



## **IPART – Draft Report Review of Rural and Regional Bus Fares from January 2018**

**Submission by BusNSW**

14 November 2017

Independent Pricing and Regulatory Tribunal  
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BusNSW is the peak body for the NSW private bus and coach industry whose members provide essential services to, and a key interface with the travelling public. BusNSW's mission is to foster the efficient and sustainable growth of public transport, and to promote the benefits of bus and coach travel in NSW.

A significant portion of BusNSW's members operate regular passenger and school bus services under Transport for NSW Rural and Regional Bus Service Contracts (R&R Contracts). In June 2017, BusNSW made a submission to IPART's issues paper on the Review of Rural and Regional Bus Fares from January 2018.

### **Draft Decision on Maximum Fares**

BusNSW supports the draft decision to reduce the maximum level of fares and to simplify the fare structure, however the proposal to consolidate the 220 sections (based on 1.6km average) to 10 bands based on the route distances set out in Table 1.1 of the draft report would not be possible based on current ticketing equipment used for rural and regional bus services and the practices employed by operators. A fare based on the actual distance travelled by individual passengers would require new ticketing equipment (similar to Opal ticketing equipment used for Greater Sydney) which would be a significant investment for the NSW Government.

In its submission on the Issues Paper BusNSW advised it broadly agrees that the regional and rural fare structure should be simplified, and that equity with the current metropolitan and outer-metropolitan fares should be considered. It also noted that the reporting of

passenger boardings for R&R Contracts is currently based on 1-2 sections, 3-5 sections and 6+ sections.

BusNSW recommends that IPART consider bands based on the current 1.6km average sections, which can be implemented using existing ticketing equipment and practices (which includes section maps and fare tables).

The introduction of new fare bands and a new daily ticket would require changes to ticketing system software and driver training. A change would also impact on Transport for NSW contract reporting. Whilst the reporting frequency varies depending on the size of contract, the annual reporting for regular passenger service operators (previously Contract "B") is from 1 June to 31 May. BusNSW understands that the NSW Government may wish to pass on benefits to customers as soon as possible. The introduction of new fares on 1 March 2018 may be appropriate for large R & R Contract holders reporting on a quarterly basis. Impacts on reporting for other contract sizes should also be considered.

The introduction of bands needs to be considered in conjunction with the maximum fare level to be applied for each band. BusNSW noted in its submission on the Issues Paper, that if there is a material change in fares, TfNSW and the contract holders would need to agree to an adjustment to their annual contract price to reflect the impact of the change in fare revenue, which may require a variation to the contract.

Bus operators accepted the patronage risk under current contracts based on existing fares. The reduced fares proposed by IPART would activate the contract clause requiring a price adjustment due to a material change in fares.

BusNSW notes that IPART expects more passengers to travel on the buses as a result of the proposed substantially lower fares, but recognises that the additional fare revenue from this increase in patronage may not fully offset the revenue impact of reducing fares. The effect of any change to fare policy on passenger boardings and subsequent impacts on running times and contract KPIs (including Punctuality Rate) also needs to be considered. Operators may be required to seek support from Transport for NSW to review networks or approve bus service alteration requests.

BusNSW also noted in its submission on the issues paper that some long-distance bus services provided by Murrays Australia and Premier Motor Service are provided under special funding agreements with TfNSW. BusNSW understands that the IPART decisions will not apply to these services.

### **Delivering Current Bus Service for Less Cost Over Time**

BusNSW notes that IPART engaged AECOM to assess the efficient costs of providing the contracted bus services, and compare them with the actual costs of these services (i.e. the TfNSW contract payments). BusNSW understands that TfNSW (Deloitte)

provided contract payment data to IPART, however BusNSW does not have access to the data and subsequently is not able to verify this data. BusNSW notes there are transition payments included in some TfNSW contract payments which could bias a comparison.

BusNSW has concern with the following claim made in the draft report:

*We found that on average, the efficient costs of providing rural and regional bus services in 2017 are 19% lower than the contract costs of providing school only services and 26% lower than the contract costs for school and regular services.*

There appears to be a number of issues with the hypothetical building block methodology used to estimate the total efficient cost of providing the contracted bus services. Following are BusNSW comments on the cost items.

- **Maintenance** – BusNSW has the view that using costs based on manufacturer’s recommendations are a “best case” cost that would be used by the OEM marketing the respective vehicle and do not represent real costs associated with the maintenance of vehicles across the NSW rural and regional operating environment. It is also not clear if major repair costs such as engine rebuilds and refurbishing the interior and exterior of the bus body have been considered.
- **Fuel** – As per the maintenance cost, BusNSW has the view that fuel consumption rates provided by an OEM marketing the respective vehicle may not be reflective of consumption rates for buses operating in a NSW rural and regional operating environment. It is not clear if the differences between school buses and low floor buses have been considered. BusNSW notes that the difference in the ‘standard’ fuel cost per km by bus category is shown in Figure 18 of the draft report, has a significant difference between category 3 and 4, which does not appear to be consistent with industry experience.
- **Labour (driver’s wages)** – it appears that the Passenger Vehicle Transportation Award (PVTA Grade 2 & 3) rates have been used, rather than the actual rates paid to bus drivers (which came from the NSW Bus Award, are included in Enterprise Agreements registered by the Fair Work Commission, and are required to attract and retain drivers in rural and regional areas). The rates paid to casual drivers and included in TfNSW payments (Currently \$33.4148 p/hr) are approximately 25% higher than the PVTA Grade 3 rate (Currently \$26.70 p/hr). It is not clear if the casual rate was used, and if there was an accurate allocation of hours for penalty rates applicable to weekends and public holidays.

The driver/conductor allowance (D/C) which is paid to drivers and included in TfNSW payments does not appear to be included in the labour costs. This allowance is currently \$15.2921 per day, and as per the wage rates it came from the NSW Bus

Award, is included in current Enterprise Agreements registered by the Fair Work Commission, and is required to attract and retain drivers in rural and regional areas.

Given driver costs are clearly one of the most significant cost components in relation to bus operations, BusNSW has the view that the differences outlined above would have a material impact on AECOM's calculation of efficient cost.

- **Return of capital (for the purchase cost of the vehicles)** – BusNSW notes that the capital value is returned over the TfNSW maximum service life, and the residual value of the vehicle has been ignored. The TfNSW contract payments are based on different terms which are less than the maximum service life. The payments for buses that have been procured as part of the NSW Government program to install seatbelts in all regional school buses are based on return of capital over 10 years. A large number of vehicles operating under very small contracts were transitioned to funding over 8 years. This means the actual capital payments are much greater than what IPART considers “efficient” cost.

Using the “median” TfNSW panel bus cost by category is not considered to be a genuine way of determining efficient cost, as it doesn't consider contract obligations relating to bus life and operator circumstances that impact on vehicle selection, including maintenance expertise and access to OEM approved repairers (Refer recommendation 4 below).

IPART does not appear to have considered the finance terms available to operators, particularly small operators, and potential cash flow impacts. To ensure a proper comparison with contract costs, BusNSW recommends that return on capital is adjusted to ensure operators can service repayments associated with available finance terms.

- **Return on capital (the financial cost of the capital employed to acquire the vehicle)** – BusNSW notes that the funding cost has been estimated using a Weighted Average Cost of Capital (WACC) considered appropriate for the sector. Where the WACC is applied based on capital payments using maximum service life, the return per annum is likely to be less than what is paid by TfNSW. The return on capital should be based on the actual return of capital amounts that apply under contracts, and consider the issues identified above.
- **Annual fixed costs such as insurance, and allocation of company overhead (which is not a vehicle-related cost)** – whilst AECOM has provided a list of overhead items considered, there are no costs allocated to the items. It is not clear if the overheads used represent real costs for a rural and regional bus operator in NSW, including costs associated with contract compliance and the requirements of the NSW Bus Operator Accreditation Scheme.

BusNSW recommends that IPART reassess the efficient cost of providing the contracted bus services (as a minimum based) on the issues identified above.

BusNSW also has concerns with the assessment of what is referred to as “efficient route distance” for each service. The process used does not appear to be robust.

## **DRAFT RECOMMENDATIONS**

BusNSW’s response to each of the draft recommendations is set out below. Some recommendations do not adequately consider the nature and operations of rural and regional bus services, the history of the services, and previous reforms undertaken.

### **Delivering current bus services for less cost over time**

- 1. TfNSW require bus operators to report annually on patronage by IPART’s proposed new fare bands, and by service kilometres and dead running kilometres by route, on a consistent basis across all operators.**

Rural and Regional Bus Service Contracts contain reporting requirements for patronage and kilometres based on the size of the contract. The recommendation above would create additional reporting requirements for very small and small contracts holders and impact on administration costs. Changes of this nature would need to be negotiated and supported by a contract deed of variation.

BusNSW notes that any change to the existing reporting of patronage based on sections (1.6km average) would impact on operator data collection, the TfNSW reporting templates, and the TfNSW Operator Data Interchange (ODIN). BusNSW notes that the current contract patronage report is based on three bands (1-2 sections, 3-5 sections and 6+ sections) and should be considered when making a final determination on new fare bands.

- 2. TfNSW require bus operators to report annually on costs incurred to provide the services, and TfNSW define clearly what cost items operators should include in each cost category.**

Financial reporting across approx. 656 contracts was considered to create unnecessary administration and is not included in current contracts. Payments to operators under current contracts were determined via an extensive industry benchmarking process to ensure the annual contract price met the NSW Government’s value for money criteria. Most operators provide contract services, charter services and have other business activities, which can make the allocation of shared costs problematic. Furthermore, new financial reporting would most likely

require new accounting and reporting systems to be implemented – the associated costs are not currently considered in contracts.

- 3. TfNSW review the reported patronage of bus services to determine whether the size of the bus allocated to routes is appropriate. This review should occur when:**
- **A bus operator seeks to replace a new bus under its existing contract.**
  - **Bus utilisation over a six-month period is less than 10%. In this instance, TfNSW should require operators to demonstrate why they need to maintain the current bus size.**

There is already a practice in place whereby Transport for NSW and the contract holder considers the category of a new bus based on actual patronage data for the relevant Bus Route(s); and the projected maximum number of regular passengers at the peak patronage time for the following period of 12 months, including all assumptions used by the Operator in preparing a projection.

Operators seek to replace buses based on the average age or maximum age requirements of the contract. BusNSW notes that under the NSW Government program to introduce seat belts on the rural and regional bus fleet by December 2021, that Transport for NSW will also initiate the early replacement of existing buses.

Contracted operators have a fleet of buses that are used for the provision of services. Small, medium and large contracts include spare buses (based on a 9.5% ratio). Buses are moved between routes for a number of reasons including to address changes in demand, the type of operating environment, and to facilitate repairs and maintenance.

Almost all rural and regional contract buses are used for the provision of school services for students travelling under the NSW Government School Student Transport Scheme. Whilst some regular passenger services operating in rural and regional areas may have low usage rates, changes that reduce the capacity of vehicles can adversely impact on the efficiency obtained from buses being utilised for services that carry school students and regular passengers in the morning and afternoon peaks.

BusNSW notes that changing buses prior to them being fully funded has a number of costs that need to be considered by Transport for NSW, including a displaced bus termination payment under the contract (which recognises that the market value will be less than the depreciated value). Operators may also have to incur “break” costs where vehicles are financed under leases or commercial hire purchase arrangements. Reducing bus categories removes flexibility to deal with future growth.

**4. When a bus operator seeks to purchase a more expensive bus from the procurement panel, TfNSW require the operator to demonstrate that the benefits exceed the costs over the life of the bus.**

Transport for NSW is responsible for the bus procurement panel. The buses that are available on the panel and fully funded under Rural and Regional Bus Service Contracts have been selected via a request for tender process, which includes meeting the NSW Government's value for money criteria.

Operators select vehicles based on several factors including their operating environment, maximum age requirements under the contract, the OEMs rural and regional support network, the experience and skills of the operator's staff in maintaining and repairing a particular make and model of bus, and the workshop equipment and tooling in place. The proposed evaluation of the assets benefits over the life of the bus (25 years for most buses) would be difficult due to contract cycles and potential changes to services.

**5. TfNSW consider extending the maximum service life of buses under the contracts to better match the duty, distance travelled and useful life of buses in rural and regional areas.**

The Rural and Regional Bus Service Contract Bus Fleet must not exceed a maximum age from Bus Purchase Date of:

- (i) For Bus Category 1 and Bus Category 2 Contract Buses, 15 years; and
- (ii) For Bus Category 3 and Bus Category 4 Contract Buses, 25 years.

This is considered to be very high by international standards, where contracted buses are normally replaced at a much younger age.

The TfNSW Future Transport 2056 Draft Road Safety Plan 2021 noted that newer vehicles are more likely to have extra safety features. In responding to the draft plan BusNSW recommended that Transport for NSW review the maximum age of buses operating under contracts to ensure that over time the bus fleet can take advantage of new safety technology.

This recommendation to extend the maximum service life of buses under contracts appears to contradict the intent of recommendation 4 above. Operators are procuring what are considered to be the more expensive (heavy duty) buses in order to meet the current maximum age requirements of the contract. The impact on repairs and maintenance need to be considered, and extending the life of the vehicle will increase repair and maintenance costs.

## **Delivering a better service for the same cost**

- 6. Bus operators be able to charge customers who book an on demand service a surcharge of between \$0 and \$5 (including GST) on top of the fixed route fare.**
  - Bus operators should set the level of surcharge based on customers' willingness to pay, the likely impact of the surcharge on the level of demand, and the likely impact of the design of the on demand component and its impact on the additional delivery costs.**
  - Bus operators should make reduced surcharges available to concession passengers.**

BusNSW supports a fare for on-demand services that is commensurate with the type of on-demand service provided and how it compares to a fixed route and timetabled service. Given the on-demand service is operated under a Transport for NSW contract and likely to be subsidised via a gross cost payment, the fare to be charged is considered to be a matter for Transport for NSW. Likewise, the application of concessions based on approved beneficiaries is a matter for Transport for NSW.

## **Procuring transport services including on demand**

- 7. In the short term, TfNSW use the framework (Box 8.1) to identify the contracted bus services that provide relatively low value for money and negotiate with bus operators to vary these services to deliver a better service to customers, without increasing existing contract costs.**

Bus operators assess community needs for public transport services on a regular basis and make submissions to change services via the Bus Service Alteration Request (BSAR) process. Operators are required to provide detailed information including benefits for existing and new passengers, any impact on bus routes, bus categories, timetables, dedicated school services and the Operator's ability to meet the contract Key Performance Indicators. The approval of changes to existing services is a matter for Transport for NSW.

BusNSW supports the consideration of an on-demand component for any framework to improve services. Where on-demand services include a smart phone app to be used for bookings and payments, the significant development costs need to be considered within the framework, including the recovery of costs via a fare surcharge.

Any change to existing services (including service levels) should also consider social impacts.



- 8. Where a need for additional transport services in rural and regional areas is identified in the short term, TfNSW seek competitive tenders to provide the additional services to ensure the least cost transport solution is provided.**

There is a need to consider the context of the additional service/s before determining how the service should be procured. Where additional services are part of an existing network, there is a process in place to add services and adjust contract payments.

Additional services have been required to address the overloading of passengers in some rural and regional areas. In some cases, the operator has been advised that the service may be tendered. BusNSW has the opinion that where an operator is providing an additional service to deal with a capacity issue, and the students who have caused the overload are on the operator's list of TfNSW approved students, and the additional service is operating fully/partly along the same route as an existing service or in close proximity to an existing service, that the additional service should be included in that operator's contract (via Bus Service Alteration Request process), and not go to tender. BusNSW acknowledges that a tender may be appropriate for a new service in a greenfield area.

- 9. TfNSW seek proposals from the market when procuring transport services to operate in rural and regional NSW from 2024. This should include inviting proposals for innovative transport service models that provide improved transport services and greater flexibility to meet the community need at least cost.**

Under current contracts, if TfNSW determines that it is in the public interest that the Contract Bus Services continue to be provided following the expiry of the Term, then TfNSW must notify the Operator that TfNSW proposes to enter into a further contract for the provision of the Contract Bus Services (New Contract). TfNSW and the Operator must negotiate in good faith to agree the terms and conditions of the New Contract, including term, payments, reporting, service variations and key performance indicators.

This right is to recognise the large number of rural and regional contract holders, the efficiency obtained from where the operator is located in proximity to the service/s, the remote nature of some services, and the significant long-term investment relating to property improvements and equipment which are necessary to operate buses. The current gross cost contract model for rural and regional bus services in NSW was developed to achieve a number of strategic objectives including good value for money for government and customer outcomes.

## **Removing barriers to travel in cross border areas**

### **10. TfNSW and Surfside Buslines:**

- **develop and pilot an on demand booked transport service to provide a higher level of service for travel in peak times (7-9 am and 4-6.30 pm weekdays) in the Tweed area**
- **evaluate the cost-effectiveness of this service after six months to decide whether routes continue to be provided as fixed routes or converted into further on demand services**

BusNSW understands Surfside Buslines are working with Transport for NSW to develop an improved public transport system in the Tweed area. Discussions with the TfNSW rural and regional planning project team have included on-demand opportunities.

### **11. TfNSW require operators in the Albury/Wodonga area to adopt ticketing systems that:**

- **allow passengers to purchase a single ticket for their entire journey across both operators' service areas including across the border, and 91**
- **facilitate sharing of fare revenue between each operator and Public Transport Victoria.**

BusNSW members in this area have the opinion that fares in Albury and Wodonga need to be restructured to make travelling on buses more attractive. Some of the current issues include:

- Martin's and Dyson's fares are not the same in NSW.
- Passengers required to use both Martin's and Dyson's services to reach their destination are disadvantaged by higher fares (due to flag fall). For example, a passenger travelling 2 sections on Martin's and 2 sections on Dyson's would pay more than a passenger paying for 4 sections on either operator.
- The Victorian fare structure is different to NSW. Rather than section fares, 2 hourly and daily fares are used.
- Health Care cards are eligible for concession fares in Victoria, but not in NSW.
- An adult in Victoria is 17+ years, whereas in NSW it is 16+ Years.

There is support for Transport for NSW to introduce a ticketing system for operators involved that would facilitate cross town and cross border fares. A revenue sharing arrangement is possible under the gross cost contracts, and is a matter for Transport for NSW and Public Transport Victoria to address.

**12. TfNSW extend concessions to NSW residents attending secondary school, TAFE, VET or university located within 50 km of the border as full time, on-campus students.**

This is a matter for Transport for NSW.

**13. TfNSW reimburse the Queensland Government, Victorian Government, ACT Government or relevant bus operator for the difference between the concession fare and the single adult fare for those NSW residents travelling on a concession ticket attending secondary school, TAFE, VET or university located within 50 km of the NSW/Queensland, NSW/Victoria and NSW/ACT borders as full time on-campus students.**

This is a matter for Transport for NSW.

#### **Maximum fares for rural and regional bus services**

**14. TfNSW negotiate with the relevant secondary school, TAFE, VET or university in Queensland, NSW and ACT to facilitate the processing of student travel concession applications.**

This is a matter for Transport for NSW.

**15. When seeking proposals from the market in cross border regions from 2024, TfNSW should ensure that:**

- **service levels meet the need for connectivity to transport links across borders**
- **tickets cover travel across borders, and**
- **administrative arrangements facilitate sharing fare revenue with state jurisdictions.**

Refer answer to question 9 regarding a market process from 2024.

Transport for NSW has control of service planning and can ensure the service levels procured meet the need for connectivity to transport links across borders.

BusNSW supports ticketing that makes it convenient for customers who are travelling across borders. This is not directly related to the procurement of services and could be addressed sooner by Transport for NSW funding ticketing equipment that facilitates cross border travel. Transport for NSW could also make arrangements for revenue sharing with other jurisdictions.

## **Concession eligibility and fares**

### **16. TfNSW adjust the price of the RED ticket by the change in the CPI to reflect the adjustment to maximum fares and to maintain price relativities as indicated in Table 1.3.**

As outlined in its submission to the issues paper, BusNSW considers that the RED ticket price should be updated and increased in line with other fare products, to ensure that cost recovery is not eroded over time.

## **Conclusion**

BusNSW supports the draft decision to reduce the maximum level of fares and to simplify the fare structure. This is based on maintaining the existing 1.6km average sections and an implementation date that provides adequate time for software changes, driver training and a customer awareness campaign.

As outlined above, BusNSW considers that there are a number of fundamental issues with the assessment of efficient costs and recommends that IPART undertake further work to ensure there is a realistic comparison with contract costs (TfNSW payments to operators).

BusNSW recommends that further consultation is undertaken prior to the final report being released. If you would like to discuss the submission, please contact me on (02) 8839 9500.

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