

Final Report

Review of Selected
Activities and Costs of
Rural and Regional
Commercial Bus Services



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IPART

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MANAGEMENT SUMMARY

The Independent Pricing and Regulatory Tribunal (IPART) is currently reviewing the maximum fares that can be charged from January 2010 for regular rural & regional NSW.

IPART received a submission from BusNSW dated 14 October 2009 which raised a number of issues in relation to selected activities and associated costs incurred by rural and regional bus operators. Some of these issues have been raised on a previous occasion by BusNSW. The purpose of this report is to:

- ▶ consider whether there are any constraints that require bus operators to pay their non-driver labour, the same wages as bus drivers and hence, whether the additional one-off 7 per cent wage increase legally granted to drivers should be applied to the entire workforce;
- ▶ advise whether costs associated with the BOAS obligations exceed the \$815 per bus that was included as a one-off adjustment to fares last year; and
- ▶ to advise whether there are additional costs associated with increasing the number of buses with air conditioning that warrant increases in the fuel or maintenance cost items that exceed the general rate of escalation applied.

Indec further understands that its analysis had to be based on historical activities and costs only. Projections of future obligations and costs have specifically been excluded from the analysis except for some comments incorporated in this report where relevant.

Wages

The base data for this analysis provided by BusNSW could not be independently verified. Nevertheless, Indec does accept BusNSW's assurances that the one-off 7 per cent wage increase legally granted to drivers has been applied by some operators to other 'non-driver' sections of the workforce. However, the application of the increase has not been entirely consistent across the whole industry and it is unclear how representative the supplied BusNSW pole sample is of the industry average. In contrast, when considering this issue Indec has been mindful that any adjustment to the previous determination will apply to the entire NSW rural and regional bus industry. Specifically, the adjustment would apply irrespective of whether or not all operators pay the additional wage increase to the entire workforce.

The previous determination assessed that 39% of staff (wages costs) in the administration, maintenance and cleaning categories did not qualify for the driver award increase.

Indec recommends that the previous determination be re-assessed and that the section of the workforce excluded from the driver award increase be decreased from 39% to 27% on the basis that only administration staff is excluded. Administration wages and salary costs accounted for approximately 27% of total people costs in the 2007 BICI survey. The recommendation acknowledges that operators have on average passed on the driver award increase to other 'non-driver' sections of the workforce. Indec accepts that rural and regional operators may have applied the increase to 'non-driver' sections of the workforce in instances where the bus drivers and conductors award applies or to avoid potentially negative wage equity and staff morale issues.

BOAS

Last year, we reviewed the information provided to us and developed estimates of the annual ongoing cost of complying with BOAS requirements. Excluding BOAS audit costs, the proposed annual estimates for maintaining and complying with the additional BOAS requirements total \$680 per bus. The per bus estimates include \$500 for the Safety Management System (SMS), \$120 for the drug and alcohol program and \$60 for other accreditation activities. Cost estimates per bus are based on bus fleet data from the 2007 BICI survey.

Indec's estimates also provide for annually recurring internal BOAS audit costs and related information technology and communications costs of approximately \$63 per bus and external triennial independent audit costs of \$6,400 per company or approximately \$72 per bus per annum. It should be noted that given the latest 31 December 2006 deadline date for re-accreditation, operators are unlikely to have incurred external BOAS audit costs in 2008/09. Such audits are conducted by external auditors on a tri-annual basis and Indec incorporated the costs as annualised amounts.

We note that the total estimate of \$815 per bus was accepted by IPART last year and incorporated into the January 2009 fare change.

Summary Cost Items	Proposed BOAS Costs Per Bus
Total SMS	\$500
Total Drug and Alcohol Program	\$120
Total BOAS Audit	\$135
Total Other Accreditation	\$60
Total	\$815

Summary of proposed BOAS costs

At IPART's request we have again reviewed this issue in consultation with BusNSW and NSWTI. In particular we considered the appropriateness of the BusNSW latest proposed cost of \$2,400 per

bus. Indec Consulting has confirmed its view that the reasonable recurrent cost of compliance with the additional BOAS related requirements is equivalent to \$815 per bus (2008 dollars).

As the \$815 has already been included in fares and in the absence of further detail information, Indec does not recommend further adjustment to fares to compensate operators for BOAS cost at this time. Any new or more detailed information in relation to the above process or additional costs arising from the ongoing implementation of BOAS should be considered when it becomes available.

Air Conditioning

No reliable Contract Type B bus fleet profile data is available other than the data from a 2008 Ernst & Young Survey. In the absence of any update information, it has been assumed that 12.2 per cent of the current fleet was air conditioned in 2007/08.

Indec's analysis has to be based on historical activities and costs only (costs incurred on or prior to 30 June 2009). Although we have not been provided with reliable evidence on fleet composition and age, we consider that it is unlikely that a significant proportion of the bus fleet was registered in the first six months of 2009. As a result, we do not believe that the industry has incurred significant additional costs associated with air conditioning maintenance over the twelve months to 30 June 2009. The mandatory requirement for each bus registered from 1 January 2009 to be fitted with air conditioning should be noted for future reference.

Data of any bus acquisitions and disposals undertaken since 30 June 2007 was not available for this review. The mandatory requirement for each new bus registered to be fitted with air conditioning did not commence until 1 January 2009. No detail has been provided to this review of new Contract B bus purchases since 1 January 2009. Our assumption is that it is unlikely that operators have incurred significant additional costs associated with the introduction of new air conditioned buses in the first six months of 2009.

It is imperative that reliable Type B Contract fleet profile information in the format presented on the NSWTI website Type B templates is available for future reviews.

1. INTRODUCTION

The Independent Pricing and Regulatory Tribunal (IPART) is currently reviewing the maximum fares that can be charged from January 2010 for regular rural & regional NSW.

1.1. Submission from BusNSW

IPART received a submission from BusNSW dated 14 October 2009 which raised a number of issues in relation to selected activities and associated costs incurred by rural and regional bus operators. Some of these issues have been raised on a previous occasion by BusNSW. Specifically, BusNSW has requested that the Tribunal review the following previous determinations.

- ▶ The cost of the Bus Operator Accreditation Scheme (BOAS). In 2008, Indec advised IPART that the efficient cost of the BOAS was \$815 per bus whereas BusNSW in consultation with NSWTI (formerly the Ministry of Transport NSW) had estimated a BOAS cost of \$2,000 per bus.
- ▶ The proportion of administration, maintenance and cleaning staff that should qualify for the recent driver award wage increases of 7% per annum. The previous determination assessed that 39% of staff (wages costs) in these categories did not qualify for the driver award increase. BusNSW argues that staff in these categories carries out driving duties and should qualify for the driver award increase in accordance with the mixed function employment provisions in the driver award/agreement covering rural and regional NSW.
- ▶ The cost of air conditioning buses which is now a compulsory requirement for all new vehicles introduced to the rural and regional fleets. BusNSW requests that its July 2008 estimate of the cost of \$1,979 per bus be indexed to 2009 and progressively phased in over the next 13 years. The BusNSW submission also refers to additional fuel consumption and related costs arising from the compulsory air conditioning of buses.

1.2. Scope of Work

To review the submission of BusNSW, IPART specified the following scope of work.

- ▶ Consider whether there are any constraints that require bus operators to pay their non-driver labour, the same wages as bus drivers and hence, whether the additional one-off 7 per cent wage increase legally granted to drivers should be applied to the entire workforce.
- ▶ Advise whether costs associated with the BOAS obligations exceed the \$815 per bus that was included as a one-off adjustment to fares last year:

- ▶ specify the BOAS obligations that apply to ordinary passenger services (i.e. excluding obligations that relate to school bus services) and the dates from which they apply;
 - ▶ consider whether the obligations impose changes in work practice compared with what a reasonable operator would otherwise undertake in order to deliver passenger services and if so, specify the nature of any additional tasks; and
 - ▶ estimate the cost of undertaking these tasks in the most efficient way.
- ▶ Advise whether there are additional costs associated with increasing the number of buses with air conditioning that warrant increases in the fuel or maintenance cost items that exceed the general rate of escalation applied to these cost items:
- ▶ specify the additional obligations that apply to ordinary passenger services (i.e. excluding obligations that relate to school bus services) and the dates from which they apply;
 - ▶ consider whether there are additional costs associated with the increased proportion of buses that are air conditioned compared with the current situation (increases in fuel consumption, air conditioning maintenance);
 - ▶ consider whether there are cost reductions associated with the increased proportion of new buses compared with current costs (greater fuel efficiency, lower general maintenance costs);
 - ▶ consider whether the 2007 reweighting of the BICI and IPART's choice of inflators have already captured any of the additional costs; and
 - ▶ undertake a comparison of total bus maintenance costs for new air conditioned buses compared with older non-air conditioned buses, based its own knowledge of industry.

1.3. Report Outline

The remainder of this report has been structured to in three sections to address the issues raised by Bus NSW an its submission dated 14 October 2009.

- ▶ Section 2 - wages
- ▶ Section 3 - BOAS costs
- ▶ Section 4 – Cost of air conditioning buses

2. WAGES

In its submission to IPART, BusNSW argued that staff in administration, maintenance and cleaning staff categories carry out driving duties and should therefore qualify for the driver award increase of seven per cent in accordance with the mixed function employment provisions in the driver award/agreement covering rural and regional NSW. Specifically, BusNSW stated that IPART had previously assessed that 39% of the rural and regional wages related to administration, mechanics and cleaning and did not apply the 7% drivers wage increase to these categories. BusNSW further argued that in rural regional operations, bus operators' administration staff, cleaners and mechanics carry out driving duties and hence also received the 7% increase. BusNSW also referred to the award 1 agreement covering drivers in rural and regional NSW provides for Mixed Function employment.

2.1. Award

Indec has reviewed the terms and conditions of the award referred to and provided by BusNSW. The copy of the award reviewed by Indec is an AUSTRALIAN INDUSTRIAL REGISTRY CONSOLIDATION award registered as AN120607 – Transport Industry - Motor Bus Drivers and Conductors (State) Award. The award states that it reproduces the former State award Transport Industry - Motor Bus Drivers and Conductors (State) Award as at 27 March 2006, Formerly award 674, Serial C3808, of the Industrial Relations Commission of New South Wales. It also states that this award incorporates Serial C4118 (Erratum to C3808), C4774 dated 23 March 2006 (operative from 23 March 2006), C5604 (operative on and from 19 December 2005) and C6086 (correction order to C5604).

Indec confirms that Part A of the award, SECTION I - WAGES AND HOURS OF EMPLOYMENT, sub-section 1 – Arrangement, Clause 10 states the following with respect to Mixed Functions:

- “(i) An employee required by his/her employer to work for less than two hours a day on work carrying a higher rate of pay shall be paid at the higher rate for the actual time so worked and when required to work for more than two hours a day on such work he/she shall be paid as for a whole days work.

- (ii) This clause shall not apply to actual periods of one hour or less or to interchange of work arranged between employees to meet their personal convenience.”

2.2. Consultation

During consultation, BusNSW expanded on its submission to IPART by referring to the fact that most rural and regional operators are already paying the 7% drivers wage increase to the entire

workforce including administration, maintenance and cleaning staff. Bus NSW also observed that a number of its members employ a relatively small work force where wage levels and equity are an important issue for morale and productivity.

In a separate submission to Indec, BusNSW quoted many cases where above award payments are made by its members to maintain perceived/actual reliability, particularly when mixed functions are involved and workers are working closely together as part of a team. BusNSW therefore expressed the view that it was likely that its member operators with mixed function employees will either apply the “drivers wage increase” regime to the entire workforce or to none of the staff (‘all in or all out’). BusNSW further observed that operators who chose not to apply the driver wages increase to the entire workforce would have probably needed to resort to other ways of addressing driver shortages (e.g. using management personnel or additional casuals, etc.).

2.3. Analysis

Indec acknowledges that rural and regional bus operators are more likely maintain a workforce that work as a multi skilled team and that it would be difficult under such circumstances to grant different pay increases to each staff category.

Indec has independently confirmed the relevant award provisions with respect to drivers and conductors, although it is unclear how these provisions may apply to other staff categories such as clerical staff and mechanics. Irrespective of the award provisions, it may prove difficult to apply the award(s) to the letter if there is a perception of inequitable treatment of certain categories of staff referred to above.

Indec has however confirmed the relative wages costs of drivers, clerical staff, mechanics and cleaners (table 2.3.1).

Staff Category	All Services	Commercial Services Only
Drivers	61.69%	61.68%
Mechanics, Cleaners & Re-fuellers	11.92%	11.51%
Administration	26.39%	26.81%
Totals	100.00%	100.00%

Table 2.3.1 BICI Survey- Weighted average relative wages costs including payroll on-costs (2006/07)

The wages costs and payroll on-cost expense was based on the assumption that at the time of the survey, generally non-commercial contracts covered one bus. The number of 'Commercial' buses was derived by subtracting the number of non-commercial contracts (i.e. non-commercial buses) held by the operator from the total reported fleet by that operator.

Further analysis of the results of the BICI survey demonstrates that on a weighted average basis, large and medium size operators incur higher administration expense relative to total people costs than small operators (26.4% compared to 23.4% respectively).

The 2006/07 BICI survey covered approximately 810 commercial contract buses (table 2.3.2).

Buses	Operators in Sample	Buses	
		Total in Sample	Average per Operator
more than 100	2	415	208
Less than 50	3	144	48
Less than 30	8	183	23
Less than 20	9	67	7
Totals	22	809	37

Table 2.3.2 BICI Survey – Buses in Sample (2006/07)

During the 2006/07 BICI Survey, it was established that at that time there were approximately 74 rural and regional operators holding commercial contracts in New South Wales. The sample above therefore represents approximately 29.7% of all rural and regional commercial contract holders. No reliable data on the total number of commercial Type B Contract buses appears to exist.

Indec asked BusNSW that further submissions on this issue should contain some verifiable and representative survey information on the proportion of all mechanics, cleaners and admin staff that drive, the average number of days they drive per year and how many hours per day (on average on those days). BusNSW advised that it was not feasible in the time available to complete a survey to the level of detail requested by Indec. However, BusNSW advised that it had sent out a simple email survey to assess to what extent member operators paid the 7% driver wage increase to non-driver staff. BusNSW followed up the survey by telephone and has subsequently advised Indec that the poll confirmed that most of the surveyed member operators are paying the 7% drivers wage increase to the entire workforce (table 2.3.3).

A list of operators included in the BusNSW poll is attached in Appendix A. The time frame for this review did not allow for independent data collection from individual operators. However, one other large operator was contacted to augment the BusNSW survey.

Buses/Staff	Operators	Staff	Not subject to bus award	Excluded from Reform Allowance	
more than 100	1	300	24	0	0.0%
Less than 100	1	71	17	17	23.9%
Less than 50	5	204	31	18	8.8%
Less than 30	4	100	0	0	0.0%
Less than 20	9	88	9	5	5.7%
Totals	20	763	81	40	5.2%

Table 2.3.3 BusNSW Survey Summary (November 2009)

In summary, the additional one-off seven per cent wage increase legally granted to drivers has not been consistently applied to the entire workforce of every operator. In contrast, when considering this issue Indec has been mindful that any adjustment to the previous determination will apply to the entire NSW rural and regional bus industry.

2.4. Conclusion and Recommendation

The base data for the analysis in section 2.3 could not be independently verified. Nevertheless, Indec does accept BusNSW's assurances that the one-off seven per cent wage increase legally granted to drivers has been applied by some operators to other 'non-driver' sections of the workforce. However, the application of the increase has not been entirely consistent across the whole industry and it is unclear how representative the BusNSW pole sample is of the industry average.

The previous determination assessed that 39% of staff (wages costs) in the administration, maintenance and cleaning categories did not qualify for the driver award increase. Indec recommends that the previous determination be re-assessed and that the section of the workforce excluded from the driver award increase be decreased from 39% to 27% on the basis that only administration staff is excluded. Administration wages and salary costs accounted for approximately 27% of total people costs in the 2007 BICI survey (table 2.3.1). The recommendation acknowledges that operators have on average passed on the driver award increase to other 'non-driver' sections of the workforce. Indec accepts that rural and regional operators may have applied the increase to 'non-driver' sections of the workforce in instances where the bus drivers and conductors award applies or to avoid potentially negative wage equity and staff morale issues. BusNSW has since commented that it is inappropriate to excluded all administrative staff from the driver award increase. BusNSW argues that its survey showed that many operators paid every employee and that small operators do not have separate administration staff (bus drivers perform all duties). However, given the limited survey data provided Indec has not been able to accurately assess the appropriate proportion of administration staff that may be entitled to the driver award increase.

3. BOAS COSTS

From 1 July 2005 the conditions for accreditation changed significantly with the introduction of a range of new requirements under the Bus Operator Accreditation System (BOAS). This includes among other things, the implementation of a detailed and formal Safety Management System (SMS) which requires the operator to closely monitor and document a range of safety related standards including, without limitation bus hazards and related control measures, driver fatigue, driver health monitoring and incident management.

Indec Consulting previously formed a view that the reasonable recurrent cost of compliance with the additional BOAS related requirements is equivalent to \$815 per bus¹. Indec was advised by BusNSW that it participated in an extensive and robust process with the NSWTI in establishing the BOAS costs of \$2,000 per bus and that it did not agree with Indec's recommendations.

At the request of IPART, Indec consulted with the BusNSW on its findings and recommendations. The outcome of that consultation were contained in an addendum to the 2008 BOAS report.² BusNSW also indicated that the process with the NSWTI was on-going and that the interpretation and implementation details of some of the accreditation standards are yet to be finalised. However, Indec has not participated in that process did not receive any new or more detailed information in relation to its inputs or outputs. Indec could therefore not comment on the relative robustness and extent of its 2008 review compared to the process undertaken by the BusNSW and NSWTI.

In its 2009 submission to IPART, BusNSW re-iterated its view that \$815 per bus was inadequate compensation for BOAS costs incurred by its members.

3.1. Obligations

The Passenger Transport Act 1990 requires operators of public passenger services, other than ferry services, to be accredited by the Director General, NSW Transport and Infrastructure (NSWTI), formerly the Ministry of Transport.

The principal purpose of bus operator accreditation is to ensure safe and reliable passenger bus services to the travelling public of New South Wales.

New accreditation or re-accreditation procedures came into effect on 1 July 2005. The new operator accreditation system provides a three year renewable accreditation program and more

¹ Indec Consulting Report "Bus Operator Accreditation System (BOAS) Cost Review", November 2008

² Indec Consulting Final Report Addendum "Bus Operator Accreditation System (BOAS) Cost Review", December 2008

extensive auditing. From 1 July 2005, bus operator accreditation or re-accreditation requires the implementation and maintenance of a:

- ▶ Drug and Alcohol program;
- ▶ Safety Management System;
- ▶ Driver Monitoring Program, and
- ▶ Vehicle Maintenance and Safety Program.

Compliance is required to be audited annually by the operator (self assessment) and tri-annually by an external auditor at the operator's cost. NSWTI has advised that whilst the requirements may be more stringent and formalised under the BOAS, a number of these requirements were already in place in some form prior to the implementation of the BOAS. The requirements are therefore not entirely new obligations for operators.

In February 2006, NSWTI advised operators of the need to submit applications for accreditation renewal under the new procedures by 31 March 2006. That deadline was subsequently extended to 31 December 2006.

A number of manuals and supporting documentation were developed to assist operators with the implementation of the BOAS.

3.2. Consultation

During consultation, BusNSW provided a separate submission to Indec . In its submission, BusNSW revised its estimate of the cost of BOAS compliance to approximately \$2,400 per bus. Details are attached in Appendix B.

There are five key differences between the latest estimates of BOAS costs submitted by BusNSW and Indec's 2008 assessment. Specifically, in its submission BusNSW increased Indec's estimates for:

- ▶ internal hourly rates by 10.0% from \$40.00 to \$44.00 per hour to reflect average industry rate for a supervisor of \$31.45 plus 40.0% on-costs. Cost impact is \$70.00 per annum per bus;
- ▶ communication, consultation and training by 50.0% from 4.0 to 6.0 hours per annum to reflect that supervisors are required to increase time on training duties to regularly communicate requirements for BOAS (SMS/Drug and Alcohol program, etc.). Prior to the introduction of the new BOAS, regular driver meetings were held but the items to be covered have increased because of the reforms. The introduction of the new BOAS also placed additional duties on

supervisory personnel in having to introduce auditable paper trails to confirm BOAS compliance when subjected to an audit by an external auditor or the regulator. Cost impact is \$88.00 per annum per bus;

- ▶ random drug and alcohol testing from zero to one hour per annum. A figure for random D/A testing is not included in Type A contracts. However, this is a regular occurrence in Type B operations. Assume every driver tested once per year and test takes up to 1 hour. A random drug test costs approx \$180.00 per driver tested. Should a indicative positive test occur, the cost of the necessary laboratory test is in the vicinity of \$52.00 per test. It should be noted the an indicative positive test could be triggered by the driver having taken prescribed medications and cannot be ignored. Cost impact is \$274.00 per annum per bus;
- ▶ pre-departure and end of shift checks from zero to 32.5 hours per annum. Pre-departure and end of shift checks are now more comprehensive to meet BOAS requirements The checks now requires the driver to physically record the actions performed before commencement and after completion of shift. Prior to BOAS, pre-departure vehicle checks were performed by drivers, but generally only included a tyre and light check. All other items were checked by mechanical or yard staff. This function is now the responsibility of the driver. BusNSW estimates that approximately 7.5 minutes per day have been added to driver tasks as a result of the reform. Driver shift recovers compared to vehicle departure time shows 25-30 minutes is now factored into the non-driving work time. In that context, BusNSW considers that its estimate of 7.5 minutes per day to cover the additional BOAS requirements is reasonable. At \$30.00 per hour (\$21.24 plus on costs) the cost impact is \$975.00 per bus; and
- ▶ participation of divers in additional training and seminars from zero to six hours per annum. Cost impact at an hourly rate of \$30.00 per hour is \$180.00 per annum per bus.

In summary, the total cost impact of the increases to Indec's 2008 estimates proposed by BusNSW is \$2,402.00 per bus.

In support of the increase of Indec's estimate for communication/consultation/training proposed by BusNSW, it provided the following examples of additional paper work which now have to be introduced by supervisors:

- ▶ risk Register for operations and D&A (to be reviewed annually);
- ▶ annual Self Assessment Reports (ASAR's);
- ▶ staff Assessment and Training reports (continually revised as changes in operations or equipment occurs);
- ▶ examination of Driver Pre Departure Check/End Of Shift reports;

- ▶ preparation of position descriptions for all levels of employees;
- ▶ additional work place policies to cover the Safety Management System and the Drug & Alcohol program;
- ▶ preparation of monthly/annual reports on; service reliability, passenger boardings, customer feedback, financials, fleet profile, total annual kilometres, peak fleet requirements, major service disruptions, force majeure disruptions;
- ▶ additional work to ensure the maintenance performed on vehicles is in equal to or better than the manufacturers specifications; and
- ▶ records to support stakeholder consultation in service level reviews.

During consultation, NSWTI could not directly comment on the previous discussions with BusNSW in establishing the BOAS costs of \$2,000 per bus. However, NSWTI did make a general comment that whilst the establishment of BOAS would have had a cost impact on operators, the majority of these costs could be considered non-recurrent in nature. NSWTI has since clarified that during negotiations for rural and regional contracts, an amount was negotiated to compensate operators for increased 'compliance costs'. NSWTI further advised that the amount was not restricted to compensation for the BOAS but also covered costs such as: RTA and heavy vehicle legislation and related standards; OH&S requirements; drug and alcohol testing; undertaking 'working with children' tests; and increased obligations of the BOAS. According to NSWTI, the BOAS cost was just one component of the agreed compensation amount of \$2,000.

NSWTI advised that the amendments to the Drug & Alcohol Regulation to introduce saliva testing for the bus industry will not be implemented before mid 2010 at the earliest. This is due to further research and consultation that ITSRR is undertaking. The presumption that every test will be positive and incur additional costs appears excessive.

NSWTI also advised that the provisions for bus security for operators servicing major transport interchanges have not to its knowledge placed any cost requirements for operators. NSWTI reported that the provisions are in place and have not impacted on the industry and that in fact, if there is any impact it would only be for a very small number of operators.

In terms of any work being done by the BOAS Advisory Committee that may give rise to future cost increases for operators, NSWTI observed that the Committee has not met for at least 6 months. NSWTI advised that while there have been changes to the Audit Tool and Accreditation Manual these have been purely amendments following experience gained from having BOAS operating for a number of years. According to NSWTI, there is nothing that currently being considered that will have any financial impact on operators through BOAS.

In its 2008 BOAS costs review, Indec made underlying assumption that much of the additional administrative task would be absorbed by existing overhead staff (i.e. would not lead to an increase the administrative staff head count). NSWTI agreed with that assumption and observed that for the majority of the medium to larger operators, BOAS only documented exactly what they were already doing or required to be doing under existing legislation.

3.3. Analysis

Last year, we reviewed the information provided to us and developed estimates of the annual ongoing cost of complying with BOAS requirements. Excluding BOAS audit costs, the proposed annual estimates for maintaining and complying with the additional BOAS requirements total \$680 per bus. The per bus estimates include \$500 for the Safety Management System (SMS), \$120 for the drug and alcohol program and \$60 for other accreditation activities. Cost estimates per bus are based on bus fleet data from the 2007 BICI survey. Details are attached in Appendix C.

Indec's estimates also provide for annually recurring internal BOAS audit costs and related information technology and communications costs of approximately \$63 per bus and external triennial independent audit costs of \$6,400 per company or approximately \$72 per bus per annum. It should be noted that given the latest 31 December 2006 deadline date for re-accreditation, operators are unlikely to have incurred external BOAS audit costs in 2008/09. Such audits are conducted by external auditors on a tri-annual basis and Indec incorporated the costs as annualised amounts.

We note that the total estimate of \$815 per bus was accepted by IPART last year and incorporated into the January 2009 fare change. NSWTI has since advised that Indec's 2008 estimate of external BOAS audit costs of \$6,400 per company appears excessive. NSWTI operator survey data which indicates a cost of \$915.50 per company. Indec has not sighted the NSWTI operator survey data either for this review or its 2008 BOAS cost review.

With respect to the latest submission from BusNSW, we make the following comments with respect to the five key differences between the latest estimates of BOAS costs submitted by BusNSW and Indec's 2008 assessment. The comments below should be considered in the context that Indec's analysis has to be based on historical activities and costs only (costs incurred on or prior to 30 June 2009).

- ▶ Indec cannot support an increase in its estimate of the internal hourly rates by 10.0% from \$40.00 to \$44.00 per hour. Whilst we do not question the average industry rate for a supervisor of \$31.45, average payroll on-costs of between 16.0 and 20.0 per cent were reported in the 2007 BICI and previous surveys. Indec used the rate of \$40.00 per hour for administration which is based on past bus operator survey results of average paid rates for administration

staff and includes indexation to normalise the hourly rate to 2007/08 dollars. The paid rate equated to approximately \$65,000 per annum plus 19.20 per cent payroll on-costs or a total of \$80,000 per annum. Indec has therefore assumed that the additional administrative burden would be carried out by a cross section of administrative staff rather than purely by senior managers.

- ▶ At this time, Indec cannot support an increase in its estimate of communication, consultation and training by 50.0% from 4.0 to 6.0 hours per annum. Whilst Indec does not question the estimate of BusNSW, insufficient supporting historical cost information has been provided to independently verify the proposed time estimate and associated costs.
- ▶ We cannot support an increase in our estimate of random drug and alcohol testing from zero to one hour per annum at this time. NSWTI advised that the amendments to the Drug & Alcohol Regulation to introduce saliva testing for the bus industry will not be implemented before mid 2010 at the earliest. In addition, the presumption that every test will be positive and incur additional costs appears excessive.
- ▶ Indec cannot support an increase in its estimate of pre-departure and end of shift checks from zero to 32.5 hours per annum. Whilst Indec does not question the estimate of BusNSW, insufficient supporting historical cost information has been provided to independently verify the proposed time estimate and associated costs. In addition, estimates appear to be based on vehicles operating 260 days per year. As many buses operate school services only, the majority of vehicles are likely to operate approximately 200 days per year.
- ▶ At this time, Indec cannot support an increase in its estimate of participation of divers in additional training and seminars from zero to six hours per annum. Whilst Indec does not question the estimate of BusNSW, insufficient supporting historical cost information has been provided to independently verify the proposed time estimate and associated costs.

Indec has conducted its analysis for stand-alone on-going BOAS costs only. The scope of work did not include any consideration of set-up costs or the effect of the interpretation of Drug and Alcohol policy/testing exceeding BCA's expectations or BOAS requirements still being reviewed. NSWTI has since advised that it paid Contract B operators approximately \$16,500 to cover BOAS set-up costs when contracts commenced in 2008 (based on an 80 bus operation).

In its analysis, Indec assumed that its estimates of on-going costs were additional to the costs reported by operators in the 2007 BICI survey. The estimated BOAS costs were based on a per bus costs and were added to the reported 2007 survey costs indexed for the 2007/08 year.

The focus of this review was to assess genuine cost increases arising from the BOAS in the fiscal year 2008/09. In summary, Indec understands the concerns expressed by the BusNSW in its latest and prior submissions. However, as has been indicated, we have not been provided with sufficient

supporting historical cost information to independently verify the BOAS time estimates and associated costs proposed by BusNSW.

3.4. Conclusions and Recommendation

Last year, we reviewed the information provided to us and developed estimates of the annual ongoing cost of complying with BOAS requirements. Excluding BOAS audit costs, the proposed annual estimates for maintaining and complying with the additional BOAS requirements total \$680 per bus. The per bus estimates include \$500 for the Safety Management System (SMS), \$120 for the drug and alcohol program and \$60 for other accreditation activities. Cost estimates per bus are based on bus fleet data from the 2007 BICI survey.

Indec's estimates also provide for annually recurring internal BOAS audit costs and related information technology and communications costs of approximately \$63 per bus and external triennial independent audit costs of \$6,400 per company or approximately \$72 per bus per annum. It should be noted that given the latest 31 December 2006 deadline date for re-accreditation, operators are unlikely to have incurred external BOAS audit costs in 2008/09. Such audits are conducted by external auditors on a tri-annual basis and Indec incorporated the costs as annualised amounts.

We note that the total estimate of \$815 per bus was accepted by IPART last year and incorporated into the January 2009 fare change.

Summary Cost Items	Proposed BOAS Costs Per Bus
Total SMS	\$500
Total Drug and Alcohol Program	\$120
Total BOAS Audit	\$135
Total Other Accreditation	\$60
Total	\$815

Table 5.1 Summary of proposed BOAS costs

At IPART's request we have again reviewed this issue in consultation with BusNSW and NSWTI. In particular we considered the appropriateness of the BusNSW latest proposed cost of \$2,400 per bus. Indec Consulting has confirmed its view that the reasonable recurrent cost of compliance with the additional BOAS related requirements is equivalent to \$815 per bus (2008 dollars).

As the \$815 has already been included in fares and in the absence of further detail information, Indec does not recommend further adjustment to fares to compensate operators for BOAS cost at this time. Any new or more detailed information in relation to the above process or additional costs

arising from the ongoing implementation of BOAS should be considered when it becomes available.

4. BUS AIR CONDITIONING

In its submission BusNSW stated that the cost of air conditioning buses is now a compulsory requirement for all new vehicles introduced to the rural and regional fleets. BusNSW requested that its July 2008 estimate of the cost of \$1,979 per bus be indexed to 2009 and progressively phased in over the next 13 years. The BusNSW submission also refers to additional fuel consumption and related costs arising from the compulsory air conditioning of buses.

4.1. Contract

Indec has reviewed the Type B Rural and Regional Bus Service Contract available on the website of NSWTI. Schedule 8 of that contract specifies that air conditioning is mandatory for new buses registered from 1 January 2009. The minimum specification calls for each bus to:

“ Be fitted with a fully automatic “heat – cool” air conditioning system (for any bus first registered after 1 January 2009).

The terms and conditions of the Type B Rural and Regional Bus Service Contract do not specify an obligation on the operator to operate the air conditioning equipment.

Reporting templates for Type B Rural and Regional Bus Service Contracts are available on the NSWTI website and include a worksheet labelled ‘fleet profile’ which appears to be an annual report. Given the commencement date of the mandatory air conditioning requirement of 1 January 2009, NSWTI advises that no such annual fleet profile reports have been received to date. NSWTI does not receive periodic advice when Type B Contract operators procure additional or replacement buses. However, NSWTI has expressed a clear expectation that the air conditioning would be operational during the time the bus is being used to perform services under the contract. Indec has been advised that the draft Passenger Transport Regulations incorporates a clause in regard to the operation of the air conditioning. Indec understands that this clause is still subject to further refinement. There also are contract provisions relating to complaints handling which may (Schedule 7, monthly Customer Feedback report, category ‘Other’). Complaints may for example relate to non-operation of air conditioning equipment.

NSWTI further advised that buses operated in rural and regional NSW generally operate continuously for between 2 to 6 hours per day.

In summary, Indec has independently verified that there is a mandatory contract requirement for Contract B buses first registered from 1 January 2009 to be air conditioned. It should be noted that the mandated air-conditioning requirement only applies to new vehicles and specifically does not apply to vehicle re-registrations. Indec also accepts that there is an expectation but no contractual obligation that such equipment will be operated during service hours.

4.2. Consultation

The outcome of consultation with NSWTI has been summarised in section 4.1. A copy of a report dated 21 November 2008 on funding of rural and regional bus services in NSW was also provided³. Indec has reviewed that report in the context of how Type B contracts account for additional costs arising from the mandatory requirement for Contract Type B buses registered from 1 January 2009 to be air conditioned.

BusNSW appended a copy of a final report by Saturn Corporate Resources on air conditioning maintenance costs⁴. Indec has reviewed that report.

4.3. Analysis

Indec's analysis has to be based on historical activities and costs only (costs incurred on or prior to 30 June 2009). Although we have not been provided with reliable evidence on fleet composition and age, we consider that it is unlikely that a significant proportion of the bus fleet were first registered in the first six months of 2009. As a result, we do not believe that the industry has incurred significant additional costs associated with air conditioning maintenance or fuel consumption over the twelve months to 30 June 2009. The mandatory requirement for each bus registered from 1 January 2009 to be fitted with air conditioning should be noted for future reference.

No reliable Contract Type B bus fleet profile data is available and this data is necessary in order to determine the likely future cost of mandating air conditioning for all new buses. It is imperative that reliable Type B Contract fleet profile information in the format presented on the NSWTI website Type B templates is available for future reviews.

Indec has been advised that during the Ernst & Young review, a survey was conducted which inter alia established the proportion of the rural and regional bus fleet that was air conditioned as at 30 June 2008. Ernst & Young in its calculation of additional air conditioning costs assumed that thirty per cent of the rural and regional fleet that was air conditioned at the time of that survey (table 4.3.1)

³ Ernst & Young, Report prepared for the NSW Ministry of Transport - Funding of Rural and Regional Bus Services in NSW, 21 November 2008

⁴ Saturn Corporate Resources Pty Ltd, Final Report prepared for the Bus Association of Victoria (BAV) – 'Victorian Country School Bus Air Conditioning Maintenance Cost Study', 29 January 2004

Air Conditioned	Buses in Sample	Proportion of Sample
No	905	67.0%
Yes	367	27.2%
Unknown	78	5.8%
Totals	1,350	100.0%

Table 4.3.1 Status of air conditioning of the rural and regional commercial and non-commercial bus fleet

(Source: NSWTI from Ernst & Young Survey)

NSWTI advised that the above estimate was based on a sample taken from both the non-commercial Type A Contract bus fleet and the commercial Type B Contract bus fleet. Subsequent information shows that fewer Type B contract buses are air conditioned than Type A contract buses. Approximately 12.2% of the Type B Contract bus fleet survey sample were air conditioned at the time of the Ernst & Young Survey (table 4.3.2).

Air Conditioned	Buses in Sample	Proportion of Sample
No	455	80.2%
Yes	69	12.2%
Unknown	43	7.6%
Totals	567	100.0%

Table 4.3.2 Status of air conditioning of the rural and regional Contract Type B (commercial) bus fleet

(Source: NSWTI from Ernst & Young Survey)

The 2006/07 BICI survey was based on data from that financial year. Indec asked NSWTI for any information relating to Contract Type B bus fleet purchase since 30 June 2007, the Ernst & Young survey or since the commencement of the mandatory requirement. NSWTI advised that it does not maintain records of fleet acquisitions or disposals for Type B Contract buses. Specifically, NSWTI has no fleet statistics available, pending receipt of the first annual fleet profile reports for Type B Contracts.

In summary, no reliable Contract Type B bus fleet profile data is available other than the data presented in table 4.3.1. In the absence of any updated information, it has been assumed that 12.2 per cent of the current fleet was air conditioned in 2007/08. Indec's analysis has to be based on historical activities and costs only (costs incurred on or prior to 30 June 2009). The mandatory

requirement for each new bus first registered from 1 January 2009 to be fitted with air conditioning should be noted for future reference.

BusNSW has since submitted that Indec should have made an assumption that all Contract B buses will be air-conditioned over time and have made the necessary adjustments. However, for the purpose of this review Indec was instructed to base its analysis on historical costs only. BusNSW also suggested that the original BICI cost base was first established in 1990, a time where no buses would have been air conditioned. BusNSW further suggested that no BICI indexation of base costs since that date has included any adjustment for the introduction of air conditioned vehicles. To accurately assess any additional historical maintenance and fuel costs associated with air conditioned buses, reliable data of the date of registration and any disposal of such vehicles would be required. In this context, it should also be noted that air conditioning was not mandatory for new vehicles first registered prior to 1 January 2009.

4.4. Conclusions and Recommendation

Data of any bus acquisitions and disposals undertaken since 30 June 2007 were not available for this review. The mandatory requirement for each new bus registered to be fitted with air conditioning did not commence until 1 January 2009. No detail has been provided to this review of new Contract B bus purchases since 1 January 2009. Our assumption is that it is unlikely that operators have incurred significant additional costs associated with the introduction of new air conditioned buses in the first six months of 2009.

This review has demonstrated that it is imperative to have reliable fleet data available for future reviews. The Contract B fleet profile information should be provided in the Contract B template format presented on the NSWTI website.

APPENDIX A

Operators surveyed by BusNSW

Operators Surveyed by BusNSW (November 2009)

Operator

Bega Valley
Blanch's
Brunswick VBC
Busabout Wagga
Buslines Group
Cowra Bus
Crookwell
Edwards Armidale
Eggins Taree
Forbes
Hannafords
Kennedys Nowra
Lawrence Bus Ser
Martins Albury
Sawtell
Shoalbus
Symons Narooma
Taylors Moree
Tinonee Bus Co
Ulladulla

APPENDIX B

**BusNSW Submission
BOAS Compliance Costs**

Cost items	Hours (p.a.)	Hourly rate (\$/hr)	Total (\$)	Other costs (\$)	Proposed Type B
		\$44.00			
SMS					
SMS Policy		44	-	-	-
Policy Implementation		44	-	-	-
Position Descriptions		44	-	-	-
Communication/consultation/training	6.00	44	264	-	264
Risk Register (including D&A)	2.00	44	88	-	88
Health monitoring procedure		44	-	-	-
Triggered health assessment procedure		44	-	-	-
Fatigue mgt plan (including driver register)	-	44	-	-	-
Security procedure	-	44	-	-	-
Staff induction training	-	44	-	-	-
Training skills analysis	0.25	44	11	-	11
Training register	0.25	44	11	-	11
Critical incident management		44	-	-	-
Incident reporting/investigation procedure	4.00	44	176	-	176
Annual SMS review	1.00	44	44	-	44
Audit action plan and implementation	1.00	44	44	-	44
TOTAL SMS	14.50	\$44	\$638	-	\$638
DRUG AND ALCOHOL PROGRAM					
D&A Risk assessment		44	-	-	-
D&A Policy		44	-	-	-
D&A consultation and records		44	-	-	-
Training and information		44	-	-	-
Random D&A testing	1.00	44	44	230	274
Incident D&A testing	1.00	44	44	-	44
Authorised Officer training		44	-	-	-
Remedial action - employee breach	1.00	44	44	-	44
Notification and record keeping	1.00	44	44	-	44
TOTAL DRUG AND ALCOHOL PROGRAM	4.00	\$44	\$176	230	\$406
BOAS AUDIT					
BOAS audit (Internal)	0.54	40	22	-	22
BOAS audit (External)	0.27	150	41	-	41
BOAS audit travel costs		44	-	13	13
Computer/communication upgrades (lease)		44	-	20	20
Broadband		44	-	20	20
Satellite phones		44	-	20	20
OTHER BOAS AUDIT	0.81		\$62	\$73	\$135
OTHER ACCREDITATION					
Insurance Register	0.25	44	11	-	11
Fleet Register	0.25	44	11	-	11
Drivers Register		44	-	-	-
Licence/Authority checks	1.00	44	44	-	44
School children behaviour procedure		44	-	-	-
Maintenance schedule		44	-	-	-
New HVIS protocols		44	-	-	-
MVRIA requirements		44	-	-	-
Pre-departure vehicle checks and shift end	32.50	30	975	-	975
Driver Work Diaries		44	-	-	-
Fleet Incident/Accident Register		44	-	-	-
Incident Data Procedure		44	-	-	-
Summary of passenger rights		44	-	-	-
Runaway bus procedure		44	-	-	-
Seat belt passenger advice		44	-	-	-
First aid kit		44	-	-	-
Working with children check		44	-	-	-
TOTAL OTHER ACCREDITATION	34.00	\$31	\$1,041	-	\$1,041
GRAND TOTALS	53.31	\$36	\$1,917	\$303	\$2,220
Driver training	6	30	180	-	180

\$2,400

APPENDIX C

**Indec Estimates
BOAS Compliance Costs**

Cost items	Hours (p.a.)	Hourly rate (\$/hr)	Total (\$)	Other costs (\$)	Proposed Type A recurring (\$ per Bus)
SMS					
SMS Policy		40	-	-	-
Policy Implementation		40	-	-	-
Position Descriptions		40	-	-	-
Communication/consultation/training	4.00	40	160	-	160
Risk Register (including D&A)	2.00	40	80	-	80
Health monitoring procedure		40	-	-	-
Triggered health assessment procedure		40	-	-	-
Fatigue mgt plan (including driver register)	-	40	-	-	-
Security procedure	-	40	-	-	-
Staff induction training	-	40	-	-	-
Training skills analysis	0.25	40	10	-	10
Training register	0.25	40	10	-	10
Critical incident management		40	-	-	-
Incident reporting/investigation procedure	4.00	40	160	-	160
Annual SMS review	1.00	40	40	-	40
Audit action plan and implementation	1.00	40	40	-	40
TOTAL SMS	12.50	\$40	\$500	-	\$500
DRUG AND ALCOHOL PROGRAM					
D&A Risk assessment		40	-	-	-
D&A Policy		40	-	-	-
D&A consultation and records		40	-	-	-
Training and information		40	-	-	-
Random D&A testing		40	-	-	-
Incident D&A testing	1.00	40	40	-	40
Authorised Officer training		40	-	-	-
Remedial action - employee breach	1.00	40	40	-	40
Notification and record keeping	1.00	40	40	-	40
TOTAL DRUG AND ALCOHOL PROGRAM	3.00	\$40	\$120	-	\$120
BOAS AUDIT					
BOAS audit (Internal)	0.54	40	22	-	22
BOAS audit (External)	0.27	150	41	-	41
BOAS audit travel costs		40	-	13	13
Computer/communication upgrades (lease)		40	-	20	20
Broadband		40	-	20	20
Satellite phones		40	-	20	20
OTHER BOAS AUDIT	0.81		\$62	\$73	\$135
OTHER ACCREDITATION					
Insurance Register	0.25	40	10	-	10
Fleet Register	0.25	40	10	-	10
Drivers Register		40	-	-	-
Licence/Authority checks	1.00	40	40	-	40
School children behaviour procedure		40	-	-	-
Maintenance schedule		40	-	-	-
New HVIS protocols		40	-	-	-
MVRIA requirements		40	-	-	-
Pre-departure vehicle checks		40	-	-	-
Driver Work Diaries		40	-	-	-
Fleet Incident/Accident Register		40	-	-	-
Incident Data Procedure		40	-	-	-
Summary of passenger rights		40	-	-	-
Runaway bus procedure		40	-	-	-
Seat belt passenger advice		40	-	-	-
First aid kit		40	-	-	-
Working with children check		40	-	-	-
TOTAL OTHER ACCREDITATION	1.50	\$40	\$60	-	\$60
GRAND TOTALS	17.81	\$42	\$742	\$73	\$815