

Infratil

28 October 2008

The Hon Annette King
Minister of Transport
Parliament Buildings
Wellington

Dear Annette

Infratil supports the Government's focus on improving New Zealand's public transport, but we remain totally opposed to the Government's Public Transport Management Act. We believe the Act is a highly counter-productive measure that won't deliver on its objectives and will cost tax and rate-payers more for less.

Contrary to what is purported, the Act will destroy the public/private partnership model that exists today and which has worked well to significantly improve public transport from when it was predominantly owned and run by Councils. The Act's underlying theme is that Councils know best about how to operate bus (and rail) companies.

This letter provides some examples of why this is wrong and what will inevitably happen if Councils exert the powers that they have under the Act and seek to run operators from their offices rather than let the operators (who directly face the passengers every day) do it from their depots.

As you know, the Act evolved radically during its development. It became disconnected from the relatively balanced recommendations that emerged out of the consultation process overseen by the Ministry of Transport. Practically, the Act will result in the following:

- o It removes the incentive for innovative private sector investment. It reduces the private sector to contract service providers delivering against a complex performance matrix written by Councils, not operators. Operators will price against this matrix with a focus on cost reduction and avoiding fines (i.e. payment reductions when the matrix is not met). Perversely, costs will almost certainly rise because Councils are not in the business of running bus companies and don't know how to optimise quality services at the most efficient price. To give but two examples: they don't know the terms of union awards so cannot optimise services to reduce overtime or schedule drivers with a satisfactory level of continuous work. They also do not understand fleet management and scheduling - which is so critical to optimising the buses both in service and for servicing. Under the current model operators can design and provide commercial services that are optimal - to meet passenger objectives on the most cost effective basis.

- There won't be any focus on innovation, service enhancement or passenger growth. Why innovate when someone else has told you exactly what to do, and how to do it? Companies like Infratil, that have fine records for innovation and customer focus (note TrustPower, Port of Tauranga, Wellington Airport and NZ Bus's existing programme), will leave the sector to be replaced by foreign operators that specialise in outsourcing against matrices – which is where the Act is taking us. Under that model contractors tender to provide the minimum requirements at the minimum cost and then budget on inevitable costly variations as the customer realises the mismatch between what it asked for and what it actually wants and needs. Additionally:
 - Capex will be reduced to the minimum required by contract standards. This will result in an older less attractive fleet, unless you can persuade Michael to loosen the purse strings to levels not currently contemplated. Operators will have no incentive to bring capex forward (as NZ Bus has done with its new buses, CC-TV, improved seating/lighting, advanced ticketing systems etc) because patronage gains go to the Councils.
 - Opex (eg cleaning) will also be run at the minimum required of contract standards.
 - All sponsorship, community relations and operator promotion of public transport will cease. This is done today to promote the image and reputation of operators to encourage patronage but once the customer focus changes to satisfying the Council then there is no business benefit in such community engagement. All such community support requests will be passed to the Councils. In Wellington this would include organisations that NZ Bus supports such as The Sanctuary, The Wellington Zoo, The NZ Festival of the Arts, the Marine Education Centre, the Museums Trust, the Cuba Street Carnival, the Embassy Theatre to name a few; while in Auckland it would include Starship Hospital, the Auckland Arts Festival and North Shore Netball.
 - Employees will suffer as wage negotiations and relations will only be about cost and less about improving culture and performance. Operators will have less incentive to settle early. Their interests will be to drive, and keep, costs low. Note how much better union relations have been in the bus industry under the new model compared to how they were when most operators were Council owned. Issues of shares to employees, such as Infratil recently completed, will also not take place. This should not be any surprise. You will already know from the health sector how poor the wages and conditions are for cleaners and catering staff as multi-national operators win service contracts on price and are left with little or no incentive to improve the quality of the services.

Councils will argue that fleet quality, service standards etc. can all be regulated by contracts and that penalty regimes can be introduced to ensure that there are adverse revenue consequences for operators who fail to meet standards or promote objectives. These regimes will become bureaucratic and expensive nightmares. Operators will focus on penalty avoidance, not passenger service. Because Councils are not in the bus depots and operating the buses, penalty regimes must necessarily work by requiring comprehensive reporting. This will add costs for operators and Councils. Contracts will be much more complex as they must necessarily deal with exceptions to penalty regimes and expected variations. Again, a few examples will suffice:

- Under the current net contract model a bus which is intended to meet a train waits if the train is late because the operator wants the fare revenue and is prepared to incur the overtime. Under a gross contract model the bus will leave "on time" empty to avoid a penalty rather than wait for the train. This can, of course, be remedied by having "on-time exceptions" in the contract, but these will need to be agreed, reported and reviewed. A paper chase replacing economic common sense.
- Under the net contract model when road works affect a route and delay services the incentive is to re-route to try and collect/drop off as many passengers as possible even if it means a delay. Customer service matters to the operators as they want these passengers back tomorrow. Under a gross model the incentive is to avoid the late service penalty, irrespective of passengers needs. This hazard can be covered off in a complex contract but again, it is a paper chase.

The Act strips initiative from operators and places reliance on Councils to entirely lead development, change and improvement. We need only look at Wellington Airport to see the galvanizing consequence of getting the public/private roles in balance. Wellington City has been a huge winner and we are now seeing exciting airport and airline developments all around New Zealand following Wellington's example set over many years.

We already have examples of Councils making poor resource allocations in the development of Auckland's public transport infrastructure. The Northern busway (provided for more than it cost to buy all of NZ Bus!!), rail electrification and the integrated ticketing initiative all illustrate large amounts of public capital which have or are being invested where the effectiveness and efficiency of the decisions are open to question (and would have been questions but for a lack of transparency).

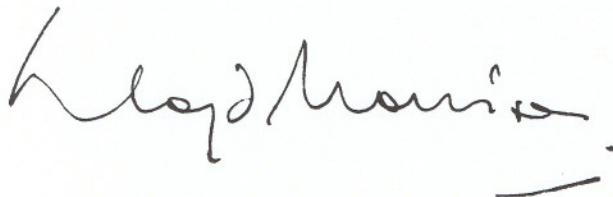
You assert that the lack of bidders in tenders indicates the probability of an inefficient market, however, the Act has effectively abolished the market. The lack of bidders is less relevant than the quality of outcomes and services that are achieved for the capital tied up in the sector (i.e. value for money). Maybe the paucity of bidders you cite is a reflection of the inadequate financial returns the sector has achieved historically.

Since we took over NZ Bus we have set about to make a real difference, instigating a significant increase in investment, amounting to \$120 million in the past 12 months, largely without the security of contracts. We have introduced new systems, training and standards, all of which have been instigated by us with no leadership from our Council partners. The obvious areas of investment have been new buses and ticketing systems, however, of greater long-term impact are our investments in the business's culture and focus. We are making a huge effort to make our people aware that the person who really matters is the bus passenger. Sadly, thanks to the Act that is no longer true. We also recognise that we have areas to improve and when we look for good examples to follow we almost always end up admiring the smaller family run bus businesses. These are the ones that have management directly involved with staff and passengers. They deliver outstanding services at outstanding value. Unfortunately for New Zealand two of the best (Mana Coach Services and Howick & Eastern) have been sold to overseas interests this year. If you ask the previous owners why (and I challenge you to do just that) the answer is fear of bureaucratic control and a refusal to make the Councils the customer over the passengers.

For all the above reasons we urge all political parties to repeal the Act. Irrespective of the outcome of this election we will continue to lobby for this and publicise why this would be the best outcome for promoting value for money, affordable, safe, integrated and responsive land transport systems that passengers want to use.

Annette, I know that two weeks out from the election your plate will be full to over-flowing, however, after the election an opportunity to discuss with you the public transport system in its wider context, and the transitional phase before the Act becomes operational would be very much appreciated.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Lloyd Morrison', with a horizontal line underneath.

Lloyd Morrison
Managing Director

cc The Rt Hon Helen Clark, Prime Minister
 The Hon Dr Michael Cullen, Minister of Finance
 Jeanette Fitzsimons, Co-Leader Green Party