

cchl

SUBMISSION TO
TRANSPORT AND INDUSTRIAL
RELATIONS SELECT COMMITTEE

On

PUBLIC TRANSPORT MANAGEMENT
BILL

From

Christchurch City Holdings Limited

1 Background and Introduction

- 1.1** This submission is made by Christchurch City Holdings Limited (CCHL) which has serious concerns about the way that public transport is administered in New Zealand.
- 1.2** CCHL, is 100% owned by Christchurch City Council, and is the sole shareholder of Red Bus Limited. This submission is made by CCHL on its own behalf and not on behalf of the Christchurch City Council.
- 1.3** Red Bus holds around 80% of the urban passenger services in Christchurch and is a quality operator which sets high standards for passenger services in the greater Christchurch area. It does this with the encouragement of its publicly owned shareholder for the benefit of the community it serves.
- 1.4** CCHL has observed over the past 14 years the problems and stresses in the current system of managing the allocation of passenger services in Christchurch and considers that it is now time for a radical revamp of the way urban passenger transport is administered in New Zealand. It is time for New Zealand to return to the mainstream of how urban transport systems are owned and operate around the world.
- 1.5** CCHL is concerned that the bill only tinkers with the current system and through giving more powers and potential to control the system to regional councils that this will stifle efficiency on the part of the bus operators. It also confuses the roles of regulator and service purchaser which are conflicting and mixed objectives
- 1.6** CCHL supports the continued participation of Red Bus as an urban transport operator because it is committed to ensuring that the city has a quality operator. However, as an investor it feels vulnerable because there is no certainty that contracts will be renewed in favour of a quality operator. This uncertainty is a disincentive to Red Bus and other quality providers from committing to reinvestment in buses and infrastructure.
- 1.7** CCHL has observed behaviour under the current legislation where commercially registered routes capable of providing excellent service at no cost to the ratepayer or taxpayer have been placed under stress by the awarding of subsidised contracts which compete for the patronage on the same route at a significant additional marginal cost to the ratepayer.

2 Structure of Submission

This submission has two main parts:

- 2.1** Part 1 – Questions the fundamental public passenger transport model in current New Zealand law and calls for a complete review.
- 2.2** Part 2 – Deals with the provisions of the bill and calls for change in some areas.

3 Specific Submissions:

Part 1 – Fundamental change required

- 3.1** That a new urban transport model be developed which ensures a coordinated delivery of service from one publicly owned corporate entity operating in each major city in a regulated environment to ensure minimum standards are achieved. This would have the following characteristics:
 - 3.1.1** A single corporatised transport company be established for each of Auckland, Wellington and Christchurch (as a minimum). The company should own and operate trains, light rail, monorail, and any other modes that come into being.
 - 3.1.2** These transport companies should be owned by the local authority(ies), or other community ownership model in the area in which they operate and these companies should have complete control over all operational issues including marketing, consulting with public, timetables, and physical service provision. They should also provide detailed public information on performance, with commercial focus around delivering performance standards..
 - 3.1.3** These companies should be run on commercial lines with commercial boards operating under the guidance of a Statement of Intent which sets minimum standards as required by the local authority owners.
 - 3.1.4** The shareholding local authority would be responsible for administering distribution of taxpayer subsidies and rates subsidies and would set minimum standards of service which would be have to be complied with to uplift subsidies.
 - 3.1.5** Regulation should be minimised to an independent ombudsman office to address service issues and customer complaints. Normal transparency and accountability practice should be sufficient to allow the public to easily hold the shareholding council accountable for financial and

service performance. This is the standard model in cities internationally.

Part 2 – submissions on proposed bill

- 3.2 If the current bill is proceeded with then as a minimum the following changes should be made:**
- 3.2.1 Regional Councils should not be able to tender subsidised services over the top of a commercial service which it would be in direct competition with.**
 - 3.2.2 Commercial operators should not be required to provide detailed financial information about a commercial service to a regional Council.**
 - 3.2.3 Regional Councils should not have the ability to require operators to paint all buses in a standard colour and/or exclude advertising and its associated revenue**
 - 3.2.4 If there are financial effects resulting from a control imposed by a regional council then the operator should be compensated accordingly.**
 - 3.2.5 A regional council should be able to require access to patronage data about commercial routes to enable planning of current and future passenger transport services. The information must be held confidentially.**

4 Part 1 - New Model needed for Public Transport – Detailed supporting comment

The Issues

- 4.1 The introduction to the Bill states that “the public policy objective is to enable regional council's to obtain best value for money in contributing to achieving an integrated, safe, responsive and sustainable land transport system having regard to the desirability of encouraging fair competition and encouraging competitive and efficient markets.”**
- 4.2 This statement pre-supposes that the competitive market model is the best one to achieve an integrated, safe, responsive and sustainable land transport system. The central message of this submission is that the competitive market model does not do that and that a better fundamental model needs to be developed which contributes better to long term sustainability of the transport infrastructure.**
- 4.3 The current public transport legislation was developed in the early 1990's on the basis of a competitive market pricing model when that**

approach was being applied in a wide range of public sector activities. While many aspects of the model are good in theory, especially relating to short term pricing outcomes, in practice the model works against operators reinvesting for the long term good of a quality industry. Competition in the industry from operators with a short term focus forces quality operators to price their tenders with such slim margins that they find it difficult to build in sufficient for long term viability of a continuing quality service. This model has also failed to produce a coordinated network model. The competitive market pricing model has not proved to be suitable on both theoretical and practical grounds.

- 4.4 There are much more effective models in operation in cities all over the world, right now. Moderate sized cities which provide good examples are Portland Oregon and Sacramento California where there are well integrated publicly owned systems that work. Examples of larger cities are Toronto, Washington DC, and San Francisco. The Toronto Transport Commission operate buses, trains, streetcars and subway for the whole of the city and the surrounding area.
- 4.5 The separation of networks into tenders by separate routes under the current model has resulted in fragmented and uncoordinated transport systems. Transport systems should be handled as complete networks preferably on a city wide basis. As a minimum tenders should be for at least mini networks. It is envisaged that Christchurch would be one network and in Auckland and Wellington there might be at most two or three mini networks.
- 4.6 No true market exists for a whole variety of reasons. The current system is an expensive bureaucratic nightmare that is inefficient and inequitable and the result is that the poor people who are dependent on public transport are hurt the most. We understand that this is clearly evident in Auckland. It is essential that a public transport system is developed which is a more equitable system.
- 4.7 Marginally priced contracts generally mean that standards are lowered to just meet minimum compliance and low standards work against the attraction of patronage to public transport. It is for this reason that many operators do not continue in the urban passenger industry when they can more profitably and with more certainty participate in other parts of the bus operations industry such as tours and charters.
- 4.8 Competition in an un-commercial market which requires subsidisation is an unsuitable solution for a market which is very important to the community, the environment and to manage the wider demand implications of the transport sector.
- 4.9 The current model has tried to impose a quasi market where no real market can exist because of the dependence on subsidies. The

competitive tendering process and relatively short term contracts mean that contractors cannot depend on a reasonable tenure of contract in which to recover the entry and exit costs of each contractor. As a result the industry has the potential to run down through non recovery of asset costs. There is no risk to the quasi-regulators (regional councils) but there is growing difficulty for operators to be quality suppliers of service as they concentrate on meeting the bare minimum of standing costs to meet contract standards.

4.10 The New Zealand Energy Strategy argues that we should be investing in new technology such as turbo hydrogen buses. While bus companies have no certainty about renewal of short term contracts under the present regime it is impractical or foolhardy for tenderers to make investments of this nature. Without considering and controlling network economics, transport operators do not have incentives to even get their fleet composition correct, much less invest in new, higher-risk technology.

4.11 In a number of other industry sectors the government has recognised that the market driven competitive pricing model mantra of the early 1990's is not necessarily the best for all situations and has moved to a model based on a single monopoly provider with appropriate regulation. The classic example of this is the electricity industry where the infrastructure is provided by a single corporate provider which is subject to regulation to ensure fairness in pricing. Other examples where a single provider of services under government ownership has been provided for are:

Meteorological Services - NIWA
Agriquality - Assure

Internationally, the best public transport systems are publicly-owned and integrated across modes. They are sometimes, but not always subject to regulation, but nearly always subject to strict rules of transparency in finances and overall governance. This approach ensures that quality services are available where it would be wasteful to have duplication.

4.12 We believe that the structure of the electricity industry applied in Christchurch has many interesting parallels that could be applied in the public passenger transport industry with equally good effect. In Christchurch the electricity lines company is Orion and it is owned by two local authorities (CCHL holding 89%). It is operated on a corporate model overseen by a competent commercial board but in a way which recognises the importance of providing a quality service in accordance with a Statement of Intent which requires a quality product in a commercially efficient way. Orion are recognised nationally as being close to the top of the scale when compared with their peers for service quality and delivery. They have an excellent asset management plan. They are regulated by the Electricity Commission and the Commerce Commission. A variation of this model is well worth investigation for implementation for urban passenger transport. We do not believe that there needs to be a high level of regulation imposed on public transport if the structure sensibly pulls the complete provision of public transport

together under one umbrella and therefore we are not proposing a direct copy of that model but parts of it, especially the local government ownership and corporate model have much to be commended.

4.13 It is essential that the local authorities in the area of service have a say in establishing the minimum service standards required to ensure the district is well served and the service works in harmony with the greater transport needs of the area. There needs to be one body accountable for all public transport in each of Auckland, Wellington and Christchurch

4.14 It is our belief that a complete review of the operating model for public transport should be undertaken so that efficient bus transport is achieved in conjunction with the community's needs for environmentally sustainable transport alternatives in a long term viable manner.

A proposed new model

According to the preamble to the bill, 94% of public passenger transport requirements are in the three main centres. These are also the areas which have the biggest traffic problems and therefore an efficient and workable solution is needed for these areas which will encourage growing use of public transport. If a suitable lasting solution could be found for these three areas then 94% of the need would be met in a far more long term sustainable manner than at present.

4.15 We have not had the resources to fully develop a new model but we believe that government should urgently investigate a model based on the public transport systems of Portland Oregon and Sacramento California where there are well integrated publicly owned systems that work. Examples of larger cities are Toronto, Washington DC, and San Francisco where public transport systems are done well and efficiently.

4.16 A good governance model which could be applied in a city like Auckland or Wellington where there are multiple local authorities would be similar to Watercare in Auckland. In Christchurch the CCHL/subsidiary model would be appropriate and is already proven.

4.17 The basis of a new model for public transport in New Zealand should be:

4.17.1 A single corporatised transport company established for each of Auckland, Wellington and Christchurch (as a minimum).

4.17.2 These transport companies should be owned by the local authority(ies) or other community ownership model in the area in which they operate and these companies should have complete control over all operational issues including marketing, consulting with public, timetables, and physical service provision. They should also provide detailed public

information on performance, with commercial focus around delivering performance standards

- 4.17.3 These companies should be run on commercial lines with commercial boards operating under the guidance of a Statement of Intent which sets minimum standards as required by the local authority owners.
- 4.17.4 The shareholding local authority would be responsible for administering distribution of taxpayer subsidies and rates subsidies and would set minimum standards of service which would be have to be complied with to uplift subsidies.
- 4.17.5 Regulation should be minimised to an independent ombudsman office to address service issues and customer complaints. Normal transparency and accountability practice should be sufficient to allow the public to easily hold the shareholding council accountable for financial and service performance. This is the standard model in cities internationally.

5 Part 2 -Specific Concerns relating to the proposed Bill – detailed supporting comment

- 5.1 We do not support the current legislation or many of the amendments proposed in this bill relating to control of commercial operators. However, if they are enacted we wish to submit that the following issues should be dealt with.
- 5.2 This bill gives increased power to regional councils to control the industry and this has the potential to stifle initiative and innovation.
- 5.3 Commercial Service operators have an incentive to be innovative and offer better standards in the interest of attracting customers. This quality and incentive to operate commercial services could well be lost if regional Councils have the ability to impose some of the controls envisaged in the bill. In particular:
- 5.4 We are opposed to regional Councils having the ability to cancel commercial services or set up competitive services over the top of commercial services where the commercial service meets the normal operational requirements of a route in respect of frequency and quality. There have been examples in the Canterbury area where commercial services have been offered by existing providers and the regional council have tendered competing services over the top or around the fringes. This has had the effect of not only making the commercial service marginal but also imposing a cost on ratepayers which was unnecessary
- 5.5 Commercial operators should not be required to provide detailed financial information about a commercial service to a Regional Council. Such information should be confidential to the operator as it relates to

the private business of the operator. We do support the provision of patronage figures and limited operational information. This is a reasonable requirement so that the regional council can gain a complete picture of the service offered and to plan for future growth. Regional Councils consider themselves to be the providers of service and even under the current legislation have been known to set up services over the top of (or in competition to) commercial services. They therefore should not have the powers to obtain financial information from a competitor.

- 5.6** Regional Councils should not have the ability to require operators to paint all buses in a standard colour. It is reasonable to enable them to require the display of adequate signage to show that buses are part of an integrated service. However a requirement to paint all buses in the same colours irrespective of ownership disregards the fact that there is competition in the marketplace through competitive tendering and operators need to be able to differentiate their separate businesses in order to develop their commercial profile. Also painting a bus costs in the order of \$10,000 and this would have to be built in to tender prices if imposed by legislation. If a standard colour were required which excluded advertising this would add a further cost penalty to the operator that would ultimately be reflected in increased tender prices for contracted services. Both of these cost impositions work against the value for money proposition being sought as a central tenant of this bill. If regional councils want to do this, they should then invest in assets.
- 5.7** We strongly object to clause 13(5) of the bill which states that a regional Council is not liable to pay compensation for any costs or losses incurred as a result of a control being imposed by the Council. This is most unreasonable given the level of investment which is generally made when a new service has been commenced.
- 5.8** In the interest of a coordinated service in a locality we do support integrated services and ticketing . This is already in operation in the Canterbury area and is beneficial to the travelling public.
- 5.9** *Part 2 - Submission Summary:*
- 5.9.1** Regional Councils should not be able to tender subsidised services over the top of a commercial service which it would be in direct competition with.
- 5.9.2** Commercial operators should not be required to provide detailed financial information about a commercial service to a regional Council
- 5.9.3** Regional Councils should not have the ability to require operators to paint all buses in a standard colour and/or exclude advertising and its associated revenue.
- 5.9.4** If there are financial effects resulting from a control imposed by a regional council then the operator should be compensated accordingly.

- 5.9.5 A regional council should be able to require access to patronage data about commercial routes that would enable planning of current and future passenger transport services. The information must be held confidentially.

6 Overall Summary

- 6.1 The current legislation governing urban transport was established at the height of the period when competitive market pricing models were the fashionable economic model. Its application to subsidised urban transport has stifled innovation and made good operators vulnerable.
- 6.2 The potential impact of the changes will strengthen the ability of regional councils to control commercial services and this has the potential to further stifle innovation and could see quality operators businesses run down because of the loss of ability to reinvest. A new and more effective model is needed.
- 6.3 Under current legislation the Canterbury Regional Council has been reluctant to accept commercial routes which have been offered and/or operated. As a result the ratepayers have borne greater costs. The bill provides potentially tighter controls for Regional Councils over commercial routes and gives powers to regional councils which can be used to the detriment of ratepayers/taxpayers when non subsidised solutions are possible.

7 Speaking Rights

We wish to attend the committee and speak to this submission.