



Report: 03.75
Date: 27 February 2003
File: T/9/2/1

Committee Passenger Transport
Author Carolyn Lefebvre Manager Transport Procurement

Patronage Income and Operator Contract Payments

1. Purpose

To adopt a change to all bus and rail contracts to take account of any reductions in the Council's patronage income which results from an operator's under performance.

2. Background

The January 2003 rail service disruptions caused some users to take up alternative modes of travel. As a consequence rail patronage levels in January 2003 were less than expected. The Council has an income stream from Transfund New Zealand based on patronage growth since 9 November 2000. Any drop in patronage on any bus or rail service affects this income in a negative way.

Patronage numbers will change, up and down, over time. Much of the change taking place is influenced by elements beyond the control of the operator or the Council. For example, economic performance of the Region influences employment which is a direct driver of peak hour travel. Some changes, as mentioned above, are the consequence of failings by operators, some will be due to excellent operator performance. It is proposed that if the change in patronage results from under performance by a bus or rail operator that the patronage funding reduction be sheeted home to the operator concerned. To do this it will be necessary to include appropriate clauses in future contracts.

The current rail contract situation is different to that of bus. Our contract with Tranz Rail Limited is being rolled over on a month by month basis. The Council can therefore change its funding support each month based on patronage changes.

Clearly the Council needs to have robust information on patronage to be able to take a view on patronage income changes. Tranz Rail Limited and bus operators can only provide patronage data after the event, so there is a delay in receiving this robust information.

3. Comment

a) Possible approaches

The Council has at least three approaches it can take. It can make an estimate of the change in patronage income due to poor operator performance and use that to reduce the monthly operator payment with adjustments made later when the operator can provide robust patronage data. The second approach would be to pay the contract price for a particular month, and make reductions in future monthly payments once the robust data is to hand. The third approach is to make no monthly contract payment until the patronage data is available and then make an adjusted monthly payment.

Where there is a long term contract with an operator the second approach would appear to be the most appropriate method. For the rail service we have applied the first method. What the Committee needs to consider is what approach they wish to see used in future months.

The Tranz Rail Limited contract is on a month by month basis. There is an argument, that in the interests of the community and ratepayers, the Council should be satisfied that the rail service has been provided and the patronage levels are known. Approach three, the monthly contract payment being made after information on services delivered and patronage carried would provide this certainty.

b) The level of payment reduction

A question to answer is the level of reduction. A decrease in patronage numbers directly reduces the Council's funding income without a commensurate reduction in Council expenditure on services. The effect is to increase the call on transport rates. Additional patronage growth increases the Council's funding income allowing the Council to buy more services. The link between performance and patronage change is hard to establish, as is our ability to unravel the various causes of patronage change to establish that operator performance has caused the change.

There are many possible levels of patronage growth income reductions that the Council could apply. The suggestion for debate is:

- Patronage growth income loss resulting from, in the sole opinion of the Council, poor operator performance shall be deducted from the monthly contract payment to that operator.

To give effect to this proposal it would need to be written into future contractual arrangements. The patronage baseline used would need to be the year prior to the new contracts being operational.

c) Current Tranz Metro Wellington situation

We made a patronage less withholding payment to Tranz Metro Wellington for January 2003 of \$104,167 and for February 2003 of \$104,167. These figures were the estimated patronage funding loss resulting from peak passenger numbers dropping 5% below the previous year. We had estimated that

patronage would continue to grow by up to 2% per annum, this extra patronage expectation was not included in the calculation as this prediction was speculative.

Tranz Metro Wellington have now supplied passenger and passenger kilometre data for January and February. These numbers show passenger and kilometre decreases over the equivalent month the previous year of:

Month	Passengers	Passenger Kms
January	4.99%	3.75%
February	4.78%	2.31%

4. Communications

A media release for the Chairperson will be made expressing concern over the patronage loss on rail services and the need for Tranz Metro to work hard to reverse this trend.

5. Recommendations

It is recommended that the Committee:

- 1. Receive the report and note its contents.*
- 2. That all future operator contracts include a clause to allow the Council to reduce its monthly contract payments to the operator, being an amount equal to the loss in the Council's patronage income resulting from, in the sole view of the Council, an operator's poor performance.*
- 3. That with respect to the current Tranz Rail Limited contract the Council will pay the operator on receipt of monthly patronage data related to the monthly contract payment.*

Report prepared by:

Report approved by:

Carolyn Lefebvre
Manager Transport
Procurement

Dave Watson
Divisional Manager Transport