

18 August 2006

Mr James P Cox
CEO and Fulltime Member
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

Application for the period 1/7/06 – 30/6/07 – Application Covers

- Adjustment to fare tables applicable to “Commercial” Bus Contracts not covered by new Bus Reform Contracts. (Predominately affects the Government’s payment to operators under free school travel scheme).
- Adjustment to the rate of remuneration paid under “non commercial” bus contracts.

This BCA application is based on the principles that:

- i) The fare increases are to cover cost increases determined using the Bus Industry Cost Index (BICI) and productivity adjustments should be deferred pending completion of the detailed work underpinning the regional and rural bus reform process. This produces a 5.26% figure.
- ii) The remuneration for non commercial contracts is based on the PWC Model as prescribed in the bulk of the estimated 1,800 non commercial contracts. The model calculates the rates applicable subject to individual variations of distance and time.

We note IPART is required to consider the following matters:

1. The cost of providing the services concerned.
2. The protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service.
3. The need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers.
4. The need to maintain ecologically sustainable development (within the meaning of Section 6 of the Protection of the Environment Administration Act 1991) by appropriate pricing policies that take account of all of the feasible options to protect the environment.
5. The social impact of the determination.

6. Standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise) and any suggested or actual changes to those standards.
7. Contractual arrangements prevailing in the industry.
8. Such other matters as the Tribunal considers relevant.

IPART held a workshop on promoting productivity gains in regulated industries, to assist stakeholders understand IPART's approach to productivity and allow discussion on the terms of reference relating to cost of the service.

BCA contends that until such time as the bus transport industry can clearly identify and measure its productivity gains and losses, that any assessment adjustment that would reduce revenue will only create a false assessment, and an incorrect assessment could have significant consequences on the quality of transport services by impacting on operator viability.

BCA agrees that it is appropriate to take into account productivity gains and losses and supports the creation of an industry consultative group to properly identify productivity movements in the bus transport industry and submits that until they are identified that no reduction takes place to its submission on the basis of assumed productivity.

BCA's comments on the matters IPART are required to consider are as follows.

1) The cost of providing the Service that the BICI covers

The vast majority of the services covered by the bus industry cost index are predominately for the transport of school children funded by the Government's "free" school travel scheme (SSTS). The MoT has indicated that 87.5% of the revenue associated with these fares applies to payments the Government makes under the free school travel system. Of the remaining 12.5% a reasonable proportion relates to concession fares where the Government pays the balance of the half fare concession. The fare scales set by using the BICI process are based on the pre bus reform system whereby the revenue paid under the SSTS is used to cross subsidise route services. ie. cover a proportion of the costs of providing the bus. The maximum fare scales set by IPART are distance based.

The provision of these services is undertaken according to approx 80 commercial contracts. The Ministry of Transport's Submission provides further profile of the nature of operations covered by the BICI related fares.

1.1 How are productivity gains delivered in the contract environment covered by the BICI

BCA considers that reducing the operator's revenue by reducing the level of the fare increase (payable by Government under SSTS), to "impose" efficiency will result in lower productivity and greater cost to the community because of its impact on operator viability.

Without adequate process and measurements it be can argued productivity losses currently outweigh productivity gains, and the government's reform process and recent wage negotiations are already addressing productivity issues.

BCA has attached a table listing items affecting productivity and accepts the need to develop a method of measuring productivity once the new contracts and funding models are in place.

Application of an assumed productivity adjustment related to the general economy or the transport and storage index are not appropriate for services under transition to new contracts, funding model and planning principles.

1.2 Current Reform Process

A task force has been set up to establish the framework for reforms to regional and rural bus services in New South Wales. This process based on 2004 legislation is intended to address efficiency, costs, accountability and value for money aspects of the services in rural and regional New South Wales.

BCA believes that this process should be finalised before IPART adjust any fare tables by any other means (ie. productivity adjustment) than the figures produced by the established bus industry cost index.

The financial viability and security of rural operators is not able to cope with the reduction in revenue caused by assessed productivity gains during the reform process where Interim contracts are being rolled out as contracts expire and new funding models are under development.

1.3 Recent Wage Negotiations

Approximately 14 months ago the BCA, Government and Unions entered a 3 year wage deal that was based on bridging the gap in wages with bus drivers employed by STA.

STA wage levels are still significantly higher than for private bus drivers and attempts to reduce revenue that pays these wages goes against the agreement between the BCA, TWU and Government to reduce the difference between STA driver's wages and those applying in the private sector.

1.4 Productivity losses versus productivity gains

A table summarising possible losses and gains is attached and is intended to highlight the additional compliance matters imposed by Government affecting productivity during the reform transition. BCA would like to work with IPART and MoT to come up with suitable productivity measures once the new contracting and funding regime are finalised.

In considering the output side of the productivity, kilometres, hours and patronage are generally accepted outputs. The bus industry provides services according to set

timetables and is not able to reduce kilometres on the route taken without Government approval.

The Ministry also acknowledges that there is likely to be a general decline in school student travel in coming years. The statistics provided show that the operator's ability to increase patronage is going to be more than offset by declining student numbers in regional and rural areas. A copy of the projections is attached. There are expected to be some growth areas in coastal areas but in general the student population across regional and rural New South Wales is predicted to show a slow decline.

The hours of bus services provided under commercial contracts is related to the timetables and the industrial system applying to drivers as well as the level of congestion in the different operating environments. Timetable services are not allowed to depart ahead of schedule times or vary the route. The industry is not able to increase the hours that drivers are allowed to be behind the wheel, because of the Government safety regulations regarding driving times.

1.5 Economy wide productivity measures and the transport and storage productivity index

BCA considers that the general economy measure of productivity is not appropriate for the bus industry that is in transition to new contracts and a bus industry measure should be developed once new contracts are in place.

The transport and storage index relates to less regulated businesses that are not comparable with the New South Wales regional and rural bus industry. The companies in the national transport and storage index predominantly operate trucks to carry freight, particularly at sea ports which are not comparable to the regulated and contracted bus services in regional and rural New South Wales.

1.6 Technology Impacts

Computers and new information technology systems can generally improve the efficiency of the operator, but does not change the hours and kilometres of services provided on the road. As indicated above any cost savings as a result of new technology is arguably offset by cost increases from added compliance and technological changes on the bus fleet.

In general, new engines and increased requirement for air-conditioning add weight to vehicles requiring a reduction in their carrying capacity. DDA requirements also require wheelchair accessible vehicles to operate on route services which also lower the carrying capacity of the vehicle. BCA has previously made a submission to IPART on the impact of increased weight on lowering vehicle passenger capacity. There is also an increasing trend to reduce standing passengers and minimise the practice of sitting 3 young children to a seat intended for two adults for safety reasons.

The RTA set maximum load limits for heavy vehicles and operators cannot exceed these legal limits, and are required to operate additional vehicles to offset the reduced capacity, if patronage numbers are sufficient to require it.

1.7 Bus Industry Cost Index

The Bus Industry Cost Index (BICI) has been historically used to calculate the movements in typical commercial bus contract costs from one period in time to another. It has been used with Government approval as the method of adjusting fares, whereby fares cover cost increases.

There are now basically 2 sets of fare schedules covering the different areas of operation (Country Towns and Rural fares). There may be variations depending on the applicability of the Energy Credit Scheme.

Under new Metropolitan Bus Service Contracts cost increase are met according to a different funding Model and cost increases have been delinked to fare increases. The MoT Submission explains these differences.

The Bus Reform process is addressing the value for money and transparency issues in new contract negotiations including the cost of providing the service. In general terms Bus Services provided by private operators are agreed to be highly cost effective.

Once the fare tables are set, the Government further adjusts the payment for school student travel to cater for average travel patterns, acknowledging not every child travels every day. This discount is as follows:

- Adult fare x 60% x 79% for Secondary Students
- Adult fare x 50% x 79% for Primary Students

1.8 Fuel Prices

BCA wishes to draw to the attention of IPART the ongoing trend for increasing diesel prices. The Government has acknowledged this issue in the new Metropolitan Bus Service Contracts by introducing monthly adjustments to payments to operators. For other operators (the vast majority of the state) the cost of fuel is adjusted on an annualised average in arrears basis. This has and will continue to have significant impact on financial viability. BCA asks IPART to recommend to the Ministry of Transport that fuel adjustments are made on a more frequent basis for commercial contracts and SSTS fare and concession arrangements. A full daily list of fuel prices for the year ending 30/6/06 is included with BCA's BICI and PWC model in this application.

2) The protection of the consumer from abuses of monopoly power

BCA has addressed this issue in past submissions and the present government reforms, also respond to this issue.

3) The need for greater efficiency in the supply of services to reduce costs for the benefit of consumers and taxpayers

The Bus Reform process, including 2004 amendments to the Passenger Transport Act is designed to respond to this Term of Reference. Refer Comments above on the progress of Regional and Rural bus Reform

4) The need to maintain ecologically sustainable development

Fares policy will effect transport decisions and in general the more times a person chooses to use public transport to travel over the motor car, the greater the environmental benefits.

Adjusting fares to impact on patronage is a matter for government and there is extensive literature on the elasticity of such pricing policies.

The BCA continues to advocate that Government should provide a policy framework to achieving environmental improvements ie. the BCA has called upon the Government to set a target such as “grow” the percentage of trips taken by bus (in the Sydney Statistical Division) from 6% on an average weekday to 10% by 2015.

The private bus industry has made considerable progress towards cleaner air and improvements to the environment. This progress has been reported in previous submissions to IPART.

BCA and others have made submissions on congestion costs and the benefits of a whole of Government approach to the public transport budget.

5) The social impact of the determination

Extensive work has been done on the benefits of growing public transport, including work by the Warren Centre and various universities.

IPART needs to assess how to achieve fare equality for passengers on STA Newcastle services compared to fares applying to passengers on private services. STA Newcastle services have time based fares.

Passengers on Private Bus Services are still not receiving the Multiride discounts offered to passengers on Government bus services.

6) Standards of quality, reliability and safety

BCA believes that the industry is providing quality services commensurate with the risk and remuneration.

The Association refers IPART to the Indec Study and previous submissions for a report on service quality and efficiency. The Ministry of Transport now has benchmarks on all private metropolitan bus operators and has been collecting monthly KPI's from commercial contract holders for many months. MoT have also conducted approx 60 financial audits of commercial contract holders. Further details have been provided in the Ministry's Submission.

A revised Bus Operator Accreditation System was introduced in 2005/06 which has significantly increased compliance and administration requirements. These include new safety and reliability measures.

7) Contractual arrangements prevailing in the Industry

Contractual arrangements prevailing in the industry are in a state of transition. Please refer to MoT's Submission.

Commercial Contracts Fare Application

Attached is the Bus Industry Cost Index for the period 1/7/06 to 30/6/07. (Attachment 1)

The impact of the fare tables that result from this increase predominantly affects the amounts payable by MoT under the School Student Transport Scheme. The tables also set the maximum possible fares that could be charged to fare paying passengers on these largely Regional and Rural Services.

The BICI produces a Cost Increase of 5.26% (predominantly caused by wage and fuel increases).

BCA applies for the increases to be payable from 1/7/06. Please note the Director General has agreed to some interim financial arrangements for the NSW Bus Industry through the BCA because of the IPART process now occurring in the second half of the calendar year.

Application for New Rates of Payment for Non-Commercial Contracts

Attachment 2 of this submission contains the BCA application for an increase in the rates of payment to non-commercial contract holders for provision of school services. The level of payment depends on the category of the vehicle and the kilometres and hours it travels on the specified service. BCA applies for these rates to apply from 1/7/06.

Please advise if further information is required to support or clarify this application

Yours sincerely

Darryl J Mellish
Executive Director

Enclosures: Attachment 1: BICI (Supporting source documents will be sent separately)
Attachment 2: PWC Models (Supporting source documents will be sent separately)
Attachment 3: List of possible productivity impacts

Services covered by Bus Industry Cost Index

Positive effects on Productivity – 2006

Item	Comment
New engines	Less maintenance
New tyres	Greater wear
Computers / IT	Save time
Operators that can afford bulk fuel storage	Mitigate fuel cost increases

Negative affects on Productivity

Item	Comment
Drug & Alcohol testing now introduced	Increased costs / need more drivers. More drivers required to do same set schedules. Over the driver's working day there is less time available behind the wheel
New Accreditation system Annual self assessment	More administration / costs
New SMS standards	More administration / costs
Changes of OHS legislation	More administration / costs
Increased government reporting (monthly data, financial audits)	More administration / costs
Traffic congestion	More costs, more buses, more drivers to meet the same schedules
DDA legislation lower vehicle capacity	More vehicles / drivers to do the same task
New Emission Standards	More vehicles / drivers to do the same task. Increase in fuel consumption.
New engine technology (ADRs) with increased weight of vehicle and decreased capacity	Increased fuel as a result of decreased capacity consumption. Increase in number of vehicles required.
Increased driver training requirements – safety, customer service	More drivers required to do same set schedules. Over the driver's working day there is less time available behind the wheel
Increased risk assessment tasks (security, safety, governance)	Increased administration / costs
Increased Sick Leave entitlements (WorkChoices Legislation)	More driver's overtime needed to undertake same tasks
School student population is declining	Less passengers per bus
Full Employment (driver shortages)	Casuals – add hours to attract employees
Reduced town speed limits (50-60)	Takes longer for the same trip
Reduced speed in school zones (40-60)	Takes longer for the same trip