



Report PE05.267
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Committee Policy, Finance and Strategy and Council
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Trolley bus contract

1. Purpose

To progress the procurement of trolley bus services for Wellington.

2. Public excluded

Grounds for exclusion of the public under section 48(1) of the Local Government Official Information and Meetings Act 1987 are:

That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which gives reason for withholding would exist, ie because of the need to preserve commercial confidentiality.

3. Significance of the decision

The matters in this report do not trigger the significance policy of the Council or otherwise trigger section 76(3)(b) of the Local Government Act 2002.

4. Background

Wellington City Council (WCC) have offered to sell the trolley bus overhead wires to GWRC for a \$1 plus stock at valuation, in the order of \$200,000.

WCC wishes to complete the transaction as soon as possible so they can take any write down of the trolley bus overheads in this financial year.

Councillors may be aware that this is the same terms that were provisionally agreed between the parties 12 months ago. Subsequent to that WCC required a payment for the trolley bus overheads, to recover some, if not all of their book value, approximately \$3.5 million.

Due to WCC's requirement for payment the question of the trolley bus overheads was put into abeyance. Last week WCC changed their position offering to GWRC to take over the overheads at zero value.

5. Previous Council Resolution

The following resolutions were adopted at the 17 July 2003 Passenger Transport Committee:

That the Committee:

- (a) *Endorses the continuation of trolley bus usage as provided for in the LTCCP.*
- (b) *Requests the ownership of the trolley bus overhead be discussed with the Wellington City Council.*
- (c) *Seeks approval from Transfund New Zealand for a sole supply CPP for the purchase of the trolley bus service in Wellington City with a maximum contract of ten years.*
- (d) *Negotiates a 10 year contract for the supply of trolley bus services with Stagecoach Wellington, once there is an approved trolley bus CPP.*

6. Current situation

6.1 Sole supply CPP

The officers have obtained approval of a sole supply procurement procedure from Land Transport New Zealand. The approved procurement procedure is a proposed contract document that is the basis for a negotiation with Stagecoach Wellington.

6.2 Ownership of the trolley bus overhead

Discussions have been held with Wellington City officers over the past two years regarding the ownership of the trolley bus overhead wiring network. A series of options have been considered in that time. Wellington City currently wish to offer the overhead to the Regional Council at no cost and the associated assets at book value. The associated assets are materials and equipment used to maintain the overhead and have a value of around \$200,000.

6.3 Stagecoach contract negotiations

The draft trolley bus contract (the procurement procedure) requires Stagecoach to provide a seven day a week trolley bus service over the current trolley bus routes. The contract leaves Stagecoach to obtain access to the overhead network and hence negotiate the cost of that access. It should be noted that Stagecoach currently maintain the overhead under contract to the Cable Car Company Ltd (a Wellington City owned company that looks after the Cable Car and trolley bus overhead network).

Discussions held between the Regional Council and City Council officers had confirmed the cost of access to be a figure of no more than \$1.53m for the next five years. This figure being used in the funding application to LTNZ.

If the Regional Council owns the overhead the contract negotiation with Stagecoach may be simpler and result in a lesser overall cost. Negotiations are currently being held with Stagecoach on this basis and Councillors will be updated on progress at the meeting.

6.4 Funding

The LTNZ decision on trolley bus funding was that they will contribute funding at their current financial assistance ratio (49.1% to the cost of an equivalent diesel bus service, the remainder would need to be funded by the Council from rates and Crown funding. A consultant has been commissioned by LTNZ to calculate the cost of an equivalent diesel service and how this will change over time.

The funding submission to LTNZ from the Council assessed the difference between trolley bus costs and diesel costs to be equivalent to the cost of providing the overhead network. This was shown, after discussions with Wellington City (see earlier) to be \$1.53m per annum, through Wellington City reserved the right to seek an adjustment of circumstances changed. The cost of providing the overhead network should be less if it is owned by the Council. The Council could allow Stagecoach access to the overhead at no cost on the condition that Stagecoach maintained it as part of their delivery of trolley bus services. This would reduce the overall cost by the elimination of a third party and their associated management and ownership costs. Consequently the difference between the total trolley bus contract price and an equivalent diesel service should be less than previously expected.

7. Economics

Currently GWRC is charged \$1.53 million per annum in respect of the overhead wires.

	\$000
Maintenance contract	719
Salaries	122
Materials	537
Other	105
Administration	47
	<hr/> 1530 <hr/>

WCC have indicated that currently they are not passing on \$648,000 of costs namely depreciation (\$350,000) and risk premium/profits (\$298,000).

Originally, WCC wanted these costs fixed for five years but due to the uncertainty at the time regarding the future of the trolley buses, no long term agreement has been made.

It is anticipated that if GWRC took over ownership of the overheads then Stagecoach would be contracted to maintain them to standard which would last for at least 10 years (the life of the proposed trolley bus contract). This would be a fixed price contract to reduce the risk to GWRC.

GWRC would not employ any additional staff, nor have any role in the operation or maintenance of the overheads.

If GWRC took over ownership of the trolley bus overheads then it is likely that it would occur a similar level of costs, namely \$1.5 million.

There is some prospect of savings on administration etc as this would be covered by Transport's existing infrastructure. In addition savings may also be made in salaries as some of these could be taken up by Stagecoach in their maintenance contract. These savings are unlikely to be large but saving 5% on the contract price represents \$75,000 per annum.

Apart from potential savings there is also some reduced risk in ownership of the trolley bus overheads as GWRC controls the costs. If ownership remains with WCC then there is some prospect that these costs may increase. For example, depreciation could be charged to GWRC on the existing asset values.

Therefore, while ownership by GWRC increases the risks to GWRC these are largely the risks which economically GWRC bears now. Simply put, GWRC (along with LTNZ) is the funder of trolley bus services and as such will be paying for any increased costs regardless of the ownership.

8. Accounting and Legal Issues

There are a number of accounting and legal issues that need to be resolved, namely:

- In which entity should the trolley bus overheads be owned, i.e. either the Council directly or one of its subsidiaries.
- Finalising a purchase contract, including satisfactory representations/warranties from the owner.
- Ensuring that GWRC does not have to revalue the trolley bus overheads above their zero value.
- Ensuring GWRC is protected from additional liabilities resulting from their ownership.

A verbal update will be given on these issues in the meeting on 9 June 2005.

9. Other Issues/Next Steps

9.1 Other Issues

There are a number of issues which will need to be resolved prior to any ownership transfer.

The first priority is a new 10 year trolley bus contract between GWRC and Stagecoach, incorporating maintenance of the trolley bus overheads.

Other matters to be resolved and not previously noted include:

- Ensure any future costs with regard to the trolley bus overheads are within the financial envelope provided for in the current LTCCP.
- Reviewing asset management plan for the trolley bus overheads.

9.2 Next Steps

Assuming Council are comfortable taking this matter further, then the next steps are:

- Finalise trolley bus contract between GWRC and Stagecoach.
- Complete due diligence re the trolley bus overheads (to be undertaken by Stagecoach).
- Review asset management plan.
- Resolve legal questions re ownership and liabilities.
- Complete purchase contract
- Ensure new arrangements are within the financial envelope.

10. Communication

There is nothing additional to communicate.

11. Recommendation

That the Committee recommend that the Council:

- (1) **Receive** the report.
- (2) **Note** its contents.
- (3) **Approve** in principle the Council taking ownership of the trolley bus overheads.

- (4) *Note that this approval is subject to the issues raised in this report being satisfactorily resolved.*
- (5) *Note that final approval by Council will be at a later date.*

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**Public
Excluded**