

19 August 2008

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## **IPART REVIEW OF “COMMERCIAL” BUS FARES IN REGIONAL AND RURAL AREAS – BCA SUBMISSION**

### **IMPORTANT BACKGROUND INFORMATION**

BCA and the Ministry of Transport have developed new Bus Contracts for Regional and Rural Bus Services in NSW. This includes services covered by so called Commercial Contracts which are being replaced with “Contract B” and separate Standard Terms and Conditions documents.

The new Contracts change the way operators are paid for providing school student transport under the School Student Transport Scheme (SSTS), and are being rolled out from August 2008.

The Contracts also require Contract B operators to charge fares in accordance with Schedule 3 of the new Contracts. This Schedule is similar to the requirements under old Commercial Contracts in that it requires the operator to charge (non SSTS) fares up to a Maximum fare scale prescribed. The operator sets the fares below or equal to the Maximum fares applicable. These are distance based.

There are 2 Maximum fare scales that can apply for setting fares to fare paying passengers:

- A Country Town Fare Scale
- A Rural Fare Scale

Under the old Commercial Contract all operator contract revenue was linked to the two fare scales (both SSTS payments from Government and revenue collected from passengers).

Under the new Contract the indexation of the SSTS payments to operators is set by the Contract.

We understand IPART is required to prepare a recommendation on adjustment to the (non SSTS) Maximum fare scale applicable for fare paying passengers, and seeks a BCA Submission on BCA's view of the movement to these Maximum fare scales.

We understand that the new SSTS Contract funding arrangements will be backdated to 1/7/08 if operators accept the offer of new Contracts in a reasonable time frame. The backdating is provided in a "side letter" entered between the MoT and the operator when terminating the old Contract and entering the new Contract.

We are informed that the date of effect of the Director General's decision based on IPART's recommendation is early January 2009. Operators would receive an adjustment of their half fare reimbursement payments to reflect the final decision backdated to 1/7/08 (12 months from the last adjustment date of effect). IPART should also be aware that operator payments from MoT from 1/7/08 under the old Contracts have been adjusted to accommodate the 7% RR Bus Industry Reform Allowance to Country Bus Drivers, in addition to the normal wage indexation of 4.28%.

On the basis of these arrangements and extensive contract reforms undertaken by MoT, BCA, Ernst & Young and Pitcher Partners, BCA's Submission to IPART is to recommend the same cost movements derived by the reform process for new Contracts SSTS payment schedule, as this is the movement determined as needed to facilitate the Government's objectives and to ensure operator viability. BCA's proposal to IPART is that the Maximum fare scales (for non SSTS passengers) be adjusted in line with the 18.52% uplift accepted by Government for the SSTS transport arrangements under Commercial Contracts.

A copy of the calculation is attached and shows that the increase agreed to cover cost increases and increased requirements is 18.52%.

The main contributions for this are:

- Costs increased according to new index
- New wage increases made up of 7% Regional and Rural Bus Reform allowance and the 4.28% increase based on the wage index
- 59% increase in fuel prices
- Costs of meeting new Accreditation (safety, reliability) standards
- Costs of introducing and maintaining air-conditioned vehicles

As the operators' revenue consists of both SSTS revenue and the revenue from fare paying passengers, the increase applied to SSTS recovery is only a proportion of the above cost increases. The balance needs to be recovered through the fare box revenue.

A number of other factors relate to the calculation of the SSTS payments, including:

1. A redefinition of which fare scale applies to individual students.
2. Conversion of Non Commercial Contracts to Contract B's to deliver efficiency savings to Government (based on certain rules).
3. Revised Contract conditions requiring more comprehensive reporting, introduction of KPI's, financial viability reviews, continuity of service provision, new service planning guidelines (to name a few). It is recommended IPART refer to the new Contract provisions.
4. The requirements to introduce a Pensioner Excursion Ticket and harmonisation of concession entitlements.
5. New indexation provisions (Schedule 4 of the new Contract).

The following sections are provided in response to IPART's letter of 4/7/08.

## **1) CURRENT AND PROPOSED FARES**

As indicated above the actual fares charged by "Commercial" operators are an operator's decision as long as the fare is equal to or below the Maximum schedule.

The importance of maintaining a maximum fare schedule parity with the SSTS payment schedule relates to the calculations of the Governments reimbursements for half fare concessions and PET.

Operators Revenue risk has been assessed on the maximum fare scales remaining consistent for both SSTS payments and half fare concessions/PET reimbursements.

It is therefore proposed that IPART recommend to the Director General that the Maximum fare scales applicable increase by 18.52% in line with the package of reforms negotiated between the Industry and the Government. This increase is NOT what generally applies to the fare paying public.

Under the new Model the operators retain the fare box revenue generated, and are contractually obliged to provide service levels in accordance with the Service Planning Guidelines. Hence there is an incentive for the operators to set fares that are acceptable to the passengers, thereby attracting patronage to the services that they are contractually obliged to provide. This results in discounts to attract passengers.

This flexibility of setting fares within maximum levels remains an important component of the reform package and risk allocation between Government and Operator.

### **Concessions and Pensioner Excursion Ticket**

The new Contracts also provide:

- i) For partial reimbursement of revenue lost as a result of operators offering concession travel (half fare travel to certain concession holders). Changes have been made to concession eligibility.
- ii) The introduction of a \$2.50 Pensioner Excursion Ticket (unlimited travel on an operator's B Contract services within 24 hour period). The impact of this new ticket results in some changes to the reimbursement arrangements relating to sharing the risk on the impact to the operator of the Excursion Ticket. (In this regard refer copy of MoT's explanatory notes and letter from the Director General).

## **2) DATA ON SERVICE QUALITY**

Under the new Contracts MoT are introducing new reporting requirements and KPIs. BCA suggests you obtain a full copy of contract B and its supporting explanatory notes from MoT.

## **3) INFORMATION ON PRODUCTIVITY GAINS AND MEASURES BEING UNDERTAKEN BY OPERATORS TO IMPROVE THEIR FUTURE PRODUCTIVITY**

The new Contract B provides a sharing of risk between Government and the Private Operators. Operators have to plan/decide services to meet Government Service Planning Guidelines which do allow some flexibility to accommodate local circumstances, and therefore have an incentive for operators to manage their costs and encourage increased patronage while meeting Government objectives. The Director General under the new Contracts can require services be run over and above the prescribed Service Planning Guidelines in which case separate funding provisions would apply.

The Government's objectives relate to safety, reliability, and value for money outcomes and the new Contracts have been designed to meet these requirements. Productivity considerations are built into the Contract through a number of measures, including:

- Risk sharing and incentive
- Fleet procurement guidelines
- Service Planning Guidelines
- Continuity of service provision
- Reporting and KPI
- Revised indexation provisions (wage risk adjusted)
- Modified contract tenure and nominal considerations

## **4) BUS SPECIFICATIONS AND QUOTES**

With regards to IPART's request for assistance in this area, attached please find a position paper developed by BCA and accepted by the MoT for Capital Cost indexation relating to SSTS

payment schedules. It is proposed these arrangements also apply to indexation of non SSTS fare scales.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Mellish', written in a cursive style.

**Darryl J Mellish**  
**Executive Director**