



MINISTRY OF TRANSPORT

Submission to the Independent Pricing and Regulatory Tribunal on Bus Fares for 2007

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Executive Summary

1. Introduction

This submission outlines new arrangements for the provision of bus services in metropolitan and outer metropolitan Sydney, highlighting productivity and efficiency gains embedded in new funding arrangements, emerging service and performance improvements, and changes in the costs of providing these services over 2006.

For bus services in rural and regional NSW, it outlines progress made towards developing new arrangements that will optimise service delivery and viability, value for money and accountability. It highlights the diverse nature of the private bus industry and the public transport task in rural and regional NSW, making it difficult to uniformly apply any productivity adjustment.

On the basis of the information presented, recommendations for fare increases for 2007 are made.

This Executive Summary provides a high level overview of the information supporting the recommendations. More detailed analysis and information is presented in the accompanying Attachments.

2. Metropolitan & Outer-Metropolitan Bus Services

The need for new arrangements

Work done for the Ministry of Transport in 2002/03 by Booz Allen Hamilton (BAH) concluded that private bus operators in metropolitan Sydney and outer-metropolitan areas were among the most cost efficient in Australia and at least as efficient as their counterparts in New Zealand and the United Kingdom. BAH concluded there was limited potential for further gains in productive efficiency.

Further work undertaken by Indec Consulting (Indec) in 2003 confirmed that NSW private operators operate at lower unit costs than interstate private operators, with some making reasonable profits but others facing serious viability concerns. Indec also concluded that SSTS payments to operators acted as fixed subsidy for capacity but did not enable targeted or transparent funding arrangements.

Both reports indicated that any scope for efficiency gains and optimal service outcomes would need to address structural inefficiencies embedded in organisational and contractual arrangements – such as artificial pick up and set down restrictions across 87 separate contract areas and a rigid Minimum Service Level Policy applied on the basis of an out-of-date formula.

Bus Reform

To address these issues and the continued decline in patronage on private bus services, the Government commissioned a major review of bus services in 2003. The Unsworth Review of Bus Services in NSW (February 2004) verified the viability concerns facing bus services in metropolitan Sydney and outer-metropolitan areas. It also highlighted that planning, contracting and funding arrangements were not providing for optimal service outcomes, transparency or value for money.

In response, the NSW Government's bus reform program has put in place new arrangements in metropolitan Sydney and is in the process of implementing those arrangements in outer-metropolitan areas – Newcastle, Wollongong, the Central Coast, the Blue Mountains and the Lower Hunter.

The first step has involved consolidating metropolitan operations into 15 contract regions based around Sydney's regional centres and placing operators on a sustainable footing to guarantee service provision to the community.

Under the new Incentives Funding Model, operators now receive direct subsidies that cover most, but not all of their fixed and variable costs – with between 20% and 25% of payments, depending on the contract region, linked to patronage through a 'shadow' fare per boarding. Government retains the farebox, so that patronage risk is now shared between Government and operators. This means that the remuneration that bus operators receive has been decoupled from fares (except for any marginal price elasticity impacts).

Attachment 1 to this submission sets out how these new funding arrangements operate to provide for greater transparency, targeted subsidies, sustainable returns and the appropriate indexation of relevant costs. It highlights that the process for negotiating new contracts ensured that existing productive efficiencies provided the basis for, and have been embedded in, these new arrangements. Notwithstanding, these new arrangements have required additional Government funding of \$70 million to ensure the viability of private metropolitan bus operations and ongoing service provision.

This sound financial underpinning has enabled structural and organisational inefficiencies to be addressed. Because of:

- larger and fewer contract regions;
- a partnership approach to service planning;
- more flexible service planning guidelines; and
- contractual requirements for regular service reviews and community consultation;

integrated service networks are now being developed. Supported by improvements in bus priority measures on Sydney's 43 strategic bus corridors, these integrated networks are being rolled out between 2006 and 2009 and will deliver Sydney a modern bus system.

Contract arrangements now include 7 year terms, a stronger customer focus, greater accountability and clear performance and reporting requirements, following which Government has the option of letting new contracts via a competitive process.

Improvements in performance

On a range of indicators, the new arrangements have already started to deliver improvements in service performance and outcomes for customers in metropolitan Sydney, including:

- Fairer Fares – bringing the single cash fares charged on Sydney Buses and private metropolitan services into line and the expansion of the \$2.50 PET and other concessions for all day travel on bus, rail and certain Government ferry services in metropolitan Sydney and outer-metropolitan areas.
- Upgrades to fleet, including a significant vehicle replacement and refurbishment schedule that will modernise the fleet, improve service quality and ensure that standards under the Commonwealth's Disability Discrimination Act are met in the required timeframe.
- The improved ability to increase capacity in response to demand, with additional buses already provided on major corridors such as the M2.
- Improved customer focus and community accountability through requirements that operators publish Passenger Relations and Accessible Transport Action Plans, participate in the 131 500 Transport Infoline, report publicly on performance, and consult on service reviews and changes.
- Performance reporting against clear KPIs, meaning that performance requirements are able to be monitored and enforced.
- The development and roll out of service networks, supported by bus priority, that better meet passenger needs and provide for higher frequency and more reliable services along strategic corridors.

Information about service improvement initiatives and performance against KPIs for services now operating under the Metropolitan Bus System Contracts (MBSCs) is contained in Attachments 2 and 3 to this submission.

With the implementation of new contracts in outer-metropolitan areas, these initiatives will be progressively be rolled out across outer-metropolitan areas from 2007.

In regard to proposals for outer metropolitan fares, including Newcastle Buses' time-based fares, experience with the metropolitan bus reform process has highlighted the value of a staged implementation of new arrangements. In light of this, the short term focus for outer metropolitan bus services will be on bedding down new contracting, funding and planning arrangements. Any future proposals for outer metropolitan fares will be considered further down the track, aligned with IPART fare processes.

Information on Newcastle Buses' Key Performance Indicators is at Attachment 4 to this submission.

Changes in costs

There are two key changes in costs over the period since 30 June 2005 – fuel and labour costs.

Fuel costs have increased significantly, up a total of 14.03% between 1 July 2005 and 30 June 2006 as a result of global movements in oil prices. In real terms, this equates to a cumulative increase of 8.9% over that period.

From 1 July 2005, all private bus drivers in metropolitan Sydney and outer-metropolitan areas became eligible for a wage increase totalling 19% over three years. This comprised a base wage increase of 12% and a 7% Bus Industry Reform Allowance.

This wage increase reflects changes to work practices because of the bus reform process and the key role drivers play in delivering good service outcomes. It also recognises that drivers in the private sector were substantially under-remunerated compared to their counterparts employed by the Government provider and it was becoming increasingly difficult to attract and retain skilled drivers.

Further detail on cost increases is at Attachment 5 to this submission.

Sydney and Newcastle Buses

The new contracts provide for more consistent arrangements between Sydney and Newcastle Buses and private operators. While cost efficiency improvements have been made, the Ministry and the NSW Treasury are working with State Transit to establish efficiency targets. These targets will be informed by benchmarked efficient private sector operating costs, while recognising that Sydney Buses operates in a more congested environment and both operations have additional reporting and other requirements as government entities.

Notwithstanding, Sydney Buses' higher patronage levels – due, in part, to its 'network' approach to service delivery – means that it is currently comparable with private sector services on a total cost to Government basis. Sydney Buses receives about 59% of the total subsidies while holding 55% of total metropolitan bus fleet and providing 57% of the bus kilometres. Private operators operate 45% of the fleet and provide 43% of the bus kilometres while accounting for about 41% of the total cost to Government of metropolitan Sydney services.

It should also be noted that in the past year, at no additional cost to Government, Sydney Buses has introduced extra services in response to increased patronage demand due to rising petrol prices.

Summary

In determining appropriate fares, IPART must take into account a range of factors, including the cost of providing the services.

While new funding arrangements for metropolitan Sydney and outer-metropolitan operators are based on efficient unit operating costs, the Ministry notes that the bus reform process injected additional funding of \$70 million into metropolitan Sydney alone. This:

- recognised that, even while operating at efficient costs, the existing levels of remuneration were insufficient to maintain viable operations; and
- made transparent the level of subsidies required to operate the services under the existing structural constraints.

In view of:

- the service and structural efficiency improvements that have been achieved to date and will continue to be achieved over the first 7 years of the new contracts;
- the fact that new contract arrangements have captured the high levels of productive efficiency achieved by the private bus sector in metropolitan areas; and
- increases in delivery costs, particularly fuel and labour;

the Ministry of Transport seeks an increase in fares.

While it is likely service improvements and demonstrated efficiency in operating costs may justify an increase above CPI, to ensure services remain affordable for passengers in the current climate of increased costs to consumers across the board and recent increases in interest rates, the Ministry supports an increase in line with the CPI.

The Ministry notes that the overall increase in the costs of providing the services will be off-set to some degree by the service improvements and structural efficiencies outlined above, which should attract additional users to the network as they are rolled out.

3. Rural & Regional Bus Services

Developing new arrangements

With new contracts in place in the 15 metropolitan Sydney contract regions and negotiations well underway for the Outer-Metropolitan Bus System Contracts (OMBSCs), in February 2006 the Minister for Transport established a joint Ministry/industry Taskforce to develop options for improved planning, funding and contracting arrangements in rural & regional areas. The

Taskforce's role has been to identify and consider options that best meet Government's objectives which are to ensure that:

- The arrangements for bus services are transparent and accountable;
- Bus services are viable and sustainable, delivering value for money; and
- The community is getting the best possible services for the subsidies the taxpayer is providing, with the guarantee of continuity of essential services.

The Taskforce is due to report to the Minister in late August, after which potential new arrangements will be tested against existing arrangements in a series of "desktop" trials in selected locations across NSW. This will include consideration of funding model options and efficiencies/enhanced service provision from "optimised" service networks.

It is anticipated the arrangements that best deliver the Government's policy objectives for rural & regional bus services will be progressively rolled out from 2008.

As with the metropolitan Sydney and outer-metropolitan bus reform process, a key step will involve analysing the actual costs of providing services in different locations and circumstances across rural and regional NSW. This will enable any existing productive efficiencies to be captured, inefficiencies identified, and differences in costs across different operations understood. Whatever the eventual funding model (or models) for rural & regional bus services, this exercise will ensure that it reflects benchmark efficient costs and is suitable to a range of different operating environments.

Productivity adjustments prior to the roll out of bus reform

While supporting in principle the need to take productivity gains into account when establishing the real costs of providing services, the Ministry has a number of concerns with implementing, in the short term, an across the board productivity discount for rural & regional bus services:

- First, there is a lack of robust data available to quantify, with any degree of accuracy, the extent of any productivity savings in the rural & regional private bus sector.
- Second, the diversity of business operations, operating environments and cost structures in the rural & regional bus industry is such that some operators may not be able to sustain an across the board discount on their costs.

These issues are discussed in detail in Attachment 6 to this submission.

Summary

The Ministry supports a process that will allow productivity and efficiency savings realised in some sections of the industry to be captured but that will

not jeopardise the viability of others. This requires the completion of the detailed work underpinning the rural & regional bus reform process.

On this basis, the Ministry supports increases in fares for rural & regional “commercial” services in line with the Bus Industry Cost Index as submitted by the BCA and verified by IPART.

The Ministry supports increases in payments for rural & regional “non-commercial” services in line with the PwC model as submitted by the BCA and verified by IPART.

4. Recommendations

Recommendation 1

The Ministry recommends that IPART approve a fare increase for Sydney metropolitan bus services in keeping with the CPI, incorporating:

- Single cash fares;
- Sydney Buses ‘multiple ride’ tickets;
- Sydney Buses/Sydney Ferries two mode TravelPasses with the ‘Blue’, ‘Orange’ and ‘Two Zone’ Travelpasses rising by \$1.00, the ‘Pittwater’ Travelpass by \$2.00 and the Bustripper by \$0.40; and
- Sydney Buses Sports Special and School Term Pass tickets.

Recommendation 2

The Ministry recommends that IPART approve a fare increase for outer metropolitan bus services provided by private operators in keeping with the CPI. This also includes Newcastle Buses time-based fares.

Recommendation 3

The Ministry recommends that IPART approve a fare increase in keeping with CPI on Stockton Ferry service fares.

In seeking an increase in keeping with CPI, the Ministry notes that, with the effect of rounding, some fares may increase by slightly more than the CPI and others by slightly less than CPI. The Ministry considers that in applying a CPI increase, all fares should approximate CPI with average increase across all fare bands not exceeding CPI.

Recommendation 4

The Ministry recommends that IPART:

- provide advice on fare increases for services provided by rural & regional bus operators under “commercial” contracts in accordance

with movements in the Bus Industry Cost Index (as verified by IPART);
but

- not apply any productivity adjustment in relation to the above, in light of the potential adverse impact of such an adjustment on some operators' viability and the continuity of services, and in view of the fact that the bus reform process currently underway will provide a basis for accurately assessing productivity gains.

Recommendation 5

The Ministry recommends that IPART provide advice on suitable increases to payments to "non-commercial" operators, in accordance with the increase sought by the BCA, subject to IPART's satisfaction that the increase sought reflects actual movements in costs.

Recommendation 6

The Ministry intends to make an adjustment to:

- Half Fare Concession and SSTS payments made to operators under the old "commercial" contracts; and
- payments made to "non-commercial" operators under the PwC model, also backdated to 1 July 2006;

backdating an appropriate increase to 1 July 2006. It would be appreciated if IPART could recommend the quantum of the increase should be applied to these payments.

In making a recommendation on the amount of any increase to "commercial" and "non-commercial" operators that should be applied from 1 July 2006, IPART should take into account compensation already made for:

- increases in wages and on-costs (for "commercial" operators); and
- increases in wages and on-costs as well as indexation on fuel (for "non-commercial" operators).

Attachments

Attachment 1: Developing new funding arrangements for metropolitan Sydney & outer-metropolitan services

1.1 Establishing efficient costs

As a first step in establishing the productive efficiency of metropolitan bus services, in 2002/03 Booz Allen Hamilton undertook a study based on:

- a Total Productivity Factor Analysis originally prepared by the University of Sydney's Institute of Transport and Logistics Studies (ITLS) in 1994 and updated; and
- a Bus Cost Efficiency Benchmarking Study conducted by Taverners Research.

This work concluded that the private "commercial" operators in metropolitan Sydney and outer-metropolitan areas were among the most cost efficient in Australia and at least as cost efficient as their counterparts in New Zealand and the United Kingdom.

The next step in the process involved a comprehensive survey of individual bus operators' historical costs and then benchmarking that data against national and international comparators. While participation was voluntary and not all operators were involved, this work, undertaken in 2003 by Indec, confirmed the findings of the BAH study.

As a proxy for tenders on new MBSCs, Indec with SAHA International (the Ministry of Transport's financial advisers to the bus reform process) undertook a further survey of each operator's actual historical costs for 2004/05, updating the work done for the Unsworth Review. This process was repeated using 2005/06 data for outer-metropolitan areas. Any changes in costs that could not be explained were identified, explanations sought and the increase accepted or rejected as appropriate.

The financial data was then used to establish an appropriate cost base for each of the new contract regions, ensuring that the starting point for commercial negotiations on the new contracts was based on acknowledged efficient costs.

Where new region boundaries meant that an existing operator would be providing services in more than one contract region, that operator was required to disaggregate the costs of the services and apportion those costs to each of the new regions, as well as allocate a proportion of shared costs to each region.

Each operator's historical cost base was then adjusted for inflation and the Ministry of Transport's assessment of the additional costs arising out of compliance with the contract obligations. This formed an efficient cost benchmark for each region.

1.2 Establishing an appropriate return

As well as establishing benchmarks to ensure contract negotiations delivered efficient costs and value for public money in the absence of an open, competitive tender, the Ministry commissioned SAHA International to undertake a comprehensive margin benchmarking exercise.

This involved looking at margins that apply in Australia and overseas for contracts with similar risk profiles (for example: Perth, Adelaide and London) and established a margin range appropriate to the level of risk involved in the delivery of route and school services.

Taking into account revenues from other sources (like charter), the benchmarking exercise then developed an appropriate "whole of business" margin – which is what the Ministry would otherwise have expected to obtain through a competitive tendering process.

A similar exercise undertaken for the Bus & Coach Association by Sydney University's ITLS in early 2005 was consistent with the Ministry's findings.

Prior to bus reform, many operators in metropolitan Sydney were not achieving returns commensurate with market expectations. On those levels of remuneration, the ongoing viability of bus services was at risk, threatening the continued delivery of an essential public service to the community.

To complete the pre-negotiation exercise, the Ministry then established the point at which each operator should fit within the "whole of business" margin range. This involved assessing their existing levels of efficiency and profitability against a range of performance measures and ranking them accordingly. Efficiency measures were weighted at 75% – that is: 36% to Bus Hour Costs, 21% to Bus Kilometre Costs and 18% to Bus Overhead Costs – and a 25% weighting was given to profitability. The higher weighting given to efficiency recognised that bus services may not be profitable, even when operating at efficient costs.

Operators who were the most efficient within the range received margins at the higher end of the scale. Operators who were least efficient within the range received lower margins. These create the necessary incentives for those operators to improve their profitability by further tightening up their costs.

1.3 The Incentives Funding Model

Following industry submissions that a "net cost" arrangement was not sustainable in metropolitan areas – including submissions to the Unsworth

Review and the Independent Pricing and Regulatory Tribunal – the Ministry undertook a risk assessment exercise aimed at determining the risks associated with operating bus services in metropolitan areas and whether the Government or the operator was best placed to manage them.

This work found that many risks previously carried by operators are more appropriately managed by Government.

The funding model that resulted from this process – the Incentives Funding Model – is a hybrid between “gross” and “net” cost funding arrangements. Under this model, the operator receives direct subsidies covering most – but not all – of the costs of providing the services. Changes in costs are linked to specific indexation measures, so operators are only required to manage the marginal difference between the actual and indexed cost as well as any timing difference. For example:

- Fuel indexation is based on the average Mobil Reference Price – Sydney diesel for the month. Indexation is paid monthly;
- Once the award expires at the end of 2007/08, labour is indexed against a specific labour index. That is, the total hourly rates of pay (excluding bonuses) from Table 5b, March Quarter, of ABS Cat 6345.0 Transport and Storage. It is paid annually; and
- Workers’ compensation costs are indexed using the general industry weighting determined by WorkCover. Operators manage their individual claims risk.

The cost indexation approach for each item is set out in Schedule 4 (Payments) to the MBSC. A template of the contract including its Schedules and Annexures may be found at www.transport.nsw.gov.au/busreform.

To fully cover costs and achieve a commercial return, however, operators must also carry passengers, receiving a payment or “shadow” fare per boarding. These shadow fares are comprised of a proportion of the existing fares for each section travelled and are indexed by CPI. This means that Government and operators share patronage risk with operators. The shadow fare scale is set out in clause 4.1 of Schedule 4 to the MBSC.

Payments under the Incentives Funding Model are as follows:

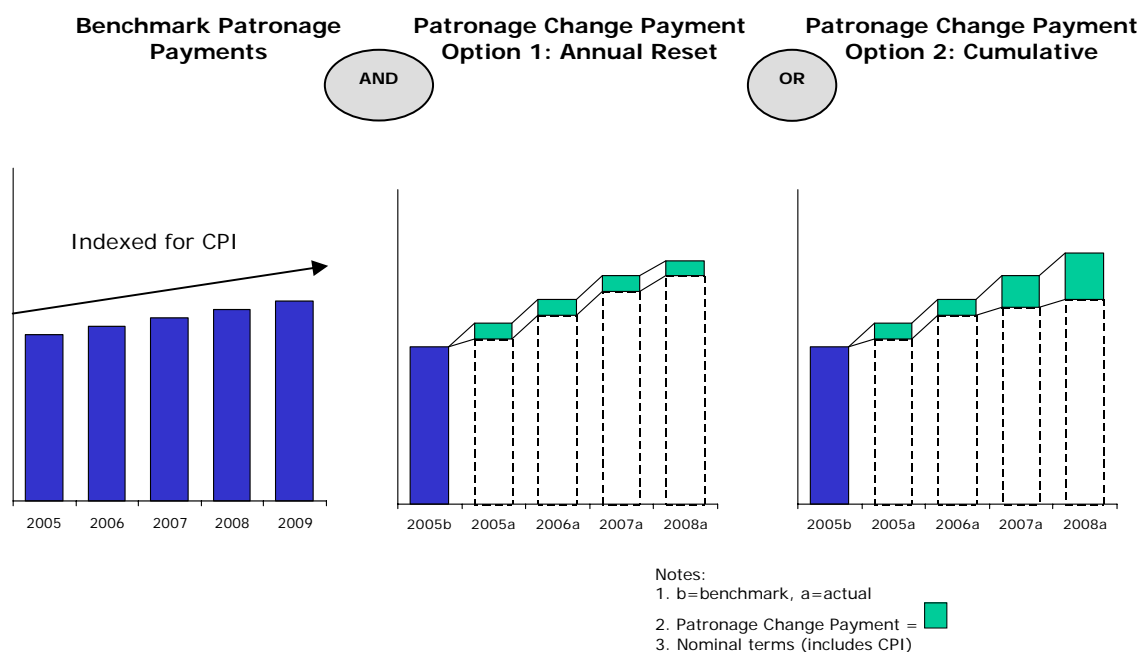
- The **Fixed Payment**, which contributes to the fixed cost of running the services, including an allowance for depreciation on existing assets (eg: vehicles and depots) and payments for new capital items approved by the Ministry;
- The **Service Payment**, which contributes to the variable costs of running the services. It is calculated by multiplying contracted service kilometres against a rate per kilometre (which covers labour, fuel, dead running and other variable costs);

- The **Patronage Payment**, which comprises a payment (or “shadow fare”) for each boarding, calculated as follows:
 - (i) The operator is paid a Patronage Benchmark Payment each month, which is initially based on the forecast in the operator’s bid (subject to the verification process); and
 - (ii) After 12 months, this benchmark rate is compared with actual patronage and the Patronage Change Payment is calculated. The operator receives additional revenue if there has been patronage growth or a payment deduction if patronage has declined.

This patronage benchmark is reset annually, limiting operators’ risk exposure to downward patronage trends. Only one region in metropolitan Sydney has elected the Cumulative Patronage Model, which works on a compounding basis. No outer-metropolitan operator has elected this model to date. (See the diagram below.)

- The Service **Quality Payment**, which comprises:
 - (i) Operational Performance Regime (OPR) payments (or penalties), designed to motivate service punctuality and reliability improvements. These payments/penalties are subject to a monthly cap, calibrated to the value of the contract. (These will not apply until the OPR is developed over the next 2 years); and
 - (ii) Service Quality Improvement (SQI) payments, designed to motivate improvements against measures other than punctuality and reliability. (SQI payments are discretionary and do not yet apply.)

The Patronage Benchmark Payment & alternative adjustment mechanisms



NOTE: The adjustment mechanism is linked to risk and to the margin paid to the operator under the contract.

Attachment 2: Metropolitan/outer-metropolitan service improvement initiatives 2005/06

2.1 Improved service planning

Integrated Networks in Sydney

A key feature of the new bus contracts is the approach to service planning. Instead of the operator determining how to provide services in each of 87 separate contract areas, the Ministry and the industry are working in partnership to design and implement new, integrated bus networks for each of the new, consolidated 15 contract regions.

Based around the 43 strategic bus corridors in Sydney, recommended by the Unsworth Review to link key regional centres with fast, frequent and reliable bus services, this means that communities will have access to a modern bus service with integrated local and trunk services.

To date:

- An integrated network has been implemented in Region 10; and
- The integrated network plan for Region 13 has been finalised.

In Region 10, the new integrated network has improved links to the regional centres of Miranda, Bankstown and Hurstville. Suburbs such as Bonnet Bay, Como, Oyster Bay, Engadine, Yarrawarrah and Loftus now benefit from a direct service to Miranda which previously did not exist. New services also respond to developments in the area by providing connections to employment, education and health facilities.

Local centres such as Sylvania, Kareela, Jannali, Sutherland, Engadine, Menai and Padstow continue to receive services, and connections to rail services at Engadine, Sutherland, Jannali and Padstow – important for city commuters – are maintained.

Fast, frequent, direct services on the strategic bus corridors – Miranda to Hurstville, Miranda to Bankstown, and Miranda to Engadine – have also been developed.

Early results show a 14% increase in patronage after the introduction of the new network in Region 10. Patronage is expected to grow as passengers become aware of the improvements to the services.

For Region 13, eight separate and disconnected collections of bus routes have been integrated into a single, coherent and cohesive network for the region as a whole. The Region 13 integrated network is scheduled for implementation in late 2006.

Work is also currently progressing on integrated network plans involving:

- Region 1 (which is centred on the regional centres of Blacktown and Penrith and also includes the centres of St Marys and Mount Druitt); and
- Region 4 (which is centred on the regional centres of Blacktown, Parramatta and Castle Hill and includes the centres of Rouse Hill, Kellyville, Dural, Baulkham Hills and Seven Hills).

These regions will share operation of the North West Transitway which runs between Parramatta and Rouse Hill along the boundary between the two regions and is scheduled to commence operation early in 2007.

The timetable for the development and implementation of integrated networks for the remaining Sydney contract regions is in the process of being developed.

Improved service planning in outer-metropolitan areas

The Ministry's newly created Network Development team is in the process of establishing a program for the commencement of the process for developing and implementing improved services in outer-metropolitan areas.

Bus Priority measures

Supporting the introduction of the new integrated service networks, the Government has committed \$135 million over three years to improving bus priority on the 43 strategic bus corridors that will link key centres across Sydney – the 'backbones' of the new networks.

Both infrastructure (from "bus only" lanes to dedicated roadways) and technology solutions (such as traffic signal priority for late running buses) are being examined to target a 25 km/hour average speed on those corridors.

Traffic congestion and other factors like dwell time at stops impact on both the cost and reliability of the services. Where a bus takes increased time to get to its destination and back, not only are trip times increased but either the next service is delayed or an additional vehicle is required to meet timetabled frequencies.

Traffic signal priority for buses has also been introduced on the Hurstville to Miranda corridor (Strategic Corridor 24) and is being implemented on the Liverpool to Bankstown corridor (Strategic Corridor 33). For example, the recently completed \$1.4 million priority measure on Corridor 24 at the intersection of Port Hacking Road and the Princes Highway enables buses to bypass traffic queues, saving up to three red light phases. This has already resulted in a 5 minute reduction in travel times.

As new integrated networks are developed and implemented over the next two years, bus priority measures will be rolled out across the remaining strategic corridors.

As the highest level of bus priority available, the Liverpool to Parramatta Transitway (LPT) also demonstrates the importance of bus priority measures in improving service reliability and overall attractiveness of the services to potential passengers.

Providing a direct service between Liverpool and Parramatta, the LPT has carried a total of 5 million passengers in its first 3 years of operation. In the last 12 months alone, it has seen patronage growth of more than 23% with 1.9 million people now making use of this service. It is estimated that this would take 23,000 car trips off the road each month.

Community consultation

A central requirement of the new contracting arrangements is that operators undertake regular service reviews and consult with the community during that process. For MBSC operators, a network review must be undertaken every 12 months.

Operators must also undertake appropriate consultation (depending on the nature and extent of the proposed change), and ensure passengers are properly advised, before changing services. Ministry of Transport approval is required for all material changes.

2.2 Fare reform

Fairer Fares – Metropolitan Sydney

Private bus fares fell by a weighted average of over 5% from 4 January 2005 to 'harmonise' with the fares charged by Sydney Buses.

For the first time, all bus passengers in the Sydney metropolitan area were paying the same fare for the same distance travelled.

In addition, under the new contracts, consistent concession fare entitlements are now available across Government and private service providers for pensioners and other approved beneficiaries. This includes the availability of the Pensioner Excursion Ticket (PET) and extending half fare concessions so it is available to apprentices and trainees and to tertiary students over 30. Under the new arrangements, it may be used by tertiary students for discretionary travel (not just travel to or from classes).

As a result, it is estimated that concession travel on private buses in metropolitan Sydney increased by about 30% in 2005/06.

Fairer Fares – Outer-metropolitan areas

In September 2005, the PET was introduced on outer-metropolitan bus services, meaning that pensioners and seniors now have access to all day travel for \$2.50 across the CityRail, bus and Government ferry services.

School Tcard

As the first stage in the Tcard project and to test its capabilities, SSTS Tcard was installed on buses in metropolitan Sydney and outer-metropolitan areas to record boardings and assist with the development of the Tcard system.

Verification processes are showing a high correlation between boardings recorded by the Tcard system and manual counts where business rules are properly followed. This is helping to inform the further development of the Tcard project.

2.3 Passenger relations & information

Central to the new, performance-based contracts are the Key Performance Indicators and reporting requirements that enable the Ministry to monitor how operators are performing against those KPIs.

Business and other plans

To ensure operators are focussed on achieving their performance requirements, and demonstrate how they will deliver against their KPIs, the new contracts require operators to develop, publish and comply with:

- A Passenger Relations Plan to improve the interaction between operator staff and their customers;
- An Accessible Transport Action Plan to provide strategies to remove access barriers for people with disabilities. This includes strategies for compliance with the requirements of the Commonwealth's Disability Standards for Accessible Public Transport (the Disability Standards);
- An Environmental Plan to develop a cleaner metropolitan bus fleet. This includes requirements to participate in the RTA's Clean Fleet vehicles maintenance program and train drivers in eco driving techniques; and
- A Revenue Protection Plan to ensure that Government's investment in services on behalf of taxpayers is protected.

These plans, for the most part, are still under development. Moving from the former arrangements to performance based contracts with measurable KPIs is a significant cultural shift for the industry and the Ministry has been working with operators and the BCA to help them meet these new requirements. When completed, however, they will be published on each operator's website.

Centralised and consistent transport information

Operators are now required to provide the Ministry and the 131 500 Transport Infoline with changes to timetables before they are implemented so there is a centralised point of reliable information about bus services across the network, allowing private bus users to access the full trip planning functionality.

The accuracy of this service is being further improved as new network plans are developed.

The new contracts also require operators to use a template for timetable information, so there is a consistent approach across all services. Timetables will use standardised formats and iconography and must also indicate the services on which there are low floor, accessible buses.

These templates are in the final stages of development and are expected to be introduced later in 2006. They will be phased in as existing stock is exhausted.

Operational Performance

Operators will be required to report to the community on their performance under the Operational Performance Regime (OPR).

The OPR measures the punctuality and reliability of services using the Bus Management and Priority System, which is linked to the bus priority technologies. It is currently being developed, in consultation with the industry, with a data collection phase based on operator inputs to establish performance benchmarks.

Operators will also be required to publish the results of any passenger satisfaction surveys undertaken by the Ministry as part of the regime for auditing performance under the new contracts.

Attachment 3: Performance of metropolitan bus services against key indicators

Current indicators collected by the Ministry of Transport under new bus service contracts only include figures for metropolitan Sydney operators. Negotiations are still underway for contracts in the outer-metropolitan areas and it is anticipated that this process will be complete by the end of 2006.

As all metropolitan Sydney regions were not operating under the new MBSCs until October 2005, a useful comparison of indicators can only be made from November – the first full month of the operation of the new contracts. Accordingly, all tables and figures show figures for the nine month period November 2005 to June 2006.

3.1 Patronage and farebox revenue

Patronage data shows that over the first 8 months of the MBSC there has been an overall increase in patronage between the 4 months from November 2005 to February 2006 and the 4 months from March 2006 to June 2006. Some of this increase is explained by the seasonal patronage spike which generally happens in March when schools and universities return and commuters go back to work after the Christmas break (see Table 1).

Table 2 also shows an overall increase in farebox revenue between the 4 months from November 2005 to February 2006 and the 4 months from March 2006 to June 2006.

There is no available patronage or farebox data for 2004/05 against which these patronage trends can be assessed. While some data for 2003/04, collected as part of the financial survey process prior to the metropolitan Sydney contract negotiations, is available, it is also not able to provide a useful comparison for the 2005/06 figures.

This is because for 2003/04, the different operators each had different ticketing systems and different ways of treating passenger boardings. Sydney Buses and some private sector operators captured actual boardings each time periodicals like weekly tickets and the Pensioner Excursion Ticket were used. Others only captured initial boardings.

For the purposes of assessing patronage trends under the new contracts prior to the full roll out of Tcard, which will allow actual boardings to be captured across the entire network, both private bus operators and Sydney Buses are currently reporting on the basis of initial boardings only.

This means that the 2003/04 and the 2005/06 patronage data is not readily comparable.

However, an indicative comparison of farebox revenue derived over a nominal 8 month period in 2003/04 and farebox revenue reported for 2005/06 shows a 9% increase in total revenue. This is set out in Table 3.

With the introduction of the Government's Fairer Fares policy in 2004/05 – under which an increase in fare revenue in Sydney Buses areas offset a decrease in fares in private bus areas – it was expected that there would be patronage increases but that farebox revenue overall would remain steady.

The expansion of the \$2.50 Pensioner Excursion Ticket to areas serviced by private sector operators, which happened at the same time, was also expected to increase patronage but cause a fall in overall revenues as concession travellers transferred to the cheaper ticket.

The increase in farebox revenue in real terms suggests an overall increase in patronage between 2003/04 and 2005/06. This conclusion is supported by reports from operators as follows:

- Region 10 (Southern Sydney, operated by Veolia) is reporting an 8.5% increase across the Region;
- Region 14 (Northern Sydney, operated by Forest Coachlines) is reporting an 8% increase across the Region and a 20% increase on City services;
- Region 4 (North West Sydney, operated by Hillsbus) is reporting a 22% increase on its M2 (North West – CBD) services;
- Regions 6, 7, 8 and 9 (Lower North Shore, Inner West and Eastern Sydney, operated by Sydney Buses) reported patronage on mature corridors such as Military Road, Epping Road, Crown Street and Lane Cove increased between 5.1% and 8.8%; and
- The Liverpool to Parramatta Transitway (operated by Western Sydney Buses) increased patronage by 23% in the last 12 months alone.

This is a significant result, given that private sector bus patronage has been in decline since 1990.

Table 1: Patronage trends over the first 8 months of the MBSC

	Nov-05	Dec-05	Jan-06	Feb-06	Ave Pax (4 mths)
Total Private	2,958,357	2,775,556	2,498,145	2,733,180	2,741,310
Total STA	8,443,294	8,174,952	7,917,466	7,945,784	8,120,374
All Operators	11,401,651	10,950,508	10,415,611	10,678,964	10,861,684

	Mar-06	Apr-06	May-06	Jun-06	Ave Pax (4 mths)	Ave Pax Change %
Total Private	3,325,102	2,632,396	3,166,925	2,783,805	2,977,057	8.60%
Total STA	9,381,649	7,808,227	8,788,493	7,883,487	8,465,464	4.25%
All Operators	12,706,751	10,440,623	11,955,418	10,667,292	11,442,521	5.35%

NOTE: Counts initial boardings only, excludes free travel under the SSTS

Table 2: Farebox trends over the first 8 months of the MBSC

	Nov-05	Dec-05	Jan-06	Feb-06	Ave. Revenue
Total Private	4,922,055	4,427,470	4,247,313	4,646,266	4,560,776
Total STA	17,938,405	20,638,292	16,723,925	16,796,483	18,024,276
All Operators	22,860,460	25,065,762	20,971,238	21,442,749	22,585,052

	Mar-06	Apr-06	May-06	Jun-06	Ave. Revenue	Average change %
Total Private	5,486,438	4,218,764	5,301,262	5,077,953	5,021,104	10.09%
Total STA	19,590,074	16,553,233	19,373,947	17,760,538	18,319,448	1.64%
All Operators	25,076,512	20,771,997	24,675,209	22,838,490	23,340,552	3.35%

Table 3: Farebox revenue changes between 2003/04 & 2005/06

Total Farebox Revenues: 2003/04 & 2005/06	12 months 2003/04*	Nominal 8 months (2003/04)	8 months MBSC	\$	%
	252,496,274	168,330,849	183,702,417	+15,371,568	+9%

* Source: INDEC 3 financial survey of metropolitan Sydney operators. Excludes free travel under the SSTS

3.2 Bus kilometres

Comparing the first four months of the operation of the MBSC with the next, bus kilometres travelled also increased over the eight month period to 30 June 2006.

For private operators in metropolitan Sydney, the average rise in bus kilometres was 3.52%, which is likely to be attributable to increased services to meet demand on key corridors like the M2.

Comparing bus kilometres between 2003/04 and 2005/06 there has been a slight decrease, which is expected with network efficiency improvements offsetting service increase on key corridors (see Table 5).

Table 4: Bus Km trends over the first 8 months of the MBSC

	Nov-05	Dec-05	Jan-06	Feb-06	Ave. KM (4 mths)
Total Private	3,626,330	3,364,014	3,454,128	3,328,592	3,443,266
Total STA	4,930,094	4,794,163	4,720,157	4,534,576	4,744,748
All Operators	8,556,424	8,158,177	8,174,285	7,863,168	8,188,014

	Mar-06	Apr-06	May-06	Jun-06	Ave. KM (4 mths)	Ave. Change %
Total Private	3,780,022	3,113,071	3,802,002	3,563,394	3,564,622	3.52%
Total STA	5,112,175	4,416,333	5,093,873	4,457,162	4,769,886	0.53%
All Operators	8,892,197	7,529,404	8,895,875	8,020,556	8,334,508	1.79%

Table 5: Changes in Bus Kilometres between 2003/04 and 2005/06

Total Bus Kilometres (including dead running, excluding SSTS services)	12 months 2003/04*	Nominal 8 months (2003/04)	8 months MBSC	\$	%
	100,595,136	67,063,424	66,090,086	- 973,338	-1.4%

*Source: Indec 3 financial survey of metropolitan Sydney operators.

3.3 Fleet upgrades

Improvements to vehicles and the fleet

The new contract specifies, as a base minimum, that all new buses be airconditioned and accessible, meaning a considerable improvement to the quality of the services being delivered to passengers. These buses:

- make it easier for mobility impaired passengers to board and alight, as well as move into the bus to a seat;
- are capable of accommodating wheelchairs with special boarding ramps;
- make it easier for passengers with young children and strollers; and
- improve passenger comfort.

International research indicates that low floor buses have loading rates of between 15% and 25% faster than conventional buses, with a State Transit study of selected Sydney CBD stops showing a 10% improvement in boarding times. Upgrading the fleet to low floor, accessible buses should, therefore, have a flow on effect to trip times and service reliability.

As set out in Table 6 below, there were some 1,360 vehicles in the private sector fleet at the commencement of the new contracts.

Over the 7 year term of the MBSC, private bus operators are forecasting to replace approximately 480 buses or 35% of their vehicles. In addition, private operators are committed to refurbishing 560 existing buses (41% of total private metro fleet) over the next 7 years. These refurbishments cover interior, exterior and mechanical upgrades, improving passenger amenity.

In the same timeframe, Sydney Buses is scheduled to refurbish 565 (34%) of their existing 1,674 buses and replace 674 (40%).

In the period from the commencement of the new contracts to 30 June 2005, 131 refurbishments were carried out in accordance with the requirements of the contracts and a further 245 are scheduled for the period 1 July 2006 to 30 December 2007.

To date, some 179 vehicles have been purchased to replace vehicles scheduled to retire and a further 215 are forecast to be replaced in the period from 1 July 2006 to 30 June 2007 as part of the planned fleet replacement

schedule. With approved additions to the fleet to date period to accommodate growth, more than 50% of the fleet will be airconditioned and accessible by the end of 2007.

Prior to the new contracts – which commenced between January 2005 and October 2005 – only 16% of the private bus fleet complied with the requirements of the Disability Standards.

Finally, under the new contracts, a maximum age of 25 years has been introduced and is being phased in over the 7 year term of the contract. The average fleet age requirement of 12 years is being retained to ensure that fleet replacement is maintained on a regular basis.

Table 6: Bus refurbishment and replacement schedule – MBSC

Operator	Existing Fleet: Contract Start	Existing Fleet: DDA Compliant	Buses Replaced by Dec 07	Buses Replaced in 05/06	Buses Replaced in 06/07	Buses Replaced over 7 years	Bus Refurbs by Dec 07	Bus Refurbs in 05/06	Bus Refurbs in 06/07	Bus Refurbs over 7 years
All	2,984	845	462	179	215	1,082	376	131	157	1,069
STA	1,674	624	243	113	90	607	212	84	84	565
Private	1,310	221	219	66	125	475	164	47	73	504

Table 7: Scheduled DDA compliance – MBSC fleet

Operator	Existing Fleet: Contract Start	No Buses DDA Compliant at start	% DDA Compliant at Contract Start	Buses replaced by Dec 07	No Buses DDA Compliant at Dec 07	% DDA Compliant at Dec 07
Private	1,310	221	17%	219	440	33%
STA	1,674	624	37%	243	867	51%
All	2,984	845	29%	462	1,307	44%

Source for tables 6 & 7: Metropolitan Bus Service Contract Financial Templates – SAHA International.

3.4 Customer Feedback and Complaints

Under the new contracts, operators are obliged to participate in the Integrated Transport Information System (ie: the 131 500 Transport Infoline) for customer feedback and complaints handling.

Currently, Sydney Buses uses 131 500 for complaints registration and handling, while private sector operators are continuing to use their own systems as well as 131 500. This means that complaints about private bus services are not yet completely transparent to the Ministry, including measures such as response times.

A common system is currently being developed and all operators will be required to use it.

Feedback data received through 131 500 and private bus operators' systems to date shows the following were the main areas of customer complaints:

- The bus was late (7,044 complaints or 24.8%);
- The driver missed a stop (4,165 complaints or 14.7%)
- The driver was rude (3,573 complaints or 12.6%); and
- Dangerous driving (2,972 complaints or 10.4%).

Full results are set out in Table 8 below. A year-on-year trend analysis will be possible in the subsequent years of the MBSCs.

Table 8: Customer feedback – 131 500 and self reported

Feedback type	Jul 05	Aug 05	Sep 05	Oct 05	Nov 05	Dec 05	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06	Overall Result
Compliment	94	107	116	97	116	92	92	102	136	104	128	142	1326
Staff/Driver Rude	251	314	269	270	330	262	227	388	399	247	345	271	3573
Staff/Driver Unhelpful	11	28	14	12	18	21	17	22	22	11	25	24	225
Dangerous Driving	205	275	275	286	284	247	179	172	349	193	291	216	2972
Felt Unsafe	47	68	57	36	63	52	28	52	62	45	50	53	613
Ticket Dispute	72	85	60	68	63	62	83	102	83	69	85	75	907
Bus Early	112	120	127	118	126	95	129	111	123	131	134	112	1438
Bus Late	478	636	513	457	574	547	317	756	1023	532	671	540	7044
Missed Stop	324	339	305	344	301	285	279	475	446	333	389	345	4165
Overcrowded	17	23	26	39	32	36	25	114	123	45	49	42	571
Running Wrong Route	32	62	34	48	50	47	26	62	74	39	49	49	572
Bus Dirty	13	9	13	9	11	40	8	6	6	9	13	11	148
No Seats	7	24	5	9	9	3	2	33	28	6	26	18	170
Noisy/Unruly Students	16	36	18	25	20	10	17	28	31	9	29	17	256
Bags	0	3	0	0	2	0	0	0	2	1	1	0	9
Bus Shelter Inadequate	15	76	34	20	39	33	32	45	34	16	21	19	384
Shelter No Seating	0	0	0	2	0	0	1	0	1	0	0	0	4
Shelter Not Provided	0	0	1	0	1	1	0	1	0	1	0	0	5
Timetable	107	147	114	186	194	137	124	231	289	131	184	157	2001
Other	92	104	146	124	154	164	144	229	234	158	211	179	1939
Total Feedback	1893	2456	2127	2150	2387	2134	1730	2929	3465	2080	2701	2270	28322

3.5 Performance against Key Indicators: Summary

The following Tables 9 - 11 summarise average monthly results for the period from October 2005 to June 2006 against Key Performance Indicators. This data will provide the benchmark for assessment of future performance.

The following assumptions apply to the data:

- The "Average" figure is calculated across a full 12 months.
- Figures exclude GST.
- * Denotes some data is based on self reporting.

Table 9: All Operators

KPI	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Revenue per klm	\$2.63	\$2.67	\$3.07	\$2.57	\$2.73
Pax per klm	1.34	1.33	1.34	1.27	1.36
Revenue per pax	\$1.97	\$2.01	\$2.29	\$2.01	\$2.01
Revenue per trip	\$36.71	\$35.94	\$41.00	\$34.10	\$36.10
*On time running	99.80%	99.70%	99.70%	99.80%	99.60%
*% trips cancelled/missed	0.04%	0.06%	0.02%	0.05%	0.04%
*Complaints per 100,000 Pax	21.24	21.74	20.62	17.16	29.92

KPI	Mar-06	Apr-06	May-06	Jun-06	AVERAGE
Revenue per klm	\$2.82	\$2.76	\$2.77	\$2.85	\$2.82
Pax per klm	1.43	1.39	1.34	1.33	1.34
Revenue per pax	\$1.97	\$1.99	\$2.06	\$2.14	\$2.13
Revenue per trip	\$37.79	\$36.54	\$37.24	\$37.97	\$39.02
*On time running	99.60%	99.70%	99.60%	99.70%	99.70%
*% trips cancelled/missed	0.06%	0.03%	0.03%	0.04%	0.05%
*Complaints per 100,000 Pax	28.9	20.89	24.43	23.3	23.88

Table 10: Sydney Buses only

KPI	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Revenue per klm	\$3.50	\$3.64	\$4.30	\$3.54	\$3.70
Pax per klm	1.71	1.71	1.71	1.68	1.75
Revenue per pax	\$2.05	\$2.12	\$2.52	\$2.11	\$2.11
Revenue per trip	\$44.18	\$45.78	\$54.72	\$45.02	\$46.93
*On time running	99.84%	99.75%	99.72%	99.81%	99.68%
*% trips cancelled/missed	0.05%	0.08%	0.02%	0.04%	0.05%
Complaints per 100,000 Pax	22.6	23.25	22.9	18.92	32.37

KPI	Mar-06	Apr-06	May-06	Jun-06	AVERAGE
Revenue per klm	\$3.83	\$3.75	\$3.80	\$3.98	\$3.78
Pax per klm	1.84	1.77	1.73	1.77	1.7
Revenue per pax	\$2.09	\$2.12	\$2.20	\$2.25	\$2.23
Revenue per trip	\$48.28	\$47.84	\$48.03	\$49.57	\$49.59
*On time running	99.67%	99.80%	99.80%	99.79%	99.77%
*% trips cancelled/missed	0.09%	0.04%	0.05%	0.06%	0.06%
Complaints per 100,000 Pax	32.36	23	25.86	24.95	25.8

Table 11: Private Buses only

KPI	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06
Revenue per klm	\$1.32	\$1.36	\$1.32	\$1.23	\$1.40
Pax per klm	0.79	0.82	0.83	0.72	0.82
Revenue per pax	\$1.68	\$1.66	\$1.60	\$1.70	\$1.70
Revenue per trip	\$22.00	\$20.15	\$18.90	\$17.44	\$19.69
*On time running	99.60%	99.54%	99.66%	99.86%	99.54%
*% trips cancelled/missed	0.01%	0.04%	0.01%	0.06%	0.01%
*Complaints per 100,000 Pax	16.86	17.44	13.91	11.57	22.79

KPI	Mar-06	Apr-06	May-06	Jun-06	AVERAGE
Revenue per klm	\$1.45	\$1.36	\$1.39	\$1.43	\$1.36
Pax per klm	0.88	0.85	0.83	0.78	0.8
Revenue per pax	\$1.65	\$1.60	\$1.67	\$1.82	\$1.69
Revenue per trip	\$21.29	\$18.96	\$20.45	\$20.89	\$19.66
*On time running	99.51%	99.67%	99.37%	99.51%	99.59%
*% trips cancelled/missed	0.02%	0.01%	0.01%	0.01%	0.02%
*Complaints per 100,000 Pax	19.13	14.63	20.46	18.61	16.81

Attachment 4: Newcastle Buses' KPIs

The table below provides details of Newcastle Buses' customer-related KPIs and performance against these targets over the past five years. The table shows that:

1. On-time running and service reliability continues to track ahead of target.
2. Bus mechanical and traffic reliability is better than target levels.
3. Passenger safety incidents have improved over the past two years.
4. Customer complaints have reduced significantly.
5. Wheelchair accessible buses now exceed one quarter of the total Newcastle bus fleet.

Table 12 - Newcastle Buses Customer-Related KPIs

KPI and (Target)	2001/02	2002/03	2003/04	2004/05	2005/06
Reliability					
On-time running (>95%)	96.6%	96.1%	97.9%	98.0%	98.5%
Service reliability (>99%)	99.6%	99.4%	99.4%	99.9%	99.9%
Mechanical reliability (<15 bus changeovers/100,000 km)	14.1	14.9	12.6	12.3	9.2
Traffic reliability (accidents) (<4 changeovers/100,000 km)	2.3	2.3	2.3	2.2	1.9
Safety (per million trips)					
Safety Incidents (<2.0)	1.71	1.66	2.18	1.90	1.78
Security Incidents (<0.5)	0.22	0.22	0.23	0.30	0.19
Comfort					
Average Bus Age (<12 years)	14.1	14.9	12.6	12.6	12.8
Convenience					
Total kilometres (000kms)	9,141	8,381	8,367	8,236	8,232
Customer Service					
Complaints per 100,000 trips (<15)	16.7	11.5	6.6	6.4	2.3
Accessibility					
Wheelchair accessible (% of fleet)	0	1.6	17.8	21.5	25.4

Attachment 5: Major cost increases

5.1 MBSC and OMBSC services

Fixed and Service Payment Cost Multipliers

As noted in Attachment 1, under the new contracts costs are indexed according to a set of indexes set out in the contract. These are used to establish a “multiplier” for the payment categories.

The basket of costs comprising the Fixed Payment is adjusted by the Fixed Cost Index Multiplier. This multiplier is different in each Region, but averages at 1.0319 (or 3.19%) for 2006/07 payments under the new contracts in metropolitan Sydney. The basket of costs comprising the Service Payment is adjusted by the Variable Cost Index Multiplier. For 2006/07 payments this averages at 1.0359 (or 3.59%).

Fuel

Under new arrangements, operators receive monthly indexation on fuel costs so are protected against both the cost increase and the cash flow impacts of timing between paying increases in fuel costs and receiving indexation. This means fuel risk now resides with Government.

Fuel indexation is a special payment in the Service Payment category. As noted above, fuel indexation based on the average Mobil Reference Price – Sydney diesel for the month. In the period from July 2005 to June 2006, the cost of fuel rose 14.03%. In real terms, this represents a cumulative increase of 8.9%, over that period.

In making its fare determination for 2007, the Ministry asks IPART to note the increase in fuel costs over the period from October 2005 to June 2006 and the likelihood that fuel costs are likely to remain at this level for the foreseeable future.

Finance and vehicle costs

Vehicle costs have remained stable at approximately \$400,000 for a standard bus, but the Commonwealth 10 year Bond Rate increased during the period from 1 July 2005 to 30 June 2006 from 5.050% to 5.770%.

This impacts on the New Fleet Periodic Payment, under which vehicles are funded by way of a straight line depreciation over 15 years with a finance component. The finance rate is locked in and indexed by the Commonwealth 10 year Bond Rate.

People costs

In 2005, the NSW Industrial Relations Commission granted drivers employed in the metropolitan and outer-metropolitan areas a 19% pay increase over three years.

This increase comprised a 12% increase in base wages, paid in three tranches of 4% from 1 July 2005, 1 July 2007 and 1 July 2008 and a 7% Bus Industry Reform Allowance paid in three tranches of 3%, 2% and 2%. In metropolitan Sydney, drivers became eligible for the first 3% tranche of the payment from 1 April 2005. Outer-metropolitan drivers became eligible for the first 3% tranche from 1 April 2006. The second and third tranches of 2% are payable from 1 July 2006 and 1 July 2007 for drivers in both areas.

The Bus Industry Reform Allowance recognised significant differences in work practices for drivers employed in the private sector, brought about by bus reform and that the smooth implementation of key parts of the reform program is heavily dependent on the professionalism of drivers, who are, for the most part, the interface between customers and the industry. These changes included:

- the introduction of new fare scales;
- the introduction of the PET;
- the introduction of a new suite of concession arrangements;
- the introduction of new technologies, systems and processes (including School Tcard for SSTS travel);
- compliance with operational policy changes arising out of each operator's Environmental and Passenger Relations Plans (such as eco driving techniques);
- changes to routes and timetables as new, integrated networks are rolled out; and
- requirements, as part of the service contracts, for drivers to undertake regular training in customer service, including dealing with people with disabilities, people from non English speaking backgrounds and managing confrontation.

As well as remunerating drivers for changes in work practices, the Bus Industry Reform Allowance also recognised that remunerations levels needed to be reasonably commensurate with wages earned by private sector bus drivers and sufficient to attract and retain skilled staff. A worsening driver shortage had the potential to impact on service reliability.

The Ministry asks IPART to note the link between this wage increase and improvements to services when calculating fare levels for 2007.

5.2 Rural & Regional services

Fuel

Fuel prices in rural & regional areas are likely to have had similar increases to the prices in metropolitan areas, as well as increases in distribution costs.

In making its fare determination for 2007, the Ministry asks IPART to note the increase in fuel costs over the period and the likelihood that fuel costs are likely to remain at this level for the foreseeable future.

The Ministry notes that, under the quarterly Fuel Indexation Adjustment Scheme, “non-commercial” operators have received adjustments to the fuel component of the Bus Kilometre rate of the PwC model.

In making any recommendation to backdate increases to payments to “non-commercial” operators, the Ministry requests that IPART take the operation of the Fuel Indexation Adjustment Scheme into account and adjust the rate accordingly.

People costs

From 1 July 2005 bus drivers employed under the Motor Bus Drivers and Conductors – State Award in rural & regional areas were awarded a 12% increase in wages over three years.

The Ministry has been covering the cost to operators of passing on the increase by making:

- An increase to the labour component of the PwC equivalent to a 4% increase in wages; and
- A 1.98% increase to SSTS and Half Fare Concession Scheme payments, which reflects a 4% increase on the weighted cost of labour under the BICI (that is: 49.6%).

For “commercial” operators, compensation for labour increases will be adjusted up or down depending on the final weighting for labour costs under the BICI as adjusted by IPART for 2007.

The Ministry asks IPART to note the increase in people costs in recommending an appropriate adjustment to the PwC and an appropriate increase in fares to apply to “commercial” services.

In making any recommendation to backdate costs, the Ministry asks that IPART take into account compensation already and adjust the rate accordingly.

Attachment 6: Rural & regional issues – Productivity and efficiency savings for 2007

The Ministry supports, in principle, IPART taking productivity and efficiency gains into account when making recommendations on fares that will apply. However, the Ministry has two key concerns about the approach taken as part of the process for 2006:

- A lack of robust data available to quantify, with any degree of accuracy, the extent of any productivity savings in the rural & regional private bus sector; and
- The diversity of business operations, operating environments and cost structures in the rural & regional bus industry is such that some operators may not be able to sustain an across the board discount on their costs.

6.1 Quantifying productivity for rural & regional “commercial” bus services

Productivity gains have certainly been made in the Transport and Storage sector as well as across the general economy. However, it is not clear to what extent any existing productivity measure reflects productivity gains that may have been made – or should reasonably have been made – in rural & regional bus operations.

The Ministry understands that IPART has ruled out using the Australian Bureau of Statistics (ABS) Transport and Storage index, recognising it is distorted by the extraordinary gains in airports, ports, road freight transport and similar industries that have little in common with the public transport sector generally or the rural & regional bus sector in particular. However, it is not clear that an economy wide measure is applicable to the rural & regional bus sector, even when a further discount to that rate is applied.

While some operators have the capacity to better manage their costs and are potentially achieving significant efficiency savings, others do not. Indeed, it is not clear that it can be established that productivity savings can be made in all sections of this industry.

For rural & regional public transport services cost structures are significantly different from services provided in metropolitan areas. This is in part because levels of vehicle utilisation are lower, so rural & regional services require a higher level of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) than their metropolitan counterparts to be viable. Work done for the Unsworth Review suggested that rural & regional services needed an EBITDA of 25% on costs to be viable, compared to an EBITDA in the order of 19%-20% required for metropolitan services.

Significant changes in regulation have also taken place over the 15 years since the BICI was established. These changes – which include requirements to implement a drug and alcohol policy (commensurate with the operator’s assessment of the risks) and other Safety Management Systems – fall into the

“other costs” basket of the BICI so are only covered by increases in CPI. Until the work is done as part of the rural & regional bus reform process to capture these additional costs as well as any efficiency gains, an ‘across the board’ discount for productivity remains problematic.

6.2 Structure of the rural & regional private bus sector

The bus industry in rural & regional NSW is diverse, ranging from single school bus “non-commercial” operators to operators that hold multiple “commercial” and “non-commercial” contracts operating large fleets in multiple locations.

The Ministry does not have information about the size of “commercial” fleets in rural & regional NSW, but keeps records of the number of vehicles each operator is accredited to operate in delivering services (whether under “commercial” and “non-commercial” contracts). While some operators will be accredited for more vehicles than they use to provide the services, this information helps provide a snapshot of the industry’s profile.

Table 13: Number of buses for commercial operators

No of buses for which operator is accredited	No of “commercial” operators
1	3
2	4
3	2
4	5
5	5
6	3
7	1
8	3
9	3
10	5
12 - 18	12
20 - 28	9
30 - 37	7
40 - 49	5
50 - 60	4
100 - 120	3
190 – 200	1
350	1

As a rough measure, there 61 rural & regional bus operators that have “commercial” contracts, based on counting operators who trade in different locations but are owned by the same parent company as a single operation. Of these 61 operators, 34 (55%) operate fewer than 10 vehicles and 19 (31%) operate fewer than 5.

The Ministry’s random financial viability audit program has shown that many of the operators who have been through the audit process are achieving margins below market expectations of an acceptable return.

Of the 75 rural & regional operators reviewed, only 17 were found to have good profitability with the remaining 58 achieving profitability that was fair to poor. Twenty-five of those operators have a single “commercial” contract and 17 of those 25 also have one or more “non-commercial” contracts. The remaining 33 are a mixture of operators with more than one “commercial” contract, more than

one “commercial” contract and one or more “non-commercial” contracts; or “non-commercial” contracts only.

While size is only one factor in the viability of the operation – with issues like location and demographics as well as the availability of other business opportunities also impacting on viability – larger operators are better placed to manage costs, even just on the basis of buying power.

Larger operators, as volume purchasers, are better placed to negotiate discounted contracts for buses and consumables like tyres and fuel. For example, larger operators buy their fuel at a discounted rate and store it in purpose built tanks at their depot. Smaller bus operators, are not in the position to negotiate bulk discounts and, on a cost benefit basis, would not benefit from investing in on-site fuel storage – so they fill up at the local petrol station, paying bowser prices.

Similarly, larger operators can benefit from investing in scheduling software and other technological aides to achieving productivity savings which are beyond the scope of smaller businesses.

Anecdotal evidence suggests that for benefits to exceed costs through investments in on-site fuel storage and other initiatives – or to have the capacity to negotiate volume discounts – the operation needs to be in the order of 25 plus buses. About 75% of operators who hold “commercial” contracts are accredited to operate fewer than 25 buses.

6.3 Addressing structural inefficiencies

The Ministry appreciates that IPART, as the independent pricing regulator, has a role in seeking to ensure that consumers and taxpayers (the private bus industry derives some 95% of its school and route services revenues from Government), are not paying too much for services because there are structural inefficiencies in the industry as a whole.

The Government's bus reform process, however, is addressing sector-wide structural issues with the development of new planning, funding and contracting models that will ensure services are provided under appropriate arrangements.

In the meantime, the Ministry remains concerned that an across the board productivity discount will have serious impacts on already marginal operations, with a flow on effect to the continuity of essential services to the community. The Ministry asks IPART to note the process being undertaken to address the flaws in the existing arrangements and take into account the impact on the financial viability of a large section of the rural & regional private bus industry should further productivity discounts be applied ahead of the roll out of rural & regional reforms.

The Ministry welcomes IPART's participation in the further development and trial of different options for rural & regional bus services, including new funding models.