MINISTRY OF TRANSPORT

Submission to the Independent Pricing and Regulatory Tribunal (IPART) on Bus Fares for 2009

New South Wales Ministry of Transport
July 2008

Contents

Part 1

Metropolitan and Outer-Metropolitan Bus Services

1. Executive Summary

RECOMMENDED FARES:

- **Metropolitan and outer metropolitan single bus fares should increase by 5.45%, to approximate current levels of farebox cost recovery in line with the anticipated increase in service costs. This increase should also apply to Newcastle Buses' fares.**
- **Sydney TravelPass products should be increased by between $2 and $6, to help improve consistency with the discounts available on other fare products.**
- **The TwayTen product should be reduced in price so that it is discounted at 20% relative to 10 single fares.**
- **The Stockton Ferry fare should be increased in accordance with the Charter Vessels Association cost index recommendation.**

Fare increases for single fares

This submission by the Ministry of Transport, on behalf of the NSW Government, proposes that the Independent Pricing and Regulatory Tribunal (IPART) increase bus fares in metropolitan Sydney and the outer metropolitan areas by 5.45% for 2009. The aim is to recover some of the increasing costs to Government of managing and maintaining bus services, as well as the cost of upgrading the bus network in a way that has lead to service improvements over the past year and will continue to deliver service improvements into the future.

This increase is based on the estimated increase in farebox revenue required to help meet the forecast increases in payments to operators under Metropolitan Bus System Contracts (MBSCs) and Outer-Metropolitan Bus System Contracts (OMBSCs), less:

- estimated farebox revenues (which includes projected patronage growth); and
- other income (such as a commission paid to the Ministry by operators on their charter and advertising revenues). See Section 2.1 for further information.

It will largely maintain the relativities between Government's and passengers' contributions to the cost of providing bus services in MBSC regions (approximately 60/40) and in OMBSC regions (approximately 85/15).

Comparing costs: Financial vs Calendar years

While fare changes apply on a calendar year basis (January to December), differences in financial years (2006/2007 – 2007/2008) are used for the purpose of comparing changes in costs. This is partly because the changes in costs between 1 July 2008 and 31 December 2008 are not fully known – though the application of the cost indices in the MBSC/OMBSC funding model minimises the impacts on cost volatility over that period.

Most cost measures are fixed for each financial year, except changes in fuel costs and increases in payments to operators related to additional service kilometres, growth and replacement buses and patronage changes.

This submission provides supporting information for the fare increases proposed. Key considerations are summarised below, with further detail provided in the body of the submission.

Increases in key costs of delivering the services

The gross cost of delivering bus services in metropolitan areas has increased by approximately 6%.

About half of this increase relates to movements in the contract cost indices used to adjust operator payments. In this regard, the “cost inflation” component of the increase in overall costs is generally in line with – or below – general cost inflation. For example, Sydney CPI for the period 2007/08 was 4.26% compared with an approximate 3% overall movement in the contract cost indices over the same period.

The other half relates to Government’s investment in service improvements, including “growth” buses and additional service kilometres required to respond to increased demand. These included a 294 additional “growth” and replacement buses worth about $127 million and an injection of 3.1 million additional service kilometres into the network in 2007/08 at a cost of $11.5 million.

Of these growth and replacement buses, 174 replacement and 27 additional “growth” buses came into service in MBSC regions in 2007/08 with a further 34 approved. These new buses will come on line in 2008/09 as new integrated networks are rolled out.

Cost increases are discussed in further detail in Section 2.

Government’s investment in supporting infrastructure

Supporting the delivery of bus services is a significant investment in infrastructure. Infrastructure initiatives that contribute to the efficiency of the bus network, including key projects such as the installation of technology that will give buses priority at red lights, the Pinch Point Strategy, and the CBD Bus Strategy, cost more than $390 million. While these infrastructure initiatives are vital to the delivery of bus services, these costs are not currently factored into bus fares.

The Government’s investment in bus-related infrastructure is discussed further in Section 2.2.5.

Service improvements and outcomes

Patronage

These service improvement initiatives are contributing to the delivery of a bus network that is better able to respond to increasing demand. An additional 5.4 million passenger journeys (a near 3% increase) were made on the MBSC network in 2007/2008, with increases of up to 13.2% in areas where services were boosted on key strategic bus corridors in response to rising demand.

Patronage increases were more modest at 1.8% for the OMBSC network for the period from January to June 2007 compared with January to June 2008.

It is expected that patronage will continue to show increases into 2008/2009, as the price of fuel and growing awareness of climate change converts increasing numbers of motorists from private vehicle use to public transport and in response to continued improvements in services. In particular, the progressive implementation of integrated network plans is expected to steadily increase bus patronage.

While additional patronage means an increase in farebox revenues to Government – and is a key State Plan goal – it also brings forward the need to make further investments in response to capacity issues.

There can be significant lead times between making the infrastructure investments required to respond to changing travel patterns and capacity constraints and achieving returns from the farebox. Further, the level of capital intensive investment required currently far outweighs any potential farebox returns from increased patronage.

See Section 4.2 for further detail about changes in patronage and Section 2.3 for discussion about Government's infrastructure investments.

Revenue and efficiency measures

Farebox revenue has increased in line with increased patronage on the network, helping to offset the costs of service delivery. The total farebox revenue for MBSC regions increased by $17.7 million (6.6%) from 2006/2007 to 2007/2008. Farebox revenues for OMBSC regions increased by $0.3 million (3%) over the corresponding six-month period from 2006/2007 to 2007/2008, albeit from a lower base.

Maximising the efficient delivery of services is also a key priority for the Government. This is reflected in both the "revenue per kilometre" and "revenue per passenger" metrics, which increased by 3% from 2006/07 to 2007/08 in MBSC areas.

Section 4 further discusses revenue and efficiency outcomes.

Integrated network planning

Integrated network plans, contributing to faster, more frequent and more direct bus services have been completed for Regions 10 and 13 and detailed planning work is well advanced for the remaining metropolitan regions.

Extensive stakeholder and community consultation forms a key part of the planning process. Eleven regional planning forums were held in 2007/08 to commence planning on integrated networks in those regions. Further consultation with the community was conducted in five of these regions, where draft integrated bus networks were released for public comment. Regional planning forums have now been held for all regions.

It is anticipated that new or proposed networks will be rolled out from August 2008 to early 2009, starting with Regions 2 and 15.

Interim Discounted Product for Private Bus Passengers

In June 2008, the Premier announced that a weekly product, discounted by 20% relative to 10 single fares, would be available from October 2008 on private bus services in metropolitan Sydney. This is estimated to cost Government approximately $9 million annually.

T-way Ten

From January 2009, it is proposed that the T-wayTen product be reduced in price so it is discounted at 20% relative to 10 single fares. This is estimated to cost Government approximately $200,000 per annum.

IPART's City Rail Regulatory Review: Considerations for bus fares

IPART's regulatory review of CityRail's services has potential implications for setting bus fares. Key issues include the efficient costs that should be reflected in fares, the level of Government and passenger contribution and the appropriate level of discounting for periodical ticket products.

As noted above, Government makes substantial investments in infrastructure that significantly improves bus services, but the bus fares do not currently make a contribution to the capital and ongoing maintenance costs of these assets. This is discussed further in Section 2.3.

IPART has flagged that the inconsistent levels of discounting applied to the weekly RailPass (ie: rail weekly) and other rail periodicals raises equity issues and has indicated its view that a standard level of discount should apply.

Though TravelPass is a premium product, it is deeply discounted relative to other fare products available. The discount provided through TravelPass products should be reduced in order to improve parity with the level of discounts available to users of other fare products. This issue is considered further in Section 7.2.

Integrated Electronic Ticketing

Separate to this submission, the Government has agreed, in-principle, to proceed with an expression of interest to test the market for electronic ticketing options and that a distance based fare structure that is simple, equitable and that rewards frequent travel should apply to the system once up and running. The Public Transport Ticketing Corporation (PTTC) is managing procurement and implementation of the new ticketing system.

The Government has also determined that IPART should advise on the fares to apply under electronic ticketing. This builds on IPART's current work concerning CityRail's regulatory framework and fare structure.

The 2009 bus fare and subsequent fare reviews pending the introduction of electronic, integrated ticketing will provide a foundation for the development of and transition to fares for the new system.

2 Cost of Metropolitan & Outer-Metropolitan Services

Summary of contents:

2.1 Overall Costs and Cost Recovery: An Overview

Over the 2007/2008 financial year, the gross cost of delivering bus services in the Metropolitan Bus System Contract and Outer-Metropolitan Bus System Contract regions increased by approximately 6% to $893.7 million. The net increase in the cost of providing MBSC and ONBSC services was about 5%. once farebox revenue, as well as commissions from charter and advertising revenues and fuel tax credits, are taken into consideration.

About half of the increase in costs relates to movements in the contract cost indices used to adjust operator payments. The other half relates to Government's investment in service improvements, including "growth" and replacement buses at a cost of $21 million and additional service kilometres required to respond to increased demand at a cost of $11.5 million. In this regard, the "cost inflation" component of the increase in overall costs is generally in line with – or below – general cost inflation.

Commissions for Advertising and Charter Revenues

As well as revenues from farebox, the cost of providing MBSC and OMBSC services are offset by commissions made by operators to Government on charter and advertising revenues earned using assets funded by taxpayers.

This reduces the overall costs of providing services to both taxpayers and passengers, while ensuring operators have sufficient incentive to chase this additional business and maximise the efficient use of infrastructure.

The largest contributors to MBSC and OMBSC operator payments are the Service Payments, the Fixed Payments and the Patronage Payments. In 2007/2008, the cost inflators used in both the MBSCs and OMBSCs to adjust Service Payments increased by an average of 3.1%. For Fixed Payments, these inflators increased by an average of 2.7% and for Patronage Payments, the cost inflators increased by an average of 2.23%. In comparison, Sydney CPI for the 12 months to 30 June 2008 was 4.26%.

While volatility kept the overall increase in Fuel Payments for 2007/2008 to 6%, there have been sharp increases through the last part of the year and no substantial or sustained relief is currently expected.

Farebox revenues for MBSC contract regions equate to an overall farebox contribution to the cost of service provision of about 41%. This remains consistent with levels of cost recovery from farebox in previous years for buses across metropolitan areas. Overall cost recovery in 2007/08 for the MBSC regions including farebox and other revenues totalled 43%.

By comparison, OMBSC services required $149 million in operator payments for a return of $22 million in farebox revenue, with net OMBSC costs increasing by $3.9 million or 6.5% over the six-month period from January - June 2007 and the corresponding period in 2008.

This quite clearly constitutes a lower level of cost recovery (ie: 15%) compared with MBSC regions, but the result is not unexpected given the lower levels of population density, longer distances and comparatively higher proportions of concession and student travellers on the outer-metropolitan bus network.

The OMBSC result is also consistent with levels of cost recovery in previous years, despite the harmonisation of outer-metropolitan with metropolitan Sydney fares, which delivered average reductions of 6.3% for OMBSC fares. This suggests that revenue forgone from OMBSC fare reductions in 2007/2008 were offset by the 2% increase in OMBSC patronage.

Overall, cost recovery from the combined MBSC and OMBSC farebox in 2007/08 was 36.3%. This is lower than overall levels of contribution to cost recovery through the farebox in previous year, which was 36.7%.

2.2 Key Changes in Operator Payments for 2007/08

Operator payments are based on actual operating costs at contract execution – which were benchmarked at the time against the efficient costs of providing bus services in Australia and other jurisdictions – and a commercial margin based on returns for the provision of services with similar risk profiles. Ongoing contract payments are adjusted to reflect increases in cost inflation (through cost inflators or indices in the contract) as well as additional elements, such as the purchase of new vehicles and increases in contracted service kilometres. Increases in operator payments, therefore, reflect the real increases in the cost of providing bus services.

The key contributors to operator payments are:

- Service Payments (which comprise an average of 32% of total MBSC payments and an average of 42% of OMBSC payments);
- Patronage Payments (MBSC average 26%, OMBSC average of 15%); and
- Fixed Payments (MBSC average of 23%, OMBSC average of 21%).

Fuel payments represent approximately 10% of total MBSC and 12% of total OMBSC payments respectively.

Components of the different payment categories are set out below, along with an analysis of the drivers behind the cost increases. Further information is also provided at Attachment 1, but in summary:

- the variable costs of operating the services (and the margin) are covered by the Service, Patronage and Fuel Payments; while
- the fixed costs of operating the services are covered though the Fixed, Depreciation and New Fleet Periodic Payments.

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2.2.1 Service Payments

Service Payments are based on a contracted rate per kilometre for the bus services provided. Service payments are indexed annually and will also increase as new services – with additional ("growth") kilometres – are implemented.

In 2007/08, MBSC service payments for existing services increased by approximately $15.2 million or 6.5%. Of that increase, about 3% or $7 million, increased in line with the cost indices set out in the contract and the remaining 3.5% or $8.2 million reflects costs that were incurred in order to provide 3.1 million additional service kilometres under the MBSCs. The bulk of these were used to provide services on the North-West Transitway and deliver other service improvements, such as those on the M2.

In OMBSC regions, Service Payments increased by an average of 3.1%, broadly in accordance with cost indices in the contract.

2.2.2 Patronage Payments

Patronage Payments are based on a "shadow fare," paid to each operator for passenger boardings. At the start of the contract, shadow fares comprised approximately half of the actual fare, up to 6 sections. They are indexed annually, by the CPI.

There are two parts to the Patronage Payment: the Patronage Benchmark Payment and the Patronage Change Payment.

The Patronage Benchmark Payment is made monthly, according to forecast passenger boardings agreed in the contract. Patronage Benchmark Payments in MBSC regions increased by approximately $5 million from 2006/2007 to 2007/2008, broadly in line with the indexation measures, which are set on 1 July each year.

The Patronage Change Payment is used to adjust the Patronage Benchmark Payment – up or down – depending on actual boardings. This occurs through a reconciliation process in September each year.

Because of the 3% growth in patronage across the MBSC network in 2006/07, it is expected that the Patronage Change Payment to operators (which is based on the change between actual boardings from year to year) will increase, adding to the costs of the services.

In OMBSC regions, Patronage Payments increased in line with contract cost indices.

2.2.3 Fuel Payments

Fuel Payments are based on the price of fuel immediately prior to the contract start date (indexed monthly in accordance with changes in the Mobil Terminal Gate Price), an agreed fuel consumption rate and the number of contracted service kilometres provided. Fuel Payments – one of the payment categories that cover the variable costs of the services – represent about 10% of total operator payments.

Fuel remains a significant cost for bus services. In 2007/08 fuel payments to MBSC operators totalled $71 million, which was 6% higher than in 2006/07. While cost inflation accounts for a large part of the increase, some is attributable to the additional service kilometres provided.

2.2.4 Fixed Payments

Fixed Payments reflect fixed costs like administration, registration, insurance, depot and office rent, general maintenance, non-driver wages and bus refurbishments. Along with Depreciation Payments – for vehicles used to provide the services that were under 15 years of age at contract commencement – and New Fleet Periodic Payments – for vehicles purchased over the life of the contract – Fixed Payments compensate operators for the fixed costs of service delivery.

MBSC Fixed Payments increased by about $6 million, broadly in line with the cost index multiplier. OMBSC Fixed Payments also increased in line with the relevant index. For 2007, 157 buses in the Sydney metropolitan area were scheduled to be refurbished at a cost of $4.8 million. During the same period, 52 buses were scheduled to be refurbished in outer metropolitan areas at a cost of $1.4 million. These costs are reflected in the Fixed Payments.

2.2.5 Other Payments: New Fleet

Another part of the Government's commitment to delivering service improvements and responding to increasing demand has been the purchase of new buses.

In 2007/2008, 294 additional ("growth") and replacement buses were added to the metropolitan fleet. Of these, 201 were added to the Sydney fleet, comprising 174 replacement buses and 27 additional buses to provide extra capacity. Since 30 June 2008, a further 7 additional buses have been placed into service and 27 more have been approved. These are scheduled to come into service as new integrated network plans are rolled out.

Separately, 5 new, high capacity metro buses have been purchased at a cost in 2008/2009 of $1 million, with recurrent costs of $900,000. As noted in section 3.2, this investment in new fleet means a significant increase in capacity and passenger amenity.

The purchase of these additional vehicles has brought the cost of payments for new fleet under the MBSCs and OMBSCs to $21 million. Together with budgeted acquisitions for 2008/2009, including commitments for the purchase of 223 replacement buses and 40 “growth” buses for private operators, this will add an additional $12.6 million to new fleet payments per annum.

Government has also committed to purchase 150 additional articulated “growth” buses that will come on line in 2009/2010 at a cost of $112 million.

Since new contracts began rolling out in 2005 – and as at 30 June 2008 – a total of 614 new and replacement buses have been introduced, at a cost of approximately $276 million.

While new buses in metropolitan areas are purchased, up front, by bus operators, the Government pays for those buses over the following 15 years through finance and depreciation payments to operators. This has the benefit of smoothing out the cost of acquisition but has the implication that a purchase in any one year requires a 15 year funding commitment.

2.2.6 Efficiency Improvements in 2007/2008

As noted in section 1, maximising the efficient delivery of services is a key priority for the Government. Efficiency metrics including “revenue per kilometre” and “revenue per passenger” in MBSC areas increased by 4% from 2006/07 to 2007/08.

These efficiency improvements are, in part, a result of increased patronage which is absorbing spare capacity as more people turn to public transport, rather than using their cars. The result also reflects the impacts of service redesigns, as part of the ongoing integrated network planning process.

2.3 Forecast Cost Increases for 2008/09

The recommended increases to fares were established on the basis of aiming to recover approximately 41% of the cost of providing MBSC and 15% of OMBSC services in 2008/09. This was calculated after taking the recommended changes to TravelPass discounts; the introduction of a discounted weekly product for private bus passengers; and forecast patronage growth into account which achieves an estimated 36.3% overall contribution to the costs of the services from farebox. This is broadly in keeping with the 36.4% contribution farebox made to cost recovery in 2007/08 and the 36.7% 2006/07.

On the basis of cost increases in the previous year and forecast increases for 2008/09, the Ministry estimates that additional farebox revenue of $15.5 million is required to maintain cost recovery at about these levels.

The total forecast cost increase is around $50 million. For the key cost drivers, the forecast increases are as follows:

- 4% for Service Payments – $9 million MBSC, $2.5 million OMBSC. About 70% of Service Payments are made up of labour costs, with driver wages increasing 4% in line with the cost index used in the contract.
- 3.9% for Fixed Payments – $7 million MBSC, $1 million OMBSC

- 3.9% for Patronage Payments – $7 million for MBSC, $0.8 million OMBSC.
- 11.5% for Fuel Payments – $7 million, $1.9 million OMBSC.
- 25% for New Fleet Payments – $12.6 million for the MBSC and OMBSC (see section 2.2.5 above for more detail).

Minor cost categories are forecast to increase by approximately $1 million.

In particular, while fuel prices have dropped slightly in the past month, there is no substantial or sustained reduction in fuel costs anticipated.

Additional farebox revenue can be achieved in two ways: higher patronage or higher fares. In its calculations, the Ministry assumed patronage growth in 2008/09 of 2.25% in MBSC areas and 2% in the OMBSC areas. This estimated increase in patronage is forecast to contribute $7.5 million for 2008/09.

2.4 Other Costs Associated with the Delivery of Bus Services

As well as the direct costs of providing bus services, Government incurs a range of significant costs in the delivery of initiatives that are crucial to the operations of bus services and result in better services for passengers. These include:

- the Public Transport Information and Priority System (PTIPS), which through satellite technology, will give late running buses priority traffic signals at a cost of $46 million for design, delivery and communications over 3 years;
- the Pinch Point strategy, with targeting road improvements to improve traffic flows at a cost of $100 million;
- the $524 million North-West Tway, which opened in March 2007;
- $235 million in bus priority infrastructure measures such as bus-only lanes and bus bypass lanes, with $65 million spent in 2007/08. This brings expenditure to date to $135 million, with a further $25 million scheduled each year for the next four years bringing the total cost to $235 million; and
- the implementation of the CBD Bus Strategy, at a cost of $21.6 million, with approximately $3.5 million expended in 2007/08. This comprises, among other things, the introduction of standardised bus lane operating hours; a streamlined CBD bus network focusing on George and Elizabeth Streets and eventually removing buses from Castlereagh Street; a new layover facility on the apron of the Domain Carpark, reducing the layover of buses in Park Street; rationalisation of bus stops on George and Elizabeth Streets to optimise bus flows; and new and extended bus lanes and bus hours in George, Elizabeth, Phillip and Liverpool Streets.

As noted in Section 1, in recent Discussion Papers on CityRail's revenue requirements and the structure and level of rail fares, IPART proposes that the efficient capital and operating costs of the delivery of services be taken into consideration in determining the appropriate taxpayer and passenger contributions to cost recovery.

In future, it may be appropriate for IPART to consider the scope of the additional costs Government incurs in investing in essential capital expenditure when determining fares for buses.

3 Service Improvements

Summary of contents:

Service delivery has improved over 2007/2008 as a consequence of the ongoing implementation of the Government's bus reform program.

The implementation of improved contracting arrangements introduced in 2005 in metropolitan Sydney (and 2006 in outer-metropolitan areas) has resulted in the further development of integrated network plans, enhancements to accessibility, the further implementation of fare harmonisation, better passenger information and, from October 2008, the progressive roll out of an interim discounted fare product for metropolitan private bus users. Each of these initiatives is described further below.

As noted in section 2.3, a significant investment in bus priority measures is also supporting the delivery of better bus services.

3.1 Integrated Networks

The Government's bus reform process has transformed bus service delivery, leading to improved operational efficiencies and increased patronage as services are redesigned to provide better links to regional centres and away from the "rail feeder" model.

In metropolitan Sydney, the process of implementing new contract regions was completed in October 2005, reducing the number of contracts administered from 87 to 15. These larger contract regions were required to allow for the design and implementation of integrated networks that reflect changed travel patterns and provide transport links to centres that are not serviced by rail. A map showing the 15 Sydney contract regions is shown at Attachment 2.

With incentives to increase patronage, the new contracts have provided a sustainable basis for responding to increasing passenger demand and establishing an integrated passenger network that complements the rail system.

In 2006/2007, the focus of the bus reform program moved to the outer-metropolitan areas of the Blue Mountains, Wollongong, the Central Coast, Newcastle and the Lower Hunter, reducing the number of contracts from 97 to 10.

3.1.1 Integrated Network Plans: Work in 2007/08

As noted above, a key focus of the new bus contracts is the design of integrated bus networks to ensure efficient and effective connections between regional centres and key facilities such as hospitals and medical centres, educational institutions, shopping centres and entertainment venues. This network development process is informed by data (such as population and ticketing data) and through consultation to understand community needs.

Integrated networks aim to deliver more efficient and effective bus connections between regional centres by taking more people where they want to go. Initially, implementation can involve a small drop in patronage as people adjust to the new services. This occurred following the introduction of the integrated networks for Regions 10 and 13. However, this reverse in the second year of operation, with patronage in 2007/08 rising by 4% in Region 10 and 8% in Region 13 as residents gain awareness of the route and start using it regularly.

Eleven regional planning forums were held in 2007/08 to commence planning on integrated networks in those regions. Further consultation with the community was conducted in five of these regions, where draft integrated bus networks were released for public comment. Regional planning forums have now been held for all regions.

Integrated networks are in place in two metropolitan Sydney contract regions (Regions 10 and 13), with detailed planning work nearing completion on the remaining regions.

3.1.2 The North-West Tway

The North-West T-way opened in two stages during 2007, in March (between Kellyville Ridge and Parramatta), and in November (with the extension to Rouse Hill Town Centre, and the Blacktown-Parklea section along Sunnyholt Road).

North-West T-way services have now been operating for 15 months. A $524 million dedicated bus roadway, the North-West T-way supports numerous bus routes that connect Rouse Hill, Parramatta, Blacktown and surrounding areas, with services running up to every 5 mins in the peak, 10 minutes in the off peak and on weekends.

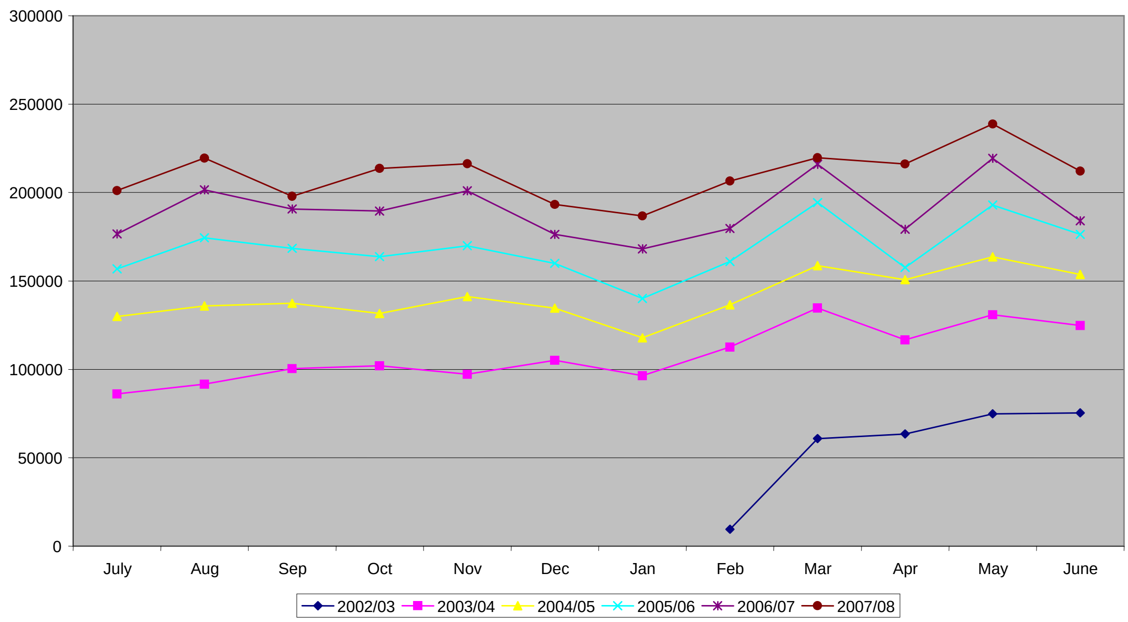
Services operating along the North-West T-way operate in an "integrated" manner, where numerous bus routes commence from surrounding suburbs before joining the T-way at various locations to form a high-frequency corridor from Rouse Hill to Parramatta and Blacktown. The North-West T-way also provides fast and convenient access to the growing employment area at Norwest, significantly boosting public transport services to this area.

In 2007/08, the Government has injected about 3.1 million additional service kilometres, mostly into the Region 1 and Region 4 contracts to deliver the North-West Tway and additional M2 services at a cost of $7.3 million.

Initial patronage on the North-West Tway is in keeping with expectations, with 25,000 users a week. However, it will take a number of years before patronage levels rise to fully absorb the additional capacity provided.

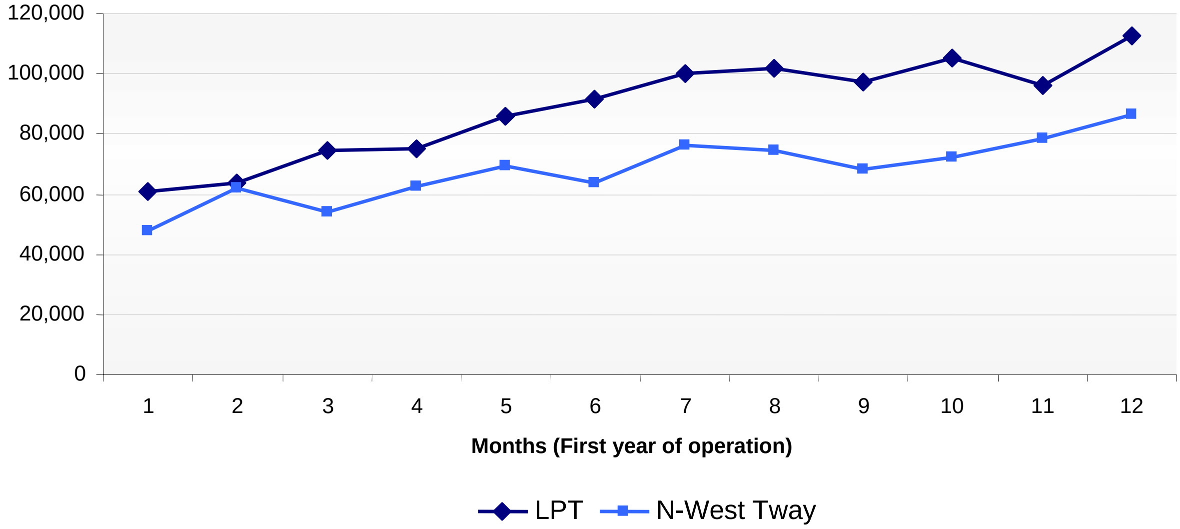
This slow burn increase in patronage, as shown in Figure 1.0 below, was experienced after the opening of the Liverpool Parramatta T-Way (LPT) which has gone on to achieve exponential growth. For example, LPT patronage grew 10% from 2.28 million in 2006/07 to 2.5 million in 2007/08.

Figure 1: LPT Patronage Growth - Year on Year Comparison



While initial patronage levels on the LPT were higher than experienced on the North-West Tway – reflecting the fact that the LPT serves a more densely populated area with different socio economic demographics – as Figure 2 illustrates, the North-West Tway's patronage growth trends closely reflects the LPT's in its first year of operation. It is anticipated that patronage growth on the North-West Tway will continue to follow a similar pattern to the LPT.

Figure 2: LPT and N-W Tway Patronage Boardings - 1st Year of Operation



3.2 Improved Accessibility and Amenity

As a result of acquisitions and improvements to fleet, the physical accessibility of bus services continues to improve.

Under the new contracts, all new commuter buses purchased are air-conditioned, ultra low-floor and accessible for wheelchairs. As at 30 December 2007, approximately 36% of the private and Government buses in the Sydney and outer metropolitan fleet were accessible.

Approximately 45% of State Transit's bus fleet of over 2,000 buses are currently low-floor wheelchair accessible.

MBSC and OMBSC operators now have 25% or more of their services timetabled as wheelchair accessible in line with the requirements of the Commonwealth's *Disability Discrimination Act* 1992 (DDA) and associated Transport Standards.

3.3 Improved Environmental Performance

New buses procured since the commencement of the new contracts – both "growth" and replacement – are Euro 4 or Euro 5 diesel or CNG, improving the environmental performance of the fleet.

The percentage of the MBSC and OMBSC fleet that is "green" in 2006/07 was 11% and is 19% in 2007/08. The target for 2008/09 is 26%.

All MBSC operators are participants in the RTA's Clean Fleet maintenance accreditation program and those OMSBC that are not yet participating are required to do so as a condition of contract.

3.4 Fare Harmonisation

Harmonising outer metropolitan private bus fares with the Sydney metropolitan fare scale has meant that an estimated 1 million bus passengers jn the OMBSC areas now pay the same single fare to travel the same distance as their Sydney counterparts. As well as addressing equity concerns, fare harmonisation will aid the introduction of strategic bus corridors, which require a consistent fare regime to operate effectively.

While a minority of private bus passengers paid more for their journeys under harmonised fares, the majority experienced fares which are cheaper by an average of 6.9%.

Cost recovery levels in OMBSC areas have marginally improved in 2007/2008 to approximately 15% from the 14% achieved in 2006/2007 suggesting that, as described in section 2.1, any loss of revenue experienced in outer metropolitan areas as a result of reducing fares has been offset through increases in patronage. Patronage and revenue increased by 2% and 4% respectively for outer metropolitan areas in 2007/2008 (see Section 4.1).

3.5 PrePay Only Services

There are now 26 PrePay Only routes on 12 corridors across Sydney Buses' network, with plans to convert 12 more routes by September 2008. Importantly, PrePay Only bus stops are being established on PrePay Only routes at specific times on weekdays, with three locations currently operating:

- the Watson St bus stop at Neutral Bay, weekdays between 7:30am and 9am;
- Druitt St in the City, weekdays between 3:30pm and 6:30pm; and
- The Chatswood Interchange west side bus stops (ie: 4 stops), weekdays between 7am - 7pm.

Implementing PrePay Only bus stops where there are capacity constraints further reduces dwell times by reducing the time that buses need to "queue" to pick up passengers.

While it is difficult to quantify the benefits of PrePay only services, there has been strong customer support for the initiative. In 2007/08 cash fares fell by about 6.6% against an overall increase in boardings on Sydney Buses services of 2.3%. At 8 - 10 seconds saving per boarding, the reduction in delays at bus stops will have assisted reliability by maintaining running times in an environment of increased traffic congestion.

This is helping to deliver against the State Plan E7 priority of improving the efficiency of the road network.

3.6 Better Passenger Information

3.6.1 Standardised Timetabling

The new contracts require standardised timetables, to make it easier for passengers to work out how to use the network.

The Ministry is currently developing a standardised public timetable format for metropolitan bus operators to use when publishing printed timetable material (eg: timetable booklets), incorporating the Ministry's transport pictograms and world-best practice in presenting timetable information. Although still in draft form, many operators are now publishing their printed timetable material using the draft standards.

3.6.2 131 500 Transport Infoline Upgrade

Under the new bus contracts, operators must participate in the 131 500 service so there is a central point for transport information.

A redesign of the 131 500 website was completed in June 2008, which has resulted in improved functionality, reliability and speed and will also sustain the anticipated increased traffic to the site.

3.7 Future Initiatives for Service Improvements

3.7.1 Discounted Weekly Product for Private Bus Passengers

In June 2008, the Premier announced that a discounted weekly product would be available on private bus services in metropolitan Sydney as an interim measure pending the implementation of integrated, electronic ticketing. This initiative will particularly benefit commuters in Western Sydney – as well as areas to the north and southwest – who will now be able to purchase a ticket that will save them 20% relative to the cost of ten equivalent single fares.

Implementing this new product comes at a cost of over $9 million annually, but provides the basis for improving integration and promoting equity between Government and private bus passengers.

From January 2009, it is also proposed that the TwayTen product be reduced in price so it is discounted at 20% relative to 10 single fares. This is estimated to cost approximately $200,000.

3.7.2 Ongoing Implementation of Integrated Networks

Integrated networks in Regions 2 and 15 in south-western Sydney are scheduled for implementation in August 2008. The remaining integrated network plans are scheduled for implementation in late 2008 and early 2009.

Planning will commence on integrated networks in outer metropolitan areas such as the Central Coast and Wollongong/the Illawarra in early 2009.

3.7.3 Planned Investments in New Fleet

In 2008/2009, the purchase of 223 replacement buses is planned.

In addition to 34 “growth” buses which will come into service as integrated network plans are implemented in 2008/09, the Government has also committed to:

- a further 40 “growth” buses for private operators in 2008/09 (6 of which have been put into service since 30 June 2008); and
- 150 additional articulated buses for Sydney Buses – capable of carrying 85 passengers – that will come on line over a four year period from 2009/2010 at a cost of $112 million.

This will mean a substantial increase in the accessibility and amenity of the fleet, as all new buses are air-conditioned and ultra low-floor and accessible for wheelchairs.

3.7.4 Preparing for Next Generation Customer Information and Trip Planning

Consistent with NSW Government procurement policy, the Ministry of Transport has established the Integrated Transport Information Services (131500) Procurement Project to undertake the specification, tendering and transitioning activities necessary to ensure the continuity of transport information services to the public, as well as to provide a suitable platform for implementation of the next generation of Integrated Transport Information Services (ITIS) for the people of NSW.

The next genertion of the ITIS will deliver improved trip planning and mapping. It is anticipated that the enhanced services would be implemented from early 2010.

4 Service Outcomes

Summary of contents:

4.1 Key Financial and Service Metrics: Overview

The following tables summarise the key financial and service metrics for the MBSC and OMBSC contract regions from financial year 2006/07 to 2007/08.

Table 1: MBSC Summary Financial and Service Metrics

MBSC Metric	FY 2006/07	FY 2007/08	Variance (% rounded)
Patronage (million boardings)	188.6 million	194.0 million	3%
Farebox Revenue ($ million)	$285.7 million	$303.5 million	6%
Revenue Kms (million kms)	101.1 million	103.9 million	3%
Scheduled Trips (million trips)	7.3 million	7.5 million	2%
Revenue per Passenger	$1.51	$1.56	4%
Revenue per Km	$2.83	$2.92	4%
Revenue per Trip	$38.90	$40.31	4%
Passengers per Km	1.9	1.9	0%

Table 2: OMBSC Summary Financial and Service Metrics

OMBSC Metric	Jan–June 2007	Jan-June 2008	Variance (%)
Patronage (million boardings)	7.5 million	7.7 million	2%
Farebox Revenue ($ million)	$10.9 million	$11.2 million	3%
Revenue Kms (million kms)	11.7 million	11.8 million	1%
Revenue per Passenger	$1.44	$1.45	2%
Revenue per Km	$0.93	$0.95	4%
Passengers per Km	0.7	0.7	1%

Note: Full financial year figures not available for OMBSC so comparison made between corresponding six-month periods. Figures may not add up due to rounding.

These metrics are analysed in more detail in the following sections.

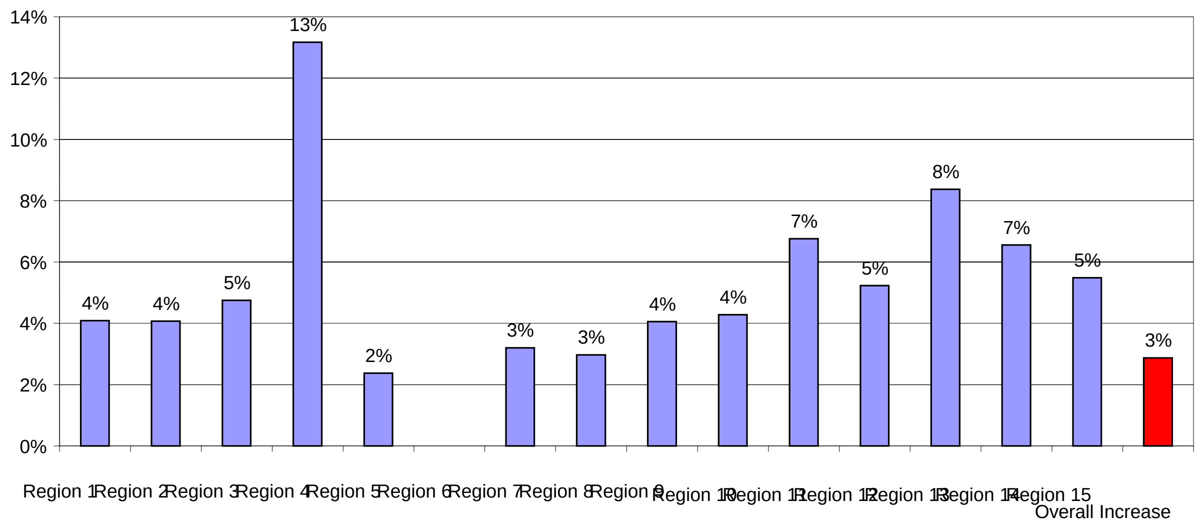
4.2 Patronage Trends

There is growing demand for public transport services in both metropolitan and outer metropolitan areas. As noted previously, patronage levels in the MBSC areas increased by an average of almost 3% from 188.6 million passenger boardings in 2006/2007 to 194 million passengers in 2007/08. The breakdown by contract region is shown below at Figure 3, which shows an increase of up to 13.2% from 2006/2007 to 2007/2008 (see Attachment 2 for a map of the MBSC regions).

The 13.2% overall increase in Region 4 (the Hills District) is due to improvements to services on the M2 strategic bus corridor (which experienced an estimated 17% patronage increase) and the opening of the North-West Tway, together with work to improve traffic flows responding to business and residential growth in Sydney's north-west. Other notable patronage increases occurred in:

- Region 14, with an increase of 6.6% in patronage, is largely due to 9% growth on the Route 270 service from French's Forest to the city, feeding into Strategic Corridor 15. This followed the implementation of 3 additional buses – including 2 high capacity articulated buses – and limited stop services.
- Region 13, with an increase of almost 8.5% in patronage in the year to 2007/2008. This can be partly explained by the improvements expected following the implementation of an integrated network plan as the new routes "mature," but also because of the reallocation of a service from Region 10 to target higher needs in Region 13.

<u>Figure 3: Patronage Increases from 2006/07 to 2007/08 - MBSC Regions</u>



It should be noted that data integrity issues experienced in Region 6 mean that passenger boardings data is not available for that region in 2007/08. However, based on growth in other STA Regions (7, 8 and 9) and faebox revenues collected for Region 6, it is reasonable to estimate that growth was in the region of 3% to 4%.

While patronage increases on private bus services represent gains against a relatively low base, they represent a considerable achievement against a historical trend of continued patronage decline on these services.

More modest patronage increases have been achieved in the areas operated by Sydney Buses, reflecting the fact that this is a mature market in which a highly integrated network is currently operating.

Patronage is also growing in the OMBSC region, with a 2% increase recorded for the six months from January - June 2008 compared with the same period in 2007. It is expected that patronage will continue to grow as higher petrol prices and competing demands on the household budget, as well as greater awareness of environmental impact, influence shifts from private car use to public transport use.

4.3 Farebox Revenues

As noted in section 2.1, in 2007/08, farebox revenue from the MBSC regions was approximately $303.5 million, an increase of about 6% compared with 2006/07. In the OMBSC region, farebox revenue increased slightly, rising approximately 3% over the six months January to June 2008 compared with the same period in 2007, despite the overall reduction in fares through harmonisation with MBSC farescales.

In 2007/08, farebox revenue as a percentage of total cost of services was approximately 41% in the MBSC regions and 15% in the OMBSC regions. This equates to overall cost recovery through farebox of about 36.3% across the MBSC and OMBSC regions. In 2006/07, the contribution from farebox to overall cost recovery was 36.7%.

The Ministry’s fare recommendations outlined in this submission will help maintain cost recovery at about this level, allowing the Government to continue to invest in service improvements, such as additional vehicles and expanded service kilometres.

4.4 Bus Service Kilometres

The service network has also been expanding, providing more services for more users. As noted in earlier sections, bus service kilometres in MBSC regions increased by approximately 3.1 million km in 2007/08, compared with the previous financial year.

Bus service kilometres in the OMBSC regions have remained more constant, although improvements to route design will be made integrated network planning rolls out.

4.5 Customer Feedback

The Government is working towards ensuring better services through the delivery of an efficient and effective public transport system. Customer feedback is an important component of the monitoring and assessment process.

In 2007/2008 there were 33,953 recorded items of customer feedback for the MBSC regions relating to both Sydney Buses and privately run services. This was up 5% compared with 2006/2007. However, calls per 100,000 passengers increased by only 2% from 2006/2007 to 2007/2008, suggesting that the increase in the total number of complaints was at least partially due to increases in patronage.

In addition, improvements to the 131500 number have made the website easier to use and operators are required, as a condition of contract, to participate in 131 500, with better capture of complaint data. As a result, it is considered likely that this increase is also partly a result of growing community awareness of feedback mechanisms.

The key concerns that passengers raised in both 2006/2007 and 2007/2008 were late buses, failure of a bus to stop at a designated stop and staff rudeness.

4.6 Customer Satisfaction

An annual customer satisfaction survey is being developed for the purpose of informing performance. The Independent Transport Safety and Reliability Regulator (ITSRR) has agreed to undertake this survey for the Ministry and will complete the first survey in the 08/09 financial year.

4.4 Bus Reliability

Bus contracts require that the reliability and punctuality of bus services, covering early, late, incomplete and cancelled services be measured. The Government's State Plan (Priority S6) sets consistent reliability targets across the bus network. Reliability monitoring is being developed that will be based on the standardised State Plan benchmarks, which are:

- 95% of buses run on time across the network at departure;
- 80% pass the midpoint on strategic corridors on time.

A pilot employing manual monitoring between August 2008 and June 2009 will provide a sensible and cost-effective approach to collecting data in a way that will inform the development and implementation of the Bus Reliability System

(BRS). The completed BRS will use automated reliability reporting upon the roll-out of PTIPS across metropolitan and outer-metropolitan areas in 2011.

5 Newcastle Buses and the Stockton Ferry

Summary of contents:

5.1 Newcastle Buses.

5.2 The Stockton Ferry.

5.1 Newcastle Buses

During 2008, Newcastle Buses undertook a comprehensive bus network review. This involved an extensive community consultation process, including the distribution of 100,000 brochures in the local community. Over 1,700 responses were received.

Community feedback has been assessed and a revised bus network is scheduled to be introduced in October 2008. The changes are designed to improve connectivity between major hubs such as Newcastle University, John Hunter Hospital, Charlestown Square and Glendale, remove duplication of services and provide faster, more frequent and more direct services.

Newcastle Buses operates OMBSC Region 5. Patronage shows a modest increase of 2.3% from 2006/2007 to 2007/208, which is reversing a trend of decline over previous years.

High fuel prices, more difficult economic conditions and increased difficulty and cost of parking, coupled with the introduction of a new route network in October 2008 are likely to create an environment for ongoing patronage growth in Newcastle.

The Newcastle Buses service review lays the foundation for the proposed integrated bus network review, required under the new bus contracts, which will commence in 2009. The integrated network review, which will involve Newcastle Buses and local operators Hunter Valley Buses, Rover Coaches and Port Stephens Coaches, will further integrate local bus services, delivering improved connections and options for local residents.

Cost recovery levels for Newcastle buses are commensurate with other OMBSC regions. A 5.45% increase is, therefore, proposed to provide parity with the increase recommended for metropolitan and outer-metropolitan bus services.

5.1 The Stockton Ferry

The Stockton Ferry showed a decrease of 3.5% in passenger boardings in the year from 2006/2007 to 2007/2008. At the same time, a marginal increase of 0.9% in farebox and charter revenue was achieved.

The increase in Stockton Ferry fares should be in line with the Charter Vessels Association Cost Index (an industry index of the changes in costs of providing ferry services).

6 Other Relevant Issues

Summary of contents:

6.1 Electronic Integrated Ticketing.

6.2 IPART's Regulatory Review of CityRail: Issues for Bus Fares.

6.1 Electronic Integrated Ticketing

In June 2008, the NSW Government approved, in principle, testing the market for options for an integrated, electronic ticketing system.

Separate to this submission and building on the regulatory review of CityRail fares, the Government will to ask IPART to recommend fares that will apply on the new system.

While this will not impact on this review of bus fares for 2009, the 2009 bus fare and subsequent fare reviews pending the introduction of electronic, integrated ticketing will provide a foundation for the development of and transition to fares for the new system.

6.2 IPART's Regulatory Review of CityRail: Issues for Bus Fares

In putting forward this submission for an appropriate bus fare increase for 2009, consideration has been given to IPART's recent Discussion Papers reviewing CityRail's fare levels, structure and revenue requirements.

6.2.1 Efficient Costs

IPART describes the importance of setting fares that promote economic efficiency by providing price signals through fare outcomes that reflect the cost of providing services.

It is noted that proposed fare increases that are directly derived from the increased cost of providing services to maintain existing relativities between taxpayer and passenger contributions for cost recovery. It is also noted that contract payments to operators, including the margin, are consistent with efficient costs of operating services in comparable jurisdictions.

IPART's preferred approach to establishing CityRail's efficient costs and then establishing fares is to employ a building block approach and determining each cost component. This is similar to the approach taken for funding bus services in Sydney.

6.2.2 Passenger and Taxpayer Contributions

IPART's review of rail also considers the issue of the appropriate share that tax-payers and bus passengers should contribute to the recovery of efficient costs.

For rail, among other things, IPART proposes that tax-payer contributions should be broadly equivalent to the value of the external benefits of the services (currently estimated to be about 70% of RailCorp's costs). This means that passengers should theoretically pay the remaining 30% through fares.

IPART has indicated that a similar analysis of external benefits is being undertaken for the bus network, but this will not be ready in time for this submission.

There are useful comparisons to be drawn for buses from discussions about the efficient operation of rail and there are also important differences between the services.

To this end, it is noted that across the metropolitan and outer-metropolitan networks, buses achieve cost recovery levels of approximately 36% (41% in MBSC regions, 15% in OMBSC regions) while rail sits at approximately 26%. However, as noted previously in this submission, the costs of capital investments in bus priority and capital infrastructure are not reflected in the contracted payments to operators, on which the costs of providing services are assessed for the purposes of determining fare levels.

6.2.3 Price Paths

IPART also discusses the value of employing a longer term price path to provide greater certainty:

- for Government and transport providers in forward planning; and
- passengers, many of whom make choices about their housing and employment on the availability of affordable transport.

While no price path has been proposed for this review, it may be worth consideration especially as there is support for aligning the dates for changes to public transport fares.

6.2.4 Equitable Discounting

IPART's Discussion Paper on the structure and level of CityRail fares flags that different levels of discounts are available to different users of rail periodical products, suggesting that a consistent level of discounting should apply.

While TravelTens are currently discounted by 20% relative to 10 single trips and the Government is rolling out, from October 2008, a "weekly" fare product for private bus issues that will also be priced at 20% relative to 10 single fares, TravelPass products remain an anomaly.

Sydney TravelPass products provide users with unlimited travel on a weekly, quarterly or annual basis on a combination of Sydney Buses', City Rail and Sydney Ferries' services. The product offer a high degree of convenience and flexibility, with the ability to change modes and origins/destinations without penalty. Yet, despite its premium facility, it is provided at a heavily discounted price. Weekly TravelPass discounting varies from 20% cheaper than single tickets to higher than 50% depending on which pass is purchased and how much discretionary travel is undertaken. Longer term TravelPasses are even more generously discounted.

Given the unlimited nature of travel on a TravelPass, within broad zone boundaries in the period of time covered by the pass, passenger discounts can theoretically be extremely high.

However, modelling for the purpose of this submission has been undertaken on the basis of the discount likely to be available to an average commuter, using the pass to journey to and from work. In other words, while some passengers may purchase TravelPasses just for convenience, it is assumed for the purposes of this submission that the majority of TravelPass users would buy Rail Weekly, TravelTen or FerryTen tickets if the combined price of those products was cheaper than the relevant TravelPass.

This assumption has been used to establish some "typical" TravelPass travel patterns:

Table 3: Travel Pass Discounts

Cost (2008 fares)	Red TravelPass (Train/Bus/Ferry)	Blue TravelPass (Bus/Ferry)	Pittwater Pass (Bus/Ferry)
Likely weekly usage	• 10 train trips (10 km) • 10 bus trips (1-2 sections)	• 10 bus trips (1-2 sections) • 10 ferry trips (Inner Harbour Zone 1)	• 10 bus trips (16+ sections) • 10 ferry trips (Manly ferry)
Weekly TravelPass	$35.00	$32.00	$55.00
Total cost of alternative discounted products	$39.40	$47.90	$94.50
Saving on weekly tickets ($/%)	$4.40 (11%)	$15.90 (33%)	$39.50 (42%)
Equivalent single fares	$48.00	$70.00	$122.00
Saving on single tickets	$13.00 (27%)	$38.00 (54%)	$67.00 (55%)

The above table demonstrates that Bus/Ferry TravelPasses are typically the most heavily discounted tickets when compared with the weekly or single ticket alternative.

The Ministry considers that fares across the network should reward frequent users and encourage multi-modal travel, but also improve equity. The convenience and level of discount offered through TravelPass products are not available to all users of the network and who undertake multi-modal trips, especially those who need to use private bus services for part of their journey. Further, while individuals on higher incomes can afford to purchase high value tickets such as TravelPass, those who can least afford it may be forced to purchase comparatively expensive single trip tickets, if they cannot meet the upfront cost of a discounted periodical fare product.

TravelPass products are also based on a very coarse zone based fare structure which does not adequately reflect the relationship between the costs incurred in providing services, and useage.

7. Recommended Fares

Summary of contents:

7.1 Single Bus Fares

An increase to Sydney metropolitan and outer-metropolitan single bus fares of 5.45% is sought, as shown at Attachment 3.

After rounding, this translates to a rise of ten cents for the first fare band (1-2 sections), twenty cents for the next three fare bands (sections 3-5, 6-9 and 10-15) and thirty cents for the highest fare band (16+). Concession single fares would remain the same for the first fare band and increase by 10 cents for all of the other fare bands.

This increase of 5.45% should also apply to Newcastle Buses' fares.

7.2 TravelTens

TravelTen products would rise by 80 cents for the first band, by $1.60 for the next three fare bands (sections 3-5, 6-9 and 10-15) and by $2.40 for the highest fare band (16+).

This will maintain a 20% discount on TravelTen products, relative to single fares.

7.3 Sydney TravelPass Products

Full fare Sydney TravelPasses are recommended to rise by between $2.00 and $6.00, depending on the modes and zones covered. This will help bring discounts available on that product closer to the level of discounts available, more generally, across the network – in particular the 20% discount available on TravelTens – while maintaining affordability.

The Ministry notes that the prices of the Red, Green, Yellow, Pink and Purple TravelPasses were frozen for nearly three years from August 2003 to July 2006. Similarly, the prices of Blue, Orange, Pittwater and 2 Zone TravelPasses were frozen for over two years from August 2003 to January 2006. On this basis, the recommended increases in TravelPass prices is also partially justified as a catch-up for the years when prices were frozen.

Proposed changes to weekly TravelPass prices are summarised in the following table. It is estimated that the additional increases proposed for TravelPass will increase farebox revenues by approximately $3.15 million.

Table 4: Proposed TravelPass increases

TravelPass and likely usage	2008 fare	Proposed increase (rounded)	2009 fare	Forecast discount on single fares
Red Travelpass • 10 train trips (10 km) • 10 bus trips (1-2 sections)	$35.00	$4.00 (11.4%)	$39.00	23%
Green Travelpass • 10 train trips (20-25 km) • 10 bus trips (1-2 sections)	$43.00	$4.00 (9.3%)	$47.00	25%
Yellow Travelpass • 10 train trips (25-30 km) • 10 bus trips (1-2 sections)	$47.00	$4.00 (8.5%)	$51.00	24%
Pink Travelpass • 10 train trips (30 km) • 10 bus trips (1-2 sections)	$50.00	$4.00 (8%)	$54.00	19%
Purple Travelpass • 10 train trips (50 km) • 10 bus trips (1-2 sections)	$57.00	$6.00 (10.5%)	$63.00	28%
Blue Travelpass • 10 bus trips (1-2 sections) • 10 ferry trips (Inner Harbour Zone 1)	$32.00	$6.00 (18.1%)	$38.00	48%
Orange Travelpass • 10 bus trips (3-5 sections) • 10 ferry trips (Inner Harbour Zone 1)	$40.00	$6.00 (15.0%)	$46.00	47%
Pittwater Travelpass • 10 bus trips (16+ sections) • 10 ferry trips (Manly ferry)	$55.00	$6.00 (10.9%)	$61.00	52%
2 Zone Travelpass • 10 bus trips (6-9 sections)	$32.00	$2.00 (6.3%)	$34.00	19%

Note: For the purposes of calculating the forecast discount to single fares, an increase of 4.5% has been assumed for rail and ferry fares

Currently the price of quarterly and yearly TravelPasses can be understood as follows:

- Quarterly TravelPass = 11 x Weekly TravelPass.
- Yearly TravelPass = 40 x Weekly TravelPass.

The Ministry would welcome IPART's consideration of whether these relativities remain appropriate.

7.4 Stockton Ferry

The increase in Stockton Ferry fares should be in line with Charter Vessels Association Cost Index.

Part 2

Rural & Regional Bus Services

1. Executive Summary

RECOMMENDED FARES

- **The Bus and Coach Association will bring froward proposals for changes to Rural and Regional bus fares**
- **In establishing changes to these fares, IPART should give consideration to the full range of factors, including changes in costs, social impacts and impacts on costs to Government.**

This submission outlines the key changes to rural and regional bus contracting, planning and funding arrangements which are being rolled out from July 2008, as part of the Government's Rural and Regional Bus Reform process. The key initiatives are summarised as follows:

New contracts

New contracts "A" and "B" are replacing the old "non-commercial" (ie: school bus only) and "commercial" contracts.

These contracts update rather than completely overhaul the existing arrangements. They involve stronger contracts with clearer reporting and performance requirements; provisions to ensure consultation with the community; requirements for cooperation with neighbouring service providers; and provisions to ensure service continuity, greater flexibility in service planning and streamlined administration. Contract "Bs" also include expanded concession benefits, including the Rural and Regional PET.

See section 2.1 for further information.

New funding arrangements

The funding arrangements have also been updated rather than overhauled and will place bus operators on a sustainable footing, enuring the continued delivery of essential services to rural and regional communities.

Contract A services are provided under gross cost contracts with costs to be adjusted according to industry specific cost inflators agreed in the contract. As discussed with IPART, IPART will no longer have a role in assessing changes to school bus/Contact A funding as there are no passenger fares involved.

Under new funding arrangements for Contract B services, an average of 85% of operator costs are covered by School Student Transport Scheme (SSTS) payments in the contract, which are adjusted in accordance with the indices contained in the contract. This leaves an average of 15% of costs at risk through the farebox and was the model supported by the industry on the basis that it provides greater incentives for operators to operate efficiently and attract patronage.

IPART will have an ongoing role in assessing the level of fares that operators may charge to passengers on Contract B services.

See section 2.1 for further information on the new funding arrangements for Contract B services.

2. Rural & Regional Bus Reform

Summary of contents:

New arrangements for the delivery of bus services in rural and regional NSW have been recently approved by the Government and the process of progressively rolling out new contracts commenced in July 2008. It is anticipated this process will take about 12 months.

School bus only (or "non-commercial" services) will be replaced with new Contract "As" while regular route and timetabled general passenger services (or "commercial" services) will be replaced with new Contract "Bs."

These new contracts will ensure sustainable services continue to be delivered for communities and place clear requirements on operators relating to service performance, community consultation and (where appropriate) working cooperatively with neighbouring operators to improve service delivery.

With 737 operators providing services under 1,879 contracts worth $287 million in 2006/2007, the roll-out of new contracting arrangements for rural and regional areas is a significant undertaking. It is intended that the number of contracts will be streamlined down from 1,879 to 770 to improve administration and take advantage of "economies of scale."

Of the 1,879 current contracts:

- 1,753 deliver school only services to transport students, free of charge under the School Student Transport Scheme, to and from schools in the more isolated areas of the state; and,
- 126 are general passenger service contracts, under which fixed timetable/fixed route and school services are provided to higher population areas, such as country towns and regional centres.

The bus industry in rural and regional NSW is diverse, with the greatest proportion of operators holding single or multiple contracts to deliver school bus services.

Contract type and configuration	No of

	operators
Single School Only	392
Multiple School Only (2-16)	267
Single general passenger	17
Multiple general passenger (2-4)	6
General passenger and school contracts (ranging from 1+1 to 26 general passenger and 54 school)	55

2.1 New Bus Contracts

The new contracts contain a number of standard terms and conditions, summarised as follows:

- seven year terms, with provisions for extension up to 12 months provided suitable notice is given to the Operator;
- provisions enabling the Director General to require a change to the services, ticket products, or concessions provided under the contract, subject to reasonable notice and compensation where appropriate;
- bus and driver standards and reporting requirements with the ability of the Director General to conduct audits, surveys and inspections;
- a cure regime providing a graduated approach to contract breaches;
- requirements for a Contract Management Plan outlining how reporting requirements and Key Performance Indicators will be met, including contingency and emergency plans;
- provisions allowing the Director General to appoint a nominee to continue to provide the services, where there is a risk of services not being provided for more than 24 hours or in an emergency;
- provisions to govern the amalgamation of services, including how any efficiency savings arising from such an amalgamation will be dealt with.

Contract “Bs” contain a number of specific terms, summarised below:

- Provisions requiring coordination of services with neighbouring operators, including entering into Neighbouring Service Provider agreements where specified;
- Revised Service Planning Guidelines (included as a schedule to the contract) establishing desirable service coverage/frequency parameters but enabling more flexible service delivery in response to community need. The Guidelines also require community consultation; service reviews every three years or within 12 months of the release of ABS statistics; defined notice periods and communication strategies for changes to services; and the Director General’s consent to service changes in certain circumstances;
- Provisions enabling the Director General to require Operators to provide emergency buses for a specified period and at a reasonable commercial rate to ensure continuity of service in the event of an emergency;

- Requirements in relation to complaints handling and resolution including monthly reports to the Director General;
- Participation in 131500;
- Key performance indicators relating to operational, financial, customer service, planning and safety performance, as well as reporting requirements including patronage, reliability, kilometres, fleet, financial results and complaints; and
- Concession arrangements that match those provided under metropolitan and outer metropolitan contracts, including the Rural and Regional PET. See Section 2.2 below for further information.

These provisions are aimed at providing an appropriate framework for the regulation of the services, providing certainty of contract for operators and greater customer focus.

2.2 Rural and Regional PET and Harmonised Concessions

As part of the recently approved new contracting and funding arrangements for rural and regional bus services, a Rural and Regional Pensioner Excursion Ticket (PET) will be available on general passenger services contracted to the Ministry of Transport in rural and regional areas (ie: Contract "B" or what were referred to as "commercial" contracts). The aim is for the PET to be available from January 2009.

Under these new arrangements pensioners and seniors who previously had to pay either half price or full price when travelling on their local, regular route services in rural and regional areas, will be able to travel as many times as they like in the one day for the flat rate of $2.50.

The new contracts also include:

- More generous arrangements for tertiary students so that, regardless of age, those who meet the eligibility criteria are able to travel for half price at all times. Under current arrangements, only tertiary students under 30 can access half fare concessions and only for travel to and from study.
- More generous arrangements for senior secondary students, who will be eligible for a half fare concession for all trips. Currently, students who are not eligible for the SSTS can only access half fare concessions for traveling to and from school.
- Access to a half fare concession for young people under 16 (currently, the "child" fare is only available to young people who are under 15).
- Access to half fare concessions for Apprentices and Trainees.
- Free travel for World War One veterans and their wives/widows, holders of Vision Impaired Passes, assistance animals accompanying deaf people and people recognized for services to the State.

Implementing the Rural and Regional PET and harmonising concession benefits will come at an additional cost to Government of approximately $2.1 million per annum with approximately $1 million incurred in the six months of 2008/2009 when it is introduced.

Operators will be compensated for any revenue forgone because of expanded concession benefits or as half fare concession passengers migrate to the PET through "top up" payments. Effectively, the Government will underwrite the level of payments the operator received for providing half fare concessions, with reference to payments received in the previous 12 months indexed by changes in actual fares.

Further, if operators achieve patronage growth from concession beneficiaries above previous levels, Government will increase total concession payments by 50% of the patronage growth experienced. For example, if patronage increases by 2%, payments will increase by 1%.

2.3 Rural and Regional Funding Model

2.3.1 Contract "A" Funding

School bus contracts have previously been funded on a "gross cost" basis with payment for the cost of providing the service linked to the size of bus/capacity required, kilometres travelled and hours of operation.

The new funding arrangements for Contract "A" services update this model to ensure that the services are viable and sustainable, ensuring continuity for the community. Key changes are summarised as follows:

- revised operating costs, recognising increases in expenses incurred in: tyres; repairs and maintenance (including repairs and maintenance of air-conditioning on buses); vehicle registration and insurance; cleaning costs; contract administration and compliance;
- revised capital costs, with both depreciation and Weighted Average Cost of Capital paid in line with actual costs incurred by the operator;
- improved method of calculating returns/margins to operators;
- minimum payment for 2 hours driving/day;
- resetting of contract kilometres where appropriate;
- reduction in administration payments for those operators with > 10 lines of route, recognising economies of scale;
- provision of air-conditioning in all new buses and seat belts in all new Category 1 buses;
- a revised indexation approach for future cost increases, applying industry specific rather than generalised inflators.

As noted in Section 1, IPART had a role in assessing the industry's proposed changes to costs in the previous funding model and recommending increases.

However, as the cost inflators are agreed in the contract, IPART will no longer have a role in assessing Contract “A” funding.

2.3.2 Contract “B” Funding

Regular route bus services serving country towns and village to town routes, where there is sufficient patronage, have theoretically been funded through the farebox, through this has included payments from the Ministry of Transport to reimburse operators for revenue foregone for half fare concessions and the carriage of school students free of charge under the SSTS.

SSTS funding has been the major source of funding for these services, cross subsidises the regular route services operators are required to provide as a condition of contract. A formulae for SSTS payments, based on the number of passes the operator has issued to eligible school students, has been a rough proxy for a “per head” fare.

The new funding arrangements for Contract “B” services de-link SSTS payments from fares and notion of a “commercial” contract. As noted in Section 1, under the new arrangements, an average of 85% of operators’ costs will be covered by SSTS payments which will be adjusted, periodically, in accordance with industry-specific cost inflators developed for the contract.

The “base” SSTS payments have also been updated to reflect changes in costs as a result of the requirements of the new contract. This includes specific indexation to cover the costs of providing air-conditioning in buses, which is timed to reflect the replacement of the existing fleet and costs of compliance arising from the Bus Operator Accreditation Scheme and other Government mandated requirements (such as drug and alcohol testing.

Other features of the new Contract B funding model include:

- provision of detailed financial information on an annual basis;
- clear set of rules on contract conversion and/or acquisitions to consolidate services to gain efficiencies, including fares to apply for these services; and
- profit sharing arrangements when operators earn excessive profits. Under the profit sharing arrangement the operator returns to the government 50% of any “super” profits earned during a financial year.

The profit sharing calculation is calculated by reference to the operator’s Earnings Before Income Tax Depreciation and Amortisation in the 2007/2008 year. This income base is to be indexed each year and then compared to the actual earnings of the operator. The calculation of profit share is as follows:

[Actual Earnings – (2007/2008 earnings (indexed) x 1.5)] x 0.5.

These new arrangements will ensure that operators have greater certainty and that essential services to rural and regional communities are sustainable. At the same time – as the industry argued – an element of costs “at risk” ensures that operators have sufficient incentives to actively manage their costs and deliver customer focused services.

Ensuring SSTS payments are based on efficient costs

To ensure that SSTS payments were based on efficient costs, Ernst and Young, which was engaged by the Ministry to advise on appropriate funding arrangements, undertook an efficiency benchmarking exercise across the different types of bus operations in rural and regional areas. This involved an examination of bus operators' financial particulars, operating margins, cost per operator under the SSTS and returns on investment. An "open book" exercise was undertaken using a representative sample of rural and regional businesses, supplemented by an industry-wide survey.

The results of this analysis showed a wide variability in profitability, with a number of businesses facing viability issues. Importantly, it also showed that even where operators were running profitable businesses, there were no "super profits." As a safety net, the new funding arrangements also have a "profit sharing" arrangement

Using industry specific rather than generalised cost inflators – which were used in the new metropolitan contracts – was also strongly recommended by Ernst and Young. This is because costs in rural and regional areas are very different from costs in metropolitan areas and the use of generalised inflators – which are skewed toward the costs that apply in metropolitan areas, because of they represent the majority of businesses – was likely to lead to viability issues.

2.4 IPART's Role in Rural and Regional Fare Setting

While SSTS payments will no longer be nominally linked to fares under the new contracting regime, IPART will continue to play an important role in setting the maximum fares which passengers may be charged.

Fare increases will also have an impact on Government funding to operators as, in rural and regional areas, the vast majority of fare paying passengers are accessing concession benefits. Under new contracting arrangements, Government will continue to reimburse rural and regional bus operators for the carriage of half fare concession passengers and is also underwriting the expansion of concession benefits and the implementation of the Rural & Regional PET through "top up" payments indexed by changes in actual fares (see Section 2.2 for details).

Payments to operators to reimburse them for providing half fare concessions cost Government approximately $9.1 million in 2007/2008. As noted in Section 2.3, it is anticipated that harmonising concession benefits and rolling out the rural and regional PET will add $2.1 million per annum to this amount.

Substantial increases in fares impact on people on lower incomes – who are the majority of service users in rural and regional areas – and Government funding.

As noted in Section 2.3, the level of costs "at risk" provides important incentives for operators to maintain or improve their cost efficiency and focus on attracting additional passengers.

In assessing proposed fare increases from industry, IPART therefore continues to have an important role in ensuring operators continue to seek cost efficiencies and service improvements.

Timing

For the 2009 review of rural and regional bus fares, IPART will be making recommendations to the Minister for Transport in accordance with arrangements agreed between IPART and the Ministry and approved by the Premier. This is in keeping with the process that has applied since 2001.

Once rural and regional bus services are provided under the authority of new service contracts, section 28J of the Passenger Transport Act 1990 makes IPART the determining authority for rural and regional fares in the same way it sets fares for metropolitan and outer-metropolitan contracted services.

However, under the agreed process for rolling out new contracts, operators who enter into a new contract with the Minister within 30 days of offer will receive payments under the new arrangements backdated to 1 July 2008.

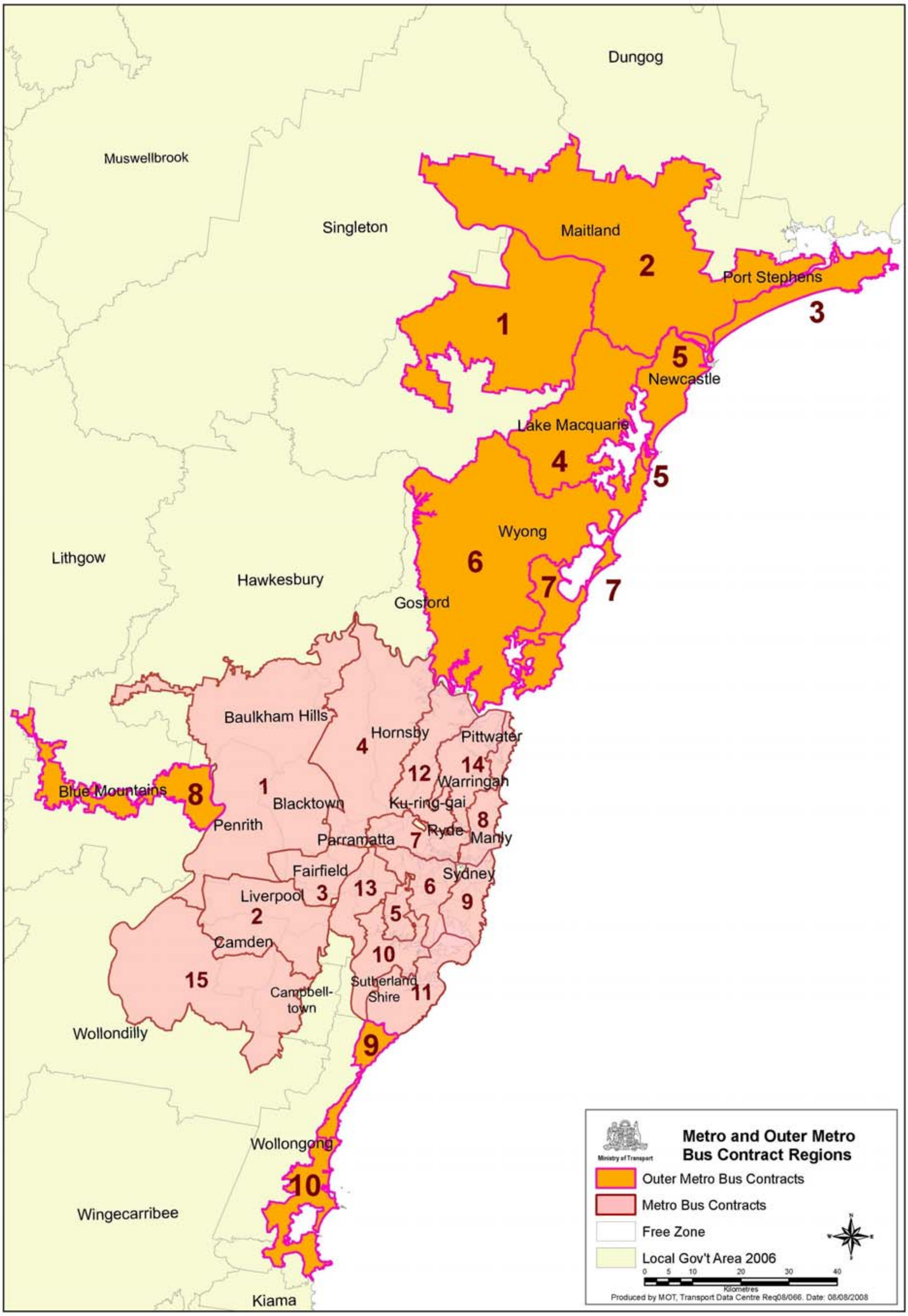
3. Rural & Regional Fares Recommended

The Government seeks IPART's advice regarding an appropriate fare increase for rural and regional bus fares.

The Ministry notes that the Bus and Coach Association (BCA) will put forward proposed changes in fares, including its assessment of changes in costs for Rural and Regional operators.

In accordance with the arrangements agreed between IPART and the Ministry, IPART should take into account (among other things) the range of costs of providing the services as well as the social impact of any potential fare increases, the need for greater efficiency in the supply of services and impacts on Government funding.

Attachment 1: MBSC & OMBSC Regions



ATTACHMENT 2 – RECOMMENDED FARES

2009 Recommended Metropolitan and Outer-Metropolitan Bus Fares (Effective 1 January 2009)

	Sections	Master	Adult rounded	Concession	Adult increase	Concession increase
Singles	1 to 2	$1.87	$1.90	$0.90	$0.10	$-
	3 to 5	$3.15	$3.20	$1.60	$0.20	$0.10
	6 to 9	$4.21	$4.20	$2.10	$0.20	$0.10
	10 to 15	$5.02	$5.00	$2.50	$0.20	$0.10
	16+	$6.07	$6.10	$3.00	$0.30	$0.10
Private Bus Weekly	1 to 2	N/A	$15.20	$7.60	N/A	N/A
	3 to 5	N/A	$25.60	$12.80	N/A	N/A
	6 to 9	N/A	$33.60	$16.80	N/A	N/A
	10 to 15	N/A	$40.00	$20.00	N/A	N/A
	16+	N/A	$48.80	$24.40	N/A	N/A
Traveltens	1 to 2	N/A	$15.20	$7.60	$0.80	$0.40
	3 to 5	N/A	$25.60	$12.80	$1.60	$0.80
	6 to 9	N/A	$33.60	$16.80	$1.60	$0.80
	10 to 15	N/A	$40.00	$20.00	$1.60	$0.80
	16+	N/A	$48.80	$24.40	$2.40	$1.20
T-way 10	1 to 2	N/A	$15.20	$7.60	-$0.10	$-
	3 to 5	N/A	$25.60	$12.80	$0.10	$0.10
	6 to 9	N/A	$33.60	$16.80	-$0.40	-$0.20
	10 to 15	N/A	$40.00	$20.00	-$0.80	-$0.40
	16+	N/A	$48.80	$24.40	-$0.50	-$0.20
T-way Bus Plus weekly	1 to 2	$14.35	$14.40	$7.20	$0.80	$0.40
	3 to 5	$26.72	$26.70	$13.30	$1.40	$0.70
	6 to 9	$38.04	$38.00	$19.00	$1.90	$1.00
	10 to 15	$54.61	$54.60	$27.30	$2.80	$1.40
	16+	$69.31	$69.30	$34.60	$3.60	$1.80
T-way weekly	North Zone	$38.04	$38.00	$19.00	$1.90	$1.00
	South Zone	$38.04	$38.00	$19.00	$1.90	$1.00
	North + South Zone	$69.31	$69.30	$34.60	$3.60	$1.80
Bus/Ferry Travelpass	Blue	$37.55	$38.00	$19.00	$6.00	$3.00
	Orange	$45.84	$46.00	$23.00	$6.00	$3.00
	Pittwater	$61.05	$61.00	$30.50	$6.00	$3.00
	2 Zone	$33.84	$34.00	$17.00	$2.00	$1.00
(Other Products)						
BusTripper	N/A	$12.72	$12.70	$6.30	$0.60	$0.30
Sports Special	N/A	$5.64	$5.60	$2.80	$0.20	$0.10
School Term Pass	N/A	$45.10	N/A	$45.10	N/A	$2.40

2009 Recommended Newcastle Bus and Ferry Fares

(Effective 1 January 2009)

	Time	Master	Adult rounded	Concession	Adult Increase	Concession Increase
Newcastle Time-based	1 Hour	$3.15	$3.20	$1.60	$0.20	$0.10
	4 Hours	$6.18	$6.20	$3.10	$0.30	$0.20
	TimeTen 1 Hour	$26.05	$26.10	$13.00	$1.40	$0.70
	All Day	$9.45	$9.50	$4.70	$0.50	$0.20
Newcastle Travelpass	Orange Travelpass	$41.27	$41.00	$20.50	$2.00	$1.00
	Yellow Travelpass	$48.88	$49.00	$24.50	$3.00	$1.50
	Pink Travelpass	$52.13	$52.00	$26.00	$3.00	$1.50