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→ *Colin Rind*

~~Mr Jim Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
Level 2, 44 Market Street
SYDNEY NSW 2000~~



31 AUG 2004

Dear Mr Cox,

I am writing in response to the Tribunal's call for submissions on the 2004-05 bus fares determination process.

As you know, passengers on privately operated buses are paying much higher fares than passengers on State Transit Authority (STA) buses.

The Ministry of Transport has been authorised to submit on behalf of the Government a harmonisation proposal which would see this inequality abolished in the Sydney metropolitan area. The STA will therefore not be making a separate submission to IPART.

I refer you to the submission attached for the details of the harmonisation model proposed.

Under this proposal, single-trip bus fares would be aligned in one year and TravelTen discounts would be aligned over 2 years within an industry-wide CPI cap of 2.5%. This would mean most private bus fares, including in Western Sydney, would decrease while some STA metropolitan bus fares would increase.

The overall impact would be:

- 71 % of private bus passengers in Western Sydney would see a decrease in fares and another 5% would see no increase in fares; and
- less than half (47%) of STA metropolitan bus passengers would have a fare increase.

This is consistent with the findings of both Dr Tom Parry's Ministerial Inquiry into Sustainable Transport and the Hon Barrie Unsworth's Ministerial Review of Bus Services in NSW.

Equalisation of bus fares in the Sydney metropolitan area will provide an incentive for greater usage of privately operated bus services, encouraging patronage in Western Sydney where it has been in decline.

The proposal is budget neutral and there will be no reduction in the approximate \$300 million annual Government subsidy for bus services.

The new bus funding model commencing with the new Metropolitan Bus Contracts from 1 January 2005 will allow for revenue from STA fare rises to be reallocated across the private bus sector so that private operators are not disadvantaged as a result of fare decreases.

It is proposed that the metropolitan fare changes should also commence from 1 January 2005, in line with commencement of the new Metropolitan Bus Service Contracts.

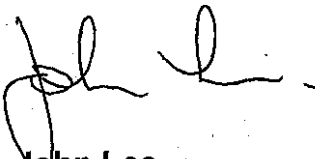
The proposal builds on the major bus reforms already under way and would mean:

- further alignment of fare structures which will assist with the introduction of the Tcard;
- reinforcement of the success of bus reform by ensuring the same fares will be charged on strategic bus corridors; and
- improved equity and competition across bus services in the Sydney Metro area.

In addition, the Government has approved that the determination of a multi-year price path should not preclude arguments for further price rises in 2005-06 and onwards, based on clearly identified service improvements.

The Ministry would be happy to provide the Tribunal with any further information it may require in order to assist the determination process.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'John Lee', written over a horizontal line.

John Lee
Director General



MINISTRY OF TRANSPORT

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SUBMISSION TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL REVIEW OF BUS FARES 2004-05

August 2004

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ABBREVIATIONS

BCA	Bus and Coach Association
BICI	Bus Industry Cost Index
CPI	Consumer Price Index
CSL	Contract Service Levels
CSO	Community Service Obligation
EOI	Expression of Interest
IPART	Independent Pricing and Regulatory Tribunal
KPIs	Key Performance Indicators
MoT	Ministry of Transport
MSL	Minimum Service Level
OPR	Operational Performance Regime
PET	Pensioner Excursion Ticket
RTA	Roads and Traffic Authority
SQI	Service Quality Incentive
SSTS	School Students Transport Scheme
STA	State Transit Authority
Tcard	Travel card

1 EXECUTIVE SUMMARY

Different fare levels currently apply to Government owned and privately operated buses. Passengers on privately operated buses are paying much higher fares than those on State Transit Authority (STA) buses for the same distance travelled.

The Government proposes that public and private bus fares be equalised across Metropolitan Sydney within a bus industry-wide CPI cap.

This reflects the findings of both Dr Tom Parry's Ministerial Inquiry into Sustainable Transport and the Hon Barrie Unsworth's Ministerial Review of Bus Services in NSW, which highlighted that a single fare scale on Government and private buses would be fairer and more equitable. It would also support the successful introduction of a single Tcard for public transport.

Under this proposal, single-trip fares would be aligned in one year and TravelTen discounts would be aligned over 2 years.

This would mean most private bus fares, including in Western Sydney, would decrease while some STA metropolitan bus fares would increase.

With the CPI at 2.5%, under the fare harmonisation proposal the average fare decrease estimated for private operators would be 5.42% and the average increase for STA metropolitan bus fares would be 6.1%.

The overall impact would be:

- 71% of private bus passengers in Sydney's West would have a decrease in fares and another 5% would see no increase in fares;
- less than half (47%) of STA metropolitan bus passengers (excluding pensioners) would have a fare increase.

In general terms, using the largest private bus company Westbus, it would be expected the weighted average fare would go from \$3.15 to \$2.80 – that is, the average fare would decrease by 35c.

For STA metropolitan buses, when considering both cash fares and different fare products such as TravelTen, on average a single trip would increase by approximately 17c.

Equalisation of bus fares in the Sydney metropolitan area will provide an incentive for greater usage of privately operated bus services, encouraging patronage in Western Sydney where it has declined 18 per cent over the 15 years.

This builds on the major bus reforms already under way and will mean:

- further alignment of fare structures which will assist with the introduction of the Tcard;

- reinforcement of the success of bus reform by ensuring the same fares will be charged on strategic bus corridors; and
- improved equity and competition across bus services in the Sydney Metro area.

Examples of changes in single fares include:

- Circular Quay to Kingsford - no change
- Circular Quay to Maroubra or Little Bay - 10c rise
- Circular Quay to Marrickville or Canterbury - 10c rise
- Brookvale to Central Station – 30c rise

On private buses single fares for:

- Revesby to Bankstown or Castle Hill to Parramatta – will decrease by 60c to \$2.70;
- Blacktown to Parramatta – will decrease by \$1.00 to \$3.60.
- Richmond to Penrith – will decrease by \$1.30 to \$4.30.

The new bus funding model will allow for revenue from STA fare rises to be reallocated across the private bus sector so that private operators are not disadvantaged as a result of fare decreases.

The equalisation of fares should be considered as part of a total package of improvements, including:

- New bus contracts aimed at providing a more active role for Government and the community in directing resources towards priority areas;
- A new funding model for private buses that rewards good performance and encourages fleet and service upgrades;
- A strategy for enhanced and more integrated commuter travel, through the creation of a network of strategic bus corridors in Sydney supported by an enhanced bus priority program; and
- Continuing improvements to the STA fleet.

In terms of equity, the fare harmonisation proposal builds on the Government's planned extension of the Pensioner Excursion Ticket (PET) to private buses and the introduction of discounted multi-trip tickets (ie TravelTen) on private buses. Implementation of these will be phased in from 1 January, 2005. The 'safety net' of concession fare policies will remain in place.

It is proposed that the fare changes should commence from 1 January 2005, in line with commencement of the new Metropolitan Bus Service Contracts.

The determination of a multi-year price path should not preclude arguments for further price rises in 2005-06 and onwards, based on clearly identified service improvements.

2 PROPOSED FARE CHANGES

Different fare levels currently apply to Government owned and privately operated buses. Travellers on privately operated buses are paying much higher fares than those on STA buses.

Examples of Private/Public Journeys

Description of Journey	Fare
<i>A 5 section single fare trip on a private bus (eg French's Forest to Chatswood, Revesby to Bankstown and Castle Hill to Parramatta)</i>	\$3.30
A 5 section single fare trip on State Transit (eg Leichhardt, Kingsford and Stanmore to Circular Quay)	\$2.70
<i>A 9 section single fare trip on a private bus (eg Castle Hill to Lane Cove, Hurstville to Bankstown and Blacktown to Parramatta)</i>	\$4.60
A 9 section single fare trip on State Transit (eg Little Bay, Ryde and Canterbury to Circular Quay)	\$3.50
<i>A 10 section single fare trip on a private bus (eg Hills District to North Sydney)</i>	\$4.80
A 10 section single fare trip on State Transit (eg Balgowlah to the City)	\$4.00
<i>A 15 section single fare trip on a private bus (eg Rouse Hill to Parramatta and Richmond to Penrith)</i>	\$5.60
An 15 section single fare trip on State Transit (eg Brookvale to Central Station, Long Reef and Sans Souci to Circular Quay)	\$4.00

The Government proposes that public and private bus fares be equalised across Metropolitan Sydney¹ within an industry-wide CPI cap.

It is proposed that single-trip fares be aligned in year one with TravelTen discounts aligned to 15% over 2 years.

In line with the Premier's request to IPART concerning the terms of the current fare review, a five year price path should be followed which nevertheless allows for consideration of increases above CPI in later years provided operators clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives.

¹ With Metropolitan Sydney defined as the area bounded by the Hawkesbury River, Nepean River and the National Park in line with the Map at Attachment C. It is anticipated the new Metropolitan Bus Contracts will be commenced in this area by 1 January 2005.

The estimated average increase for single and TravelTen STA fares would be +6.1%, with a corresponding average decrease in private bus single fares of – 5.42%.

This means that the weighted average fare increase over the entire bus industry (weighted by revenue) would be +2.27%.

This proposal is consistent with the recommendations of the Parry and Unsworth Inquiries, and with the new metropolitan bus contracts and funding model which treat the industry as a consistent entity.

The Unsworth reforms are aimed at delivering the same standards of bus services across the Sydney Metropolitan area serviced by the STA and private buses. Harmonising fares across metropolitan STA and private buses will reinforce the success of these reforms by providing equity to public transport customers.

Fare equalisation across public and private buses:

- **is positive for consumers** – the proposal will remove the current STA fare advantage and ensure fare equity across public and private bus operators, which will facilitate a level playing field between STA and private operators on shared strategic routes. It will also encourage competition based on standards of quality, reliability and safety of services, which can be therefore expected to increase. Fare equalisation will have a positive social impact, with users of privately operated bus services in Western Sydney paying the same fare as users of STA services, instead of higher fares.
- **is economically efficient** – equal fares across industry will assist successful introduction of the TCard. Fare harmonisation promotes competition on service and quality levels, thus enhancing efficiency in the supply of services;
- **is financially viable** – equalising fares across the bus industry represents the first step towards establishing a sustainable fares policy. IPART will of course remain able to consider arguments in the future for fare increases based on cost recovery and efficiency improvements; and
- **promotes ecologically sustainable development** through appropriate pricing policies. Price reduction, particularly in low patronage private bus areas, combined with the entire bus reform agenda including bus priority and establishing strategic corridors which will take people where they want to travel to, will encourage increased use of bus transport relative to cars.

Fare harmonisation will ensure competitive access for private buses to customers where STA and private services operate on the same strategic corridors and traverse different contract regions. Were the fares to remain misaligned, passengers could be expected to gravitate on shared routes to the cheaper STA services. Retaining the current higher fare on privately operated buses would decrease operators' ability to compete.

Metropolitan Single Fare Harmonisation

Recommendation 24 of the Unsworth Interim Report proposed that a consistent fare scale, as determined by IPART, should be adopted across all metropolitan bus services.

In the new Metropolitan Bus Contracts, the Ministry of Transport is proposing that all Metropolitan operators should adopt a stepped fare structure consistent with the steps utilised by the STA.

The structure being adopted in the contracts will average the current private fares falling within each of the new steps. This is the model which currently applies on Transitways.

However the Ministry cannot align the actual fares to achieve the harmonisation across Government owned and private operators recommended by Unsworth, as the power to set maximum fare levels resides with IPART. In the absence of a determination by IPART to harmonise metropolitan bus fares, the fare structures for STA and private operators would appear as per the graph at page 10.

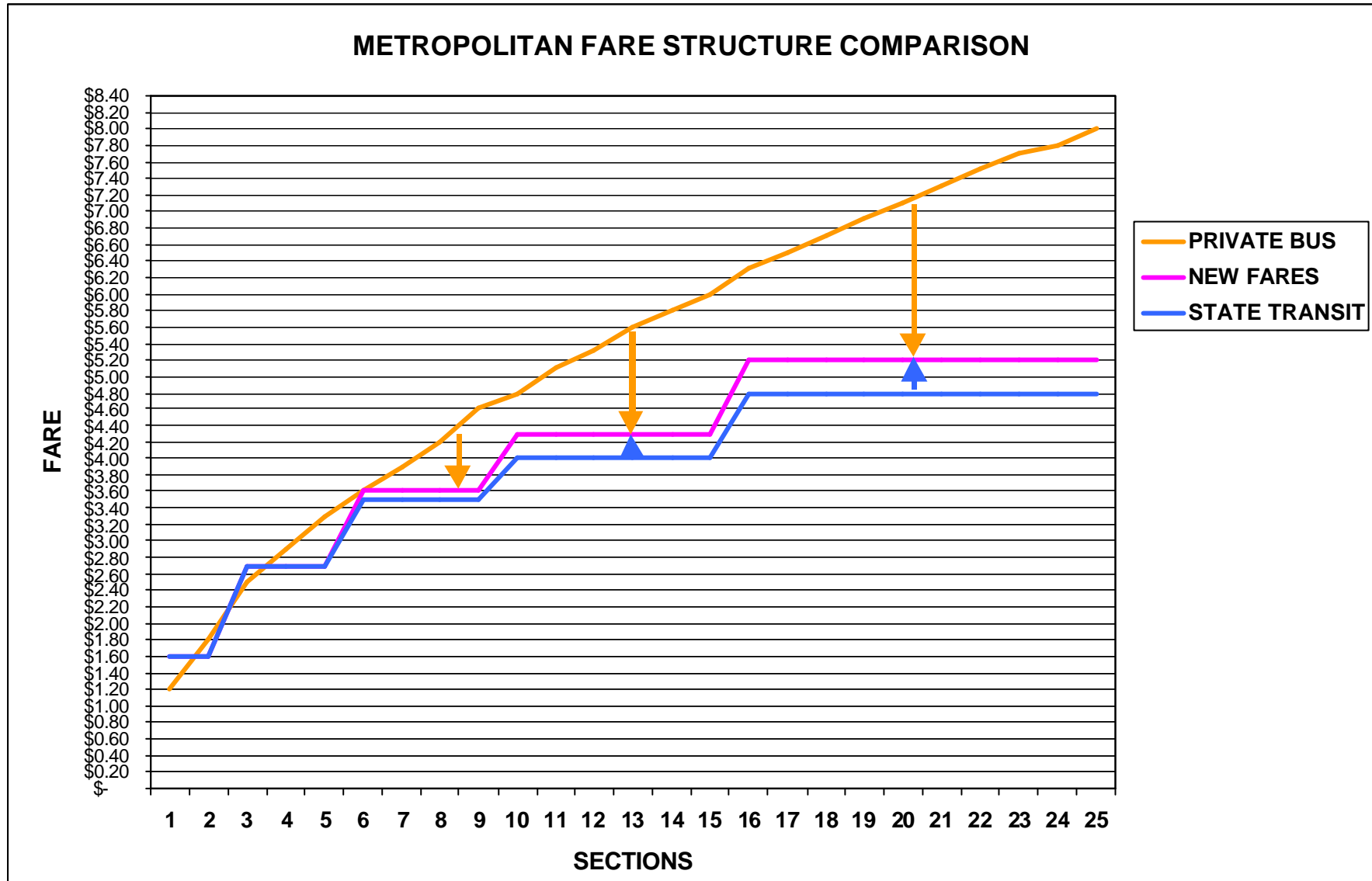
A model for harmonising metropolitan STA and privately operated single bus fares is suggested to IPART in the tables below. The weighted average fares in the tables were arrived at using revenue per fare band as the weighting. All fares were rounded to the nearest ten cents with amounts five cents and over being rounded up and those below rounded down.

Metropolitan STA – Single fare harmonisation in one year

Sections	Current Fare	New Fare	\$ Change
1-2	\$1.60	\$1.60	\$0.00
3-5	\$2.70	\$2.70	\$0.00
6-9	\$3.50	\$3.60	+\$0.10
10-15	\$4.00	\$4.30	+\$0.30
16+	\$4.80	\$5.20	+\$0.40

Private Bus fares– Single fare harmonisation in one year

Sections	Current Average Private Fare	New Fare	\$ Change
1-2	\$1.50	\$1.60	+\$0.10
3-5	\$2.90	\$2.70	-\$0.20
6-9	\$4.10	\$3.60	-\$0.50
10-15	\$5.50	\$4.30	-\$1.20
16+	\$6.60	\$5.20	-\$1.40



Adoption of the proposed fare harmonisation model would mean most private bus fares, including in Western Sydney, would decrease whilst some STA fares would increase. The impact of such changes to various fare bands is explained in the table below.

Some Examples of Fare Impacts

Journey Example	Current fare	New fare	% Change	Change
<i>A 5 section single fare trip on a private bus (French's Forest to Chatswood, Revesby to Bankstown and Castle Hill to Parramatta)</i>	\$3.30	\$2.70	-18%	\$0.60c decrease
A 5 section single fare trip on State Transit (Leichhardt, Kingsford and Stanmore to Circular Quay)	\$2.70	\$2.70	0%	No change
<i>A 9 section single fare trip on a private bus (Castle Hill to Lane Cove, Hurstville to Bankstown and Blacktown to Parramatta)</i>	\$4.60	\$3.60	-22%	\$1.00c decrease
A 9 section single fare trip on State Transit (Little Bay, Ryde and Canterbury to Circular Quay)	\$3.50	\$3.60	+3%	\$0.10c increase
<i>A 15 section single fare trip on a private bus (Rouse Hill to Parramatta and Richmond to Penrith)</i>	\$6.00	\$4.30	-28%	\$1.70 decrease
An 15 section single fare trip on State Transit (Brookvale to Central Station, Long Reef and Sans Souci to Circular Quay)	\$4.00	\$4.30	+8%	\$0.30c increase

In relation to SSTS and half fare concession payments, it is recommended that IPART consider applying any increase from the commencement of Semester 2 of the current school year and 1 July, 2004 respectively.

Metropolitan TravelTen Harmonisation

It is proposed that metropolitan TravelTen discounts on Sydney Transit and privately operated buses be aligned to 15% over 2 years. Any change in single fare rates should automatically flow on to the pricing of TravelTens.

The Unsworth Review recommended that the benefits of multi-ride discounts such as TravelTen should be available across all bus services, and that the discount to apply in such cases should be 15% relative to single fares. This

discount seeks to represent a balance between the need for appropriate cost recovery and rewarding customer loyalty.

Under the new Metropolitan Bus Contracts, a flat 15% discount will apply for TravelTens in the private bus sector from 1 January 2005. To meet the recommendations of the Unsworth Review and increase fare product equity and competitive neutrality, the discount for STA TravelTen products should also be brought to 15%.

Currently, STA TravelTen discounts are almost equal to 15% in the longer distance farebands (being 17% in the 10-15 section fare band and 13% in the 16+ section fare band). It is only in the three shorter distance fare bands that the discounts are significantly higher – 1-2 sections (26%), 3-5 sections (27%) and 6-9 sections (30%).

A two year TravelTen harmonisation path is proposed which would provide the following increases for adult TravelTens in each of the first two years, followed by CPI increase thereafter.

The impact of this change to TravelTen costs is shown in the table below.

Travelten (ten trips) harmonisation over two years

Sections	Current TravelTen fare	Year One			Year Two ²		
		New TravelTen fare	\$ change from Current TravelTen fare	% change from Current TravelTen fare	Year Two TravelTen fare	\$ change from first year TravelTen fare	% change from first year TravelTen fare
1-2	\$11.80	\$12.70	\$0.90	7.6%	\$13.90	\$1.20	9.4%
3-5	\$19.70	\$21.30	\$1.60	8.1%	\$23.50	\$2.20	10.3%
6-9	\$24.50	\$27.90	\$3.40	13.9%	\$31.40	\$3.50	12.5%
10-15	\$33.20	\$36.10	\$2.90	8.7%	\$37.50	\$1.40	3.9%
16+	\$41.80	\$44.70	\$2.90	6.9%	\$45.30	\$0.60	1.3%

The impact of the proposed change to some individual TravelTens in year one is modelled in the table overleaf.

Some TravelTen Examples in Year One

TravelTen Example	Current fare	New fare Year 1	% Change	Change
A 5 section TravelTen trip on a private bus	Not available	\$2.47	N/A	N/A
A 5 section TravelTen trip on State Transit	\$1.97	\$2.13	+8%	\$0.16c increase

² Note – the costs for Year Two are estimates only and assume a CPI rise of 2.5%

TravelTen Example	Current fare	New fare Year 1	% Change	Change
<i>A 9 section TravelTen trip on a private bus</i>	<i>Not available</i>	\$3.23	N/A	N/A
A 9 section TravelTen trip on State Transit	\$2.45	\$2.79	14%	\$0.34c increase
<i>A 15 section TravelTen trip on a private bus</i>	<i>Not available</i>	\$3.66	N/A	N/A
A 15 section TravelTen trip on State Transit	\$3.32	\$3.61	9%	\$0.29c increase

Impact of Harmonisation on Operator Revenue

Harmonising single fares in a single year and reducing the discount for STA's TravelTens to 15% over two years would result in a net revenue increase from STA services of \$3.8 million per annum as compared to a situation where a simple 2.5% CPI increase were to be granted. With the \$3.4 million net revenue decrease for private services this provides an approximately budget neutral result. This produces an estimated +6.1% weighted average fare change to STA fares and a -5.42% change for private buses. The industry aggregate weighted fare change is +2.27% (within the CPI cap, currently 2.5%).

Under the new Metropolitan Bus Contract Incentives Funding Model, both STA and private buses will be funded on the same basis in metropolitan Sydney from 1 January 2005, when the new contracts are expected to commence. The new funding model will replace the current contract payments for SSTS (on assumed pass usage), concession payments and STA's Price and Service Community Service Obligation payments.

The new contracts will include a patronage-based payment to operators which will not be directly linked to fare levels. This means that the direct impact of fare harmonisation on farebox revenue will flow to the Government.

TravelPass

Currently Government owned transport operators such as STA, CityRail and Sydney Ferries offer a multiple use discounted ticketing product, the TravelPass, which is not available on private services. The range of TravelPasses on offer are described overleaf.

Bus/Ferry & Bus Only TravelPasses	Type	Cost
Blue	Adult	\$29.00
Orange	Adult	\$36.00
Pittwater	Adult	\$49.00
2 zone	Adult	\$29.00
Blue	Concession	\$14.50
Orange	Concession	\$18.00
Pittwater	Concession	\$24.50
2 zone	Concession	\$14.50
Rail Bus Ferry TravelPasses		
Red	Adult	\$32.00
Green	Adult	\$40.00
Yellow	Adult	\$44.00
Pink	Adult	\$47.00
Purple	Adult	\$54.00
Red	Concession	\$16.00
Green	Concession	\$20.00
Yellow	Concession	\$22.00
Pink	Concession	\$23.50
Purple	Concession	\$27.00

There will be no requirement for private services to offer TravelPasses under the new contracts. Fare harmonisation between the STA and private buses on the TravelPass product is therefore not relevant.

Any increases in the price of TravelPass would be a matter for IPART to determine.

Outer Metropolitan Fares

For the purposes of the second stage of contract reform, and for Tcard introduction and the expansion of PET, the Ministry is currently proposing that the outer metropolitan area be generally defined as the area outside the Sydney Basin, extending to the CityRail boundary. That is, extending to Bomaderry, Goulburn, Bathurst, Scone and Dungog and including Newcastle and Wollongong.

However, it must be recognised that Outer Metropolitan operators currently use a variety of fare scales - Metropolitan, Urban Fringe and Country Town, depending upon their location.

Following on from the development of the new Metropolitan Bus Contracts, which are expected to commence from 1 January 2005, the Bus Reform Taskforce is now defining the Outer Metropolitan area. From early 2005 it will be developing options for new contracting, funding and service planning

arrangements for outer metropolitan Sydney and rural and regional NSW.

The Bus Reform Taskforce was established by the Minister for Transport Services to advise on implementation issues arising out of the recommendations of the Unsworth Review Final Report. The Taskforce comprises senior representatives from the Ministry of Transport and the bus industry, including the Bus and Coach Association (BCA) and the STA.

The Taskforce terms of reference included assessing and preparing options for:

- Achieving Unsworth Review recommendations, as supported by Government;
- Migrating from the existing Minimum Service Level (“MSL”) policy to a more demand responsive system (service guidelines) with network efficiencies and modified contract regions;
- The finalisation and implementation of network planning objectives;
- The resource inputs to deliver service guidelines and the financial model which includes efficient unit costs including fair returns relative to these inputs;
- Financial viability and appropriate risk allocation in a budget neutral context;
- Initial arrangements for establishing contracts including an Expression of Interest process, negotiated contracts and performance assessment;
- Major contract provisions including contract term, performance standards, benchmarking tendering, renewal and terminations;
- The legislative approach to enable implementation; and
- Suitable milestones and timeframes for the implementation of transitional arrangements.

The aim is to have a new performance-based contract, a new funding model and a new service planning approach for Outer Metropolitan and rural and regional areas finalised by September 2005. The roll out of the reforms will then commence.

As with the approach to the implementation of bus reform in the Sydney metropolitan area, the Taskforce will also develop a plan to outline how existing operators will be transitioned to the new performance-based contracts.

Operators whose contracts expire in the meantime will be placed on Interim Contracts. The aim of the Interim Contracts is to:

- ensure continuity of service while acknowledging that the roll out of bus reform is a gradual process;
- avoid entering into further contracts for fixed five year terms which would impede the smooth implementation of the reforms; and
- provide operators whose contracts are due to expire with appropriate certainty.

The Interim Contracts are very similar to the existing 'commercial' and 'non-commercial' contracts, except that they may be terminated by the Director-General with three months written notice after the first 12 months in order to allow bus reforms to be implemented. In the case of the Interim Contracts that replace the existing 'commercial' contracts, the right of renewal is also removed.

As stated earlier, Outer Metropolitan operators currently use a variety of fare scales - Metropolitan, Urban Fringe and Country Town, depending upon their location.

For Outer Metropolitan private operators using the Metropolitan fare scale, any harmonisation would reduce fares. However, as the target for introduction of new Outer Metropolitan contracts is not until September 2005, the Ministry will not be in a position to reimburse these operators under the new funding model until new contracts are in place.

It is therefore proposed that fare harmonisation for Outer Metropolitan bus operators using the Metropolitan Fare Scale should be delayed until new contracts are instituted for the area. IPART should recommend that fares for these operators rise in accordance with its examination of costs for the industry through the Bus Industry Costs Index (BICI).

For Outer Metropolitan operators using the Urban Fringe or Country Town fare scales, it is proposed IPART recommend that fares should also rise in accordance with its examination of costs for the industry through the BICI.

In relation to SSTS and half fare concession payments in Outer Metropolitan areas on Metropolitan, Urban Fringe or Country Town fare scales, it is recommended that IPART consider applying any increase from the commencement of Semester 2 of the current school year and 1 July, 2004 respectively.

Newcastle Buses

Newcastle Buses are an Outer Metropolitan service. As such, it is proposed that IPART should consider a fares rise in accordance with examination of costs for the industry through the BICI.

Newcastle Buses services 29 bus routes from 2 depots with a staff of 380, a fleet of 180 buses and carries 11 million passengers per annum. Two vessels operate the Stockton Ferry service.

STA has advised of two striking differences between Sydney and Newcastle Buses:

- there is a high proportion (80%) of free and concession fares in Newcastle (Sydney just over 50%); and
- there is a significant proportion of excess capacity on virtually all services in Newcastle.

STA has advised that the Newcastle patronage base consists mainly of seniors and school children. As such, Newcastle Buses has incurred operating deficits for many years which have been funded from the STA balance sheet. Cost recovery for Newcastle Services from passenger revenue (including the Government top-up of concession fares) has fallen by 6% over the past 5 years (refer below for annual cost recovery levels).

Newcastle Bus Service Cost Recovery

1999/00	2000/01	2001/02	2002/03	2003/04 (p)	2004/05 (f)
69%	66%	70%	64%	63%	56%

The annual deficit of around \$11 million is cross-subsidised by STA and ultimately flows through to STA borrowing. This corresponds to a subsidy of \$1 for every boarding in the Newcastle system. Conversely, this represents a levy of 6c on every Sydney boarding.

Time based fares were introduced in January 1997 in an attempt to make bus travel in Newcastle more attractive and increase patronage. Patronage grew 0.7% in the first six months. However, since then patronage has decreased at about 3% per annum. The STA considers this to be the result of demographic changes rather than any service failure. Nonetheless, Newcastle Buses service improvements are comparable to those outlined for Sydney Buses and Newcastle Buses should be eligible for a fares adjustment under the BICI accordingly. The extent to which Newcastle Buses' fleet now provides improved comfort, safety, and environmental performance is shown in the table overleaf.

Newcastle Bus Improvements

	June 2004		June 2006		June 2008	
	#	%	#	%	#	%
Total Bus in Fleet	180	100	180	100	180	100
Air-Conditioned	50	28	73	41	91	51
Low Floor	50	28	73	41	91	51
Wheelchair Accessible	32	18	55	31	73	41
CCTV	180	100	180	100	180	100
Euro 2#	12					
Euro 3#	30		42			
Euro 4#			11		18	
Average Fleet Age (years)	12.6		11.9		11.9	

"Euro" Defines the permissible level of emissions under the Euro Standard which sets the Australian standard for progressive reductions in the level of vehicle emissions.

Other improvements for Newcastle Buses are also listed in the table at Attachment A.

Rural / Country Town Fares

IPART recommended a 5.62% across-the-board fare rise for private operators in 2003-04. However, in his determination on 2003-04 fares, the Director General of the Ministry of Transport determined rural fares for commercial services would remain at their 2002-03 level.

The BCA has made strong representations to IPART for an increase in rural / country town fares based on the BICI. This position is supported by the Ministry of Transport on the basis that any fare rise, including SSTS and half fare concession payments, applies from the commencement of Semester 2 of the current school year and 1 July, 2004 respectively.

Payments To Non-Commercial Operators

Given that the vast majority of non-commercial operators are signed to contracts that require payments to be calculated using the Price Waterhouse model, IPART should once more assess any change in non-commercial payments using that model. In relation to SSTS and half fare concession payments, it is recommended that IPART consider applying any increase from the commencement of Semester 2 of the current school year and 1 July, 2004 respectively.

3 THE BUS REFORM AGENDA

The NSW Government has initiated substantial reforms to improve Sydney's transport services and provide safe, reliable and clean transport for the community. These reforms arose following two major reviews of transport services.

On 9 December 2003, the Minister for Transport Services released Dr Tom Parry's *Final Report of the Ministerial Inquiry into Sustainable Transport*. The Final Report outlines 45 recommendations to assist in providing a framework for delivering a better way of funding and delivering sustainable public transport in NSW.

The Government also commissioned a separate review of bus services. On 17 March, 2004 the Hon Barrie Unsworth's *Final Report of the Ministerial Review of Bus Services in NSW* was released. The final Report made 48 recommendations which provide a framework for improvements to bus services for the people of NSW.

These reports represent a landmark review of sustainability, investment and service priorities for public transport in NSW.

In response the Government has initiated significant bus industry reforms:

- New legislation has removed effectively perpetual contracts for bus operators, instead encouraging integrated services to better serve commuters.
- To improve service planning and delivery, Sydney's 87 bus contract areas will be replaced with 15 from 1 January 2005, with one "lead entity" responsible for the planning and delivery of services in each region (refer Attachment C).
- The number of regions will be streamlined to 8 by 2012.
- A network of 43 strategic corridors across Sydney will link key regional centres, supported by a bus priority investment program to improve reliability for commuters (refer page 30).
- New service planning guidelines have been introduced which increase community involvement in service design and target resources to demand.
- Negotiations are set to commence on new performance-based contracts which combine incentives and penalties to drive improvements, improve performance reporting and encourage fleet upgrades to improve accessibility, ride quality and environmental performance.
- A new funding model is being established for metropolitan bus services with:
 - incentives to operators to increase patronage;
 - more capacity for Government to target subsidies to priority services;
 - "actuals" payment for school travel to ensure funding is well spent; and

- more effective risk allocation.

The introduction of these measures is aimed at achieving real and sustainable service improvements for the travelling public. When these improvements are considered together with operator performance levels, there is a strong argument for fare levels to rise in real terms in line with the harmonisation proposal. This argument is discussed further in Chapter 9.

Introduction of Tcard

Implementation of smart card ticketing known as Tcard is progressing. This will mean a single ticket will be able to be used on all forms of public transport – including rail, light rail, monorail, bus, and ferry services (whether Government owned or privately operated).

Tcard will be introduced in stages between mid-2004 and 2007. From July 2004, the Tcard system is being trialed with students using private buses for school travel and it is anticipated that by the commencement of the 2005 school year, all students in the Greater Sydney Metropolitan Areas using private buses for school travel will use Tcard.

The system will be trialed for train, bus and ferry passengers during 2005. Between 2006 and 2007, the Tcard system is expected to be phased in across Sydney train, bus and ferry networks and will expand to include public transport networks in Newcastle, Wollongong, the Central Coast, Southern Highlands and Blue Mountains by 2007. Current ticket systems will continue to operate while Tcard is phased in.

The fares proposed for Metropolitan Bus Service Contracts support the principles of a smartcard-based ticketing system based on readily understood and system-wide fares approaches. Within this, offering the same bus fares for the same service regardless of location on the public transport network would greatly enhance and simplify communications for the new ticketing system.

4 FARE REFORM

Parry on Fares

The Parry Interim Report, released in August 2003, made the following relevant observations on fares³:

- *Fair and efficient fares require:*
 - *fare levels and a level of cost recovery from the farebox that ensure an unreasonable subsidy burden does not fall on the taxpayer*
 - *fares and ticket products that signal the higher cost of catering for peak-period and long-distance services*
 - *fares and ticket products that do not inadvertently encourage private car use by discriminating against passengers who have to use multiple modes*
 - *real rises in fair levels delivering improved value for money through improvements in the quality of service.*
- *The existing structure of fares and range of ticket products in the Greater Sydney Area are neither efficient nor fair. There is inequity between private and STA bus users. Multimode travellers are inconvenienced unless they can purchase travel pass tickets.*
- *Excessive discounts are available to purchasers of periodical and multiple trip tickets, even though they are valid for peak-hour travel which have the highest costs of service delivery.*
- *Longer distance travellers pay significantly less per kilometre and contribute less to cost recovery.*

Dr Parry's Final Report recommendations relevant to bus fares include⁴:

- *Require public transport operators to pursue efficiency gains and to demonstrate their success as part of the five year performance assessment;*
- *Use fare increases to fund improvements in services of direct benefit to particular modal passenger groups, and adopt a CPI plus 'x' approach to fare regulation to make the relationship between fare increases and service improvements transparent;*
- *Pending decisions on the arrangements for bus franchises and smart card ticketing, continue to provide the following STA ticket products:*
 - *a standard single journey cash ticket whose price increases with distance*
 - *a magnetic stripe TravelTen ticket with a constant percentage discount to the single journey cash fare.*

³ Parry, T, *Interim Report Ministerial Inquiry into sustainable transport in New South Wales – Options for the future*, August 2003 at p 100

⁴ Parry, T, *Final Report Ministerial Inquiry into sustainable transport in New South Wales – A framework for the future*, December 2003 at pp xvii - xix

- *If STA and private bus fares are standardised, use a simple fare structure with a constant per kilometre fare.*

Unsworth on Fares

The Unsworth Report recommendations 28 to 31 are relevant to the IPART review of bus fares. These recommendations are:

28. To ensure an equitable system, a consistent bus fare scale should be progressively implemented across all metropolitan bus services and operators should be required by contract to offer the same core fares, concessions, and ticketing arrangements.
29. Government should request that IPART seek to align State Transit's fares to the Transitway fare scale (equivalent to the private operator fare scale) as a matter of priority.
30. As commercial contracts in regional areas expire, a single fare scale, consistent with the country fare scale, should be applied so that over time all regional operator fares are aligned to the one scale.
31. Private operators should be obliged to offer a TravelTen (or equivalent) product, discounted at around 15% relative to single fares. Over time, the discount on State Transit's TravelTen (or equivalent) should be brought to a similar level.

Government Response to Parry and Unsworth on Fares

In response to the Parry and the Unsworth Reviews recommendations on fares, the Government supported:

- fare increases aligned to the CPI being pursued through the IPART, subject to meeting efficiency targets, with any further fare increases directly aligned to service improvements;
- a 5 year price path to give transport agencies revenue certainty;
- the phase-in of a consistent bus fare scale over time, consistent with the Government's commitment to a longer term price path (Unsworth recommendation 28 and 29);
- Unsworth recommendation 31 - that private operators should be obliged to offer a TravelTen (or equivalent) product, discounted at 10-15% relative to single fares and over time, the discount on State Transit's TravelTen (or equivalent) should be brought to a similar level; and
- supported in principle, subject to further assessment of cost impact, Unsworth recommendation 30 - that as commercial contracts in regional areas expire a single fare scale consistent with the country fare scale should be applied so that all regional operator fares are aligned to one scale over time.

Building on this initial response, the Government has agreed that the Ministry of Transport will advance to the IPART an argument for fare harmonisation across the bus industry, commencing with bus services within the Sydney basin and based on a policy of aligning fares with an industry-average CPI increase of 2.5%.

A copy of the Parry and Unsworth Review Final Reports, and the Government response to each, are available on the Ministry of Transport website (at www.transport.nsw.gov.au).

5 BUS SERVICE FUNDING REFORM

A new Metropolitan Bus Contracts Funding Model has been designed following consultation with the bus industry through the Bus Reform Taskforce.⁵

The Current Funding Model

The bulk of metropolitan bus services in NSW operate under commercial service contracts. The key features of the funding arrangements for these contracts are:

- operators collect fares for tickets sold and retain this revenue;
- Government reimburses operators for concession tickets, up to the full adult fare;
- Government pays the operator for carrying holders of free school bus passes, with the formula based on an agreed usage rate of the total passes on issue; and
- operators are required to provide bus services to a level specified by the Government under the MSL policy.

Most metropolitan operators supplement the above revenue streams with charter work.

Like other public transport operations, bus services generally require a Government subsidy, with taxpayer funding used in every state in Australia to assist in delivering services. In NSW, this subsidy is provided primarily through the School Student Transport Scheme (SSTS) and, to a lesser extent for private operators, through pensioner and other concession reimbursements. In addition, the Government makes Community Service Obligation (CSO) payments to the STA, which fall into the following categories:

- *Pricing CSO* payments to compensate for Government directives to charge lower maximum fares than private operators;
- *Service CSO* payments to compensate for Government directives to provide services above the minimum service level requirements; and
- *Concession CSO* payments to compensate for Government directives to offer a broader range of concessions than private operators.

Metropolitan bus operators are heavily dependent on Government payments. On average, 45% of revenue for private commercial metropolitan operators is derived from the SSTS. A further 6% of revenue is reimbursement for concession fares. However, within this average, there is a wide variance in

⁵ refer to page 13 for a description of the Taskforce

reliance on the SSTS, with metropolitan private operators receiving between 22% and 87% of total funding from this source.

The proportion of revenue from Government payments to the STA is 42%, with SSTS payments comprising only 8%. This partly reflects the demographic profile of the areas served by the STA, its more dense and developed patronage base, and its greater emphasis on route services.

The New Funding Model

An “Incentives Model” is being adopted from 1 January 2005 for future Metropolitan Bus Services Contracts. Under this Funding Model, the Ministry of Transport (MoT) will keep farebox revenues and will pay operators a proportion of the costs of running the service.

Additional payments for patronage and service quality improvements will be paid as an incentive to operators to grow patronage and provide high quality bus services.

The benefits of the Incentives Funding Model include:

- effective and flexible risk allocation;
- better targeting of Community Service Obligation (CSO) payments to specific routes and services;
- more straightforward adjustments for price changes;
- greater Government involvement in service planning, consistent with a partnership approach;
- the potential to avoid complex revenue allocation between operators and modes under current or future fare structures; and
- a reduced need for operators to make long term patronage forecasts during a period of significant industry change.

Overview of the Incentives Funding Model

Under the Incentives Model, operator payments will comprise four elements; fixed payments (F); service payments (S); patronage payments (P); and service quality payments (operational performance regime (OPR) payments and service quality incentive (SQI) payments).

The fixed and service payments contribute to the costs of running the service. The patronage payments reward operators for growing patronage. OPR and SQI payments motivate high quality service delivery.

Operators will be paid according to the following formula:

Operator payment = F + (S x monthly km) + (P x monthly boardings) + OPR + SQI

Base payments - Fixed payment (F)

This amount will be paid by the MoT to the operator to contribute to the fixed costs of running bus services. It will be subject to indexation provisions.

The fixed payment will include an allowance for depreciation of existing vehicles and depot assets and funding for new vehicles.

Service payment (S)

This amount will be paid by the MoT to the operator to contribute to the variable costs of running bus services.

The annual service payment will be calculated by multiplying the number of kilometres contracted in each year by the payment rate per kilometre. There will be a deduction from the service payments for a net reduction in service kilometres due to temporary or permanent cancellations and short runs. There will be no additional service payments for running extra service kilometres above the contracted amount.

The base level of contracted service kilometres will be set at the commencement of the Metropolitan Bus Services Contract. Changes to contracted service kilometres will be considered annually by operators and the MoT. Increases in service kilometres must satisfy tests and there will be pre-set limits in terms of the absolute level of annual change.

Patronage payment (P)

The MoT will pay operators a patronage incentive per passenger boarding or ticket sale. This payment is designed to motivate operators to retain and grow patronage.

Patronage payments will represent a proportion of the relevant fare and will be categorised as follows:

- Full fare
 - 1-2 sections
 - 3-5 sections
 - > 5 sections
- Concessions (including school students)
 - 1-2 sections
 - 3-5 sections
 - > 5 sections
- PET
- TravelTen

Separate patronage payments will apply for any other existing tickets that the MoT approves the operator to continue to offer beyond the Contract Commencement Date.

For PET, which is a time-based ticket, the operator selling the ticket will be paid the patronage incentive. Subsequent trips on a PET will not generate a patronage payment.

In addition, there will be no patronage incentive paid for PET tickets not sold on buses (ie sold at railway stations, newsagents, etc). There will be no patronage payments for groups entitled to free travel, other than in the case of the School Student Transport Scheme. Patronage payment rates will be indexed to CPI to ensure that they broadly remain a similar proportion of overall payments.

Over the next two years, successful implementation of the Tcard Ticketing System will provide the Ministry and operators with a richer form of patronage data including transfers and additional journeys on tickets such as PET.

Operational Performance Regime payment (OPR)

The OPR is designed to motivate operators to improve performance in the areas of punctuality and reliability. Payments will be related to operator performance in these areas against a benchmark.

The mechanisms underpinning the OPR are currently being developed by the Ministry of Transport in consultation with the bus industry.

Service Quality Incentive payment (SQI)

The SQI payment is designed to motivate operators to improve performance in measures that relate to aspects of the passengers' experience other than punctuality and reliability. Operators will be assessed on a range of weighted measures:

Aspect of Passenger Experience or Service Delivery	Weighting in SQI Index
Customer satisfaction (independently surveyed twice yearly)	50%
Customer complaints (volume and response times)	20%
Co-operation with other operators and the community (independently surveyed each year)	15%
Environmental Performance	5%
Load standards (audited by MoT)	5%
Vehicle presentation	5%

On an annual basis, an SQI weighted index will be developed for each operator. This index will be used to compare operators against one another. The top six performing operators will receive a share of an SQI Incentive. It is

expected that the SQI Incentive will be in the region of \$1 million each year, but will be set annually at the Director-General's discretion.

The total SQI Incentive will be apportioned into monthly payments to be paid over the following year.

6 CONTRACT REGION REFORM

Following the release of the Unsworth Review Final Report and the establishment of the Bus Reform Taskforce, it became clear that there were a number of other factors impacting on the development of region boundaries which had not informed the development of the Unsworth Report's proposal for 10 contract regions. These factors include the Government's policy position on:

- achieving common fare scales between services operated by the STA and services operated by private bus operators;
- giving existing operators every opportunity to negotiate a transition to new performance based contracts in larger contract regions with existing operators; and
- putting new service contracts in place by 1 January 2005.

During March 2004, the Unsworth 10 region boundaries were modified several times as these issues received further consideration leading to an increase to 14 regions.

The Ministry of Transport subsequently proposed to the Taskforce that a Boundaries Conference be held to give operators the final opportunity to put forward their cases for proposed changes to the 14 contract region boundaries included in the Expression of Interest documentation.

The Expression of Interest ("EoI") process, established by the Bus Reform Taskforce, invited existing bus operators in the Sydney metropolitan area to indicate their intention to enter into negotiations with the MoT for the operation of bus services in the 14 proposed Contract Regions. EoIs from operators were required to identify the lead operator for the Contract Region, related associated operators and the proposed consortium structure.

The Boundaries Conference

The Boundaries Conference was held on 17 June, 2004 and included representatives from the MoT and Sydney bus operators.

Prior to the Conference, it was agreed that any changes to the MoT's 14 region boundaries would be assessed against:

- planning principles;
- benchmarking principles;
- fare harmonisation principles; and
- transition principles.

Assessment of Boundary Proposals

The assessment of the proposals put forward as part of the Boundaries Conference has resulted in a proposed two-stage transition plan to determining contract region boundaries for Sydney:

- Under Stage 1 (to be established by 1 January, 2005), there would be 15 Sydney metropolitan contract regions on a transitional basis for a period of 7 years (or the term of the first round of the new Metropolitan Bus Service Contracts).⁶
- Under Stage 2 (to be established by 2012), there would be 8 Sydney metropolitan contract regions, following a program of consolidation.

The proposed 2-stage transition plan is based on achieving an appropriate balance between:

- the need to ensure that the region boundaries are based on sound planning principles;
- the need for the Government to achieve the implementation of its reforms within the desired timeframe and without having to resort to the transitional powers in the *Passenger Transport Amendment (Bus Reform) Act 2004* to terminate existing contracts;
- the need to accommodate the Government's then stated fare harmonisation position; and
- the need for the MoT to be able to benchmark performance in the new regions.

The Stage 1 contract includes provisions to actively encourage lead entities of the Stage 1 regions to transition to new arrangements principally based on optimal network planning and service delivery. As a result, any first right to negotiate a further 7 year contract at the end of the first term would be dependent on the identification of a single lead entity in each of the Stage 2 regions. If there is no agreed lead entity for the Stage 2 regions, the MoT will proceed to open tender for that region.

The MoT believes that for the first term of the new contracts, 15 contract regions will deliver the best balance for both the community and industry. It will also ensure that any changes to contract region boundaries at year 7 will have the benefit of improved patronage data from the implementation of the Tcard and better information about travel desire lines gained through the regular community consultation and service reviews that will be introduced with the Service Planning Guidelines.

Should there be clear benefits for amalgamating regions prior to the expiry of the first contract term, it may be able to be achieved through mutually agreed variations to the service contracts.

⁶ refer Attachment C for a map of the 15 contract regions in Stage 1

7 BUS ROUTE REFORM

The Unsworth Review's Final Report recommended the progressive implementation of a network of strategic bus corridors in the Sydney metropolitan area that would provide fast, frequent, direct and convenient links to regional centres. The Report said the strategic corridor services should be integrated with local bus services.

The Strategic Corridor Network

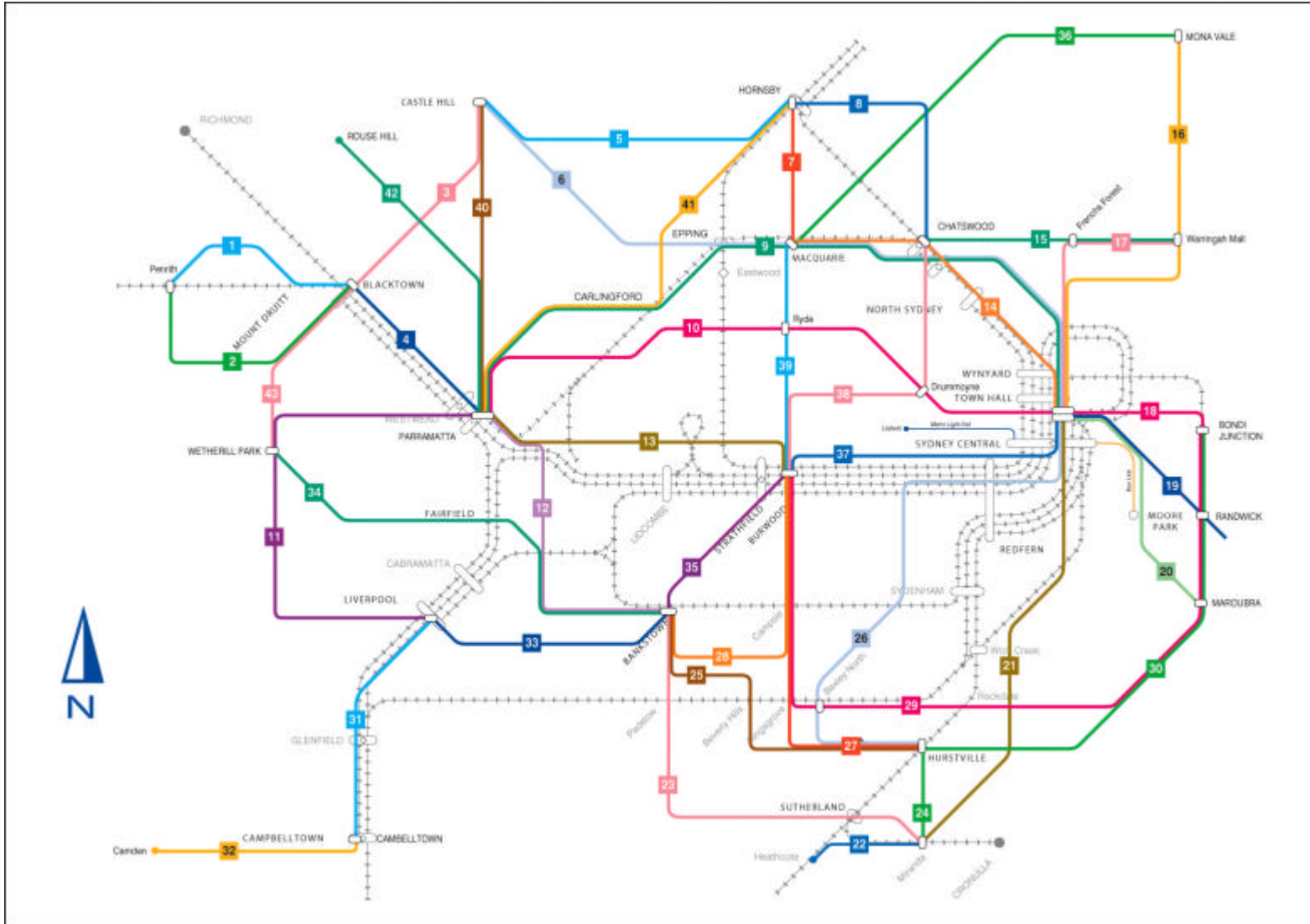
For the metropolitan Sydney contract regions, 43 strategic corridors have been identified in the map on the following page. Three categories of strategic corridors with different levels of service frequencies have been identified.

Service Type	Base Level Frequency (equal to or better than)	
Strategic Corridors (Grade A)	<ul style="list-style-type: none"> • Pre peak • Commuter Peaks • Day time • Night • Saturday daytime • Sunday daytime 	20" 10" 15" 30" 30" 30"
Strategic Corridors (Grade B)	<ul style="list-style-type: none"> • Pre peak • Commuter Peaks • Day time • Night • Saturday daytime • Sunday daytime 	30" 15" 20" 60" 30" 30"
Strategic Corridors (Grade C)	<ul style="list-style-type: none"> • Pre peak • Commuter Peaks • Day time • Night time • Saturday daytime • Sunday daytime 	30" 20" 30" 60" 30" 30"

As strategic corridors are developed by the convergence of feeder routes, frequency should be measured at the final convergence point.

The grading of strategic corridors reflects transitional arrangements to meet the capital and infrastructure requirements to operate new integrated networks. It also acknowledges the lead-time required to build patronage over time and the need to increase frequency that is commensurate with gradual patronage increases.

METROPOLITAN STRATEGIC BUS CORRIDORS



LEGEND

1. Penrith – Blacktown (North)
2. Penrith – Blacktown (South)
3. Blacktown – Castle Hill
4. Blacktown – Parramatta
5. Castle Hill – Hornsby
6. Castle Hill – City
7. Hornsby – Macquarie
8. Hornsby – Chatswood
9. Parramatta – City
10. Parramatta – City
11. Parramatta – Liverpool
12. Parramatta – Bankstown
13. Burwood – Parramatta
14. Macquarie – City
15. Chatswood – Dee Why/Brookvale
16. Mona Vale – City
17. Brookvale – City
18. Bondi Junction – City
19. Randwick – City
20. Maroubra – City
21. Miranda – City
22. Miranda – Heathcote
23. Miranda – Bankstown
24. Miranda – Hurstville
25. Hurstville – Bankstown
26. Hurstville – City
27. Hurstville - Burwood
28. Bankstown – Burwood
29. Bondi Junction – Burwood
30. Bondi Junction – Hurstville
31. Liverpool – Campbelltown
32. Campbelltown – Camden
33. Liverpool – Bankstown
34. Bankstown – Wetherill Park
35. Bankstown – Burwood
36. Mona Vale – Macquarie
37. Burwood – City
38. Burwood – Chatswood
39. Burwood – Macquarie
40. Parramatta – Castle Hill
41. Parramatta – Hornsby
42. Parramatta – Rouse Hill
43. Blacktown – Wetherill Park

8 SERVICE LEVEL AND SERVICE PLANNING REFORM

Service Planning Guidelines have been developed in response to the Unsworth Review, with a view to providing a more flexible approach to service planning than the current Minimum Service Level (MSL) policy.

The Guidelines will be used to establish integrated bus networks within and between each of the Contract Regions, as well as indicating required outcomes. They also provide the framework for ongoing monitoring and review of services.

Unlike current arrangements, community consultation will be incorporated into the service planning and review process. The Guidelines will replace the current inflexible formula approach to determining service levels with a process to ensure services respond to demand and regional networks operate most effectively.

Planning Partnership

Under the Metropolitan Bus Services Contract the MoT and the operator will move to a “planning partnership” approach in the development and evolution of bus services in each Contract Region. The MoT takes a more active planning role, which requires community and passenger consultation in initial service plans and subsequent reviews. These changes are consistent with the recommendations of the Unsworth Review and the Parry Inquiry.

Responsibilities under the planning partnership approach include:

- the MoT will determine the regional centres and patronage generators to be served by strategic corridors;
- the MoT will determine the base service frequency and time of day coverage for strategic corridors and local services, to become Contract Service Levels (CSLs);
- operators will plan and develop the detailed network to serve each Contract Region, integrating strategic routes and local routes where required in accordance with the Guidelines;
- operators will consult with community stakeholders in accordance with the community consultation process described below;
- if approved by the MoT, the Operator’s proposed network will become part of the operating contract;
- the MoT will have an approval role for proposed major changes to the network, in accordance with the Guidelines; and

- operators will convene at least annually, service planning forums, involving customers, community and Government stakeholders, to provide feedback on existing services and proposals for changes.

Community Consultation

Community consultation is to be an integral part of the development and ongoing review of bus services.

As part of the negotiation process for the Metropolitan Bus Service Contracts, operators will submit Service Plans for new Contract Regions, integrating strategic corridors and local routes in accordance with the planning partnership approach described above.

The operator will be required to:

- submit an Initial Service Plan and a Final Service Plan;
- operate services in accordance with the Initial Service Plan from the service commencement date; and
- gradually change services to comply with the Final Service Plan by the end of a 3 year period.

Both the Initial and Final Service Plans will be varied from time to time by the Service Planning Guidelines.

The Initial Service Plan will broadly reflect the existing service structure. Any change from the existing service structure will be reviewed and approved by MoT before being implemented. The introduction of new services without proper consultation (as defined by the Guidelines) and prior approval of MoT will be a breach of the contract.

Operators will work through the Contract Region, area by area, to refine services to comply with the Final Service Plan. Consultation involving passengers, local government, local community groups, and stakeholders representing environmental, aged, youth, disability, social service groups and other transport providers will be held.

The community consultation process will be as follows:

- operator to propose service change(s);
- commence community consultation process for proposed service change(s);
- community to provide feedback on proposal;
- modifications made to proposed service change(s) as required;
- a refined plan to be submitted to the MoT;
- the MoT to accept or refine the proposal; and

- the MoT to provide feedback to affected local community about its decision.

The above process will be repeated each year, at a minimum. The timing of the community consultation process will be held to coincide with the availability of annual performance benchmarking results. Community consultation is a key performance indicator in the Metropolitan Bus Services Contract and will be considered in assessing operator performance at the end of the first 7-year contract term.

9 FAIRNESS AND EQUITY

The bus fare harmonisation proposal is both equitable and fair, with 76% of private bus passengers in Sydney's West experiencing a decrease or no increase in fares and less than half (47%) of STA bus passengers subject to a fare increase.

The current fares for STA bus services are generally lower than other transport services. Cash fares are on average 7% lower than those charged by private sector operators but, when discounted TravelTen and TravelPass tickets are taken into account the average fare paid is only 82% of the private sector rates. The Government currently supports STA's lower fares by means of a Community Service Obligation payment.

In comparison with other modes of transport, the new harmonised bus fares will represent good value for money. The proposed cash fare for a 4-kilometre bus trip from Central Station to Lilyfield will be (\$2.70 for an adult passenger (and just \$2.13 at TravelTen rates). The cash fare on light rail for a comparable trip costs 41% more or \$3.80 per trip. The cost of travelling the same distance by taxi is over five times more expensive than a bus fare at \$15.50 per trip. Even ancillary charges associated with private motor vehicle usage such as bridge and motorway tolls are more expensive (the Eastern Distributor toll is \$4.00).

The fare increases proposed in this submission are fair and largely remain below the level of the fares already charged by private operators.

The 'safety net' of concession fare policies will remain in place. Free and concession travel for passengers such as students, seniors and unemployed people will continue to ensure access to bus services.

From 1 January, 2005 the new Metropolitan Bus contracts will harmonise the availability of concessions across the private sector, ensuring equity of access to concessions.

The table overleaf shows STA figures indicating that more than 50% of STA metropolitan bus passengers currently take advantage of concessions.

Type of Travel on Sydney Buses in 2003-04

Type of travel	Total trips per annum (Million)	Percentage of Total
Full Adult Fare	93.4	49.6%
School Student Transport Subsidy (SSTS) Scheme	30.7	16.3%
Pensioner Excursion Ticket	34.4	18.3%
Half fare Travel	29.7	15.8%
Total - Sydney Buses	188.2	100.0%

STA has also advised that in Newcastle, more than 80% of passengers are entitled to concession fares.

10 SERVICE QUALITY IMPROVEMENT

The overall impact would be:

- 71% of private bus passengers in Sydney's West would have a decrease in fares and another 5% would see no increase in fares; and
- less than half (47%) of STA metropolitan bus passengers (excluding pensioners) would have a fare increase.

The new Metropolitan Bus Contract funding model will result in improved performance standards industry-wide. The operational performance regime payment is designed to motivate operators to improve performance in punctuality and reliability. Payments will be related to operator performance in these areas against a benchmark, with penalties also applying for poor performance.

The service quality incentive payment is designed to motivate operators to improve performance in measures that relate to aspects of the passengers' experience other than punctuality and reliability. Operators will be assessed on a range of weighted measures including:

- Customer satisfaction (independently surveyed twice yearly);
- Customer complaints (volume and response times);
- Co-operation with other operators and the community (independently surveyed each year);
- Environmental Performance;
- Load standards (audited by MoT); and
- Vehicle presentation.

On an annual basis, an SQI weighted index will be developed for each operator. This index will be used to compare operators against one another. The top six performing operators will receive a share of an SQI Incentive. It is expected that the SQI Incentive will be in the region of \$1 million each year, but will be set annually at the Director-General's discretion.

The total SQI Incentive will be apportioned into monthly payments to be paid over the following year.

In addition to the performance benefits which can be expected as a result of the new contract funding model, the limited fare rises proposed for some STA passengers can also be justified on improved service quality grounds.

STA Fleet Quality

For the past decade, the STA has pursued a fleet renewal program. More than 643 new low floor buses have been brought into service. All are air conditioned and all meet environmental standards.

The STA is accelerating its bus acquisition program by introducing 144 new buses in 2004/05. A further 146 new buses will be acquired in 2005/06 and then 110 new buses each year until June 2009.

In the years beyond 2009, the STA advises that Sydney Buses will engage in a steady state replacement program of 80 to 90 buses each year to ensure the average age of the fleet is maintained. Capital expenditure in 2004/05 is forecast at \$87M.

The extent to which Sydney Buses' fleet now provides improved comfort, safety, and environmental performance is shown in the table below.

STA Sydney Buses Improvements Since 1997

	June 1997		June 2004		June 2006		June 2008	
	#	%	#	%	#	%	#	%
Total Bus in Fleet	1452*	100	1729	100	1723	100	1741	100
Air-Conditioned	254	17	768	44	1039	60	1259	72
Low Floor	82	6	598	35	869	50	1089	62
Wheelchair Accessible	76	6	508	29	779	45	999	57
CCTV			1729	100	1723	100	1741	100
Euro 2#	82	6	281	16	281	16	281	16
Euro 3#			21	1	292	16	292	16
Euro 4#							220	13
CNG (Euro 3 equivalent)	104	7	404	23	404	23	404	23
Average Fleet Age (years)	11.5		13		11		10	

* Service contract rights (adjacent to State Transit's bus network) were acquired in 1999/2000, adding around 110 buses to the fleet.

"Euro" Defines the permissible level of emissions under the Euro Standard which sets the Australian standard for progressive reductions in the level of vehicle emissions.

The STA fleet has been fitted with CCTV cameras to improve passenger safety and security. The new buses purchased are air conditioned, low floor and equipped with wheelchair ramps, improved doors, passenger restraints and other safety features.

The STA has advised that its aim is to have more than half its fleet low floor, accessible and air conditioned by June 2007.

Low floor buses:

- make it easier for mobility impaired passengers to board and alight, as well as to move into the bus to a seat;
- can accommodate a wheelchair with special boarding ramps and a fastening system to secure wheelchairs once on board;
- make it easier for passengers carrying young children in strollers and prams to use STA services; and
- have stanchion poles to assist passengers, especially those who might be visually impaired, more easily find and hold a secure point within the bus.

The STA has also developed a wheelchair policy to clearly communicate to customers how these facilities can be used. STA public timetables identify individual trips for services that will have a wheelchair accessible bus. The STA accessibility program is five years ahead of the requirements for the national disability standards.

The introduction of low floor buses also provides a wider service quality benefit to passengers. Research conducted overseas⁷ shows that low floor buses have loading rates between 15-25 per cent faster than conventional buses. The STA advises that preliminary results of a recent study of selected bus stops in Sydney's CBD suggests that faster loading times are derived from low floor buses in the local context, with improvements of around 10 per cent.

STA Service Quality

The STA's Sydney Buses and Newcastle Bus Services' performance targets reflect a commitment to continued improvements in reliable, convenient, courteous, comfortable and safe public transport services. The table at Attachment A demonstrates this commitment.

STA advises that Sydney Buses' performance against its Key Performance Indicators has continued to reflect the commitment to reliable, convenient, courteous, comfortable and safe public transport services. The Table at Attachment B provides details of Sydney Buses' customer-related KPIs and performance against these targets over the past four years.

In 2002 STA was certified as fulfilling the requirements of ISO9001 and awarded the "five ticks" logo as a certified quality company. Independent audits conducted by Standards Australia on a six-monthly basis have

⁷

Next Stop, Bus Rapid Transport: Accelerating New York's Bus System into a New Century, CUNY Institute for Urban Systems, Feb 2004 at <http://www.cuny.cuny.edu/cius>; Exhibit 4-3, pg 4-8, Transit Capacity and Quality of Service Manual; Transit Cooperative Research Program Web Document 6; Washington DC: Transportation Research Board at <http://www4.nas.edu/trb/crp.nsf/All+Projects/TCRP+A-15>

confirmed that State Transit continues to deliver services in accordance with the prescribed standard.

Driver Training

Service quality is highly dependent on the skills of bus drivers, not only those associated with physically driving the bus, but also in terms of customer service. The STA has advised that behavioural selection techniques are used to determine which applicants demonstrate the strongest ability to deal with and serve customers. This involves tests to measure an applicant's ability to respond to some of the difficult customer situations they are likely to encounter on the job. Applicants are required to demonstrate they can use information provided during the selection process to deal with customer complaints and where possible to educate customers on the service. Applicants are rated on their listening and questioning skills, ability to inform, follow instructions and respond decisively. The performance benchmark is set at a level that ensures the STA not only meets operational needs but also that customer service standards will be achieved.

The National Training Framework is the system of vocational education and training, which includes nationally agreed standards for high quality vocational education and training services and endorsed training packages. As a registered training organisation, the STA must meet the national standards to train and assess candidates in the view of attaining a nationally recognised qualification.

The STA was recently audited by the New South Wales registering body, the Vocational Educational Training Accreditation Board, against the national standards and awarded maximum accreditation for a further five years. This enables the STA to train, assess and issue nationally recognised qualifications to its staff.

The STA has advised that all new Bus Operators employed by STA are enrolled as trainees in Certificate III in Transport and Distribution (Road Transport). Certificate III is one of four Certificate-level qualifications (Certificate IV being the highest) in the national framework, placed between post-compulsory school education and diploma-level qualifications. The introduction of Certificate III in Transport and Distribution (Road Transport) has increased the level of professionalism in bus operations staff in the STA and raised the benchmark for Bus Operators across the industry. This training has allowed STA staff to gain genuine recognition for on the job training and attain a nationally recognised qualification, a greater sense of confidence in their work role and a clearly articulated career path.

Regular refresher training courses are conducted for long-term bus operator staff to ensure that they possess the required current skills and knowledge to provide a superior service to the community. The STA provides additional, ongoing training to its staff to ensure that the continually evolving expectations of the community are identified and met.

Customer Feedback

The 131500 Transport Infoline telephone service allows STA customers to voice their concerns and make suggestions about service improvements. All customers whose issues are not finalised during the course of their initial phone call are subsequently contacted within 48 hours. STA has advised that during the past 12 months 25,541 calls were received from customers, of which 9,502 required subsequent telephone response from staff throughout Sydney Buses' depots.

STA's passenger feedback system (Satisfy) allows for the real-time transferring, management and tracking of passenger feedback from the logging stage in the Transport InfoLine all the way to its resolution at our business units.

Satisfy also allows for detailed analysis of feedback statistics, customer response times and actions taken. Information reports are automatically generated and accessible by management, with the ability to also process more specific ad hoc reports.

Communication and Quality Passenger Information

The Transport InfoLine website provides passengers with various timetabling and TripPlanning options. Users with existing knowledge of transport services can simply enter in the service they require and then view the timetable for that route. Those who do not have detailed knowledge of transport options can use the TripPlanner to plan their trip from A to B.

These timetable and TripPlanning options provide customers with good quality and easy to use services 24 hours a day. Customer feedback indicates a high level of satisfaction.

The STA also hosts a website that operates in parallel with the Transport InfoLine website. On this site, passengers can download copies of timetables and maps in addition to other transport information.

Accessing timetable, ticketing and other service information through the internet is becoming more popular with the travelling public and also assists STA to manage costs and update customers 24 hours per day, 7 days per week.

Sydney Buses has continued to improve the quality and availability of passenger information as follows:

- The 4 regional guides are now in a uniform geographic format. Mapping, route details, interchange maps and helpful hints are included for customer convenience.
- Interchange maps for all major locations have been developed and are available as on-site display signage and printed maps.

- Bus stop displays have been improved for content and readability, especially in low light conditions.
- Passengers and major destinations are being targeted for specialised transport information. All 5 major universities and many other locations now have tailored bus information.
- Public transport information displays at major universities have received attention with additional information and timetable distribution.
- The availability of pocket timetables is being widened, more timetables have been printed in pocket size, special distribution racks introduced and a simple website printing mechanism implemented.
- Communication of special event messages and service change information.
- The distribution of information has improved via our TransitShops, private partnerships and Sydney Buses website improvements. All new Sydney Buses information that is developed is available on the website.

The main thrust of the STA communication strategy has been to deal with user groups directly or via the website individually. The resulting messages and solutions are simpler and target customer needs more closely.

Sydney Buses has joined with the NSW Greenhouse Office and the Department of Infrastructure, Planning and Natural Resources to implement a pilot TravelSmart project. The total budget for this program is \$450,000.

Service Flexibility

In addition to the InfoLine service, information provided by the Automatic Fare Collection system is used by the STA to detect trends that might otherwise degrade service quality. Sydney Buses also employs 85 Customer Service Coordinators, 20 Schedulers and several loading checkers to assist with detecting needs for changes to services. The combined power of these resources enables STA to adapt timetabled services to better match changing demand.

Working with RailCorp, the STA plays a critical support role in Sydney's special events calendar. Following its successful role in delivering bus services for the Sydney 2000 Olympic Games, the STA has set new benchmarks for planned major sporting and cultural events.

The STA also has an established management infrastructure to deal with incidents, both planned and unplanned, that might otherwise cause significant disruption to services.

Improving Journey Times

Whilst there are many aspects to service quality, journey time is of particular importance to bus passengers.

The Unsworth Review of Bus Services identified strategic corridors as a key element of reform of bus services. Recommendation 1 is “to implement a network of viable strategic corridors to provide fast, frequent, direct and convenient links to regional centres”. Recommendation 10 includes “developing an expanded bus priority program (including additional revenue sources) to be rolled out over the length of the first contract period”.

Bus priority can include:

- Electronic priority such as the Public Transport Information and Priority System, currently being trialed on Route 400, and bus lane enforcement cameras; and
- Physical measures such as B lights, bus lanes, and intersection improvements. The Unsworth Interim Report (p. 26) identified a hierarchy of bus priority measures.

The aim of bus priority is to improve the reliability of bus services, reduce variability in travel time and reduce travel time. Reliability includes arriving at the bus stop on time, arriving at the destination on time, consistent travel time and maintaining timetabled frequencies.

The Unsworth Final Report noted that the RTA has a \$15M bus priority program, with a target of an additional 5km of bus lanes each year. Additionally, bus priority measures are included in general road works such as interchange improvements and major new projects such as the Lane Cove Tunnel.

The 2004/05 State Budget included an additional \$5M for bus priority, including the studies required to scope, cost and program these measures on strategic corridors. As recommended in the Unsworth Report, the initial focus in 2004/05 is on the use of technology to improve service reliability through the sequencing of traffic lights. This will be followed by the development of a program of infrastructure upgrades to further improve travel speeds and reliability. These studies are programmed to be finalised in early 2005 to enable consideration of bus priority in the development of the 2005/06 State Budget.

As part of the Unsworth Final Report, preliminary assessment of bus speeds in the 2 hour am peak on the 43 strategic corridors showed that:

- 9 corridors had a bus speed of less than 20 km/h
- 16 corridors had a bus speed between 20 and 25 km/h
- 18 corridors had a bus speed over 25 km/h.

Patronage modelling using the Sydney Travel Model showed that bus priority enabling 25 km/h average bus speeds combined with integrated service networks (that is, integrated local and trunk routes) would generate 50% more patronage than existing operations, with service kilometres only 10-15% higher due to better vehicle utilisation.

11 RECOVERY OF EFFICIENT COSTS

As has been highlighted elsewhere in this submission, the Government is proposing that IPART determine fare rises in the Sydney basin in line with a policy of fare harmonisation.

Although an argument for increases based on cost recovery principles is therefore not proposed at this stage, it must nevertheless be recognised that in addition to the arguments that the limited fare rises proposed for some STA passengers can be justified based on the performance benefits arising from the new contract funding model and on improved service quality grounds, a strong case also exists for these rises to be accepted on the basis of recovery of efficient costs.

The Bus and Coach Association has made a submission to IPART on behalf of the private bus industry concerning recovery of costs.

Cost recovery for Sydney Buses from passenger revenue (including the Government top-up of concession fares) has fallen by 3% over the past 5 years. The STA has advised that this fall has resulted from:

- Cost increases across the transport industry increasing in excess of CPI because of additional security measures, higher insurance costs and oil prices and the increasing operational and environmental performance standards expected from the bus fleet.
- Patronage reductions post-Olympics, (although some recovery is now evident).
- Fare increases being generally based on the CPI even though the major cost components for Sydney Buses' are labour (65%) and fuel (6%).

The forecast for 2004-05 continues this trend due to increases in wage costs, the price of oil, and projected falling income from sources other than fares.

Sydney Buses' Cost Recovery

1999/00	2000/01	2001/02	2002/03	2003/04 (p)	2004/05 (f)
91%	91%	89%	90%	88%	87%

(p) preliminary (f) forecast

The fares resulting from IPART's past determinations have not recovered efficient costs.

Reasons previously advanced by the Tribunal for not recommending full recovery of costs included:

- Sydney Buses had not proven the extent to which it is efficient;
- buses were regarded as over specified; and
- the absence of a customer charter.

STA has advised that it has now addressed these matters to the satisfaction of the Tribunal.

ATTACHMENT A STA OPERATIONAL PERFORMANCE TARGETS

Sydney Buses and Newcastle Services performance targets (KPIs) reflect a commitment to continued improvements in reliable, convenient, courteous, comfortable and safe public transport services.

The table below, which has been provided by the STA, demonstrates this commitment:

KPI	SYDNEY BUSES 2004/05 TARGET	NEWCASTLE 2004/05 TARGET
RELIABILITY		
On- time running	> 95%	>95%
Service reliability	> 99%	>99%
Mechanical reliability	<15 changeovers per 100,000kms	<12 changeovers per 100,000kms
Traffic incidents	<4 changeovers per 100,000kms	<2 changeovers per 100,000kms
SAFETY		
Passenger safety incidents per 1M passenger trips	<2.0	<2.0
Security incidents per 1M passenger trips	<0.5	<0.5
Personal injury claims per 1M passenger trips	<1.0	<1.0
CONVENIENCE		
Revenue kilometres	>64,000,000 kms	>70,000,000 kms
Passengers per revenue kilometre	>2.9	>1.6
COMFORT		
Average bus age	<12 years	<12 years
New buses contracted	180	0
New buses delivered	132	12
Old buses retired	123	12
Cleaning standards	Every bus cleaned every day and washed every week	Every bus cleaned every day and washed every week
CUSTOMER SERVICE		
Complaints received	<15 complaints every 100,000 trips	<15 complaints every 100,000 trips

ATTACHMENT B

Sydney Buses performance against Key Performance Indicators (KPIs) has continued to reflect the commitment to reliable, convenient, courteous, comfortable and safe public transport services.

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

1. On-time running and service reliability continues to be better than target levels
2. Bus mechanical reliability is tracking towards target levels
3. Passenger safety incidents are below target levels
4. Security incidents are below target levels
5. Personal injury claims have progressively declined in the last four years

Sydney Buses performance against Key Performance Indicators

KPI and 2002-03 Target	1999/00	2000/01	2001/02	2002/03	2003/04
Reliability					
On-time running (>95%)	97.4%	96.1%	96.2%	95.9	95.9
Service reliability (>99%)	99.6%	99.5%	99.6%	99.4	99.4
Mechanical reliability (<15 bus changeovers per 100,000 km)	19.56	20.37	17.58	15.68	16.82
Traffic reliability (accidents) (<4 changeovers per 100,000 km)	6.39	5.54	4.63	4.28	2.65
Safety (per million passenger trips)					
Safety Incidents (<2.0)	1.55	1.54	1.44	1.75	1.67
Security Incidents (<0.5)	0.40	0.51	0.41	0.13	0.12
Personal Injury claims (<1.0)	1.32	1.28	1.22	0.94	0.85
Comfort					
Average Bus Age (<12 years)	11.3	11.7	11.7	12.2	13
Convenience					
Total kilometres (kms)	7e+09	8e+09	8e+09	8e+09	8e+09
Passenger revenue kilometres (>63,000)					
Customer Service					
Complaints per 100,000 trips (<15)	6.5	6.6	8.6	11.7	11.3
Accessibility					
Accessible buses (% of fleet)	17.4	21.7	26.7	28.5	29.4

ATTACHMENT C

