators that offer flatter wage structures, and away from those that offer wage structures where effective total pay was highly related to service length and bonus payments. This shift impacts driver wages differently depending on an individual's tenure. Those with longer service records and more access to tenure-based benefits and bonus payments were often worse off if PTOM implementation resulted in a movement to a flatter wage structure. The impact on drivers with less time in service varied according to local conditions. Note that we have been unable to obtain quantitative data to examine the impact of PTOM on industry wages and working conditions. Refer to sections 4.5 and 9 for further details.
2.5	There is no clear evidence that PTOM has affected asset ownership arrangements. In some regions, ownership or access to depots may confer a competitive advantage, but the evidence does not indicate that this commercial factor has been altered by PTOM. However, Operators are concerned that the degree of region-specific vehicle requirements is a significant barrier to flexibility and ultimately increases costs, although Operators did not provide specific estimates of this impact. It was also acknowledged by Approved Organisations and Operators that any widespread adoption of Electric Vehicles ("EVs") will have significant implications for asset (fleet, depot and infrastructure) ownership, and finance.

[13] I.e. one where the competitive dynamics and Approved Organisations' requirement to balance public value and Operator margin still allow a profit reflecting the input of capital and the risk taken.

[14] Refer to section 9 for details of evidence sought on this topic.

2.5 Workstream 3 findings

Scope: How has the management of PTOM contracts affected service performance, customer satisfaction, and the effectiveness of partnerships?

Figure 5: Findings 3.1 – 3.3

Reference	Findings
3.1	The data provides evidence suggesting that the implementation of PTOM has had a positive impact on customer satisfaction in some areas (e.g. Auckland and Otago). While these correlations do not prove a causal link, because other factors have changed in parallel (e.g. expansion of bus networks, integrated ticketing and new buses), many of these changes were enabled by the introduction of PTOM. In other regions the data does not indicate any significant changes. There is one clear correlation with an adverse impact in Wellington. It is likely that this reflects challenges with the region's implementation of a new network and PTOM contracts in 2018.
3.2	Approved Organisations and Operators clearly recognise the importance of an effective partnership. However, there was consistent qualitative feedback from Operators, and in some cases Approved Organisations, that the partnership is not operating as it could. Operators reported that they had little input into planning decisions and felt that greater consultation with Operators in service design and planning changes might improve this. Other concerns raised by Operators, such as with the risk allocation within contracts and the variations process were not possible to assess in detail.
3.3	Relationships appear to be strongly dependent on region-specific factors such as the personal relationships between the contract management teams, the nature of the contract and the performance regime[15]. These are factors that would exist in any comparable relationship, including non-PTOM contracts.

2.6 Workstream 4 findings

Scope: How have exemptions for commercial services and other exclusions affected the ability to integrate networks, service levels and costs to passengers and the taxpayer?

Relatively little evidence has been collected in this area, and the bulk of evidence expected from Operators was not collected. The reasons for exempting or excluding a particular service often mean that direct comparisons with PTOM contracted services are not straightforward. These services are commercially run, with the Operator designing the timetable around its own objectives, and not subject to regulated fares.

The quantitative data collected from Waka Kotahi and Approved Organisations did not cover exempted services in detail. However, the qualitative feedback that was obtained suggests the following.

[15] The system by which the Approved Organisation secures desirable performance from the Operator. In this case, it includes inter alia, the framework of KPIs, operating requirements, penalties and incentives, and the Financial Incentive Mechanism (FIM).

Figure 6: Findings 4.1 – 4.5

Reference	Findings
4.1	For Operators, the biggest barrier to running effective, commercially viable exempt services is the risk of competition from publicly subsidised PTOM units.
4.2	For services such as Auckland's ferries, Approved Organisations will have to review which services it believes are an integral part of its network and accept that those services operating without Council and Waka Kotahi support will run with higher fare structures. This has wider implications. Approved Organisations can be exposed to negative publicity following poor performance of exempt services that they do not control. The fundamental challenge is that while the integration of PTOM and exempt services can be increased (via both timetabling and ticketing systems), the funding system remains substantially different[16].
4.3	The integration of exempt and PTOM services is logistically straightforward, at least in terms of timetabling. However, it will be necessary to agree a mechanism to share the costs and risks of deploying integrated ticketing technology.
4.4	While integrated ticketing is technically possible, extending a common fares policy to exempt services will be difficult without a funding agreement between Operators and Approved Organisations[17]. Without a contract and funding agreement in place, Approved Organisations do not have the same leverage over Operators. This would be more complicated if fully integrated tickets such as AT Hop and Snapper are extended to exempt services, because the allocation of fare revenue may be complex, especially for multi-trip passenger journeys.
4.5	The funding discussion between Waka Kotahi, Approved Organisations and Operators would need to recognise that the users of many exempt services are different from those of the PTOM network. For example, they may include tourists and airport commuters that do not necessarily contribute to the local ratepayer base. This may have been a factor in the original decision to exempt these services. This would affect the relative allocation of any public contribution between locally- and nationally-sourced funding.

[16] Waka Kotahi is prevented from investing National Land Transport Fund monies into exempt services, therefore this would require Approved Organisations to fully fund the initiative.

[17] Waka Kotahi is prevented from investing National Land Transport Fund monies into exempt services.

3 Introduction

3.1 Purpose of the evaluation

PTOM came into force in 2013 and has been implemented by Approved Organisations (the bodies responsible under PTOM for procuring contracts, developing regional transport plans, and planning public transport networks, in most cases Regional Councils) across New Zealand. The MoT led the original development of PTOM, in collaboration with other agencies, and in 2019 decided that it was timely to review the performance of the model. As part of normal government practice, the MoT regularly reviews policy and legislative frameworks to ensure they have met the desired objectives and are still fit for purpose.

This is the first comprehensive evaluation of the PTOM framework, although there have been targeted reviews such as the 2018 research on the impact of PTOM on bus driver wages and conditions. The purpose is to:

- Assess whether PTOM is meeting the original outcomes.
- Assess how the introduction of PTOM has impacted the services provided, the users of public transport, the operators and the employees.
- Identify areas that could be improved within the existing PTOM framework and share lessons between local authorities.
- Identify areas that may require further policy work.

The Ministry appointed KPMG and Mott MacDonald to undertake the evaluation. The team designed a methodology and then collected information from a variety of organisations involved in the delivery of public transport services. Qualitative information was collected through interviews and a written survey, and quantitative information was collected through a data request. The evaluation relied on the information provided by the organisations involved, it did not attempt to collect new information. For example, existing customer survey information was used rather than directly surveying public transport users.

The evaluation has been designed to focus on the impact of PTOM across four workstreams:

1. Regional public transport planning.
2. Public transport service procurement, including competition and the viability of the sector.
3. Management of public transport contracts.
4. Services that are exempt and excluded from PTOM.

3.2 Impact of Covid-19

The Covid-19 pandemic suspended the collection of information because the public transport agencies had other more immediate priorities. The evaluation team continued to analyse the information collected and assess whether it was possible to identify any findings.

It should be noted that the impact of Covid-19 on public transport is unknown and the scope and/or focus of the evaluation may need to change with regards to identifying areas for improvement.

3.3 Structure of this report

This report is structured as follows:

- **Chapter 4 – Context:** background to PTOM and public transport in New Zealand.
- **Chapter 5 – Evaluation methodology:** details the scope of the evaluation and the methodology followed.
- **Chapter 6 – Information collected:** summarises the stakeholder engagement and data received.
- **Chapter 7 – Analytical approach:** explains the quantitative and qualitative data analysis undertaken for the evaluation.
- **Chapter 8 – Analysis:** sets out the results of the analysis and the findings.

4 Context

4.1 Bus and ferry services in New Zealand

Bus and ferry services are provided by Approved Organisations, usually through arrangements with privately-owned operators. They are co-funded by passenger fares, the local authority and Waka Kotahi. In some cases, the services are provided independently (i.e. they do not receive any government funding and are only governed by regulation). The system settings and regulation are the responsibility of the MoT and Waka Kotahi.

The sector has had a history of change with a variety of delivery models used over time. In the 1990s Operators registered services as "commercial" if they were able to run without direct public subsidy. These routes were lightly regulated with limited reporting requirements. Councils contracted unprofitable/socially desirable routes and services separately. While this reduced public involvement, it made it difficult to adopt a strategic approach to regional planning, and the user experience was hampered by a lack of common ticketing and/or integrated networks. In addition, it was possible for Operators to "cherry-pick" by de-registering specific key routes that were becoming less commercial, leaving Approved Organisations with no option but to seek a separate solution for these routes or see reductions in the reach of their networks.

In the longer term, competition between Operators became limited. From the early 2000s, Operators were increasingly funded under patronage-based contracts, although this was discontinued in 2004, with a cost-based subsidy being reapplied. PTOM was developed to address increasing levels of public subsidy combined with stagnant patronage growth and limited competition between Operators, who were able to "cherry pick" profitable services or timetable segments. Implementation started from 2014.

Bus travel accounts for the majority of public transport services in New Zealand and is available in many urban centres. In 2018/19 approximately 125 million bus trips were taken by New Zealanders[18]. Ferry services are provided in Auckland, Wellington, Christchurch, and the Bay of Plenty. The bus and ferry networks are important for providing access to employment, education and social activities, and have well documented environmental benefits.

4.2 History of PTOM and its objectives

In 2011 the government of the day asked the Ministry to work with other agencies to develop a new framework for delivering public transport services. The key areas of interest were the level of funding relative to services delivered, the incentives to invest in bus and ferry infrastructure, and the appetite of new operators to enter each regional market. There was a concern that the increasing funding to operators was not delivering commensurate improvements in service quality or patronage and the existing arrangements stifled innovation.

Between 2000/01 and 2009/10, government funding for urban bus and ferry services had increased by approximately 131 percent (in real terms) yet patronage grew by only 44 percent[19]. There were also some indications that some contracted services were cross-subsidising commercial registrations[12]. Evidence from the 2004/05 tender round indicated that operator turnover was low, and only just over one bid was received per contract let in Wellington and Auckland (figures were higher for Canterbury and the Bay of Plenty)[20]. Further, this analysis identified a negative correlation between the average costs per service kilometre and the number of bidders per contract[21].

The Ministry worked with Waka Kotahi, Auckland Transport, Greater Wellington Regional Council and the Bus and Coach Association to develop a new model that became known as PTOM. The model was implemented through the Land Transport Management Amendment Act 2013 which amended the Land Transport Management Act 2003 ("LTMA") and repealed the Public Transport Management Act 2008 ("PTMA").

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[18] Source: Waka Kotahi

[19] https://www.transport.govt.nz/assets/Uploads/Our-Work/Documents/52caea739f/PTOM-Cabinet-paper-Oct2011.pdf

[20] Alexander, J (NZTA), Maguire, B (Ministry of Transport) (2014) "*Transitioning to a new partnering approach - New Zealand regulator perspective*" p5

[21] Waikato Council (2015) *Waikato Regional Council Transport Activity Procurement Strategy 2015 – 2018,* https://www.waikatoregion.govt.nz/assets/PageFiles/39667/TransportProcurementStrategy2015.pdf

The LTMA's revised purpose is:

"to contribute to an effective, efficient and safe land transport system in the public interest"[22].

The PTOM framework places emphasis on investment and collaboration, combining the commercial and business expertise of public transport operators, and the public policy and planning expertise of Regional Councils. It has the goal of growing patronage whilst reducing the reliance on public subsidies, ultimately improving value for money. PTOM's original objectives were to:

(i) increase the commerciality of public transport services and strengthen the market signals acting on participants; and

(ii) increase stakeholders' confidence that services are being priced efficiently through effective competition.

The LTMA stipulates that competing Operators should have access to public transport markets. This drove Approved Organisations towards competitive tendering processes and is consistent with the objective of gaining confidence that public transport services are being priced efficiently in a competitive market (although we note that competitive tendering was not itself a PTOM construct).

The legislative changes enacted for PTOM were intended to give regions greater ability to plan and implement an integrated, safe, responsive and sustainable public transport system and to enable fair competition and encourage competitive and efficient markets[23]. This reflected evidence gathered from Wellington, Auckland and Christchurch that higher service costs (farebox revenues plus public subsidy) were associated with fewer tenders per contract being submitted[24]. There was also an intention to encourage Approved Organisations and Operators to work collaboratively and use a "partnership" approach.

The procurement, evaluation process and criteria used when contracting PTOM services is reflective of the government of the day's policy objectives. Prioritising a community based service, where network accessibility and price discrimination is favoured, will adversely affect commerciality. This is because offering services to areas in the network where demand is low and providing fare discounts (for example early bird fares or tertiary discounts) increases public funding costs.

4.3 An Overview of PTOM

The framework for implementing PTOM is illustrated below:

Figure 7: PTOM implementation framework

Legislation	Waka Kotahi Procurement Manual	Regional PT Planning
Sets out the high-level framework for PTOM. Includes the requirements for services to be allocated into units and competitively tendered or negotiated, and the rules governing exemptions.	Sets out the requirements for procurement strategies and pre-approved procurement processes (without which procurement strategies may not be approved, and funding withheld); sets procurement rules and offers guidance.	Provides guidance on network planning, integration, segmentation into units and fare setting policies.

Source: Alexander, J (NZTA), Maguire, B (Ministry of Transport) (2014) "*Transitioning to a new partnering approach - New Zealand regulator perspective*" p5

[22] https://www.transport.govt.nz/legislation/acts/landtransportmanagementamendmentbill/landtransportmanagementamendmentbill-questionsandanswers/#public

[23] Sergejew A (2007) "Review of regulation of commercial urban bus and ferry services in New Zealand" p9 http://www.thredbo-conference-series.org/downloads/thredbo10_papers/thredbo10-themeBSergejew.pdf

[24] Auckland Sustainable Cities Programme. (2006a). *Public Transport Procurement Legislation Review Consultation Document*. Retrieved from http://www.transport.govt.nz/assets/Downloads/PTPL-review.pdf , cited in Sergejew 2007

Figure 8: PTOM stakeholder roles

Central Government	Waka Kotahi	Approved Organisations	Operators
– Govt policy Statement – Strategic direction – Policy and legislation – Infrastructure and other investments	– Standards e.g. RUB – Procurement guidance and approvals – Funding provider – Negotiate funding	– Regional PT planning (network design & integration, timetabling) – Fare setting – Value for money – Procurement (negotiation & competitive tendering) – Identification & monitoring of exempt services – Contract administration (inc. the performance regime and variations) – Asset ownership & maintenance – Negotiate funding	– Service providers – Asset owners/providers (vehicles and depots) – Employers – Administration of PTOM contracts – Negotiate contract variations – Responsible for demonstrating value for money and efficient asset use

Note: An Approved Organisation has the authority to procure PTOM contracts, Regional Public Transport Plans, and plan public transport networks.

4.3.1 Principles

Core concepts of PTOM include:

- Approved Organisations working to identify the core public transport services that form an integral part of a region's land transport network, alongside and in the context of the region's wider transport infrastructure such as rail links and other transport corridors. These services are to be divided into units (refer below) and provided by Operators under contract to the relevant Approved Organisation. This arrangement allows for more effective region-wide planning and co-ordination of networks than was previously the case.
- Approved Organisations developing, consulting on, and publishing a Regional Public Transport Plan (RPTP). RPTPs predate PTOM, but their use was continued following its introduction. They set out the region's strategic public transport priorities, an assessment of the routes that are integral to the network, fare setting policy, and the service and timetable specifications of the contracted units. Approved Organisations must also provide a mechanism for consultation with Operators, ratepayers and other stakeholders during the process of developing and periodically updating a region's network and the RPTP.
- Approved Organisations and Operators adopting a joint approach towards public transport contract management, and developing business plans to develop services and grow patronage and fare revenues. This partnering approach and use of industry knowledge recognises that both Operators and Approved Organisations have an interest in public transport services operating effectively and in line with commercial principles.
- A framework for data collation and publication, covering service performance and coverage. This is to be used to rank services according to performance metrics. Approved Organisations are required to report to Waka Kotahi as co-funder of public transport services and Waka Kotahi also has a wider oversight role.
- Units are contracted (mainly competitively) on the basis of a defined service specification (including timetable) and according to the Approved Organisation's fare setting policy. Units cover all of the services on a specific route, and generally include a bundle of routes. They should be mode-specific, and the route bundle designed so that it is operationally efficient to run and marketable as a cohesive whole likely to attract market interest. Consultation with Operators is a key component of this process.
- Approved Organisations retain revenue risk. Operators are awarded contracts based on receiving an agreed payment over the term, subject to a performance regime which includes mechanisms for both incentive payments and financial penalties depending on the Operator's performance level. The operating costs of PTOM contracts are met by Regional Councils, the Waka Kotahi funding contribution through the National Land Transport Fund, and farebox revenue.
- A requirement that all public transport services in a region, other than those deemed exempt or excluded from PTOM, be contracted under the PTOM framework.

As was recognised when the legislation enabling PTOM was enacted, there is considerable flexibility for Approved Organisations to interpret and implement PTOM differently across the country. This is explicitly recognised in the published guidance.

"The new framework has been created and policy objectives set, but ultimately it will come down to the behaviours of the Regional Council and the operators to actually give effect to the partnering approach."[25]

4.3.2 Implementation

Given the scale of change that PTOM represented and the need for each region to tailor their own approach, implementation of the model has taken a significant period of time. There are a number of stages between the start of this process and the point at which operational changes are delivered. Approved Organisations have considerable freedom in implementation, but typical phases have included:

- Strategic planning by the Approved Organisation in terms of designing the regional network, determining which routes are to be contracted under PTOM and defining units;
- The development of, and stakeholder consultation on, a region's RPTP, including fares policy and timetable specification;
- Development of a procurement plan, including liaising with Waka Kotahi, market sounding and cost benchmarking;
- Procurement of the new contracts (for a region with many units, this may be phased over a number of years or completed in a single round);
- Commencing operations, including an implementation and handover period;
- The period over which the contractual performance regime is brought into operation and creates the incentives to deliver operational changes[26]; and
- Continual adaptation of ongoing contract management and partnering arrangements designed to improve performance and meet the region's needs.

As noted above, each region divides its services into individually contracted units that can then be procured individually or in groups. Figure 9 below sets out the local authorities that have commenced PTOM contracts, when they procured their contracts and the number of bus and ferry units they divided their network into.

Figure 9: Summary of PTOM implementation

Region	PTOM implementation date	Number of units
Auckland	2016-2019	52
Wellington	2018	16
Canterbury	2019-20	8
Otago	2015-2016	6
Bay of Plenty	2014-2018	5
Waikato	2016-2019	13
Hawke's Bay	2016	1
Taranaki	2015	1

Canterbury's implementation was delayed due to the earthquakes. Its PTOM contracts have only recently commenced.

4.3.3 Legislative and policy framework

The PTOM framework comprises:

1. Legislation, rules, policies and guidance made to enact PTOM (as summarised in section 4.2 above). The components of PTOM are neither fully prescriptive with regard to those components of public transport provision addressed, nor all-encompassing across the domain of public transport provision. A key part of this evaluation has been understanding the distinction between impacts driven by the PTOM framework itself and those impacts driven by factors external to PTOM. These external factors fall into three broad categories:
   a) Other legislation, rules, policies and guidance made at the national level;

[25] Alexander, J (NZTA), Maguire, B (Ministry of Transport) (2014) "*Transitioning to a new partnering approach - New Zealand regulator perspective*" p5

[26] The framework of contractual KPIs, penalties and incentives is often introduced in phases as a new Operator takes on a contract. This allows for an implementation period, with the expected performance levels increasing over time.

b) Rules, policies and guidlines adopted by Regional Councils and Auckland Transport; and

c) Decisions made by actors within the constraints set by the legislation, rules, policies and guidance above.

Key legislation, rules, policies and guidance are set out in Appendix 1.

4.3.4 Role of Approved Organisations

Approved Organisations are responsible for:

- Developing and adopting a RPTP (renewed triennially), and engaging with operators in doing so, particularly when determining unit design. Within the RPTP, services are broken down into units of a size suitable for contracting. A unit may cover a single route or multiple routes, and the associated timetabling[27].
- Developing regional fare setting policies for units procured under the RPTP.
- Units are either tendered competitively or negotiated with incumbent Operators. In both cases, successful applicants are granted exclusive operating rights. The negotiated process is intended to be applied only for the procurement of units that are operating at higher levels of commerciality, with farebox revenues accounting for a higher proportion of costs. As a result, the "carrot" of avoiding a competitive tendering process is intended to incentivise the incumbent operator towards improving the commerciality of services in accordance with the overall objectives of PTOM. Tendered and negotiated contracts have nine- and six-year terms respectively[28]. Tendered units include a cost reset at six years based on a benchmarking methodology specified in Waka Kotahi's Procurement Manual, and in collaboration with Waka Kotahi[29]. We did not collect data from Approved Organisations regarding the implementation of the benchmarking process.
- Submission of reporting data to Waka Kotahi. The requirements are specified in the Procurement Manual, and include revenue, patronage and unit performance data (punctuality, reliability, complaints etc). Key procurement metrics are also required, e.g. pricing and the number of tenders per contract let.

Waka Kotahi data indicates that in the 2018/19 year the share of in-service bus kilometres travelled under PTOM contracts by Approved Organisation was as follows:

Figure 10: Approved organisations

Approved Organisation	In-Service Kms (18/19)	% Share
Auckland Transport	61,976,050	53.5%
GWRC	15,031,351	13.0%
ECAN	15,904,210	13.7%
Northland RC	534,493	0.5%
Waikato RC	6,293,208	5.4%
BoP RC	6,267,041	5.4%
Hawke's Bay RC	1,023,500	0.9%
Horizons	1,611,916	1.4%
Taranaki RC	800,396	0.7%
Nelson/Tasman	460,571	0.4%
Marlborough DC	51,320	0.0%
Otago RC	5,409,774	4.7%
Invercargill CC	306,692	0.3%
Gisborne	115,995	0.1%
Total	**115,786,517**	**100.0%**

Source: Waka Kotahi (via Ministry of Transport).

[27] The breakdown of services into units is intended to avoid the problem of the most profitable routes being "cherry picked", as described in section 4.1.

[28] A limited number of like-for-like transitional contracts have a 12 year term (where the Operator previously held a registration under the PTMA 2008).

[29] Available at: https://www.nzta.govt.nz/assets/resources/procurement-manual/docs/Procurement-manual-amendment-5.pdf .

4.3.5 Role of Waka Kotahi

Waka Kotahi has a national role in supporting PTOM procurements, ensuring alignment with the PTOM framework and maintaining a central database on the performance of PTOM services. It developed procurement requirements for PTOM and published them as an amendment to its existing Procurement Manual. As a result, Approved Organisations were required to review their PTOM procurement strategies in consultation with Waka Kotahi, which ensures that any new contracts are aligned with PTOM. Waka Kotahi operates an audit team to monitor compliance with these requirements and also shares benchmarking data with Approved Organisations.

Approved Organisations are required to follow Waka Kotahi's guidance, but there is some flexibility.

"It…contains guidelines and rules to help approved organisations select the appropriate procedure for a particular circumstance. These procedures offer tools and guidance to allow approved organisations to tailor their procurement procedures to their own unique circumstances…"[30]

Specific areas include:

- Sharing of risks and rewards, i.e. profits or losses, associated with a unit based on changes in patronage or revenue levels through a Financial Incentive Mechanism ("FIM") for all partnering contracts. While the guidance was broad and did not include a template FIM, they were required to comply with principles set out in the Procurement Manual.
- A requirement for an annual business planning process whereby the Operator of a unit and the Approved Organisation review the performance of each unit and agree a collaborative business plan to grow patronage and maximise farebox revenue.

Procurement and Contracts

A unit can either be procured through an open tender process or in limited circumstances by direct negotiation with an incumbent operator. This decision is made by the Approved Organisation.

For open tenders, PTOM was designed to encourage participation of new entrants "to the greatest extent possible". Requests for Tenders and similar documentation are expected to provide prospective operators with trend information on patronage, farebox revenues etc to help new entrants to understand the market and develop informed bids.

For negotiated contracts, the intention is to retain the expertise and knowledge of the area that the operator developed over time. Prices obtained on competitively tendered units are to be used to benchmark negotiated units, although no specific methodology is prescribed. As a number of Approved Organisations noted, in some cases a number of units had to be negotiated rather than tendered in order to provide an incumbent Operator with a guaranteed minimum level of activity post-implementation.

"Contracts should provide a platform for partnership…"[31]

The PTOM procurement guidance specifies that contracts should include partnership principles, an agreement for joint annual business planning to support stronger partnerships, key performance indicators and financial risk and reward sharing providing incentives for the partners to grow patronage and farebox revenue.

Cost indexation

The procurement and negotiation processes agree a base payment for the operator. The operator receives inflationary increases to the agreed base payment according to a nationally prescribed formula. Payments are uplifted quarterly. There is a one quarter delay in operators receiving the revised payments.

The method of indexation for bus operating companies was developed with input from the BCA. It is using a weighted index as follows:

[30] Waka Kotahi: Procurement Manual, Amendment 5, October 2019, p v

[31] Waka Kotahi: Implementation of the Public Transport Operating Model, update July 2012

Figure 11: Weighted index

Labour Cost Index – Wages (LCI - Wages)	36.8%
Labour Cost Index - Other (LCI - Other)	7.2%
Diesel fuel	14.6%
Road User Charges	4.4%
Other (road passenger costs, including capex)	37.0%
	100.0%

Source: Waka Kotahi

The component indices are published by Statistics New Zealand and Waka Kotahi. Waka Kotahi's Funding Assistant Rate for Approved Organisations is 51% as at March 2020[32].

Fare setting policy

Waka Kotahi's National farebox recovery policy was introduced in 2010 and included a target to achieve a national farebox recovery ratio of no less than 50%. Approved Organisations are expected to adhere to the underlying principles of the policy in developing their regional fare policies. These are that:

- fare policies should be consistent with the wider objectives in Regional Public Transport Plans and contribute to the government's transport priorities
- fares play an important role in helping cover the cost of public transport within available budgets
- farebox recovery is one component to consider when planning fare revenue and reviewing fare levels but should not be the only measure considered.[33]

Waka Kotahi has set out the expected methodology for monitoring and reporting of farebox recovery rates, and has recently updated its policy.

Infrastructure

Local authorities are responsible for the provision and maintenance of urban public transport infrastructure, for example bus stops and signage, and the road network. Depots are often, but not exclusively, owned by Operators. In some cases these are owned by third parties or Councils, and leased to Operators.

4.4 The Operator market

Operators' primary role is the delivery of the service through providing and operating assets. Operators compete for competitively tendered PTOM contracts and/or negotiate the award of these directly with Approved Organisations. PTOM envisages a partnership model between Approved Organisations and Operators to deliver services effectively. This extends to agreeing changes in service specifications to meet changing Council objectives and passenger demands.

The New Zealand market is characterised by a relatively small number of scale operators (those active nationally or across several regions), and a larger number of smaller entities, often family owned or otherwise held privately. An exception until recently to this is Redbus, a Council Controlled Trading Organisation owned by Christchurch City Council until its sale in November 2020.

The ownership of Operators in New Zealand can be broadly categorised as follows:

- Family, or otherwise privately owned. These entities range in scale from small, local or regional companies to national operations. In many cases (such as Ritchies and Uzabus) these entities have achieved scale through a series of acquisitions of smaller competitors. *Examples: Ritchies, Uzabus, Pavlovich, Tranzit.*
- Financial investors (Private Equity). These owners invest in growing businesses across a range of sectors (i.e. they are not necessarily transport focused) with the objective of improving the performance and value of the companies they own. Their investment horizon is typically shorter than five years, at which point they seek to sell their interest and reinvest their fundholders' capital. The timing of investments and exits is often linked to the income stream of

[32] https://www.nzta.govt.nz/planning-and-investment/planning-and-investment-knowledge-base/planning-and-investment-principles-and-policies/funding-assistance-rates-principles-and-policy/2018-21-nltp-normal-funding-assistance-rates/

[33] https://www.nzta.govt.nz/resources/national-farebox-recovery-policy/

investee companies in the form of the long-term contracts they hold[34]. *Examples: NZ Bus (Next Capital), Go Bus (until recently Ngai Tahu and Tainui Group, now Kinetic).*

— International transport groups. A number of New Zealand Operators are, or have been, owned by large overseas transport providers. These typically operate at large scale across a range of jurisdictions. *Examples: Howick & Eastern, Mana Coaches (both Transdev[35]), Go Bus from March 2020 (owned by Kinetic, an Australian operator that also runs the Auckland SkyBus service).*

There has been some consolidation among smaller, privately owned Operators in recent years, partly as a result of the regional contracting environment and growing importance of economies of scale, and partly as private owners have sought to realise their investments and merge with other Operators. Recent transactions in the industry include:

— The acquisition of Birkenhead Transport by Ritchies Transport from its family owners in May 2018;
— The sale of Go Bus by Next Capital to Ngai Tahu Holdings (67%) and Tainui Group (33%) in July 2018;
— Next Capital's acquisition of NZ Bus from Infratil in November 2018;
— Transdev's acquisition of Mana Coach Services and Howick and Eastern Bus Services from Souter Investments[36] in August 2019; and
— Kinetic's acquisition of Go Bus from Ngai Tahu, Tainui Group in March 2020[37].

One large international Operator has exited the bulk of its position in the New Zealand market (Souter Investments, although it still owns Fullers, which is primarily a ferry operator with some bus operations), being replaced as a result of investment from another (Transdev). Similarly, Infratil sold NZ Bus to another financial investor, Next Capital, which itself had recently sold Go Bus to Ngai Tahu Holdings and Tainui Group). Refer to the analysis in Markets Finding 3 for further comment.

ECAN completed its tender process of contracts under PTOM in late 2019 with the tender process resulting in the incumbent operator, Red Bus losing a significant amount of market share. Following this, Red Bus was sold to Ritchies Transport in November 2020.

4.5 Wages and working conditions

Prior to PTOM implementation many drivers, particularly those in the larger urban centres, were employed under a relatively complicated remuneration model whereby the base hourly wage was supplemented by a range of bonus payments ("penal rates") for evening or weekend work, overtime, or cancelled days off etc. Additional rights and benefits were also included under these collective arrangements. In general, drivers' relative length of service was important in determining both base wage rates and access to shifts attracting bonus rates. As a result, individual drivers' effective pay rates varied widely according to the shifts worked, even within staff working on similar routes. Therefore, drivers with longer service generally earned higher effective wages under these contracts, due to higher base hourly rates and greater potential for earning additional wages through penal rates.

In recent years, the incumbent operators of PTOM contracts have changed. Many of the current Operators utilise a simpler model based on flat hourly rates and limiting penal rates to those required by law. There is also significantly less recognition of driver length of service. To compensate for the lack of penal rates, base rates are sometimes higher under these structures. This trend appears to have been associated with changes in the incumbent Operators, rather than individual companies altering their wage and benefit policies (for example, NZ Bus utilises collective agreements; its market share has reduced significantly in Wellington and Auckland since the introduction of PTOM). It is not clear whether PTOM, or wider labour market or other trends caused this change.

It is not straightforward to compare drivers' effective wage rates under these two broad approaches due to the large number of variables involved, including operating frameworks, shift patterns and differing lengths of service between

[34] For the purposes of this report, Iwi holding companies such as Ngai Tahu Holdings are included in this group. However, these entities may have longer investment time horizons and different selection criteria when compared to conventional Private Equity funds.

[35] Transdev is majority owned by the French state and has significant operations in Australia.

[36] Souter Investments is the ownership vehicle of Stagecoach Group, a large international transport group.

[37] Kinetic is majority owned by OPTrust, a Canadian pension fund. The Overseas Investment Office approved the transaction in June.

Operators' employees. In any event this work is outside the scope of this Report[38]. We also note that overall working conditions are determined by more than wage levels alone, and that wages and working conditions respond to wider industry factors. Furthermore, any wider increase in public procurement of bus transport (for example resulting from Approved Organisations expanding their networks, whether due to PTOM implementation or not) would support more total employment in the industry.

However, these two approaches meant that the impact on driver wages of any changes in the incumbent Operator following the start of a PTOM contract often varied. The report by Allen and Clarke (commissioned by the Ministry of Transport, refer to footnote) identified a number of findings (the TDM report prepared for GWRC was broadly consistent). These are summarised below:

1 That in cases where more complex wage structures (e.g. where tenure and penal rates are significant factors in determining the effective wage level) were replaced by flatter structures without access to penal rates, longer serving drivers (typically those with 10+ years of service) were often worse off under the new, post-PTOM, Operator;

2 Depending on the region and the specific terms offered by the pre- and post-PTOM incumbents, drivers with shorter lengths of service may have experienced some improvements in the effective wage, or the impact was variable depending on how the policies around seniority and penal payments were applied under the previous Operator;

3 That in Auckland, for PTOM contracts where more complex wage structures were replaced by flatter structures, drivers were almost always worse off under the new Operator; and

4 In areas where the pre-PTOM incumbent Operators already used flatter wage structures without significant use of penal rates, any impact was more limited.

We also note that the drivers affected by point 1 above may have been eligible for redundancy payments, which could have been a factor in determining whether drivers chose to transition to a new employer.

The qualitative evidence collected from Approved Organisations, Operators and Trade Unions, and reviewed in section 8.3 below, was broadly consistent with these findings.

Staff transition

When Approved Organisations let PTOM contracts, there is no contractual requirement for incoming Operators to take on surplus staff from an outgoing Operator. These staff are typically offered employment under the successful Operator's terms and conditions, or redundancy. Feedback from Operators suggests that many opted not to move to new employers (with the attendant changes to training, shift patterns and routines) and left the industry following the implementation of PTOM contracts. Areas such as Auckland and Wellington experienced driver shortages following rounds of PTOM tendering. However, the evidence we have collected suggests that this may have been caused by other factors such as drivers reaching retirement age, and the competitive tendering process in individual areas, rather than a direct result of the PTOM framework[39] (refer to section 8.3).

Our discussions with operators did not include specific questions about how easy it was to secure overseas drivers (in particular the visa process). We also note that sourcing drivers from overseas is likely to be more difficult while Covid-19 related border restrictions remain in place.

There is evidence that the impact on driver numbers is exacerbated by the industry's age profile, the relative attractiveness of redundancy offers for many long-service employees, and competition from other industries such as road haulage. Feedback from Operators and Trade Unions indicated that the age profile of drivers combined with the pre-existing collective terms and conditions offered by some incumbent Operators meant that a higher proportion of drivers left the industry than would have been the case in other sectors, and that the size of this transition impact may not have been anticipated by Approved Organisations (refer to section 8.3 below).

[38] Refer to TDM Consulting (March 2018) *PTOM Impact on Staff – Independent Assurance Review for GWRC* and Allen & Clarke (2018) *PTOM Impacts on Bus Driver Employment Conditions and Wage Rates* for further information.

[39] 55% of units in Auckland were retained by the incumbent, either because they were negotiated rather than tendered, or the incumbent's tender was successful.

5 Evaluation methodology

5.1 Scope

As described earlier, the evaluation scope is structured into four workstreams to address the Ministry's areas of focus:

1. **Network Planning and Integration –** What has been the impact of the Approved Organisations' new roles and ability to influence public transport under PTOM on network planning and integration, service quality, and fares?
2. **Procurement –** What has been the impact of the PTOM procurement approach on competition, pricing, value for money and the financial sustainability of PTOM contracts? This will include health and safety and environmental outcomes, service accessibility and employment conditions, and industry structure and asset ownership.
3. **Contract Management –** How has the management of contracts under PTOM affected service performance, stakeholder relationships and customer satisfaction?
4. **Service Exemptions and Exclusions –** What has been the impact of service exemptions and exclusions on network integration, fare-setting, service, KPIs and ratepayer costs, and opportunities to develop alternative business models for public transport?

By addressing these questions, the evaluation seeks to provide insights into the impact of PTOM and identify potential areas for improvement.

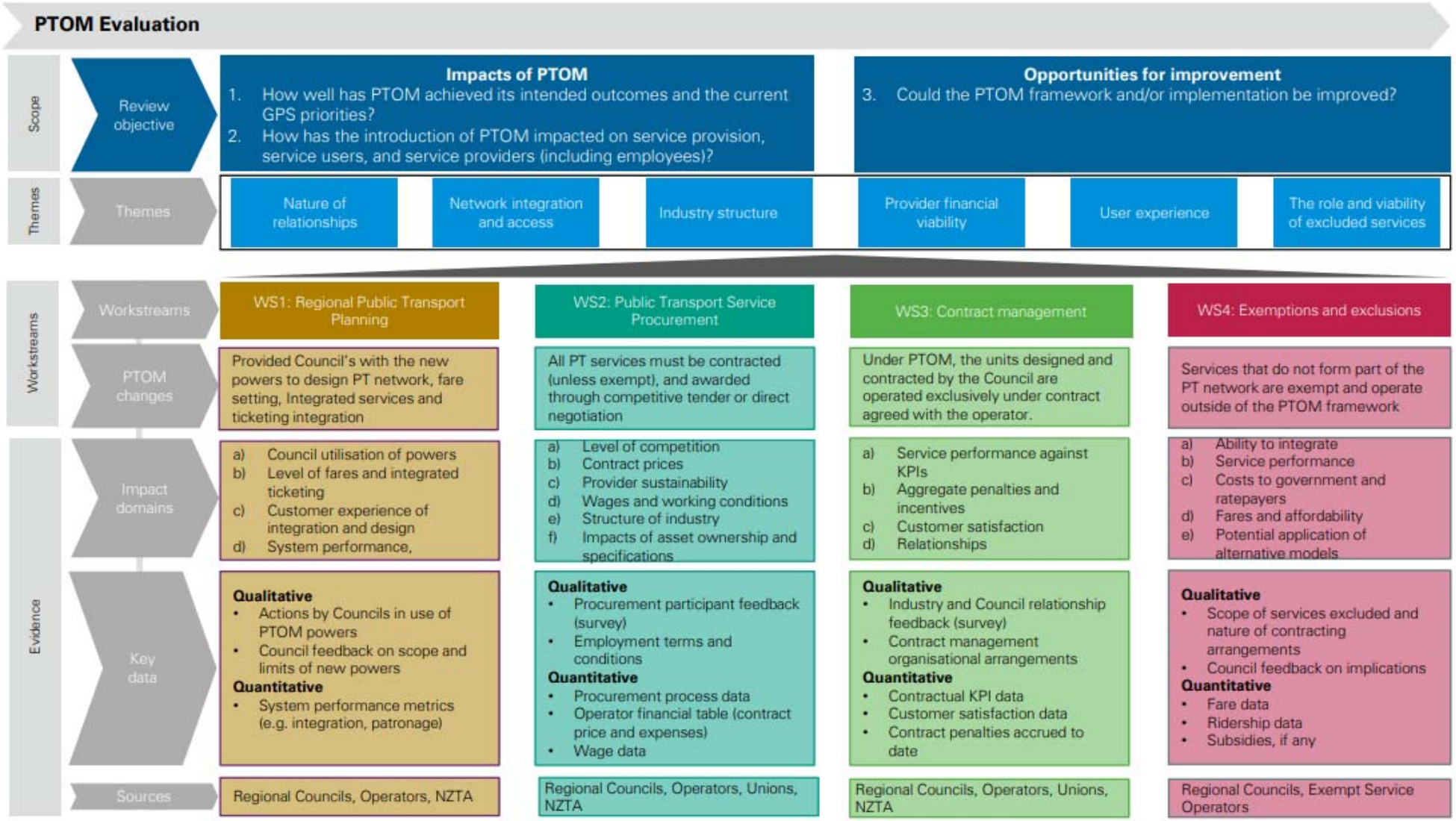
5.2 Approach

5.2.1 Overview

The evaluation approach has been based on collaborative working between KPMG, Mott MacDonald and the Ministry. It has drawn extensively on engagement with stakeholders and therefore required a high degree of trust in the purpose of the evaluation and how the information would be used.

The evaluation approach is illustrated on the following page.

Figure 12: Evaluation approach



5.2.2 Methodology

The planned methodology for the evaluation was based on the following key tasks:

1. Project initiation.
2. Initial engagement with stakeholders to introduce the review and develop understanding of available data.
3. Feasibility study to assess quality of the data and finalise evaluation approach.
4. Develop detailed and specific requests for information ("RFIs") and issue to stakeholders.
5. Analysis of the quantitative and qualitative data.
6. Findings and validation, including workshops with the Ministry to highlight findings, meetings with stakeholders to understand any additional context for trends and findings, and sharing a draft report.
7. Develop options for improvements, drawing on results of analysis and experience from commercial contracting models in overseas public transport and other related sectors in New Zealand.
8. Develop final summary report.

5.2.3 Impacts of Covid-19

The spread of Covid-19 and implementation of restrictions in New Zealand has seriously impacted the stakeholders for this study, who are all significantly involved in the front-line provision of services. The timing of the pandemic from the middle of the stakeholder engagement and data collection phase onwards resulted in stakeholders having to cease work on providing data to concentrate resources on managing the impacts of Covid-19 and implementing new health procedures.

Consequently, this report is based on data received from stakeholders up to mid-March 2020 and the validation process up to October 2020. As such, the findings (refer to section 8) are based on an incomplete dataset. Refer to table in Appendix 2 setting out data received.

5.2.4 Stakeholders

The following stakeholders have been engaged and indicated willingness to provide data (prior to suspension of engagement due to Covid-19):

Figure 13: Stakeholders

Approved Organisations
Greater Wellington Regional Council, Auckland Transport (and Auckland Council), Waikato Regional Council, Taranaki Regional Council, Bay of Plenty Regional Council, Hawke's Bay Regional Council, Environment Canterbury, Otago Regional Council
Operators
Go-Bus, Howick & Eastern, Mana Coaches, NZ Bus, Pavlovich, Ritchies Transport, Tranzit, Uzabus, Fullers 360
Trade Unions and Industry Bodies
First Union, Tramways Union (Auckland and Wellington branches), Amalgamated Workers Union, Bus and Coach Association
Other Parties
Waka Kotahi, Ministry of Transport

Following consultation with the Ministry, stakeholders were emailed in early April outlining the status of the PTOM evaluation. This followed a number of calls/emails from these parties noting that they were unable to work on data requests. A number of parties responded acknowledging this email update, and in most cases those that have replied expressed a keenness to continue to support the evaluation when possible.

Stakeholders were sent an embargoed draft copy of this report and asked for feedback to validate the analysis and provide any further context required for the findings. This report reflects the comments received.

A summary of the stakeholder engagement process and information collected is provided in Appendix 2.

6 Information collected

6.1 Stakeholder engagement

The four workstreams broadly track the progression of public transport network delivery, from design to procurement, through operation and contract management, with these components of PTOM administered by multiple stakeholders. A variety of engagement methods were used to gain a comprehensive understanding of the critical, and often complicated roles each stakeholder performs in the delivery of PTOM. These engagement methods included:

- Interviews (either via phone or in person).
- Questionnaires.
- Requests for Information ("RFIs").

The role each stakeholder performs, and the types and levels of engagement with them are described below.

6.1.1 Approved Organisations

Approved Organisations (typically Regional Councils) have the primary role in planning integrated networks, fare setting, marketing and the procurement of PTOM contracts. The role of Approved Organisations[40] as set out in the LTMA is to develop and be accountable for RPTPs. These detail which public transport services are – and are not – integral to the region's network and will therefore be provided under contract. A service provided under contract does not necessarily attract a subsidy.

On 17 December 2019, KPMG emailed the PTOM Evaluation Flyer and RFI (see Appendix 3) form to eight Approved Organisations, that covered 97.3% of in-service kms in 2019. These councils are set out in Figure 14 above.

Phone interviews between KPMG and Mott MacDonald and the Approved Organisations were conducted between January and February. These interviews were used to gather information from Approved Organisations for the analysis of the four workstreams. It was also an opportunity for KPMG and Mott MacDonald to clarify with Approved Organisations what data we were requesting within the RFI.

On 2 March, the evaluation team provided Approved Organisations with copies of the Regional Council questionnaire (see Appendix 4).

The eight organisations approached accounted for 97.3% of in-service km[41].

6.1.2 Operators

Between 10 December 2019 and 7 February, KPMG emailed the PTOM evaluation flyer and RFI (see Appendices 3 and 4) form to nine operators, one being an exempt service provider. These Operators are set out in Figure 14 above.

Telephone interviews between the evaluation team and Operators were conducted between December 2019 and February 2020. These interviews were used to gather information from operators for the analysis of the four workstreams. It was also an opportunity for KPMG and Mott MacDonald to clarify with operators the content of the data request list.

On 28 February, KPMG provided operators with copies of the questionnaire (see Appendix 5).

6.1.3 Other stakeholders

The Waka Kotahi has an interest in network planning and integration at both a national level and as a funder or public transport. Waka Kotahi's role as a significant funder of PTOM-procured services through the National Land Transport Programme means that it has a direct interest in the effectiveness of procurement and approves Regional Councils' procurement procedures. Waka Kotahi also has an interest in determining the extent of the network that is supported

[40] Refer to Figure 8 above.

[41] Refer to Figure 10.

with public funds. We met with the Waka Kotahi on 11 February to discuss the information it could provide and gather views on the performance of PTOM against its objectives.

We also met with representative groups, including the Tramways Union, First Union, Amalgamated Workers' Union, and the Bus and Coach Association, between 16 December 2019 and the 5 February. Unions were sent an adapted version of the Questionnaire.

6.1.4 Summary of quantitative data position

Figure 14: Stakeholder data position

Stakeholder	Status
Councils	
Auckland Transport	Data provided
GWRC	Data provided
Otago	Limited data provided
BoP	Data provided
ECAN	Limited data provided
Taranaki	Limited data provided
Hawke's Bay	Data provided
Waikato	No data provided
Operators	
Go Bus	No data provided
Howick and Eastern	No data provided
Mana	No data provided
NZ Bus	No data provided
Pavlovich	No data provided
Ritchies Transport	No data provided
Tranzit	Data provided
Uzabus	No data provided
Exempt services	
Fullers	No data provided
Central Government	
Waka Kotahi	Data provided
Unions	
Amalgamated Works Unions NZ	Data provided
First Union	Limited data provided
Tramway Union	No data provided
Representative Group	
Bus and Coach Association	Data provided

6.1.5 Stakeholder responses

The stakeholders' responses can be found in Appendix 2.

6.1.6 Approved Organisations

Each Approved Organisation was provided with the Council Questionnaire. Environment Canterbury was the only council to return a completed questionnaire.

6.1.7 Operators

Each operator was provided with the Operator Questionnaire. None of the operators returned a completed questionnaire.

6.1.8 Other stakeholders

The Amalgamated Workers' Union and First Union returned completed questionnaires.

6.1.9 Questionnaires

Relatively few Questionnaires were received before the impact of Covid-19 prevented further work by respondents.

On this basis, while we reviewed the content received, it is not possible to draw meaningful conclusions from the Questionnaires, although the comments were assessed alongside feedback received at meetings with the relevant entities.

7 Analytical approach

7.1 Qualitative analysis

As noted in section 6 above, interviews were held with 22 stakeholders, including eight Approved Organisations, nine Operators, five meetings with representative groups (the Bus and Coach Association (BCA), and four meetings with Trade Unions, two of these different branches of the Tramways Union). Our analysis references the feedback obtained that is relevant to each finding.

Note that this evidence is based on the views expressed by members of each group in interviews. We have not sought to verify this qualitative feedback with other stakeholders. Unless stated otherwise, the views included in the analysis were expressed by a majority, or in some cases all, of the relevant group. We have not identified individual Operators based on concerns they raised during the interview process.

7.2 Forms of quantitative analysis

A number of different forms of analysis have been employed to better understand the data received. The main forms are as follows:

- Thematic Analysis of qualitative data to draw out patterns of impact across different domains
- Trend Analysis of quantitative financial and performance data over time, to identify underlying patterns and any step changes corresponding with PTOM implementation or other drivers of change.
- Cross Analysis of quantitative financial and performance data to calculate indicators for further analysis, such as:
- Cost per vehicle km;
- Average fare per passenger journey; and
- Average fare per passenger km.

Note that the quantitative analysis identifies correlation between trends and changes in trends following implementation of PTOM but cannot demonstrate causation.

7.3 Regional Classification

This evaluation of the impacts of PTOM has been carried out at a range of scales, from:

- NZ-wide;
- Across comparable regional geographies; and
- For selected specific regions.

Comparability of regional geographies has been identified through analysis of the scale of public transport operations and usage for each region, as indicated by the total in-service km. Data from 2018/19 has been analysed as follows:

Figure 15: 2018/19 In-Service km by region and operation scale

Region	Approved Authority	In-Service km	Proportion	PT Operation Scale
Auckland	Auckland Transport	61,976,050	53.53%	Large cities
Canterbury	ECAN	15,904,210	13.74%	
Wellington	GWRC	15,031,351	12.98%	
Waikato	Waikato RC	6,293,208	5.44%	Medium-sized regions
Bay of Plenty	Bay of Plenty RC	6,267,041	5.41%	
Otago	Otago RC	5,409,774	4.67%	
Manawatu-Wanganui	Horizons RC	1,611,916	1.39%	Smaller centres
Hawke's Bay	Hawke's Bay RC	1,023,500	0.88%	
Taranaki	Taranaki RC	800,396	0.69%	
Northland	Northland RC	534,493	0.46%	
Nelson/Tasman	Nelson/Tasman	460,571	0.40%	
Southland	Invercargill CC	306,692	0.26%	
East Coast	Gisborne DC	115,995	0.10%	
Marlborough	Marlborough DC	51,320	0.04%	

Source: Waka Kotahi

A "large" PT operation has been defined as a region that accounts for more than 10% of NZ in-service km, a "medium" operation as between 4% and 6% of NZ in-service km and a "small" operation as no more than 2% of NZ-in-service km. These definitions are non-contiguous, demonstrating that there is a clear step-change between each classification. It can also be observed that regions within each classification accounting for at least two to three times the number of in-service km as any region in the next smallest classification. These classifications can therefore be considered robust.

Based on these relative shares, the Approved Organisations consulted during this process were categorised as follows:

Figure 16: Approved Organisations by group share of in-service km

Category	Approved Organisations	Group share of 2018/19 in-service km
Large cities	Auckland Transport, ECAN, GWRC	80.2%
Medium-sized regions	Bay of Plenty RC, Otago RC, Waikato RC	15.5%
Smaller centres	Hawke's Bay RC, Taranaki RC	1.6%

These categories were applied to assess whether different findings may be applicable to larger urban areas where contracts are more lucrative and potentially subject to greater competitive tendering, and smaller, more rural areas, where it may be harder to attract multiple tenderers.

7.4 Network Indicators

Waka Kotahi has supplied datasets submitted annually by Approved Organisations covering key metrics for public transport networks in their region. This data includes the period 2012/13 to 2018/19 and the following metrics:

- Passenger boardings;
- Passenger kms;
- Vehicle kms;
- Public funding (Waka Kotahi and local contribution); and
- Fare revenues (excluding SuperGold contributions[42]).

Data was provided for bus, rail and ferry services. For the purposes of this report and to ensure comparability between regions, only bus data has been analysed at this stage.

Further data on consumer price index trends was sourced from Statistics NZ and used to calculate real values for financial data supplied in nominal form (using a 2012/13 base year).

Further processing of the data was then carried out to calculate further metrics as follows:

$$Average\ fare = \frac{Fare\ Revenue}{Passenger\ Boardings}$$

$$Average\ fare\ per\ km = \frac{Fare\ Revenue}{Passenger\ km}$$

$$Total\ cost\ per\ km = \frac{Total\ Operating\ Cost}{Vehicle\ km}$$

$$Farebox\ Recovery = \frac{Fare\ Revenue}{Total\ contract\ cost\ (Public\ Funding + Fare\ Revenue)}$$

Waka Kotahi and KPMG/Mott MacDonald have used slightly different methods to calculate the farebox recovery ratio. We also note that in some circumstances there are variations to the total fare revenue figures provided in the Waka Kotahi datasets.

Both the metrics supplied and the calculated metrics were then indexed to a value of 100 in 2012/13 and graphed for review. This review covered the regions that gave interviews to ensure that the quantitative analysis could be cross-referenced against qualitative data from interviews to aid understanding.

KPMG's/Mott MacDonald's method for calculating the farebox recovery ratio was provided to Waka Kotahi who confirmed that our approach is reasonable. Waka Kotahi also informed us that councils may adopt different approaches when calculating their respective farebox recovery ratio, and over time, may also adjust items included in their revenue and/or cost base. Any material changes to these two items would most likely lead to difficulty determining whether a change in a ratio overtime was purely the result of a change in commerciality, or if it was a mathematical implication of a change to the revenue/cost base.

[42] SuperGold contributions were excluded from fare revenues due to limited availability of data.

8 Analysis

8.1 Summary findings

The overarching objectives of PTOM were to:

- grow the **commerciality** of public transport services and create incentives for services to become fully commercial; and
- ensure services are **priced efficiently** and there is access to public transport markets for competitors.

The four workstreams of this project also considered how the introduction of PTOM impacted on service provision, service users, and service providers, including employees.

Many of the issues that have emerged relate to areas where the PTOM framework allows Approved Organisations significant flexibility in how they implement PTOM. While these reflect local implementation rather than specific PTOM requirements, they are an indirect consequence of the inherent flexibility of the framework and the latitude that it gives Approved Organisations for local interpretation.

The following findings have been grouped into two categories, those that are applicable to PTOM's overarching objectives, of which there are two findings, and those that are applicable to the four evaluation workstreams, of which there are 16 findings.

8.2 Findings: Commerciality and Market Efficiency

Commerciality Finding 1

The evidence suggests that introducing PTOM has resulted in decreased service commerciality, as indicated by the farebox recovery ratio. This has declined in a majority of the areas studied, in particular the urban centres of Wellington and Auckland, and the Otago region has been associated with declines of up to 12%. This has coincided with a reduction in the real cost of travel for passengers (expressed as the real cost per passenger kilometre) and increases in network reach in many areas[43].

Commerciality Finding 2

Average farebox recovery ratios also tend to be lower in smaller regions. This likely reflects lower population and land use density, and lower congestion, resulting in car use being relatively more attractive.

Commerciality Finding 3

Total public funding has increased significantly in some areas. However, the increase in public funding (for example in Auckland, Otago and the Bay of Plenty) has been influenced by Approved Organisations' transport policies. Depending on the nature and scale of investment, it is possible that as investments in transport services increase, there are diminishing marginal returns in terms of increased patronage. Furthermore, evidence from customer surveys suggests increasing satisfaction. This suggests that perceived service quality is improving. At the same time real fare prices per passenger km have fallen, making services more accessible to the public (Approved Organisations have been granted local fare-setting powers under PTOM). We also note that the increase in costs may be due to incentive payments paid to Operators that have delivered a desirable improvement in service performance.

Markets Finding 1

The price paid for PT services, expressed as the real cost per service kilometre, appears to decrease following the introduction of PTOM contracts. Auckland, Bay of Plenty, Taranaki and Wellington all showed significant initial reductions. Waikato also demonstrated reduced costs, although the benefit was not immediate. However, initial reductions were sometimes partly reversed two or three years after implementation. This may be a result of competitive tendering exerting pricing pressure on Operators, and the erosion of some of these cost reductions over the contract life may be due to contract variations, although the evidence base is limited. However, a number of factors may have contributed to this, for example imbalances between cost inflation and the wider CPI; the relative prices of fuel;

[43] Some Approved Organisations also noted that service quality and the customer experience improved over this period, something not included in the farebox ratio.

wages and other inputs etc. The impact of variations is an issue that could be explored further (refer to section 9). We note that the relative attractiveness of PT versus other options for commuters is affected by factors such as the introduction of bus priority measures, or conversely, improved access to or reduced cost of parking. The relative attractiveness of PT in turn affects costs per passenger km.

Markets Finding 2

Qualitative feedback from both Approved Organisations and Operators consistently supports the view that Operator margins have declined since the introduction of PTOM. The lack of detailed financial information from Operators means it has not been possible to corroborate this view.

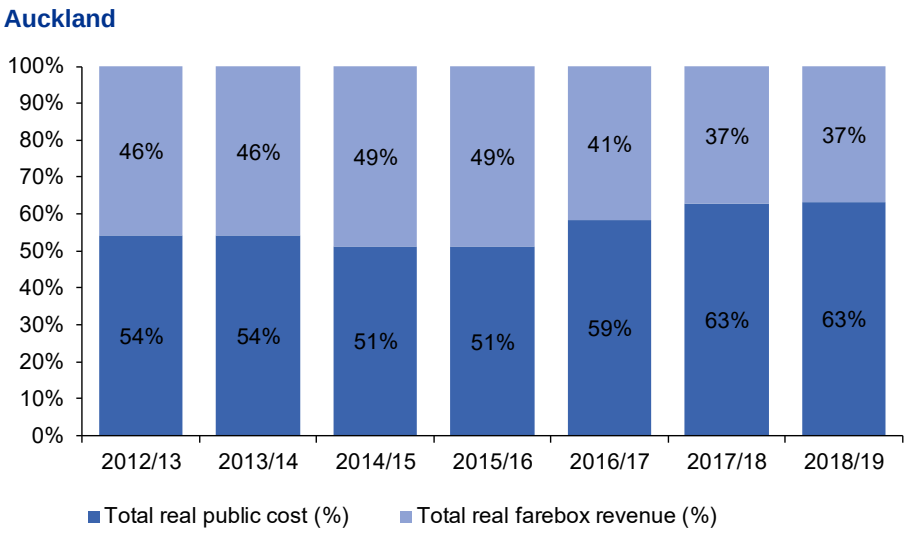
Markets Finding 3

PTOM contracts are competitive, and the market is accessible to, and targeted by, a wide variety of Operators, particularly in the larger and medium-sized regions. This is evidenced by the increases in the number of tenders received per PTOM unit contracted compared with the pre-PTOM era, and qualitative feedback from both Approved Organisations and Operators regarding the competitiveness of the tendering process[44]. However, tender processes in smaller regions do result in limited competition, potentially due to difficulty in attracting new entrants to a relatively small market.

8.2.1 Analysis – Impacts on service commerciality

The charts below set out the movement in farebox recovery ratios (fare revenue as a percentage of total operating costs) since 2012/13 in the eight regions studied. As discussed above, these cover a significant majority of total bus use in New Zealand. The narrative for each region notes the timing of PTOM implementation. As described in 8.4 above, we note that there are some inconsistencies in this data. Refer to section 9 for details on the clarification and validation process followed with Waka Kotahi.

Figure 17: Auckland Farebox Revenue Ratio



Source: Waka Kotahi

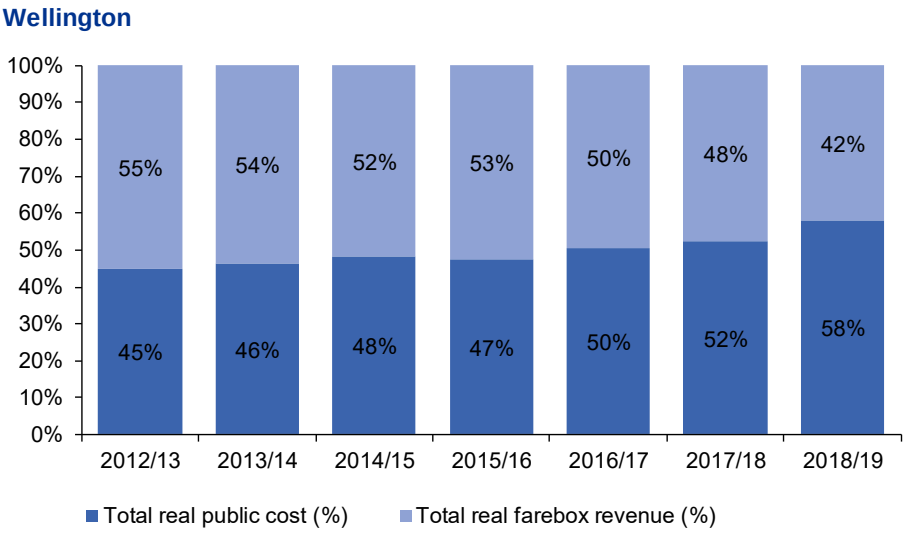
Auckland Transport has a total of 52 unit contracts that have been implemented between 2016 and 2019.

Since the start of PTOM implementation in 2015/16, the farebox recovery (not including SuperGold) has fallen from 49% to 37% of the total operating costs. This demonstrates that the overall commerciality of the Auckland network has fallen

[44] Refer to section 4.4 for an overview of the market and 8.1 for a review of the impact on competition, and Appendix 6.

significantly following implementation of PTOM, although part of this reflects the use of integrated fare structures on the new network, which result in wider network accessibility.

Figure 18: Wellington Farebox Revenue Ratio

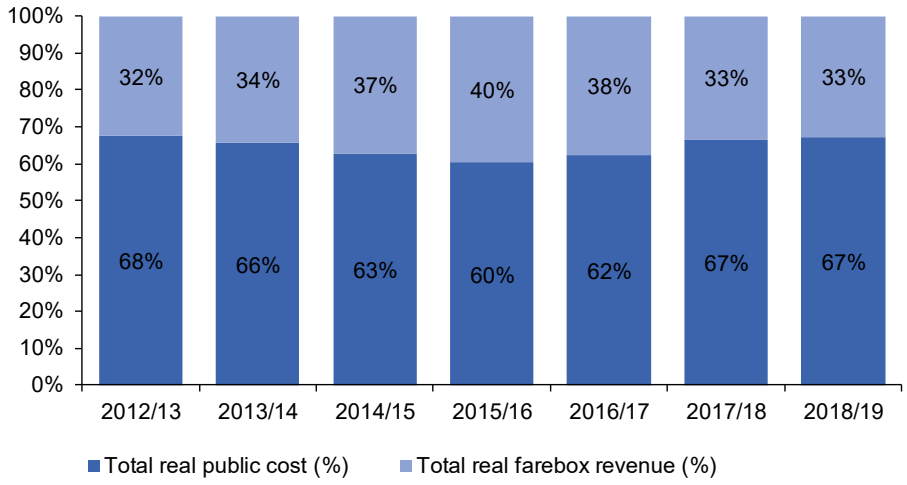


Source: Waka Kotahi

Wellington has a total of 16 units contracts that were implemented in July 2018.

Since the start of PTOM implementation in 2017/18, the farebox recovery (not including SuperGold) has fallen from 48% to 42%. This appears to continue a downward trend that was apparent in Wellington prior to PTOM and may also have been affected by the disruption of services following implementation of the new PTOM contracts.

Figure 19: Canterbury Farebox Revenue Ratio



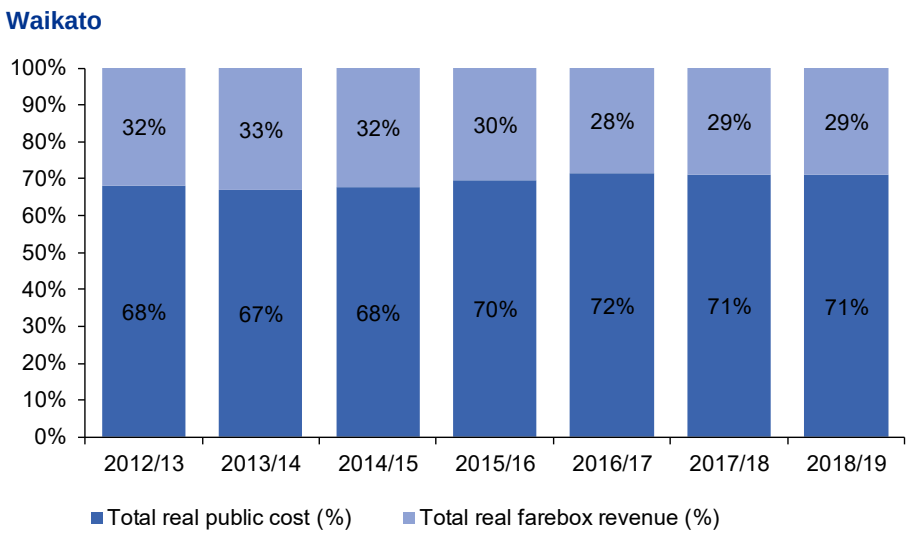
Source: Waka Kotahi

ECAN's implementation of PTOM tracked behind other Regional Councils as a result of the 2011 Christchurch earthquake. In the post-earthquake environment, ECAN decided to extend existing contracts to ensure service continuity for customers. PTOM contracts will commence in November 2020, following a procurement process that concluded in early 2020.

Farebox recovery (not including SuperGold) in Canterbury has generally been in the range 32-34%, except for a period between 2014/15 and 2016/17 when it rose to 37-40% - this corresponds with increases in real fare rates during the same period.

The Waka Kotahi dataset used to calculate network metrics was missing passenger km data for the following years: 2015/16, 2016/17, and 2017/18. As a result, passenger km data from an alternative Waka Kotahi dataset was used. These datapoints were cross-referenced by comparing the prior period (2014/15) across both datasets.

Figure 20: Waikato Farebox Revenue Ratio



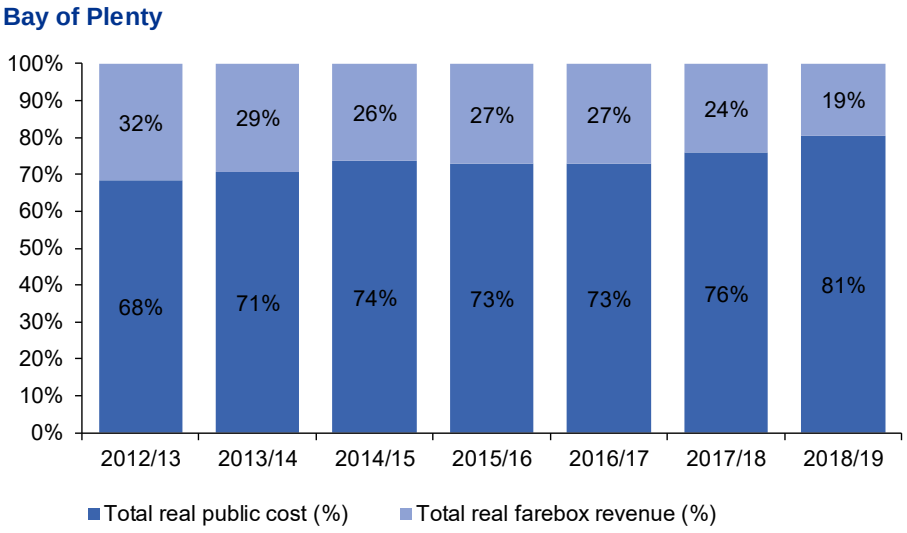
Source: Waka Kotahi

The Waikato Region has 13 units that have been implemented between January 2016 and January 2019. One unit's implementation date is still to be determined. Measured by peak vehicle requirement, the vast bulk of contracts are the urban Hamilton units, which commenced in two phases in January 2017, and a larger portion in January 2018. As a result of this, we have assumed January 2017 and 2018 as the peak implementation phase.

Since the start of PTOM implementation in 2015/16, the farebox recovery (not including SuperGold) has fallen from 32-33% down to 28-29%. This demonstrates that the overall commerciality of the Waikato network has fallen following implementation of PTOM.

The Waka Kotahi dataset used to calculate network metrics was missing passenger km data for 2012/13 through to 2017/18. Data was also missing for service km for 2012/13 through to 2016/17. We were unable to confirm the accuracy of data across both datasets.

Figure 21: Bay of Plenty Farebox Revenue Ratio

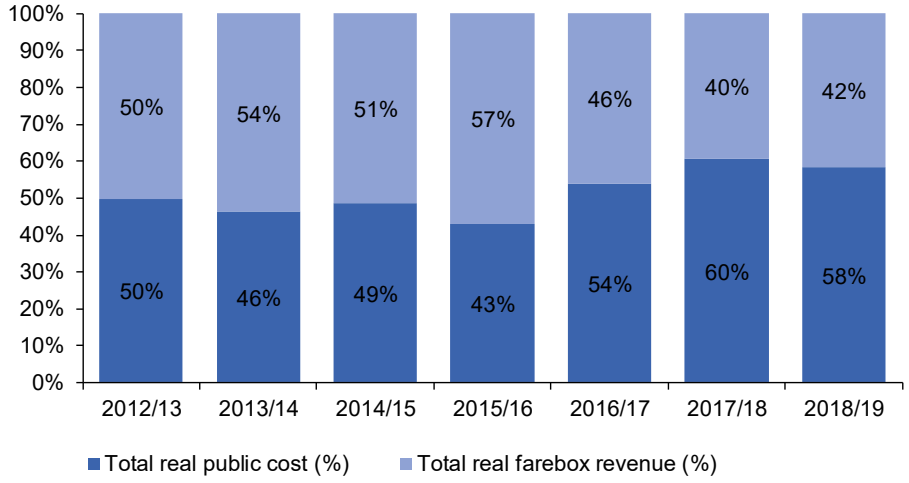


Source: Waka Kotahi

PTOM contracts came into effect in the Bay of Plenty from mid-2014 (Rotorua) to late 2018, when the larger Eastern and Western units commenced. Given the relative size of Tauranga, the main phase of implementation in the region was 2018.

After several years of decline, following PTOM contract commencement, the farebox recovery (not including SuperGold) has fallen further from 24-27% down to 19%. This demonstrates that the overall commerciality of the Bay of Plenty network has fallen following implementation of PTOM, over and above the existing trend.

Figure 22: Otago Farebox Revenue Ratio



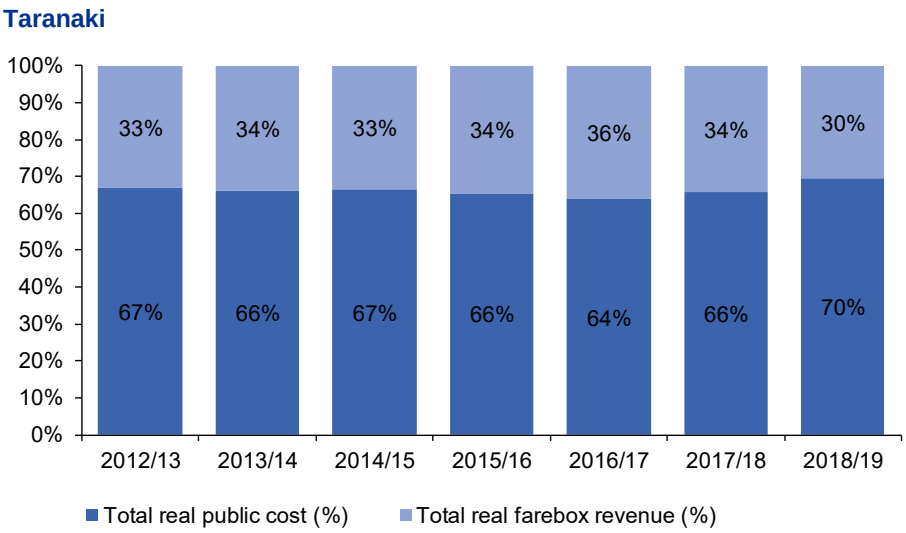
Source: Waka Kotahi

The Otago Region has a total of 6 units. In accordance with the Otago Regional Council's 2014 Regional Public Transport Plan, all PTOM unit contracts were implemented (started) in 2016.

Since the start of PTOM implementation in 2015/16, the farebox recovery (not including SuperGold) has fallen from 50-54% down to 40-46%. This demonstrates that the overall commerciality of the Otago network has fallen following implementation of PTOM.

The Waka Kotahi dataset used to calculate network metrics was missing passenger km data for 2015/16 and 2017/18. As a result, passenger km data from an alternative Waka Kotahi dataset was used. These datapoints were cross-referenced by comparing the prior period (2014/15) across both datasets.

Figure 23: Taranaki Farebox Revenue Ratio

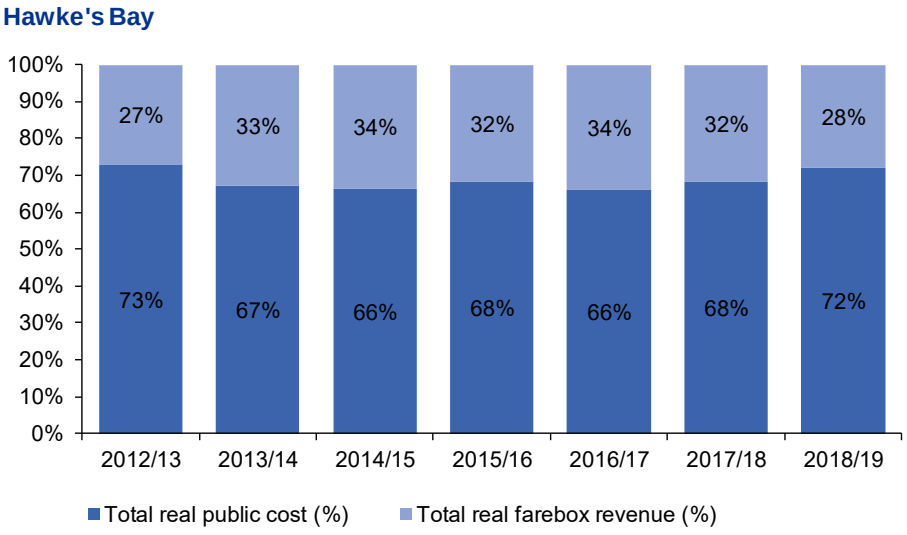


Source: Waka Kotahi

Taranaki Regional Council has one PTOM contract unit that commenced in November 2015. However, in the Council's Regional Public Transport Plan there are three other units that run infrequent services between smaller towns within the region. In some circumstances, these services run once per week.

Since the start of PTOM implementation in 2014/15, the farebox recovery (not including SuperGold) has remained broadly similar, with a higher annual variance - from 33-34% to 30-36%. This does not demonstrate any significant change in the overall commerciality of the Taranaki network following implementation of PTOM.

Figure 24: Hawke's Bay Farebox Revenue Ratio



Source: Waka Kotahi

Hawke's Bay has one unit that was implemented in mid-2016.

Since PTOM implementation in 2015/16, the farebox recovery (not including SuperGold) has remained broadly similar - ranging from 27-33% to 28-34%. This does not demonstrate any significant change in the overall commerciality of the Hawke's Bay network following implementation of PTOM.

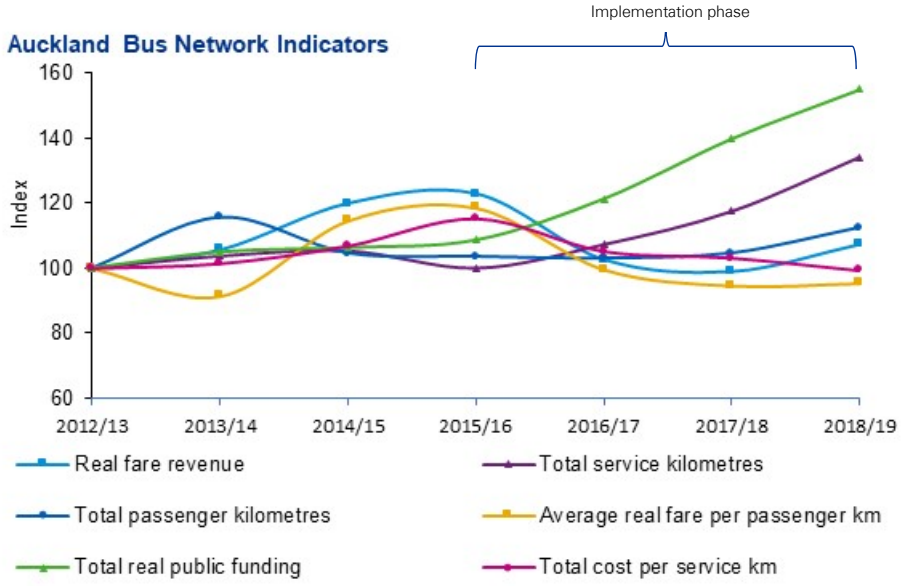
8.2.2 Analysis – Impact PTOM in different regions

The following charts set out quantitative analysis relevant to Findings 1.1 and 1.2 as well as Commerciality finding 3.

For ease of reference the charts and commentary are presented together. The charts relate to bus transport only, excluding rail and ferry data.

8.2.2.1 Auckland

Figure 25: Auckland Bus Network Indicators



Source: Waka Kotahi

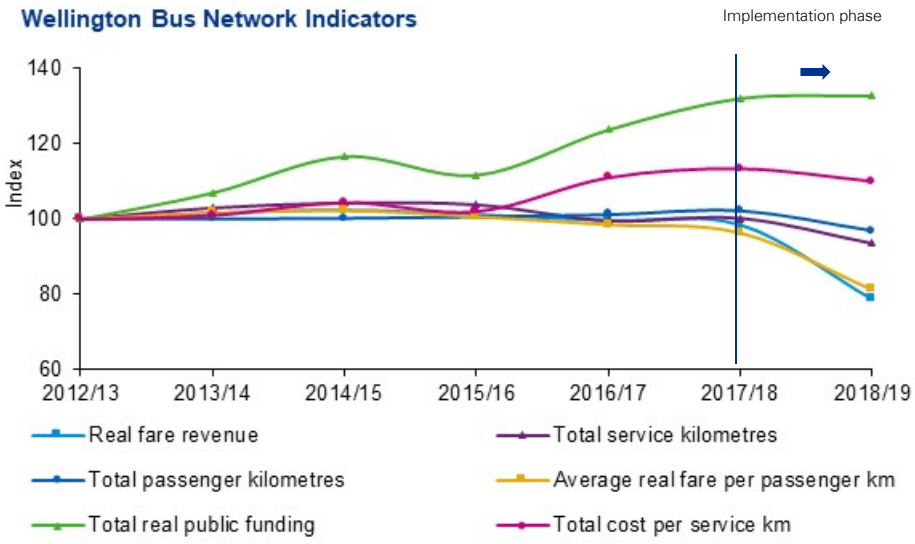
PTOM implementation in Auckland started during 2015/16 and was largely completed by 2018/19. This has resulted in several years' of pre and post-PTOM data being available for analysis.

- **What has the impact of PTOM been on customer costs?** Since the start of PTOM implementation in 2015/16, the average real fare per km has fallen by around 20% and has remained below levels previously seen in 2012/13. This reduction provides a significant benefit to customers by making bus travel more affordable. **Finding reference: 1.2**
- **What has the impact of PTOM been on customer journey opportunities?** Since the start of PTOM implementation in 2015/16, the total service km has increased by up to 15% per year (having been broadly static during the immediately preceding years). This increase could provide a significant benefit to customers by increasing opportunities to travel by bus. However, the increase in service km has significantly outstripped the increase in passenger km, indicating that some of the new routes/increased frequency on existing services are used less or are sub-commercial. Alternatively this may reflect increased provision of off-peak services and the lag in new services being adopted by passengers. **Finding reference: 1.1**
- **What has the impact of PTOM been on the cost of bus network provision?** Prior to the implementation of PTOM, per km costs for bus services in Auckland had been increasing by up to 7% per year in real terms. After 2015/16, total per km costs have decreased, by 9% initially and 1-2% per year subsequently. This is significant in the national context given that Auckland accounts for around half of the overall system. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been on public funding?** Prior to the implementation of PTOM, public funding for bus services in Auckland had been increasing by no more than around 5% per year in real terms. After 2015/16, funding has increased at a greater rate, by around 10-15% per year. This has been driven by both increasing service km and reducing real fare rates, mitigated by reductions in the cost of bus network provision (identified above). A high-level review of Regional Land Transport Plans and Regional Public Transport Plans over the analysis period indicates that increases in service km have been implemented to support delivery of Auckland's wider objectives. **Commerciality Finding reference: 3**

— **What has the impact of PTOM been for network outcomes?** Implementation of PTOM can be seen to coincide with an increase in passenger km of up to 7% per year, indicating a significant boost to network usage by customers. However, this increase has not matched the increase in service km, demonstrating an overall decrease in mean bus loadings. The increase is significantly lower than that observed in public funding, showing a decreasing value for money for this network outcome over the period analysed (although we note that passenger km can lag in-service km due to the delay in uptake of new services). **Finding reference: 1.2**

8.2.2.2 Wellington

Figure 26: Wellington Bus Network Indicators



Source: Waka Kotahi

PTOM implementation in Wellington took place during 2017/18 over a relatively short period of time. Implementation of the new contracts, network design and changes in operators resulted in considerable disruption to services and negative publicity, reflected in a reduction in customer usage of more than 5% after years of incremental growth. However, we note that this approach also resulted in a competitive procurement process, and enabled significant changes to networks and service operations to be delivered within a short space of time[45]. For the purposes of this evaluation, the large scale implementation in 2018 has resulted in limited availability of reliable post-PTOM data for analysis. Any longer term improvements in performance or changes in costs are only likely to be reflected in data for 2019/20 and beyond.

— **What has the impact of PTOM been on customer costs?** Since the start of PTOM implementation in 2017/18, the average real fare per km has fallen by around 20%. This reduction provides a significant benefit to customers by making bus travel more affordable. **Finding reference: 1.2**

— **What has the impact of PTOM been on customer journey opportunities?** Since the start of PTOM implementation in 2017/18, the total service kms has decreased by around 7% in the first year (having been broadly static during the immediately preceding years). This decrease likely reflects the disruption during implementation rather than network contraction. GWRC notes that since 2018/19, total service kms have increased, and both passenger feedback and service level KPIs such as punctuality have improved. This is outside of our review period, and therefore, is not captured in our data analysis. **Finding reference: 1.1**

— **What has the impact of PTOM been on the cost of bus network provision?** Immediately before the implementation of PTOM, per km costs for bus services in Wellington had increased by around 10-11% in real terms. After 2017/18, total per km costs have decreased, by 5% initially. **Commerciality Finding reference: 3**

— **What has the impact of PTOM been on public funding?** Since 2015/16 and immediately prior to the implementation of PTOM, public funding for bus services in Wellington had been increasing by around 6-10% per year in real terms. After 2017/18, funding has increased more slowly, by around 5%. GWRC noted that

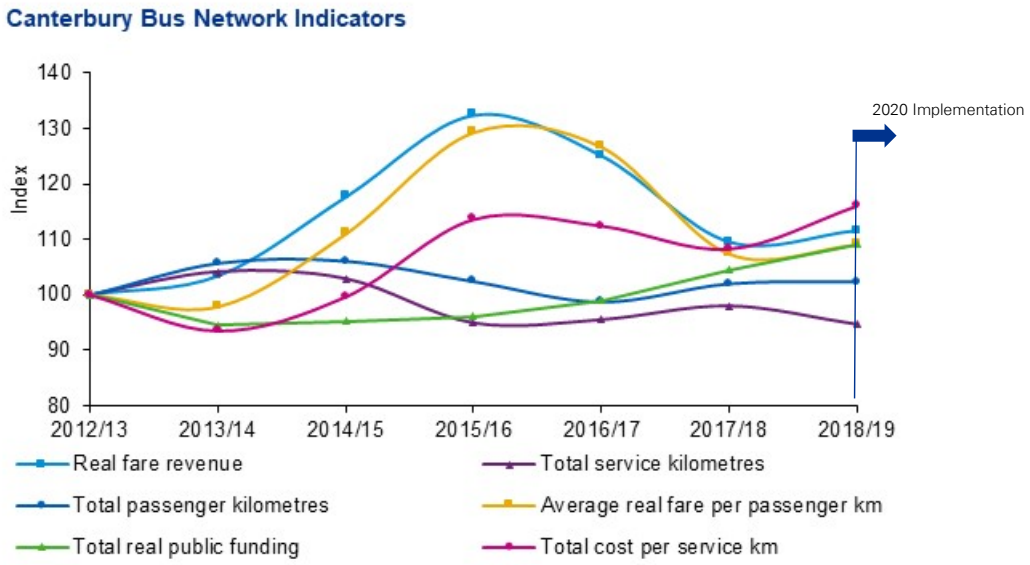
[45] Wellington generally exhibits high public transport use due to its geography, rail access and population demographics.

benchmarking costs for the region's negotiated contracts was not straightforward, mainly due to a lack of data points for individually diverse areas such as central Wellington, Kapiti and the Hutt Valley. GWRC estimates that value gains realised on the competitively tendered contracts were partially offset by the negotiated settlements. **Commerciality Finding reference: 3**

— **What has the impact of PTOM been for network outcomes?** Implementation of PTOM can be seen to coincide with a decrease in passenger km of around 5-6%, but this is likely due to the disruption during implementation of the new PTOM contracts. GWRC noted that metrics have since improved. In addition, a number of decisions were made that reduced commerciality while improving access, such as offering discounts to students and disabled passengers. **Finding reference: 1.2**

8.2.2.3 Canterbury

Figure 27: Canterbury Bus Network Indicators



Source: Waka Kotahi

Although tenders for PTOM contracts have now been completed and contracts signed, no operation under PTOM contracts will take place until later in 2020 as a result of the area's delayed implementation following the Canterbury earthquakes. Network indicators from Canterbury are therefore all pre-PTOM.

— **What trends have been observed for customer costs?** Since the start of the analysis period in 2012/13, the average real fare per km rose by around 30% to a high in 2015/16, before falling to a level approximately 10% above 2012/13 rates by 2018/19, prior to PTOM implementation. **Finding reference: 1.2**

— **What trends have been observed for customer journey opportunities?** The total service km initially increased by around 4% in the first year but has since fallen to a level approximately 3-5% below 2012/13 levels for the remainder of the analysis period through to 2018/19. **Finding reference: 1.1**

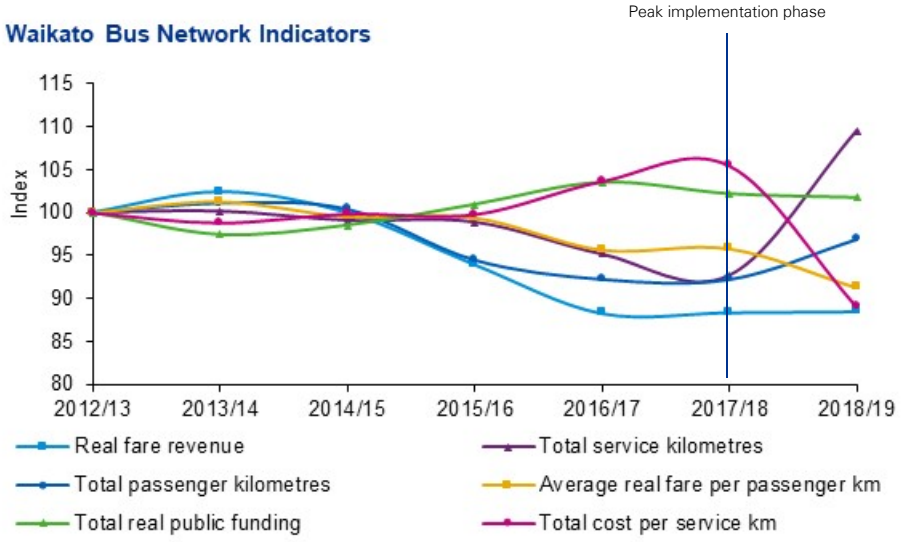
— **What trends have been observed for the costs of bus network provision?** After an initial fall in per km costs for bus services in Canterbury of around 6-7%, costs rapidly rose to around 13% over 2012/13 levels by 2015/16 and have varied only mildly through to the end of the analysis period in 2018/19. **Commerciality Finding reference: 3**

— **What trends have been observed for public funding?** Since 2013/14 public funding for bus services in Canterbury remained fairly stable through to 2015/16, increasing by around 4-5% per year in real terms thereafter. This is likely driven by falling fare revenues resulting from real terms cuts to mean fare rates. **Commerciality Finding reference: 3**

— **What trends have been observed for network outcomes?** Changes in passenger km have broadly tracked service km over the analysis period, with some limited increase apparent, perhaps driven by changes in fare rates. **Finding reference: 1.2**

8.2.2.4 Waikato

Figure 28: Waikato Bus Network Indicators



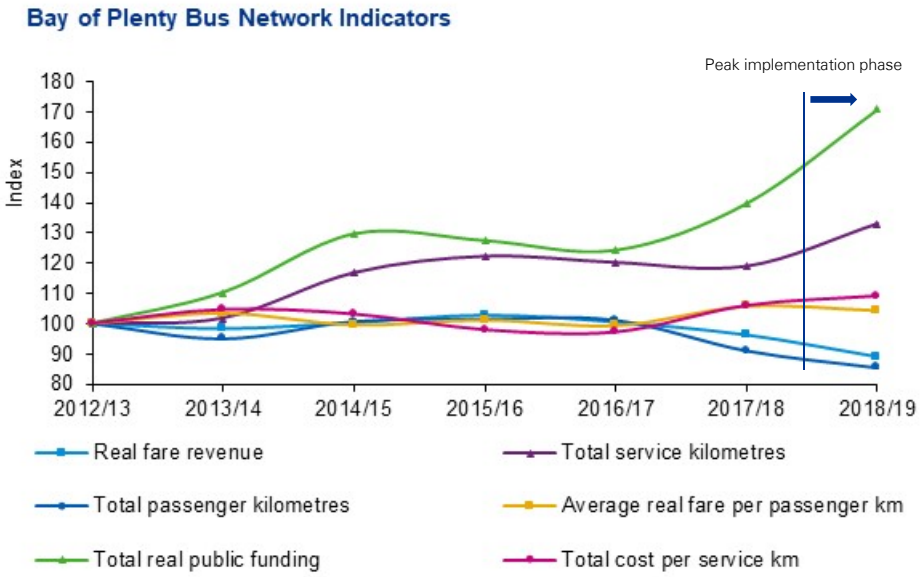
Source: Waka Kotahi

PTOM implementation in Waikato started during 2015/16 and was largely completed by 2018/19. This has resulted in several years' of pre and post-PTOM data being available for analysis. The peak implementation phase was 2016/17.

- **What has the impact of PTOM been on customer costs?** Since the start of PTOM implementation in 2015/16, the average real fare per km has fallen by around 8%. This reduction provides a significant benefit to customers by making bus travel more affordable. **Finding reference: 1.2**
- **What has the impact of PTOM been on customer journey opportunities?** Since the start of PTOM implementation in 2015/16, the total service km initially decreased by around 3-4% per year (having been broadly stable during the immediately preceding years). In 2018/19, service km increased significantly to a level approximately 10% above pre-PTOM levels. Waikato Regional Council has confirmed that this increase can be attributed to the expansion of bus services into new, previously unserved areas of the city. **Finding reference: 1.1**
- **What has the impact of PTOM been on the cost of bus network provision?** Immediately before the implementation of PTOM, per km costs for bus services in the Waikato had been broadly stable in real terms. After 2015/16, total per km costs initially increased by around 2-3% before sharply falling in 2018/19. The factors driving this change are not clear, but may be due to economies of scale in delivering an expansion in service km with a relatively fixed cost base. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been on public funding?** Since 2015/16 public funding for bus services in the Waikato increased initially by around 4% in real terms, continuing a trend that had been apparent since 2013/14. After 2016/17, real funding levels have returned to levels comparable to those at initial implementation. Changes in public funding appear to be driven by changes in fare revenues and service km. Notably, the sharp change in service km and costs per km in 2018/19 appear to counterbalance one another. Service km have increased significantly, without any matching increase in public funding or fare revenue. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been for network outcomes?** Implementation of PTOM can be seen to coincide with a decrease in passenger km of around 3%, continuing a trend that had been apparent since 2013/14. This may be driven by falling service km, mitigated by reduction of real fare/km rates. The decline in total passenger km stabilised in 2017/18, and use increased slightly in 2018/19. **Finding reference: 1.2**

8.2.2.5 Bay of Plenty

Figure 29: Bay of Plenty Bus Network Indicators



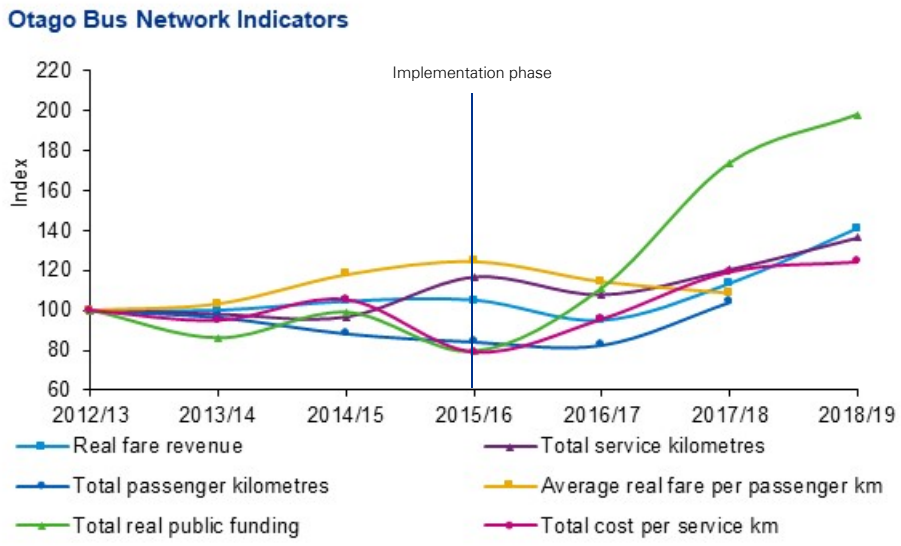
Source: Waka Kotahi

PTOM implementation in the Bay of Plenty began in 2013/14 with the majority of contacts being implemented in late 2018.

- **What has the impact of PTOM been on customer costs?** The average real fare per km has experienced minor changes (annual changes of 2-6%) during the analysis period, with no clear trends associated with PTOM implementation. **Finding reference: 1.2**
- **What has the impact of PTOM been on customer journey opportunities?** Since initial PTOM implementation in 2013/14, the total service km initially increased by around 15-18% per year up until 2015/16. Bay of Plenty service km then declined by 3% until 2017/18. Following the reletting of some contracts, service kms have since recovered, while passenger km showed a small reduction, indicating lower utilisation. We note that patronage usually lags network expansion, for example on new routes. **Finding reference: 1.1**
- **What has the impact of PTOM been on the cost of bus network provision?** Per km costs for bus services in the Bay of Plenty broadly mirrored (inversely) changes to service kms, whilst real fare revenue remained steady, indicating a relatively weak proportionality between service kms, costs and declining farebox recovery. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been on public funding?** Public funding for bus services in the Bay of Plenty has increased steeply after each round of PTOM tendering, before then showing gradual decreases. Changes in public funding appear to be primarily driven by changes in service km, although fare revenues have also had some impact. A high-level review of Regional Land Transport Plans and Regional Public Transport Plans over the analysis period indicates that increases in service km have been implemented to support delivery of Bay of Plenty's wider objectives. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been for network outcomes?** Passenger km have remained comparatively stable over much of the analysis period, before falling from 2016/17. Average real fare rates per km rose after this point, but the evidence does not show a clear link or causation. **Finding reference: 1.2**

8.2.2.6 Otago

Figure 30: Otago Bus Network Indicators



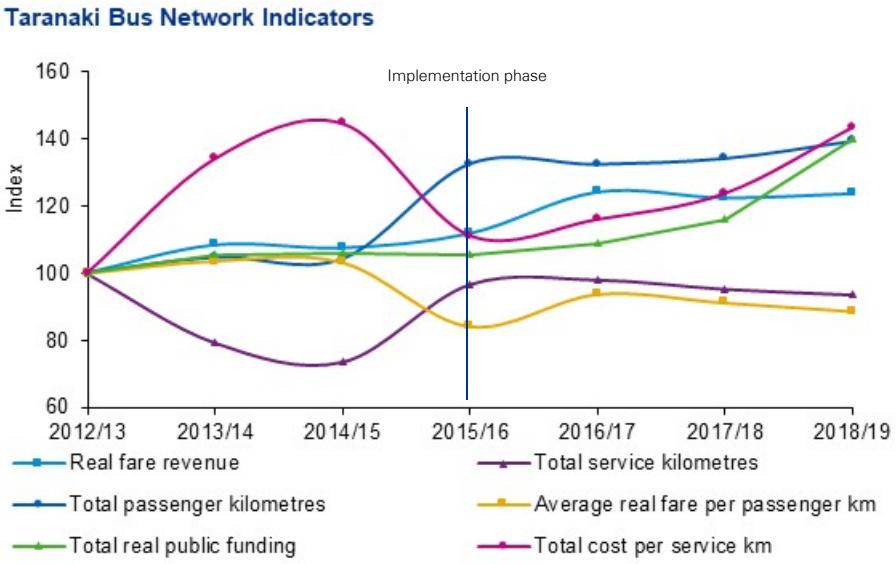
Source: Waka Kotahi

PTOM implementation in Otago took place during 2015/16 and 2016/17. This has resulted in several years' of pre and post-PTOM data being available for analysis. Note that passenger kilometre information is not available for 2018/19.

- **What has the impact of PTOM been on customer costs?** The average real fare per km has decreased after PTOM implementation by approximately 6-9% per annum. This reduction provides a significant benefit to customers by making bus travel more affordable. This coincided with a reduction in farebox recovery since 2015/16. **Finding reference: 1.2**
- **What has the impact of PTOM been on customer journey opportunities?** Following initial PTOM implementation in 2015/16, the total service km in Otago initially fell by around 7-8% before showing a significant upward trend of around 12-13% per annum thereafter. This increase could provide a substantial benefit to customers by increasing opportunities to travel by bus. **Finding reference: 1.1**
- **What has the impact of PTOM been on the cost of bus network provision?** Total costs per km for Otago bus services initially increased after PTOM implementation, by around 20-25% per year, before levelling off in 2018/19. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been on public funding?** Public funding for bus services in Otago has increased steeply after PTOM implementation, averaging approximately 37% per annum. Changes in public funding appear to be primarily driven by changes in both service km and unit costs, as fare revenues have also increased by 20-25% per annum over this period. A high-level review of Regional Land Transport Plans and Regional Public Transport Plans over the analysis period indicates that increases in service km have been implemented to support delivery of Otago's wider objectives, particularly for the Wakatipu Basin. Unlike many other areas, Otago includes two separate network areas – Dunedin and Queenstown – which cannot be integrated as a single network. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been for network outcomes?** Passenger km had been falling prior to PTOM implementation, but since 2016/17 have increased by around 26% per annum – exceeding the growth in service km (passenger km data for 2018/19 was unavailable, although real fare revenue continued to track the increasing service km in 2018/19, suggesting that passenger km continued to increase). This suggests increasing average vehicle loadings as well as material increases in patronage. This is consistent with verbal feedback from Otago RC regarding better customer outcomes following PTOM implementation. **Finding reference: 1.2**

8.2.2.7 Taranaki

Figure 31: Taranaki Bus Network Indicators



Source: Waka Kotahi

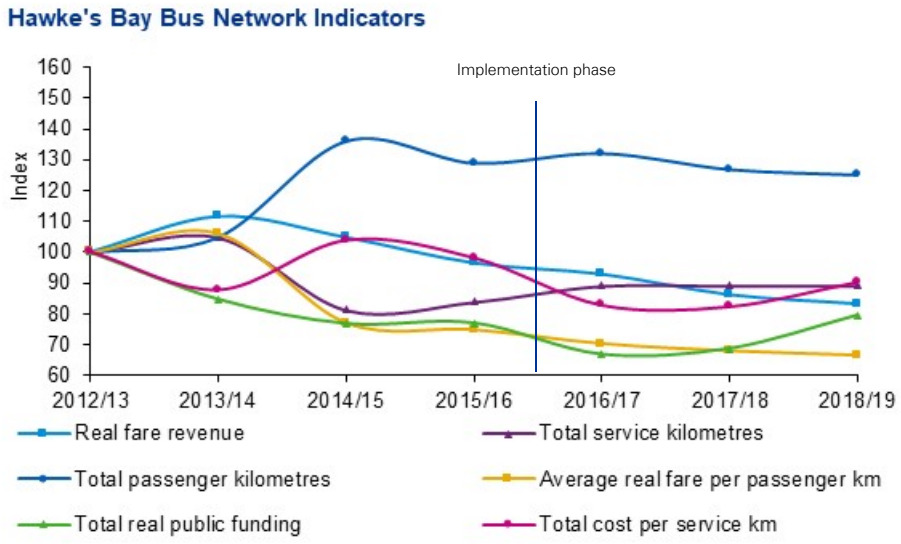
PTOM implementation in Taranaki took place during 2015/16. This has resulted in several years' of pre and post-PTOM data being available for analysis.

The overall pattern emerging is that PTOM implementation in Taranaki initially enabled a significant increase in service km and a reduction in real fare rates per km, through reduced unit costs. This provided a corresponding increase in passenger km. After 2015/16, service costs have climbed back up towards pre-PTOM levels, reducing the ability to limit public funding growth, but mitigated by higher fare revenues.

- **What has the impact of PTOM been on customer costs?** The average real fare per km has decreased after PTOM implementation by approximately 3-4% per annum on average (including a single uptick in 2016/17). This reduction provides a benefit to Taranaki customers by making bus travel more affordable. **Finding reference: 1.2**
- **What has the impact of PTOM been on customer journey opportunities?** Following initial PTOM implementation in 2015/16, the total service km in Taranaki initially increased by around 32% before showing a downward trend of around 1-2% per annum thereafter – but remaining well above the level immediately before PTOM implementation. This increase could provide a significant benefit to customers by increasing opportunities to travel by bus. **Finding reference: 1.1**
- **What has the impact of PTOM been on the cost of bus network provision?** Total costs per km for Taranaki bus services initially fell after PTOM implementation, by around 23%, reversing the increasing trend apparent prior to implementation. Real costs per km have since increased by around 9% per annum, on average. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been on public funding?** Public funding for bus services in Taranaki continued to increase slowly after PTOM implementation, averaging approximately 3% per annum across the periods immediately before and after. In 2018/19, public funding increased sharply, by 21%, apparently driven primarily by the increase in costs per service km. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been for network outcomes?** Passenger km had been stable prior to PTOM implementation, but increased by around 27% immediately following implementation, tracking the increase in service km. Subsequent growth has been more gradual, averaging approximately 1-2% per annum. **Finding reference: 1.2**

8.2.2.8 Hawke's Bay

Figure 32: Hawke's Bay Bus Network Indicators



Source: Waka Kotahi

PTOM implementation in Hawke's Bay took place during 2015/16. This has resulted in several years' of pre and post-PTOM data being available for analysis.

Key questions:

- **What has the impact of PTOM been on customer costs?** The average real fare per km has decreased after PTOM implementation by approximately 3-4% per annum on average, continuing a trend that is apparent before implementation and dating back to 2013/14. This reduction provides a benefit to customers by making bus travel more affordable. **Finding reference: 1.2**
- **What has the impact of PTOM been on customer journey opportunities?** Following initial PTOM implementation in 2015/16, the total service km in Hawke's Bay initially increased by around 6% before stabilising thereafter. This increase could provide a significant benefit to customers by increasing opportunities to travel by bus. **Finding reference: 1.1**
- **What has the impact of PTOM been on the cost of bus network provision?** Total costs per km for Hawke's Bay bus services initially fell after PTOM implementation, by around 16%. Unit costs then stabilised before increasing again by around 10%. This appears to continue a cyclical trend that was also apparent prior to PTOM implementation. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been on public funding?** Public funding for bus services in Hawke's Bay continued to fall immediately after PTOM implementation, averaging approximately 9% per annum across the periods immediately before and after. Since 2017/18, public funding has started to increase in real terms, by up to 15-16% per annum. These changes appear to be primarily driven by unit cost rates. **Commerciality Finding reference: 3**
- **What has the impact of PTOM been for network outcomes?** Passenger km had increased sharply prior to PTOM implementation (against a background of reduced service km). After a small post-PTOM increase of around 2-3% subsequent years have shown a decline in passenger km on the order of approximately 3% per annum. **Finding reference: 1.2**

8.2.3 Analysis - Impacts on public value for money

Refer to the charts and analysis in Commercial Finding 3 above.

Qualitative evidence

Trade Unions

In common with some Operators (refer below), First Union noted that better Council support for the socially beneficial off-peak services could achieve significant benefits without affecting the peak vehicle and driver requirements that drive Operator pricing.

Approved Organisations

Consistent feedback that pricing has improved. GWRC claimed a 25% increase in passenger km at a cost increase of only 14% since the implementation of PTOM. However, we have not been able to assess this claim with the data available.

Some Approved Organisations noted that wider policy priorities (in particular after the 2017 election) resulted in decisions to expand networks and community access, knowing that this would entail greater provision of services with lower commerciality ratios.

Most Approved Organisations allocate 60% of evaluation marks to tender price, although Auckland Transport provided some evidence that tender price was not always the determinant of the procurement, including examples where the lowest tendered price had not won. Smaller Approved Organisations in particular noted that a greater weighting on quality may support better outcomes. However, there was no clear and consistent view from Approved Organisations that price was weighted too heavily or not heavily enough.

ECAN allocated 60% of marks to quality, and acknowledged that this was partly in response to observing other Approved Organisations' experiences and wanting to prioritise quality.

Refer also to Markets Finding 3 below.

Operators

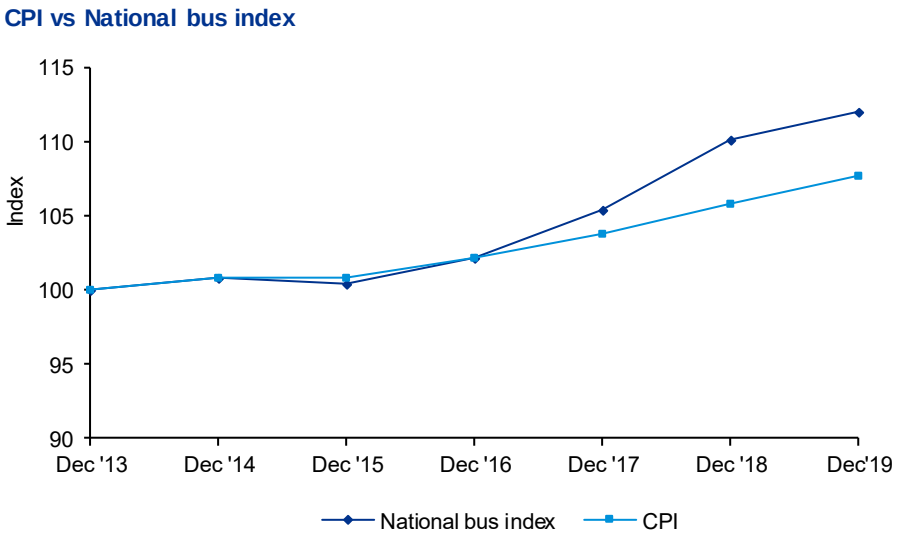
Common themes expressed were:

- That it is often difficult to price tenders effectively based on the information supplied with the RFT documents, which leads to costs being underestimated, especially by new entrants. This is sub-optimal because it either leads to stress on the Operator, a requirement for a contract variation, and may disadvantage incumbents that lose work based on realistic costings.
- That price is weighted too heavily. The 60% price weighting drives sub-optimal outcomes for service quality. For example, one Operator noted that it made the use of EVs not feasible in Wellington.
- That the focus on peak-time travel (which drives the Peak Vehicle Requirement) is the key cost driver for Operators, and the procurement is cost-led. This also drives shift patterns and many of the difficult working conditions widely discussed in the media.
- Operators acknowledged that flattening the peaks by creating incentives for travel outside peak hours (an example being GWRC's trial of providing additional funding for "earlybird" bus travel in February 2020) would cost Approved Organisations money. However, several Operators stated that the focus on price and peak-time service requirements are examples of Approved Organisations' policies being driven by the need for more funding, not wider objectives.

Refer also to Markets Finding 3, and also the discussion of Finding 1.1 below.

8.2.4 Cost inflation and value for money

Figure 33: CPI vs National Bus Index



Source: Waka Kotahi, KPMG analysis

The National Bus Index ("NBI") is a Waka Kotahi published contract price adjustment tool.[46] The tool is intended to more closely track movements in bus operator costs (e.g. labour costs, fuel costs), than for example, CPI which is a basic cost measure of an average basket of consumer goods. The NBI is updated on a quarterly basis, and the component weightings are reviewed every five years. The bus index weightings were determined in 2008, which serves as the base year. The weights applied were based on estimates of operators' cost structures, as provided by the BCA.

CPI and the NBI have been rebased to match the review period in the graph above. NBI closely tracks CPI up to December 2016 but tracks above CPI for the remainder of the review period. Between 2016 and 2019 the NBI increased 57% more than CPI. This increase may explain the reversal of real public cost savings in the Bay of Plenty, Taranaki and Wellington post PTOM implementation, as costs have increased faster than the background level of inflation.

The inflation payment for any given quarter is calculated by determining the movement in the NBI over the three months prior to the payment. This ultimately results in an inflation payment lag period, where the operator bares the inflation cost during the duration of the quarter until the respective inflation payment is made. We note that this may have working capital implications for Operators, and that this has been raised to us by Operators during interviews.

Assuming that the NBI is a fair reflection of Operators' costs, the increases allowed to them under PTOM contracts should insulate them from cost inflation, subject to the working capital point above.

8.2.5 Analysis – Impacts on Operator financial sustainability

Qualitative evidence

Approved Organisations

Approved Organisations, especially those in the larger areas, expressed confidence that the pricing pressure resulting from competition had reduced margins, but that Operators remain sustainable.

[46] Refer to section 4.3.5

There was common use of compliance thresholds and rejection or further review of unusually low prices that were tendered. The financial strength of bidders was also tested[47].

Operators

There was consistent feedback that:

- Margins have reduced under PTOM, largely as a result of the use of competitive tendering as encouraged under the PTOM framework (although operators also noted that the public sector's use of competitive tendering was increasing in general). The focus on price in most evaluations exacerbated this.
- That in general, the new contracts are delivering more (e.g. in-service km) for the same or only slightly more in public funding[48].
- That Operators' financial positions are affected by the cashflow impact of the time taken to agree and receive indexation payments.

We note that we did not have access to significant quantitative data in this area. Another potential factor affecting Operator sustainability, and changes in contract costs after the initial procurement period, is the FIM. If strong Operator performance is leading to significant incentive payments, the increase in costs may reflect a desirable improvement in performance, although at this stage we do not have the data to support this theory.

8.2.6 Analysis – Competition for service contracts

Data on recent PTOM tenders has been received from AT, ECAN and Hawke's Bay Regional Council[49]. All provided sufficient data to allow the calculation of mean tenderers per unit (some tenderers made multiple bids, including alternate offers):

- AT – mean of 5.6 tenderers per unit across 23 units.
- ECAN – mean of 3 tenderers per unit across eight units.
- Hawke's Bay Regional Council – 5 tenderers for a single unit.

This indicates a significant increase in competition for tenders compared with pre-PTOM levels of around 1-3 offers per tender. A 2007 study noted that in Auckland there were on average 1.3 bids per tender, and 83% of contracts were retained by the incumbent Operator. In Wellington there were 1.1 bids per contract and 88% of contracts were awarded to the incumbent[50]. This is consistent with qualitative feedback provided by Approved Organisations in interviews. The richer data provided by AT allowed the following observations:

- Range of between four and eight bids per unit;
- Bids were received from three Australian operators for 14 units; none were successful.
- 12 alternate offers were made; none were successful;
- 10 units were awarded to bidders who offered the lowest total cost of service;
- 22 units were awarded to bidders whose tenders were ranked in the bottom three according to their total costs of service (it is not clear whether some of the other tenders were deemed non-compliant);
- In 2016 the three largest operators accounted for 88% of the market share on a contract-by-kilometre basis, with the remaining 12% shared across seven operators. In 2020 these figures were 69% and 31% respectively (refer to Appendix 6); and

[47] A review of RFTs from GWRC, ECAN and Hawke's Bay indicated that the financial strength tests were limited to letters of support, adequacy of insurance and other unspecified due diligence, and tenderers were not required to submit financial accounts for detailed due diligence.

[48] Refer to section 9 for information about the data validation process.

[49] Refer to Allen & Clarke (2018) *PTOM Impacts on Bus Driver Employment Conditions and Wage Rates* for further information.

[50] Sergejew A (2007) "Review of regulation of commercial urban bus and ferry services in New Zealand" p9 http://www.thredbo-conference-series.org/downloads/thredbo10_papers/thredbo10-themeBSergejew.pdf

— In 2016 the three largest operators accounted for 83% of the market share on a contract-by-value basis, with the remaining 17% shared across seven operators. In 2020 these figures were 70% and 30% respectively (refer to Appendix 6).

While it is possible for a market largely dominated by three entities to be competitive, this data indicates that turnover of incumbents has increased and the market is being accessed by more companies. We also note that we have not collected any evidence from Approved Organisations regarding any changes in the costs of managing PTOM contracts, for example in procurement, contract management, and maintaining partnerships with a larger group of Operators than previously. We note that Approved Organisations have assumed significantly more responsibility under PTOM, and this is likely to have had a cost and administrative impact.

Qualitative evidence

Approved Organisations

Waka Kotahi noted that much of its guidance associated with PTOM is actually driven by wider government practice (e.g. approaches to government tendering), not PTOM. Waka Kotahi's tendering manual was intended as a guide rather than a prescribed method. Procurement plans are approved by Waka Kotahi according to section 25 of the Land Transport Management Act.

Approved Organisations consistently reported that their procurement processes attracted a good level of interest. Larger areas (Auckland, ECAN and GWRC) noted a significant improvement in the number of tenders per unit (from 1.1 per unit to 5.5 per unit in Auckland). However, there was a consistent view that this was down to the wider use of competitive tendering, not any aspect of the PTOM framework (although we note that the PTOM framework removed commercial registrations and required PT to be tendered in units).

Approved Organisations in the larger cities with more units (Auckland, Christchurch and Wellington) opted for a mix of tendered and negotiated units in order to de-risk transition and ensure a mix of Operators post-implementation. However, as noted in section 4.3.4 above, in some cases a certain level of negotiated units was required. Other than in Wellington, there was not clear feedback on any resulting pricing differential, but it was acknowledged that a trade-off was involved.

Approved Organisations in Otago, Waikato, and Taranaki noted that with fewer, smaller contracts available, they cannot attract the same level of competition, in particular against one or two entrenched incumbents (refer also to 2.6 below).

Operators

Common themes expressed were:

— That the market is very competitive, and that Operator margins have declined as a result (one suggested a 50% reduction in margin);
— A perception that transaction costs are too high; and
— That the procurement is heavily price focused, and that an Operator's price is the overwhelming determinant of contract success or failure. A subset of participants expanded on this by saying that while competition is good, Approved Organisations' implementation of PTOM seems to have focused on delivering price reductions, not selecting Operators that can deliver overall better outcomes (for example better wage rates). Another noted that the focus on price has driven some unfair risk allocation, although without a detailed review of the contracts it is not possible to evaluate this.

8.2.7 Analysis – Operator market structure and competitiveness

Transaction activity and overseas operator interest suggests that there are sufficient economic incentives to invest in entities targeting PTOM contracts. Although it would be difficult to establish a causal link between PTOM and increases in transaction activity, recent transactions and investments do serve as an indicator that operators are able to make a viable financial return under PTOM contracts.

One overseas operator (Next Capital) has sold one company and acquired another, while Souter Investments' substantial exit from the New Zealand market[51] has been offset by the entry of Transdev. A further overseas operator,

[51] Souter Investments retained its ownership of Fullers, which operates ferry services and some PTOM contracted bus routes in the Hauraki Gulf.

Kinetic, entered the New Zealand market in March 2020. The domestic market has also experienced a degree of consolidation.

However, the introduction of PTOM and competitive tendering has led to significant changes in market share in a number of regions. Several of these transactions followed the results of significant tendering rounds where the target company won and/or retained a number of PTOM contracts with associated long term cashflows. This additional cashflow certainty would normally increase the company's expected future profitability and hence attractiveness/value to acquiring entities. However, without more details of these entities' non-PTOM operations and wider financial performance, it is not possible to draw firm conclusions about the extent to which PTOM contracts were the driving force for these transactions.

Qualitative evidence

Approved Organisations

Approved Organisations in Wellington and Auckland noted that access to their markets and competition has improved significantly. However, PTOM has not coincided with the entry of a significant number of new Operators, and there has been some consolidation. This was not directly linked to PTOM or Regional Councils' approaches, but was one factor that has acted against the objective of increasing competition and market access.

Smaller Approved Organisations reported that their procurements have not seen the same increases in competition (refer to 2.1 above).

Operators

- That PTOM has given Operators the opportunity to enter significant new markets.
- That competitive pressures have reduced margins and delivered value for Approved Organisations. Some Operators suggested that they are relying on growth in revenue through variations, or increased efficiency[52]. As a result, reinvestment is a big challenge and some operators are leaving the sector.
- Some Operators (although not a majority) commented that in the long term, the industry is trending towards larger entities with bigger balance sheets. It is harder for local players that cannot meet the resulting capital or risk taking requirements.
- There was consensus that the impact of new technology will be key, for example regarding EVs and the resulting implications for depots, fleet and infrastructure ownership.

The findings relevant to each workstream are set out below.

8.3 Workstream 1 findings

Scope: How has PTOM affected regional public transport planning, including network and ticketing integration, and fare setting?

8.3.1 Findings

Finding 1.1

PTOM has enabled Approved Organisations to implement significant changes to their networks, especially in larger urban areas such as Auckland, Wellington and Dunedin. This has allowed a transition to more co-ordinated models in a way that would not have been possible with less integrated, disparate networks. The changes in smaller regions have been less marked.

Finding 1.2

Passenger km (indicating patronage) has generally experienced modest growth following implementation of PTOM. Per km fare revenues have generally declined in real terms[53], that appears to have been driven by reductions in per km fare rates (which are set by Approved Organisations under PTOM). There is a general trend across regions for decreasing average real bus fares per km following PTOM implementation. This has a positive impact on service accessibility consistent with the objectives of Approved Organisations.

[52] We were unable to secure quantitative evidence to corroborate this.

[53] Refer to section 8.1.

Finding 1.3

Implementation of PTOM has been associated with an increase in bus service km across most regions examined, indicating growth in the networks offered.

8.3.2 Analysis – Impacts on regional transport planning

Refer to the charts and analysis in Commerciality Findings 3 above.

Qualitative evidence

Approved Organisations

PTOM has enabled networks that are more integrated, and an improvement on the previous model. Most problems experienced are locally driven or due to application, and not the PTOM model itself.

The overall objective was to get control of cost subsidies and grow patronage. It was felt that this has been achieved while increasing the network quality and customer satisfaction. Several large and medium sized areas had transitioned to a hub and spoke system that made unpopular transfers inevitable but enabled a better overall service.

Network planning had to be fully integrated with the procurement process to make units attractive to Operators, and therefore competitive.

Operators

Several noted that the differing objectives of Approved Organisations and Operators create problems in being able to comply with the collaborative planning objectives of PTOM. The working relationship and operation of networks can be overshadowed by the Council's funding constraints, which affect network design. The private operation of a publicly designed network was judged to be a good concept, but the system needs better incentives on participants to work properly.

There was broad consensus among Operators that while the "double peak" profile of public transport services is to some extent inevitable, Approved Organisations' focus on peak-time services does create problems. Operating costs and the frequency of adverse working conditions such as split shifts are largely driven by the peak-time requirements (PVR and staffing levels). More collaboration and data sharing, and better understanding by Approved Organisations of the long term implications of their requirements, could help. Flattening peak requirements by providing additional support and incentives to encourage off-peak travel (as undertaken in Wellington) will take time and funding, but could make overall service provision and working conditions better[54]. However, we note that for Approved Organisations, any perceived shortage in peak-time services can result in significant, rapid adverse feedback from passengers.

Feedback from the BCA supported this, noting that significant Operator expertise that could be used in planning and delivering better networks is sometimes not taken up by Approved Organisations. It suggested that more constructive partnerships could address this.

Regional Public Transport Plans

A review of Regional Public Transport Plans has found that implementation of PTOM has been associated with significant redrafting of public transport networks and ancillary systems (such as fares, ticketing and information provision) in the larger cities, including Auckland, Wellington and Dunedin. These networks have generally moved towards a "hub-and-spoke" configuration set up around a core of high frequency services, supported by a feeder services that extend access to the high frequency services. Such networks aim to improve operating efficiency and network legibility and are generally highly dependent upon integration of timetables, routes, fares, ticketing and information to minimise penalties to the passenger from the required interchanges. This level of integration requires close alignment between the organisations controlling these network elements. Pre-PTOM this would have required alignment between numerous competing commercial entities, and between private and public sector organisations. The implementation of PTOM centralises control with the relevant Approved Organisation and greatly facilitates the required integration.

The Regional Public Transport Plans indicate that in smaller regions, such as Taranaki and Hawke's Bay, public transport networks have not changed significantly after implementation of PTOM. This is thought to be a consequence of the

[54] GWRC noted that while it has initiated policies to encourage off-peak travel, it is difficult to "shift the dial" using fare discounts due to other factors affecting passenger behavior.

smaller markets for public transport in these regions limiting the scale of pre-PTOM networks, commerciality of those networks and competition for those networks. These factors would have tended to centralise control with the relevant Approved Organisation under the pre-PTOM model, reducing the impact of PTOM's implementation on network planning.

8.3.3 Analysis – Impacts on passenger use and accessibility

Refer to the charts and analysis in Commerciality Finding 3 above.

Qualitative evidence

Approved Organisations

Several Approved Organisations noted that PTOM has helped deliver increased patronage while subsidies declined or grew much more slowly (refer to the analysis in section 8.1 above).

The PTOM model has been a key enabler of more effective, more accessible networks. Initial problems have been/are being overcome by Approved Organisations. AT, which has a significant ferry network within its remit, acknowledged that integrating ferry services can be harder due to the differing cost structures and infrastructure requirements of these services.

The majority of Approved Organisations were of the view that there is consistent evidence that customer satisfaction, and the customer experience, is improving. This was a result of improved, integrated, and easier to understand networks. Common branding and improvements in the fleet also contributed.

Greater Wellington implemented PTOM in 2018 at the same time as a major network redesign and suffered significant adverse feedback and reductions in patronage. It noted that customer satisfaction and patronage is improving again. It also noted that the initial problems had been overcome in the months following transition.

Operators

Broad agreement that integration is being achieved between previously disparate services, but one noted that there are some costs in terms of farebox recovery, especially when combined with the move towards hub and spoke networks using integrated ticketing.

8.3.4 Analysis – Impacts on network growth

Refer to the charts and analysis in Commerciality Finding 3 and 1.1 above.

8.3.5 Other qualitative feedback related to Workstream 1

Approved Organisations

Many of the changes seen in recent years would have been the same even without PTOM (for example as a wider result of government competitive tendering practice). Most problems have been as a result of implementation rather than the PTOM framework (e.g. in the procurement evaluation criteria, contracting, and relationship management).

Auckland Transport reflected that graduating its implementation of PTOM over five years meant that the benefits took longer to deliver, but the network was not disrupted and the phasing helped build internal procurement and implementation capacity. Both Auckland Transport and Greater Wellington stated that PTOM had enabled a significant increase in service kilometres associated with a smaller increase in costs.

Operators

There was a consistent view that the legislation and Waka Kotahi guidance allowed Approved Organisations too much room for interpretation. As a result, different approaches to the implementation of PTOM created significant problems. Approved Organisations' exercise of PTOM powers was described by some Operators as "command and control" rather than based on a partnership approach to develop networks.

While all Operators identified differences in implementation as a concern, a minority also noted that changes in the underlying model are needed.

In terms of performance against its objectives, the evidence of farebox recovery levels suggests services are becoming less commercial, but pricing is becoming more competitive.

There was a consistent view that access to markets has increased and pricing has become more efficient. However, competition and access to markets is constrained by the lack of comparability across different councils. In addition, the focus on pricing has had consequences for service delivery. There was general support for the principles of PTOM and competitive tendering, but consistent feedback that the approach toward partnership needed to be more balanced (refer also to comments on Workstream 3 below).

8.4 Workstream 2 findings

Scope: How has PTOM procurement affected competition for contracts, pricing, the financial viability of Operators, industry wages and working conditions, and asset ownership?

8.4.1 Findings

Finding 2.1

Based on limited tendering data, and qualitative feedback, competition (bidders per contract) has materially increased since the implementation of PTOM, and the structure of the market has become more competitive, especially in the larger cities. There was interest in the Auckland and Wellington markets from overseas bidders. Contract prices (as indicated by total cost per service km) have decreased in the immediate aftermath of PTOM implementation, but in the longer term have often climbed back up towards former highs (refer to Markets Finding 1 above). There are some exceptions to this, notably Auckland, which accounts for around half of the total market and experienced the initial drop in cost per service km without the subsequent increase. However, based on the limited evidence available, the reason for this is not clear.

Finding 2.2

No quantitative data has been provided on Operator margins and financial sustainability. Operators (and some Approved Organisations) have signalled that margins have been reduced since PTOM implementation and the introduction of competitive tendering. Nevertheless, overseas investment in the NZ bus industry (including Next Capital, Transdev and Kinetic) suggests that the industry is still seen to provide an acceptable level of return[55]. The impact of variations is an issue that could be explored further (refer to section 9).

Finding 2.3

60% of evaluation marks were allocated to price for a majority of PTOM procurements. This may have contributed to the positive pricing trends described in 2.1. above. However, there was significant feedback from Operators and Trade Unions that this was excessive, and that the focus on price led to sub-optimal outcomes (including a reduced ability to differentiate on quality, and a need for subsequent contract variations[56]). There was no clear and consistent view from Approved Organisations that price was weighted too heavily or not heavily enough.

Finding 2.4

Based on qualitative data, there is no clear evidence that PTOM has required Operators to reduce wages. Powers granted to Approved Organisations under PTOM entitle them to include minimum thresholds such as the Living Wage in their evaluation criteria (several Approved Organisations have done this). However, if an Approved Organisation chooses not to evaluate tenderers' approaches to wages and working conditions, and also adopts a relatively high price weighting (the method followed by most Approved Organisations), Operators with lower wage costs will be at an advantage in the procurement process.

In some areas, PTOM contracting has resulted in a shift towards Operators that offer flatter wage structures, and away from those that offer wage structures where effective total pay was highly related to service length and bonus payments. This shift impacts driver wages differently depending on an individual's tenure. Those with longer service records and more access to tenure-based benefits and bonus payments were often worse off if PTOM implementation resulted in a movement to a flatter wage structure. The impact on drivers with less time in service varied according to local conditions. Note that we have been unable to obtain quantitative data to examine the impact of PTOM on industry wages and working conditions. Refer to sections 4.5 and 9 for further details.

Finding 2.5

[55] I.e. one where the competitive dynamics and Approved Organisations' requirement to balance public value and Operator margin still allow a profit reflecting the input of capital and the risk taken.

[56] Refer to section 9 for details of evidence sought on this topic.

There is no clear evidence that PTOM has affected asset ownership arrangements. In some regions, ownership or access to depots may confer a competitive advantage, but the evidence does not indicate that this commercial factor has been altered by PTOM. However, Operators are concerned that the degree of region-specific vehicle requirements is a significant barrier to flexibility and ultimately increases costs, although Operators did not provide specific estimates of this impact. It was also acknowledged by Approved Organisations and Operators that any widespread adoption of EVs will have significant implications for asset (fleet, depot and infrastructure) ownership, and finance.

8.4.2 Analysis – Competition for service contracts

Refer to Markets Finding 3 above.

8.4.3 Analysis – Operator margins and sustainability

Refer to Commerciality Finding 3 and Markets Finding 2 above.

8.4.4 Analysis – Procurement and evaluation

Refer also to Markets Findings 1 and 3 above, and "Other qualitative feedback related to Workstream 2", below.

8.4.5 Analysis – Wages and working conditions

This Finding is based on qualitative evidence collected at stakeholder interviews, review of a limited number of Approved Organisations' RFT documents, and wider research into PTOM procurement. We have not been able to collect quantitative evidence to examine the impact of PTOM on industry wages and working conditions. While the qualitative evidence includes feedback from Trade Unions, Approved Organisations and Operators, we also note that it is difficult to assess its objectivity.

Qualitative evidence

Trade Unions

Union feedback consistently stated that PTOM had caused a reduction in driver wages and conditions, especially as a result of the price-focused procurement approaches used. A clear link was drawn between this focus on price, and adverse impacts in terms of driver wages and working conditions.

In addition:

- The high average age profile of drivers combined with the pre-existing collective terms and conditions offered by some incumbent Operators meant that a higher proportion of drivers left the industry when contract incumbents changed than would have been the case in other sectors, and that this had not been anticipated.
- The average age profile of drivers is a significant challenge, with significant numbers expected to retire in the next few years. Previously, some drivers may have tolerated split shifts (possibly because many work part time to top up income), whereas newly qualified drivers may be less likely to. The perceived focus of PTOM on peak time services, and therefore split shifts, is linked to the requirement for a wider discussion around funding and network planning.
- Wages should be taken out of the contracting model and other variables should be flexed by Operators to compete. The Living Wage (indexed) should be a contract minimum.
- On the positive side, it was recognised that engagement between Approved Organisations, Operators and Unions has improved in some areas, and that industry wages have received widespread attention.
- AWU identified a possible link between the current driver shortage and problems that potential new drivers have in sourcing affordable housing within a reasonable distance of bus depots. It suggested that this could act as a further barrier to driver recruitment, especially given the requirements for late nights and early morning work.

Approved Organisations

ECAN, Otago and Bay of Plenty Regional Councils have all implemented the Living Wage as a contract minimum for their procurements. ECAN also consulted with Operators and Unions during the pre-procurement period.

The two largest centres, Auckland and Wellington, reported that PTOM was not responsible for any reduction in wages, as a range of other factors (access to depots, asset management and fleet strategies) are also key. However, they agreed that tenderers with lower labour costs would see a price advantage in their bids.

Auckland Transport commented that Approved Organisations have two options: (i) use an input specification in tendering, e.g. the Living Wage, or (ii) require bidders to disclose wage costs in their bids. However, (ii) may be harder for operators with other activities where staff flex between other, non-PTOM, activities undertaken by the Operator (e.g. commercial charter services).

In Wellington's case it was noted by the Council[57] prior to implementation that the RFT documents did not include reference to transitioning any surplus staff following the selection of a new Operator, or the terms and conditions that would apply[58].

Operators

Key points raised were:

- That the data and the rhetoric do not match, and that driver wages have been improving since PTOM implementation. However, recruitment is difficult due to competition from other industries and the challenges of conditions such as split shifts driven by timetabling requirements.
- That Operators' efficiency depends on managing a wide range of factors other than wage costs, and that wages alone represent only part of the total employment cost. Verbal feedback suggested that wages make up 45-55% of direct costs.
- That the partnership, evaluation and variations process are all price focused. This is a reflection of implementation, not PTOM. Competitive tendering is putting pressure on Operator costs, and lower cost providers are advantaged. The position expressed was that Approved Organisations have reaped the benefit of reduced Operator margins, and that they are in a position to help address this issue by supporting improved driver conditions via the RFT process. This would require additional funding, and an open discussion is required about this.
- That any wage floor applied in PTOM contracting should recognise regional wage variations. Whatever the floor, there will be a knock-on impact to maintain wage scales.
- That a "flatter" timetable would help shift patterns and improve conditions, but this would need funding.

8.4.6 Analysis – Asset ownership arrangements

Qualitative evidence

Approved Organisations

The relevance of depot ownership depends on local factors, and comments from Approved Organisations were mixed but did not indicate significant concern. ECAN indicated that it is less relevant in Christchurch due to greater land availability, but Auckland's more limited supply makes it a more relevant factor (and potentially a barrier to new entrants).

Approved Organisations in smaller areas were clearer that access to a depot could be important in determining procurement outcomes but did not suggest that it is decisive. However, several of these Approved Organisations acknowledged that Council-imposed solutions such as acquiring and then leasing a depot, could also create problems.

A number of Organisations noted that decarbonisation is a significant question. If EVs are to play a greater role in future, the asset ownership model will probably be closer to rail. This will require significant thought, and a discussion around funding and finance. The existing depot and infrastructure portfolio would likely see significant change.

Operators

Operators expressed mixed views on the relevance of ownership or access to depots in determining procurement outcomes. There was no clear consensus.

[57] GWRC Council paper 26 May 2016 presentation public excluded; PE 2016.46 27 September 2016, cited in TDM Consulting (March 2018) *PTOM Impact on Staff – Independent Assurance Review for GWRC*.

[58] The RFT documents reviewed during this process (GWRC, BoP RC and ECAN) did not reference explicit transitioning requirements for the incumbent Operator's staff to be transferred to the new Operator, or the terms and conditions that would apply. However, ECAN and GWRC did include wider transport contract transitioning experience as an evaluation criteria. Among other things this assessed tenderers' record in reallocating staff and resources.

- Some Operators were clear that new entrants would not be disadvantaged, as a range of options would be available (e.g. leasing).
- However, others stated that ownership of a depot in a strategic location could be critical in determining an Operator's costs, and therefore confer a competitive advantage on the incumbent. Also, new entrants face the challenge of entering into depot leases based on contingent results of a tendering process, which potentially places transition plans at risk.
- However, one Operator noted that any system of Council ownership of depots has the downside of making Operators a driver supplier only, further focusing the differentiation between Operators on price, and by extension wage rates.
- Operators expressed similar views as Approved Organisations regarding the future use of EVs and its impact on depot requirements, in particular the need for an open discussion about funding new infrastructure and buses. Operators with significant depot landholdings noted the potential additional problem of being faced with stranded assets in the event that their depots cannot be used.

However, Operators were unanimous in their criticism of variations in application of the Requirements for Urban Buses (for example Vehicle Quality Standards in Wellington). It was cited as a significant problem, adding costs and preventing Operators from transferring vehicles between (and even in some cases within) regions, with in their view little appreciable benefit for passengers. As well as the costs of adapting to region-specific specifications, Operators noted that this results in asset risk pricing and significant extra complexity, all of which ultimately adds to costs for Approved Organisations. We note that Waka Kotahi released a series of amendments to the RUB for consultation in September 2020, after the completion of this evaluation.

8.4.7 Other qualitative feedback related to Workstream 2

Trade Unions

Comments were consistent with 2.4, that the current cost focus creates downward pressure on wages. The relative weighting of price and quality was criticised. Unions called for better transition arrangements for staff rendered unemployed by changes in Operators, and for national (or at least regional) wage floors to be applied to tendering processes.

However, it was also acknowledged that many problems have been created by implementation as well as PTOM, for example in Wellington where feedback was that too much was attempted at once.

Approved Organisations

Key comments were that:

- Most of the outcomes of PTOM are linked to implementation, not the model (refer also to the Operator comments below).
- Operators do sometimes underbid costs, and this has led to some improvements in later implementations.
- Later adopters such as ECAN noted the benefits of consulting with and learning from other Approved Organisations to better plan their own implementations, including evaluation criteria, contract design and other processes.
- Transition requires proper attention during the planning process.
- Both Approved Organisations and Operators noted that the introduction of EVs would mean potentially significant change for infrastructure, dependence on utilities, depot locations and performance. This will require attention in procurement, contracting, and funding.

Operators

- The most significant single message was that most problems are associated with implementation rather than the PTOM framework. PTOM principles were described as "sound" by a majority of Operators.
- Asset risk is a significant problem, largely due to varying standards between regions.
- That quality is not weighted properly.
- That the double peak of public transport services drives Approved Organisations' focus and increases the need for split shifts. Collaboration and data sharing (so Approved Organisations understand implications of their service requirements) might make changes easier.

- That transition processes create costs and impacts that are probably underestimated when implementing PTOM. Operators noted that they retain risk in this area (especially publicity[59]). More consultation with Operators and incremental implementation would help.
- That Approved Organisations' procurement processes, and the experience of their staff, are variable. The phasing of tendering is important. Phasing in Auckland reduced transition risk and helped build and maintain Auckland Transport's capacity as well as Operators' ability to enter the tender processes (while noting that this is not an option for smaller regions).
- Wellington's implementation was identified as problematic due to trying to do everything at once, including tendering all of its contracts and enacting a network redesign. This was harder for operators, customers and GWRC's internal capacity. With a significant period of time until the next procurement round, some Operators expressed concern that internal capability may be lost.

8.5 Workstream 3 findings

Scope: How has the management of PTOM contracts affected service performance, customer satisfaction, and the effectiveness of partnerships?

8.5.1 Findings

Finding 3.1

The data provides evidence suggesting that the implementation of PTOM has had a positive impact on customer satisfaction in some areas (e.g. Auckland and Otago). While these correlations do not prove a causal link, because other factors have changed in parallel (e.g. expansion of bus networks, integrated ticketing and new buses), many of these changes were enabled by the introduction of PTOM. In other regions the data does not indicate any significant changes. There is one clear correlation with an adverse impact in Wellington. It is likely that this reflects challenges with the region's implementation of a new network and PTOM contracts in 2018.

Finding 3.2

Approved Organisations and Operators clearly recognise the importance of an effective partnership. However, there was consistent qualitative feedback from Operators, and in some cases Approved Organisations, that the partnership is not operating as it could. Operators reported that they had little input into planning decisions and felt that greater consultation with Operators in service design and planning changes might improve this. Other concerns raised by Operators, such as with the risk allocation within contracts and the variations process were not possible to assess in detail.

Finding 3.3

Relationships appear to be strongly dependent on region-specific factors such as the personal relationships between the contract management teams, the nature of the contract and the performance regime[60]. These are factors that would exist in any comparable relationship, including non-PTOM contracts.

8.5.2 Analysis – Customer satisfaction

Waka Kotahi collates the results of regular customer surveys in regions where PTOM operates, asking consistent questions each year. We have reviewed the results for the overall level of customers' satisfaction. Customers are asked to score this on a 1-10 scale, with 10 being the maximum score. The following charts are all sourced from Waka Kotahi survey data for the period 2012-19. Note that for some regions the data does not cover all years.

The results for each region are presented in Appendix 7. The results suggest that:

- The data do not provide clear evidence suggesting that the implementation of PTOM has a positive or negative impact on customer satisfaction. While correlations are apparent in some regions, a causal link cannot be proven.

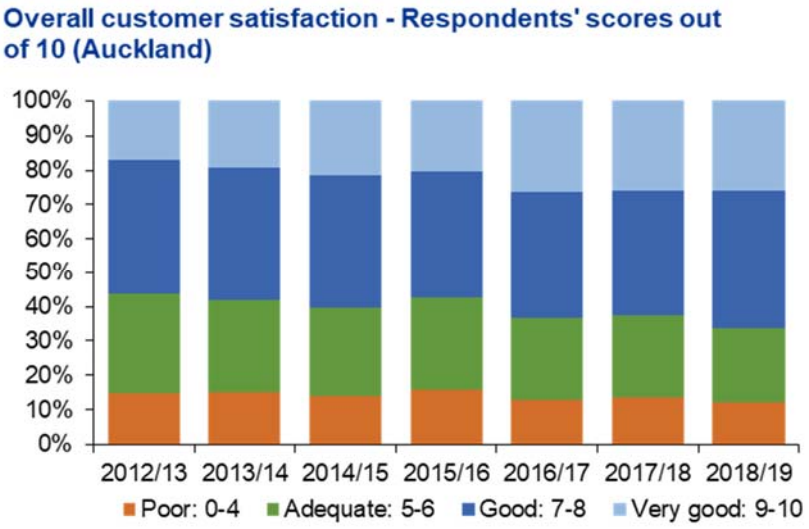
[59] For Units where the incumbent is reappointed, this is not relevant.

[60] The system by which the Approved Organisation secures desirable performance from the operator. In this case, it includes inter alia, the framework of KPIs, operating requirements, penalties and incentives, and the Financial Incentive Mechanism (FIM).

The clearest correlation is evident in Wellington (refer below), and it is likely that the results reflect challenges with the region's implementation of a new network and PTOM contracts in 2018.

— Auckland has demonstrated a steady but consistent improvement in its survey results in the period since its phased PTOM implementation from 2016. A causal link cannot be proven, but the results indicate generally higher scores since 2015/16, as illustrated below:

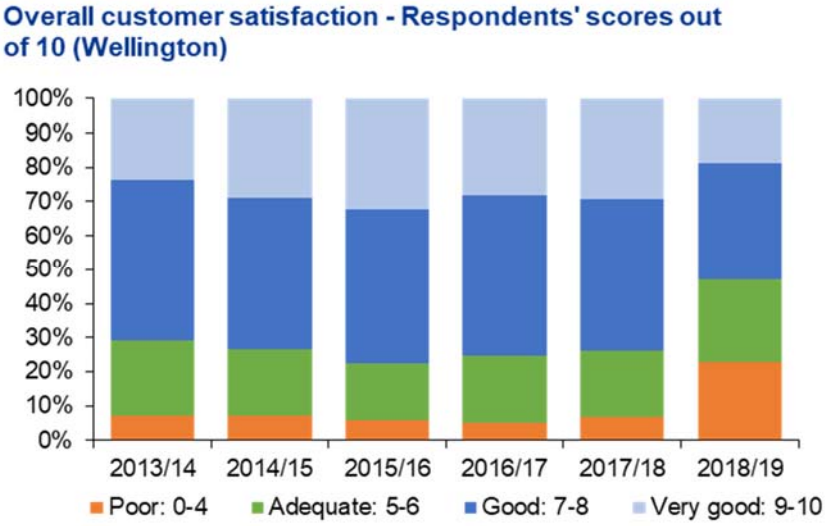
Figure 34: Overall Customer satisfaction – Respondents' scores out of 10 (Auckland)



— Additional customer feedback survey data was received from Auckland Transport. This is included in Appendix 6. While limited to the Auckland region, it indicates a clear increase in overall customer satisfaction scores in the three years from September 2016. In the three years prior to September 2016, quarterly or six-monthly surveys based on 12 month rolling averages showed satisfaction hovering in the 79% to 84% range. By September 2017, scores reached 90% and have remained at that level until December 2019.

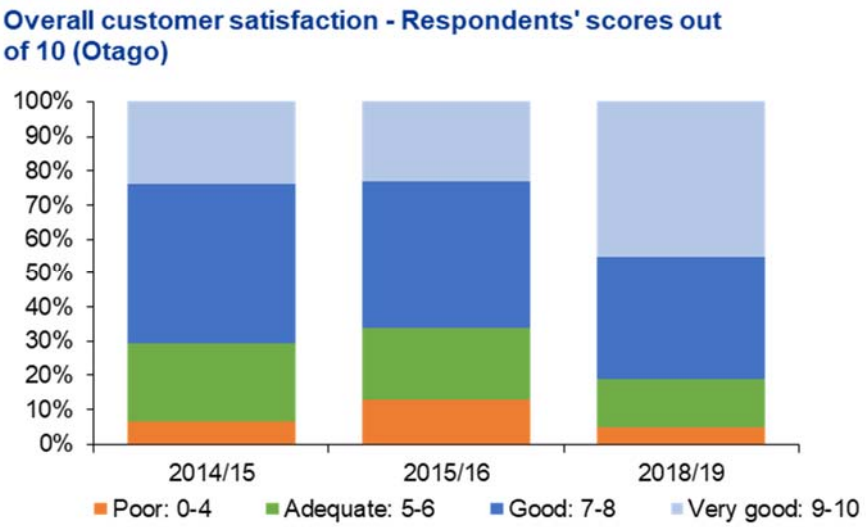
— Wellington experienced well documented problems in 2018 following its implementation of PTOM and network redesign. The survey data supports this. Verbal evidence from GWRC and some Wellington Operators suggests that the situation has improved in the last 12 months. However, equivalent survey data was not available for this period.

Figure 35: Overall Customer satisfaction – Respondents' scores out of 10 (Wellington)



— Otago (excluding Queenstown as the data only covered Dunedin central) demonstrated a moderate but clear improvement in satisfaction levels following its PTOM implementation which commenced in 2016. It is not possible to prove a causal link, but scores in the 0-4 and 5-6 ranges have decreased, with a significant rise in scores of 9 or 10 to 45% of respondents. This is consistent with verbal feedback from Otago Regional Council stating that once transition was overcome, patronage and customer feedback improved. This is illustrated below:

Figure 36: Overall Customer satisfaction – Respondents' scores out of 10 (Otago)

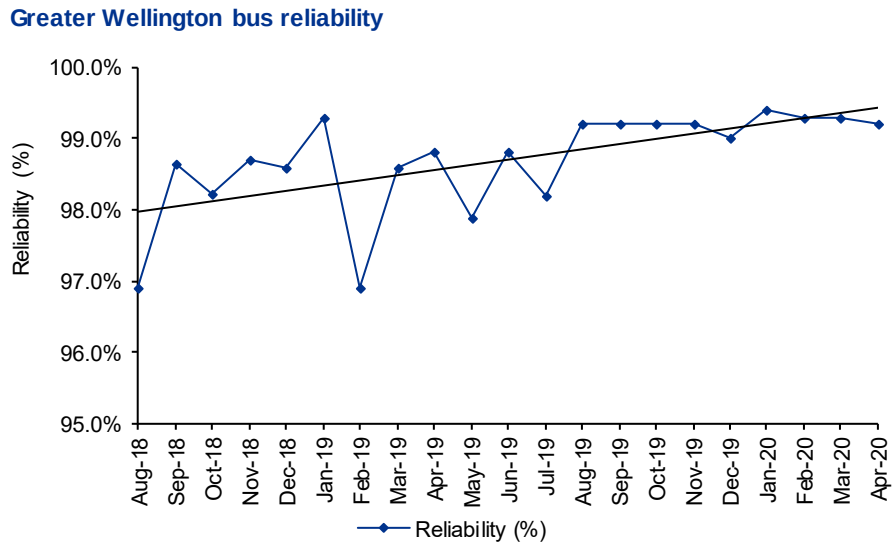


— Surveys in Hawke's Bay, Waikato and Taranaki did not show material changes in reported satisfaction levels. Results in the Bay of Plenty showed a small decline in satisfaction levels in 2016/17, with more passengers applying scores of 4-6 rather than 9 or 10 as in previous years. While there is some correlation with the region's PTOM implementation, the relationship is not clear and the change relatively small.

— Canterbury is still in the process of implementing PTOM, so no conclusions can be drawn regarding the impact of PTOM. In broad terms, satisfaction has remained consistent, with over 85% of respondents rating the network as good or very good (7+) since 2012/13.

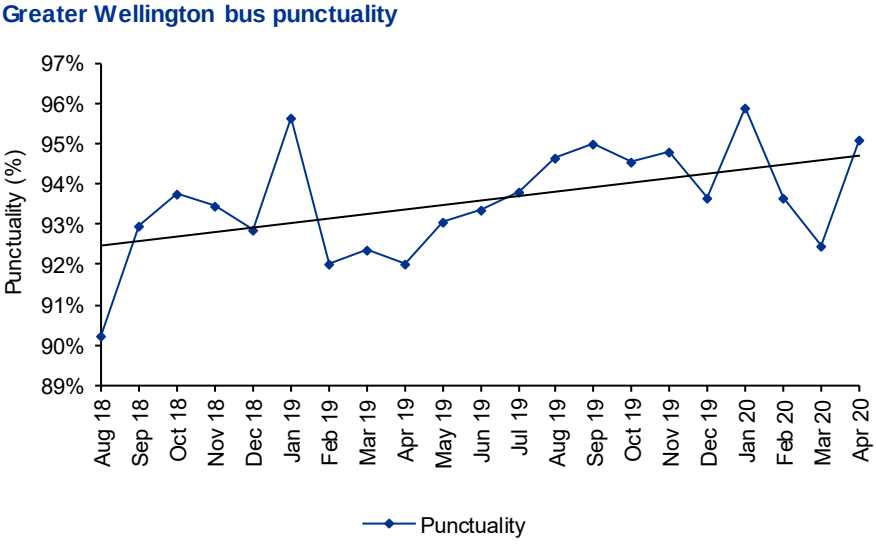
The charts below summarises bus service reliability and punctuality in Wellington and Auckland since PTOM was introduced (the black lines indicate the trend). In both cases, PTOM coincided with a noticeable improvement in performance. The data was sourced from GWRC and Auckland Transport.

Figure 37: Greater Wellington bus reliability



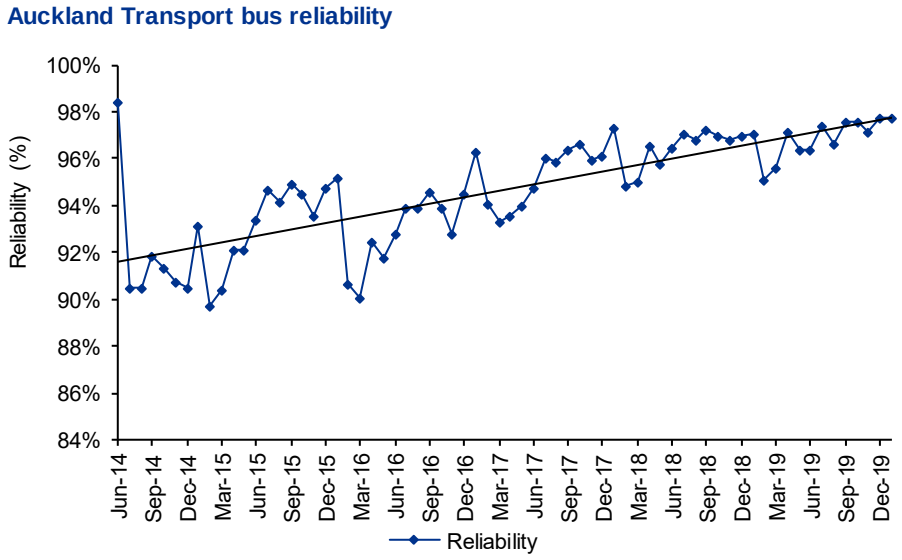
Greater Wellington bus reliability has improved between August 2018 and April 2020. There was a small (2.4%) decrease in reliability in February 2019, although this appears to have been relatively short term and there is no specific evidence linking this to the PTOM implementation.

Figure 38: Greater Wellington bus punctuality



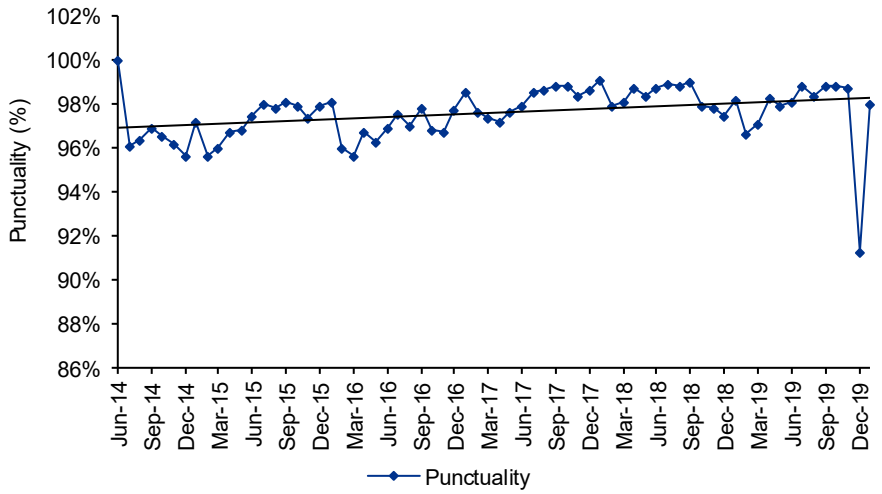
Greater Wellington bus punctuality has improved between August 2018 and April 2020. There was a decrease of 4% in February 2019 mirroring the decline in reliability described above.

Figure 39: Auckland Transport bus reliability



Auckland Transport bus reliability has improved between June 2014 and December 2019. It is unclear if this is a result of PTOM. We note that this metric fell sharply at September 2014 and has fluctuated through to June 2018. Auckland Transport noted that this coincided with the implementation of a number of PTOM contracts, which required a period of calibration before realistic running times could be imposed. Once suitable datasets were collated, recalibration occurred (we note that the rigour imposed during calibration strongly affects performance against the target).

Figure 40: Auckland Transport bus punctuality



Auckland Transport bus punctuality has improved (when adjusting for June 2014) between June 2014 and December 2019. It is unclear if this is a result of PTOM. We note that there were sharp declines at June 2014 and December 2019 that may have been a result of data collection issues or non-recurring major works on arterial routes.

Qualitative evidence

Approved Organisations

Feedback was generally positive, and associated PTOM with improvements in performance[61]. Operators noted that customer surveys are controlled by the relevant Council and their involvement is limited.

8.5.3 Analysis - Service performance

Qualitative evidence

Trade Unions

This workstream was not a focus of Trade Unions' concerns, although First Union noted that the KPI regime generally provides the right incentives for Operator service performance.

Approved Organisations

Consistently positive feedback in terms of enabling a regional transport strategy, although some Approved Organisations in smaller regions noted that PTOM was more likely to deliver bigger changes in larger urban areas. It was also accepted that there were often initial problems with local implementation and transition to the new model.

Approved Organisations were generally comfortable with the incentive mechanisms in PTOM contracts as a means to deliver improved performance. The fact that PTOM contracts are required to have a performance-based element was seen as a positive.

Several Approved Organisations noted that they had focused on aligning risk allocation with control when designing the FIM and KPI regime. The general view was that the mechanisms are working, but often took time to bed in, or required recalibration or redefining with Operators. This often paralleled the development of the working relationship with the Operator, which often became less confrontational and more constructive over time. However, limited evidence was provided on any changes in service performance pre- and post-PTOM. Other feedback indicated that developing a FIM in conjunction with redesigning a bus network was difficult as there was no data available on the new networks performance.

Operators

Operators were less comfortable with the risk allocation. Several noted that risk is not aligned to control, and this affects the partnership (for example citing limited incentives to grow patronage). Similarly, some Operators noted exposure to, or difficulty in agreeing relief for, events beyond their control (although some exceptions were noted, including in some cases Auckland Transport's exemptions regime).

The costs of KPI reporting were described as excessive and probably not costed in Council models.

The perceived focus on cost in procurement meant that tenders did not allow for network expansion. This has a long lead time - longer than Approved Organisations give for service changes via the variations mechanism, and Operators face upfront costs.

8.5.4 Analysis - Penalties and incentives

Qualitative evidence

Approved Organisations

An overall view that while designing, calibrating and contracting the FIM are difficult, they are broadly working. However, benefits can be limited in the initial period until sufficient benchmarking data becomes available.

Some smaller Approved Organisations had consulted with larger counterparts on the design and development of their FIMs. They noted that to be effective required upfront investment in data systems and internal capacity.

Approved Organisations in the smallest areas noted that benefits of a FIM did not justify the additional time, cost and complexity involved. The same results could be achieved with a simpler KPI framework.

Operators

[61] Limited data was provided by Councils, although Waka Kotahi did submit survey results. Refer to section 8.4.

A consistent request for greater flexibility in the FIM component of the wider performance regime, and a more realistic calibration of penalties and rewards. At the same time, inconsistent implementation across regions created unnecessary complexity and costs.

A view that PTOM has delivered growth in patronage and quality, but that the overall performance regime is overly focused on a "stick" rather than a "carrot". Operators stated that the use and impact of financial penalties is more prevalent than the incentives/financial bonuses available for above-par performance, and that the bonuses available are not commensurate with the additional effort required to achieve the required performance levels. It was also put to us that some of the KPIs create the wrong incentives.

Almost every Operator stated that the bonuses available are too small to act as an incentive and the penalties too heavy, and that the lack of balance and problems with the risk allocation were affecting the nature of the partnership with Approved Organisations.

8.5.5 Analysis – Partnerships and contract management

Qualitative evidence

Approved Organisations

Many Approved Organisations noted that relationships had improved after initial challenges. The contract and variations mechanism enabled changes to be negotiated where necessary. They were generally more positive than the Operators (see below). However, a number did note the administrative burden that an effective monitoring and compliance function entails.

Approved Organisations administering both large cities and smaller towns noted that the relationship was as key in driving Operator performance. Auckland Transport and ECAN noted that involvement of Operators in the PTOM implementation process was helpful.

However, it was accepted that the approach to the partnership and managing the contract would have been similar with or without PTOM.

Operators

Operators noted consistently that the current arrangements for partnerships between Operators and Approved Organisations are not working as envisaged and intended when PTOM was designed. This was also summarised in a critique of PTOM published by the BCA in March 2020:

"*Many parties criticise PTOM, however tendering is not new, and most issues have arisen from inconsistent and partnership-incompatible AO behaviours.*"[62]

Almost all Operators described the relationship as adversarial or in one case "master-slave", rather than a partnership. However, they also commented that in many cases the situation had improved after initial problems were resolved, with some Operators noting that relationships were now working well.

They also consistently identified the importance of working with experienced, commercially minded counterparts at Approved Organisations. In some cases, staff turnover at Approved Organisations has worked against this.

Operators made the following suggestions to improve the relationship:

- Adopting a less prescriptive, controlling approach.
- A fairer risk allocation.
- More meaningful use of Operators' extensive experience in the network planning and budgeting processes.
- More consistent contract management processes between regions.
- Improving Approved Organisations' commercial knowledge to better understand the implications of seemingly small service changes e.g. increasing peak time services. Given that the overall operating cost is highly sensitive to the Peak Vehicle Requirement and related driver needs, relatively small changes can have a disproportionate cost impact.

[62] Bus and Coach Association (New Zealand) *The New Zealand Public Transport Operating Model*. Critique by members, March 2020

Approved Organisations need a better understanding of risk pricing and the price of higher quality.

8.5.6 Other qualitative feedback related to Workstream 3

Approved Organisations

Other areas of consistent feedback included:

- The majority of changes in transport networks seen in recent years could have been achieved without PTOM, but it would have been harder, taken longer and would not have delivered the same benefits.
- PTOM has been an important enabler in reallocating advertising revenue from the Operator to the Council, therefore facilitating network-wide marketing and branding.
- In more remote areas, such as Taranaki, there is limited scope for the Operator to drive behavioural change. This needs to be recognised by the contract and FIM. External factors such as fuel prices and their impact on car use are beyond the influence of PTOM.

Operators

General comments on the contract management process noted that:

- Incumbent Operators have experienced staff that could add value, but that this expertise is often not used by Approved Organisations.
- There is wide variation in the contracts used. Wellington's in particular was criticised for its size, complexity and lack of flexibility. Others were judged not specific enough. Several Operators described Auckland Transport's contract as more balanced and having a more workable performance regime.
- The BCA suggested that a more standardised contract would be more efficient and improve procurement and contract management processes.
- Auckland Transport's consultation with Operators on developing the contract and performance regime was described as challenging but worthwhile.
- The delay in indexation payments to Operators creates cost and cashflow pressure, and is also applied inconsistently across New Zealand.
- Transition arrangements do not allow time for staff retraining, driver training, implementation of new KPIs and data and reporting processes.

8.6 Workstream 4 findings

Scope: How have exemptions for commercial services and other exclusions affected the ability to integrate networks, service levels and costs to passengers and the taxpayer?

Relatively little evidence has been collected in this area, and the bulk of evidence expected from Operators was not collected. The quantitative data collected from Waka Kotahi and Approved Organisations did not cover exempted services in detail, and the development of PTOM did not consider alternative business models such as on-demand services (noting that services such as ride-shares were not envisaged when PTOM was developed). The qualitative feedback that was obtained suggests that:

8.6.1 Findings

Finding 4.1

For Operators, the biggest barrier to running effective, commercially viable exempt services is the risk of competition from publicly subsidised PTOM units.

Finding 4.2

For services such as Auckland's ferries, Approved Organisations will have to review which services it believes are a core part of its network and accept that those services operating without Council and Waka Kotahi support will run with higher fare structures. This has wider implications. Approved Organisations can be exposed to negative publicity following poor performance of exempt services that they do not control. The fundamental challenge is that while the

integration of PTOM and exempt services can be increased (via both timetabling and ticketing systems), the funding system remains substantially different[63].

Finding 4.3

The integration of exempt and PTOM services is logistically straightforward, at least in terms of timetabling. However, it will be necessary to agree a mechanism to share the costs and risks of deploying integrated ticketing technology.

Finding 4.4

While integrated ticketing is technically possible, extending a common fares policy to exempt services will be difficult without a funding agreement between Operators and Approved Organisations[64]. Without a contract and funding agreement in place, Approved Organisations do not have the same leverage over Operators. This would be more complicated if fully integrated tickets such as AT Hop and Snapper are extended to exempt services, because the allocation of fare revenue may be complex, especially for multi-trip passenger journeys.

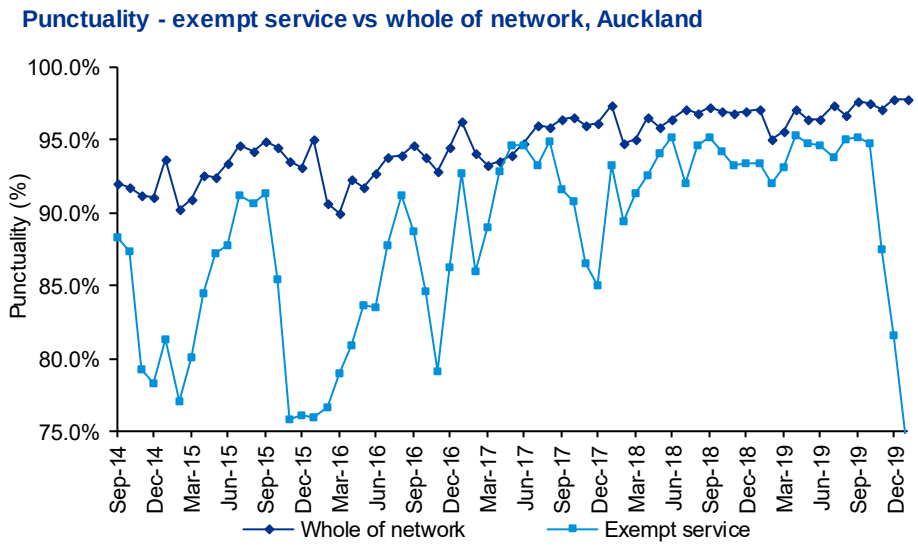
Finding 4.5

The funding discussion between Waka Kotahi, Approved Organisations and Operators would need to recognise that the users of many exempt services are different from those of the PTOM network. For example, they may include tourists and airport commuters that do not necessarily contribute to the local ratepayer base. This may have been a factor in the original decision to exempt these services. This would affect the relative allocation of any public contribution between locally- and nationally-sourced funding.

8.6.2 Additional analysis related to Workstream 4

Auckland Transport did provide some punctuality and reliability KPIs for an exempt service. The evidence suggests that PTOM-contracted services have achieved better performance than a comparator exempt service. However, we note that comparisons with a single exempt service provides a limited evidence base.

Figure 41: Punctuality – exempt service vs whole of network, Auckland



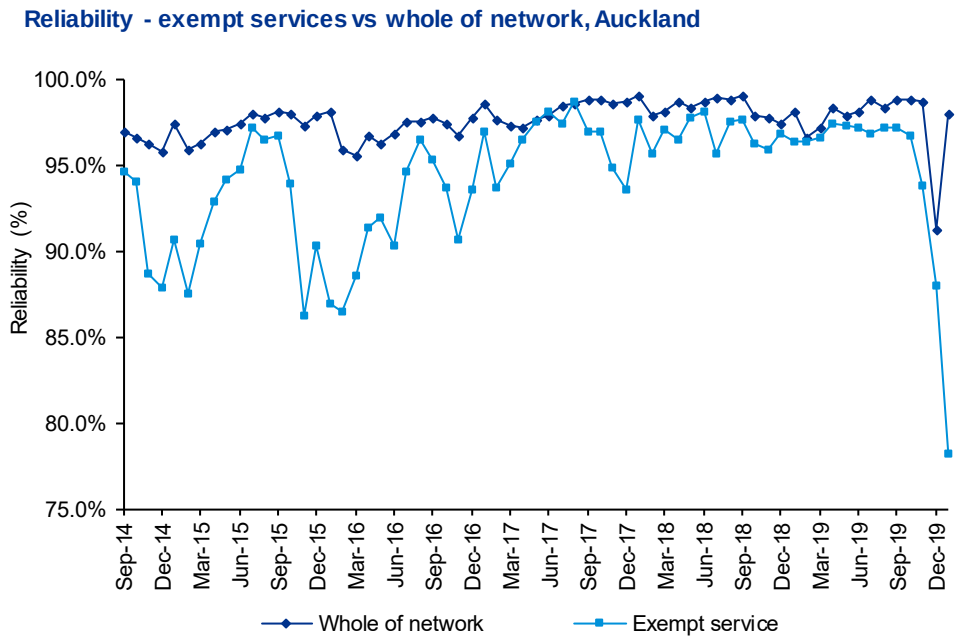
The above graph tracks the punctuality of an exempt service against the Auckland whole of network between September 2014 and December 2019. It is important to note that we are unable to determine at this stage whether the exempt service's punctuality performance is included in the whole of network figures. The data suggests that the exempt service performance is consistently below the whole of network performance, other than at June 2017. Also, if

[63] Waka Kotahi is prevented from investing National Land Transport Fund monies into exempt services, therefore this would require Approved Organisations to fully fund the initiative.

[64] Waka Kotahi is prevented from investing National Land Transport Fund monies into exempt services.

the exempt service performance is included in the whole of network, it is likely that the whole of network performance would be greater than what is currently included in the graph. We are unsure what is driving the irregular data point at December 2019, but as there is only one service involved, it may be due to summer seasonal variations or infrastructure works affecting the route during the peak holiday season.

Figure 42: Reliability – exempt service vs whole of network, Auckland



The above graph tracks the reliability of an exempt service against the Auckland whole of network between September 2014 and December 2019. It is important to note that we are unable to determine at this stage whether the exempt service's reliability performance is included in the whole of network figures. The data suggests that the exempt service's performance is consistently below the whole of network performance, other than at March and June 2017. The cause of the regular drop-off in performance in spring/summer is not clear but may be due to increased congestions or roadworks.

Comparable exempt and subsidised service

The SkyBus Auckland City Express service operates a service between Auckland CBD and Auckland international Airport departing every 30 minutes. This service cost $17 for a one way trip. The journey time is approximately 60 minutes.

Comparatively, a public bus can also be taken from the CBD to the Airport every 30 minutes at a cost of $5. This trip requires three bus interchanges and has a 130 minute journey time.

It is likely that the SkyBus Auckland City Express service is more convenient that a public subsidised bus, however it is more than three times the cost.

Exempt services do not have exclusive operating rights and exempt service operators have the right to set their own fares and timetables. As exempt services are more commercial in nature, their Operators are exposed to revenue risk and they are more susceptible to changes in market conditions. Covid-19's impact on the economy has had repercussions on exempt services, with some reducing or entirely ceasing operations. The differential in fares may reflect an Operator risk premium built into the ticket price.

9 Data received and validation exercise

9.1.1 Summary

This section describes some of the gaps in information sought from stakeholders, and the validation process conducted after we completed the initial stage of the evaluation.

The bulk of the required qualitative data was obtained prior to the Covid-19 shutdown. The quantitative data obtained was more limited (especially from Operators). A validation process was conducted following collation of an earlier draft version of this Report. It focused on:

1. Addressing specific queries with (or gaps in) quantitative data; and
2. The validation of our findings.

The validation exercise was discussed with all parties during the initial consultation process, and we believe that it provides a more robust basis for our findings. The process involved stakeholders being sent an earlier draft version of this Report in confidence, to identify any factual errors or misinterpretation of the qualitative evidence submitted by stakeholders. This also included a request for comment on our findings. The validation process was important to ensure we captured and fairly represented views expressed in the interviews.

Questionnaires and RFIs were distributed to stakeholders prior to the Covid-19 shutdown. However, in most cases these were not submitted. Stakeholder feedback indicated that this was partly due to stakeholders being occupied with the localised Covid-19 outbreak in Auckland following the lifting of the initial lockdown.

The Waka Kotahi data we have gathered came from a range of sources. In some cases there were inconsistencies between datasets which were investigated during the validation process. These included information regarding changes in farebox recovery ratios, public funding, in-service and passenger kilometres since the introduction of PTOM.

9.1.2 Workstream 1: Regional public transport planning

Other than queries linked to the Waka Kotahi data and obtaining equivalent information from a sample of Approved Organisations where possible, we have obtained the bulk of data required. Any future additional work would focus on seeking more evidence of increased use of/benefits from integrated networks and ticketing, such as Hop/Snapper card use, and analysis of multi-trip journeys. This is likely to be more relevant in larger urban centres such as Auckland, Wellington, Dunedin and Christchurch.

9.1.3 Workstream 2: Public transport procurement

Collecting the completed questionnaires currently with stakeholders would support evidence gathered in interviews.

We received only very limited quantitative data from Operators. This is most relevant to Workstream 2. We have reservations that Operators will be willing to share detailed information on costs (including wage levels) and margins. We also note that comparisons of wage rates between Operators, and over time, are not straightforward. This is due to the industry's wide range of different wage structures and shift patterns. For this reason, we did not seek further data to assess the financial viability of Operators or impacts on industry wages.

The quantitative data collected from Waka Kotahi does have some inconsistencies with qualitative feedback given by Approved Organisations. In particular, in some cases verbal feedback from Approved Organisations is more positive than the Waka Kotahi data we have obtained regarding proportionate increases in service and/or passenger kilometres relative to contract costs. This was clarified during the validation process, although some inconsistencies remain (for example regarding changes in contract costs and service km post-PTOM in some areas).

Any future additional work would focus on the level and scope of contract variations negotiated following PTOM implementation. Additional research might help clarify how often contract prices or service scopes required amendments post award (potentially reflecting on the planning and procurement processes). It may also indicate the relationship between variations, post-award cost changes, and Operator sustainability. It is also relevant to the nature of the partnership (Workstream 3).

Quantitative data around the impact of incentive payments and penalties made under contract FIMs would also support the review of Operator sustainability, and potentially any link to changes in contract costs after the initial contract award.

9.1.4 Workstream 3: Contract management

The bulk of evidence provided for this workstream was qualitative.

As with Workstreams 1 and 2, collecting or replicating the questionnaires sent to stakeholders would be helpful for any future work. In particular these will provide more consistent feedback across the Council and Operator groups covering the nature of the partnership and suggestions for improvement. The questions also ask for views on the extent to which positive or negative outcomes have been the result of PTOM or other factors such as local implementation.

One area where we are lacking quantitative data is service performance and FIM penalty/incentive payments. This was requested in the RFIs previously sent to stakeholders and would have enabled an examination of changes in service performance.

9.1.5 Workstream 4: Exempt services

The number of exempt services is limited. Views on the impact of exemptions and exclusions on integration and service quality of the overall network have been based on qualitative feedback from Approved Organisations and Operators. The impacts are closely linked to (a.) Approved Organisations' views on which services constitute an essential part of the network, e.g. regarding Auckland ferry services, and (b.) contractual and funding agreements relating to the costs of integrating ticketing systems and fare policies.

The potential use and impact of on-demand services is more relevant now than at the time PTOM was developed, especially post-Covid-19. Contracting these services would require a different approach from both Approved Organisations and Operators, as the usual PTOM bid-back of a timetable and service level would not be possible. However, they do offer significant potential to move from a fixed to a more variable cost base and align costs with patronage, at least for lower volume routes. Given the pace of development of these services since 2012, the Ministry may wish to review options, for example on routes that are low-use, rural or that are not commercially viable.

Inherent Limitations

This report has been prepared in accordance with our Engagement Letter dated 5 November 2019. Unless stated otherwise in the Engagement Letter, this report is not to be shared with third parties. However, we are aware that you may wish to disclose to central agencies and/or relevant Ministers offices elements of any report we provide to you under the terms of this engagement. In this event, we will not require central agencies or relevant Ministers' offices to sign any separate waivers. The services provided under our engagement letter ("Services") have not been undertaken in accordance with any auditing, review or assurance standards. The term "Audit/Review" used in this report does not relate to an Audit/Review as defined under professional assurance standards.

The information presented in this report is based on that made available to us in the course of our work/publicly available information/information provided by Ministry of Transport. We have indicated within this report the sources of the information provided. Unless otherwise stated in this report, we have relied upon the truth, accuracy and completeness of any information provided or made available to us in connection with the Services without independently verifying it.

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We do not warrant or guarantee the achievement of any such forecasts or projections. There will usually be differences between forecast or projected and actual results, because events and circumstances frequently do not occur as expected or predicted, and those differences may be material.

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Our report was prepared solely in accordance with the specific terms of reference set out in the engagement letter agreed between ourselves and the Ministry of Transport ("MoT") and for no other purpose. Other than our responsibility to the MoT, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility. KPMG expressly disclaim any and all liability for any loss or damage of whatever kind to any person acting on information contained in this report, other than the MoT.

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The report dated 15 December 2020 was prepared based on the information available at the time. KPMG have no obligation to update our report or revise the information contained therein due to events and transactions occurring subsequent to the date of the report.

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