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**DTRN00004/2001TC**  
**1CS**

**Purchase of Glenelg Trams**  
**APPROVED AS AMENDED (NEW**  
**RECOMMENDATIONS)**  
*Premier & Cabinet Minister*

Not Relevant

- 3.2 The existing trams that operate between Victoria Square and Glenelg are more than 70 years of age, which exceeds a normally expected life of about 30-40 years. The trams require expensive ongoing maintenance - and periodic refurbishing to keep them in a sufficient condition to provide the existing service. The trams do not comply with - nor can they be adapted to - the requirements of draft public transport disability standards which, if promulgated and in the absence of any exemptions, will become binding under the Federal Disability Discrimination Act (DDA).
- 3.3 The Glenelg tram is an Adelaide icon, for which there is substantial community support. Terminating the tram service is therefore not a preferred option. Nor is it considered acceptable that the quality and frequency of the service be allowed to deteriorate after 2003 as the reliability of current vehicles declines - and in the absence of yet further tram rehabilitation. Replacing the tram line with an O-Bahn (with retention of the tram as a single-track facility for a tourist tram service) is also not recommended due to its high initial capital cost (about \$75 million) and the limited ongoing tram service that would be provided in the corridor.
- 3.4 The age and condition of the existing trams presents an opportunity for investment in new trams that can provide benefits beyond the current tram service. These benefits include:
- achieving a major improvement in the image and amenity of Adelaide's ageing tram system;
  - increasing patronage levels with a consequential reduction in road traffic congestion, greenhouse gases and air pollution;
  - improving the safety of the current service;
  - avoiding the costly and complex task of maintaining the current antiquated trams for full daily services;
  - providing substantially improved access to trams for people with disabilities, the elderly and parents with young children;
  - complying with the anticipated regulatory standards of the DDA;
  - bringing an infrastructure investor (~~and possibly~~<sup>RJC</sup> in partnership with TransAdelaide) a new public transport operator into the South Australian market; and
  - creating an environment for considering the opportunity to extend the tram service north of Victoria Square to link into a standardised metropolitan rail track network. (latter project is a policy objective)

#### Options Considered

- 3.5 Three broad options for providing sustainable public transport in the Glenelg corridor have been subjected to economic modelling by KPMG Corporate Finance. The options are:

- TransAdelaide already holds the contract with the PTB to operate the tram services to 23 April 2005, with a 5 year right of renewal;
- TransAdelaide (employees) already has experience in a joint venture partnership (the Transitplus arrangement for the Adelaide Hills bus service contract), which will help advance the PPP proposal overall and facilitate the transfer of staff;
- bidders will be more confident that the process and ultimate transaction will proceed;
- TransAdelaide will have a continuing understanding of the tram service as a contingency against failure of the private sector partner; and
- the Government will be able to reinforce to the public and employees its commitment to maintain the tram service as an ongoing concern, that goes beyond an otherwise simple contractual relationship with a private sector franchisee (privatisation debate).

3.18 TransAdelaide's involvement will aid the management of redundancy issues – and counter claims they flow from a privatisation move – whereas most redundancies occur because the new trams require fewer staff for operations and maintenance, than the current trams. These issues have the potential to create industrial disputation out of proportion to the significance of the tram operations in the overall public transport network – and revive the issue of idle employees at a time when significant progress is being made with redeployment of surplus bus drivers.

3.19 Initial discussions have been held with the three private sector rail operators in Melbourne on a joint venture arrangement with TransAdelaide. They indicate a strong interest in participating in a PPP on the basis outlined above. In addition, Australian Transit Enterprises (ATE) has indicated that it is interested in using the same model for partnering TA as they have put in place for Transitplus as a generic model for the Glenelg tram service.

3.20 DTUPA's conclusion from the foregoing is that there is no practical evidence that a role for TA need will dampen market appetite. Indeed, DTUPA's market soundings suggest it may assist by indicating a firm government commitment to seeing the project is brought to fruition.

#### Recommended Franchise Arrangement

3.21 Based on the above discussion, it is recommended that <sup>DTUPA R12</sup> ~~TransAdelaide~~ manage the PPP process to upgrade the Glenelg tram service, with private sector partners strongly encouraged to form a joint venture with TransAdelaide. The joint venture would be provided with a franchise to operate the service for a period of 15 years under a service contract with the PTB. Tram assets acquired by the joint venture in the course of the franchise would be purchased or leased by the Government at the end of the franchise based on their depreciated value. The current contract held by TransAdelaide to operate the Glenelg tram service would be considerably revised or replaced coincident with commencement of the franchise. TransAdelaide and the PTB are agreeable to this arrangement. \*

- 3.22 A franchise operator of the tram service would be required to offer available operational positions to current TransAdelaide staff. It is expected that current tram employees will seek packages similar to those offered to former TransAdelaide bus staff during the transfer of bus services to private operators in 2000 (ie no forced redundancies, TVSPs offered to all current staff including staff who transfer to the franchisee, and allowances paid between the announcement of the winning franchisee and commencement of the franchise).

### Market Appetite for a PPP Arrangement

- 3.23 The transaction is expected to attract interest from at least one of the current private operators of bus services in Adelaide and operators of passenger rail services in other capital cities in Australia, particularly Melbourne. Confirmation of private sector interest will, in the end, only be evident through the submission of tenders. Market interest in a PPP for the Glenelg tram line may be limited by the small scale of the project, the lack of precedent for PPPs in SA, and reduced market confidence in PPPs following the withdrawal of rail projects following a call for EOIs in Perth and following tendering in Brisbane. However, <sup>ATUPA TransAdelaide</sup> ~~TransAdelaide~~ and the Government can assist in generating market appetite by providing strong support for the project, and by implementing the tender process in a manner which minimises time and the risk of delays and provides maximum confidence that the process will result in a contract.

### Procurement Process

- 3.24 It is recommended that <sup>TransAdel/ATUPA</sup> ~~TransAdelaide~~ conduct a two-stage competitive tendering process to select a PPP franchisee, initially seeking Expressions of Interest (EOIs) and then tenders. This two stage process will not affect the duration of the procurement process.
- 3.25 The request for EOIs will outline the Government's objectives for the project, in particular: (i) <sup>encouragement</sup> ~~encouragement~~ that respondents consider opportunities to provide a continuing role for TransAdelaide in the provision of the service; (ii) the need for proposals to be cost-effective; and (iii) transfer of risks to the optimal extent to the franchisee to minimise the financial exposure of the Government and to encourage the franchisee to increase patronage and manage risks. Key risks that the franchisee will be required to bear are changes in patronage, capital, maintenance and operating costs. The criteria on which responses to the EOI will be assessed include:
- Capacity and experience, including the financial and technical capacity of proponents, and referees;
  - Willingness to meet project needs, including a capacity and willingness to make necessary investments in the Glenelg tram service and to provide services and maintain infrastructure to minimum service standards over a franchise period levels, and to accept risk transfer;
  - Willingness to participate in a tender, including acceptance of standard tender conditions and willingness to be subject to financial scrutiny; and

- Indication of understanding of PPP issues, including understanding of taxation and accounting issues, and Government and community concerns.
- 3.26 Information in the EOIs will also be used to develop a conforming case(s) to be the basis for tendering. To this end, the EOIs will also seek:
- Views on franchise arrangements, including views on joint venture with TransAdelaide and other preferred arrangements, and key issues that could have a bearing on the arrangements;
  - Views on payment options, including incentives and penalties; and
  - Views on potentially innovative measures, including features that will increase the merit of the project to interested parties without substantially increasing the risk or cost to TransAdelaide/the Government.

- 3.27 The EOI will <sup>require</sup> ~~encourage~~ respondents to identify a role for TransAdelaide, but will not preclude other institutional arrangements. The precise form of words in the EOI relating to the Government's policy position on the role of TransAdelaide will be critical and, for this reason, the key paragraph proposed for inclusion in the EOI is quoted here:

~~TransAdelaide~~ <sup>TransAdelaide</sup> is seeking expressions of interest from parties with the capacity to deliver a high quality, value for money service. TransAdelaide and its predecessors have been responsible for delivery of the current services for the past 70 years, and the Government has indicated that it believes TransAdelaide has performed well. TransAdelaide will be looking to partner with private sector parties through a joint venture arrangement. Interested parties may wish to propose a specific arrangement.

To assist, attention is drawn to the type of joint venture entered into between TransAdelaide as a 50% partner with a private sector partner to form Transiplus, which operates bus services in the Adelaide Hills. Appendix (to be attached) sets out some of the commercial and functional features of this type of arrangement.

It is recognised that potential bidders may identify a range of models capable of delivering these services in a cost effective manner. The views expressed by respondents in their Expressions of Interest will be used to establish the conforming franchise arrangement for an expected Request for Tender. ~~Views that do not involve a joint venture arrangement with TransAdelaide will be assessed by a panel independent of TransAdelaide.~~

- 3.28 It is intended that ~~TransAdelaide~~ <sup>TransAdelaide</sup> issue the call for EOIs. ~~However, if any respondents should nominate arrangements that do not involve a role for TransAdelaide, assessment of the EOIs will be undertaken by a DTUPA/PTB panel. Department of Treasury and Finance advice will be sought in both processes.~~

- 3.29 Although there is no commitment to a PPP until a contract is signed, there is potential for bidders to seek compensation if the process is abandoned. This risk is not significant at the EOI stage as cost incurred by interested parties would not be

- 3.33 The aim is to generate a high level of marketing and service delivery performance, to increase patronage and to create upward pressure for better results from bus and train services. However, it may be necessary to modify this approach if it appears to be dampening market appetite for the PPP.

#### Further Development Opportunities

- 3.34 The current proposal relates only to the provision of services on the existing Glenelg tram line. However, in line with overseas trends, there are opportunities for greater use of light rail services in Adelaide. There are several reasons for not attempting to achieve such outcomes in the suburban end of the Glenelg corridor - cost, insufficient demand, and increased travel time. However, there is potential to, for example, extend the tram line along King William Street and westwards along North Terrace past the Adelaide Railway Station and Convention Centre to the City West Campus of University of South Australia. This extension would make the Beeline bus service redundant and attract passengers from Anzac Highway bus services to the tram line, and hence reduce the number of bus movements in King William Street by about 28 in the peak hour (a 12 percent reduction). In the longer term the opportunity exists to further extend the tram line, for example to the core of Port Adelaide and possibly beyond without compromising other traffic operations on the streets involved.
- 3.35 Extending the tram line in the City to the City West Campus of the University of South Australia would require additional capital investment of \$31 million over 15 years, with the net present cost of the tram line extension estimated at \$14.0 million after allowing for operating costs and fare revenue. The extension could not be accomplished without the active support of the Adelaide City Council - in making available the necessary sections of roadway, in the design of Victoria Square and foregoing car park developments in competitive locations. The best proposals are likely to come from the operators themselves. From this perspective, the strategic aim of using the PPP process should be to attract bids from major, experienced parties and the EOI will make it plain that preference will be given to consortia that include such parties in their membership.

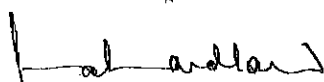
#### Implementation Schedule

- 3.36 The suggested schedule to implement the project as a PPP is as follows -
- <sup>RE DTWPA</sup> ~~Trans Adelaide~~ issues a call for EOIs before Christmas 2001, with EOIs due on 9 February 2002 - this will be followed by short-listing of potential tenderers and preparation of tender documents;
  - following assessment of EOIs, seek Cabinet approval to submit the project to the Public Works Committee;
  - following receipt of approval for the project from the Public Works Committee, seek tenders from short-listed potential bidders, with tenders due in June 2002;
  - after assessing the proposals, seek Cabinet commitment to proceed in September 2002; and

4. RECOMMENDATIONS

It is recommended that Cabinet:

- 4.1 Note the need to purchase new tram cars to operate the city to Glenelg route due to the age of the current tram cars (over 70 years) and the consequent high operating costs.
- 4.2 Approve, in principle and subject to value for money through a PPP process being demonstrated, a proposal to upgrade the current Victoria Square to Glenelg tram line through: (i) use of modern, fully accessible Disability Discrimination Act compliant tram cars to operate the (light rail) regular services, complementing the tourism and commerce developments in the Glenelg precinct; (ii) maintenance of limited historical and tourism services using refurbished "H" Class trams; and (iii) necessary associated improvements in track and other infrastructure.
- 4.3 Approve TransAdelaide issuing a public request for Expression of Interest for the provision of improved tram services through a Public Private Partnership, noting the Government's position that the franchisee include TransAdelaide as a joint venture partner.
- 4.4 Note DTUPA to access expressions of interest.
- 4.5 Note that the results of the Expressions of interest will be reported to Cabinet and, depending on those results, a recommendation is to be made to release a Request for Tender.



Diana Laidlaw, MLC

MINISTER FOR TRANSPORT AND URBAN PLANNING

17/12/2001

**In Cabinet**

17 DEC 2001

