



MINISTRY OF TRANSPORT



Rural & Regional Bus Reform Consultative Taskforce

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EXECUTIVE SUMMARY

The Minister for Transport, the Hon. John Watkins MP, established a joint Ministry of Transport / BCA Rural and Regional Bus Reform Taskforce in January 2006 to provide advice on recommendations from the Unsworth Review of Bus Services (February 2004) relating to rural and regional bus services.

Specifically the Taskforce was requested to develop options for the implementation of the Government's reform of bus services.

The Taskforce identified three major work streams of funding, contracting and service planning. A working group was established for each area to undertake research and detailed discussion of relevant matters in developing these options.

As it is expected that reform of rural and regional bus services will take some years to complete, the Minister also asked the Taskforce to consider what interim measures could be put in place to assist the sustainability of the bus industry and help maintain essential public transport services.

Recommendations from the Working Groups:

1. Trial three funding model options, evaluate trial results and determine the most effective funding model for rural and regional areas.
2. Review existing Minimum Service Level Policy and establish appropriate service levels for rural and regional areas
3. Develop a revised contract, incorporating the preferred funding and service planning approaches identified in the trial that will achieve the Government's objectives of continuity of service, value for money and the ability to purchase responsive services on behalf of the community.
4. A simplified revised contract be adopted for single, isolated bus operators.
5. A service planning trial be undertaken in the Tamworth area to further inform the process of establishing appropriate network development strategies, service policies and responsibility for service planning functions.
6. The following timetable for the reform process is proposed:
 - Oct 06 – June 07: Trial funding models
Develop standard contracts
Establish network service policies
 - July 07 – August 07: Evaluate funding model trials
 - Sept 07 – Nov 07: Finalise standard contracts
Determine reform roll-out program
Determine any transition requirements
 - January 08: Commence the roll-out of reform of bus services in rural and regional NSW

Recommendations for Interim Measures

The Ministry considers that relief from average age provisions and category shift should be provided on the following basis:

1. Relief from average age provisions to be provided for a period of up to 3 years for smaller operators who can average bus age over no more than 2 vehicles. Relief will only be available where the original vehicle is retained and the safety and reliability of the vehicle is assured through compliance with accreditation and RTA inspection requirements. An application for relief must be lodged.
2. Relief from decreased contract payments arising from a decrease in contract category of non-commercial contract holders be provided through a phased reduction in contract payments over a two year period for those operators whose total contract payments from the Ministry reduce by more than 10% per annum. This relief be limited to variable costs of operation where the purchase price of the bus has been recovered by the operator through prior contract payments.

The Taskforce has recommended relief from increased costs of fuel.

3. Relief from increasing fuel prices be made available to commercial operators through indexation payments.
4. That the Minister consider interim relief for non-commercial operators for increased fuel consumption provided the industry is able to quantify the impact of additional consumption.

Transition Issues

The Taskforce believes that only minimal changes are likely to be required for school bus operators holding a small number of contracts and operating in more isolated areas.

However, a key issue will be coordinating the services of operators who interact with other operators and reorganising the delivery of services in implementing a “network” approach.

The Government has consistently stated since 2004 that its preference is for current contract holders to have the first opportunity to negotiate a new contract if they wish to remain in the industry. Nevertheless, it is recognised that operators will make their own business decisions as reform rolls out and arrangements should be put in place to address them. In the event that operators wish to exit they will have the opportunity to sell their assets in accordance with the “Tingle” amendment.

The BCA has proposed that where an operator may be able to achieve efficiencies by buying out another operator, that the Government continue to pay to the purchasing operator, for a specified period, an equivalent sum that would have been payable to the exiting operator. After the specified period any efficiency savings would accrue to the Ministry. Under this proposal the purchasing operator is responsible for paying the outgoing operator with the Tingle amendment regulation remaining as a safety net.

1. BUS REFORM IN RURAL & REGIONAL NSW: OVERVIEW

1.1 What is bus reform?

To date, the process of “bus reform” in rural & regional NSW has been about looking at the way the State plans, funds and contracts for bus services to see what, if anything, can be done better.

Bus services are an essential public service. Under the *Transport Administration Act* 1988, it is the responsibility of the Director-General of the Ministry of Transport to ensure safe, adequate, and efficient public transport services are delivered to the community within the available funding resources. This is set out in s38 of the Act.

In rural & regional areas, private bus operators provide these services to the community on Government’s behalf. That is why bus operators provide services under contract to the Ministry of Transport.

In rural & regional communities, these contracts are worth more than \$230 million a year in Government subsidies provided through payments under the School Student Transport Scheme (which provides free transport to and from school for eligible students) and the Half Fare Concession Scheme (which allows eligible beneficiaries to travel on half the full fare).

Because of the levels of funds involved, as well as the importance of these services to the community, the Government needs to make sure that:

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

These are the key objectives for rural & regional bus reform and will result in the Government being a more informed purchaser of services.

Bus Reform has been approached in 3 stages:

- Sydney Metropolitan area;
- Outer Metropolitan area; and
- Regional and Rural NSW.

In recognition of the different operating environment in rural and regional NSW, bus reform in rural and regional areas has been approached differently. This reform will cover a range of operators from single bus / single contract holders operating in isolated areas through to larger operators with multiple contracts and larger fleets in regional centres.

To ensure the best outcome from the reform process a consultative approach has been adopted involving industry in determining options for reform and gathering information from service providers and the community through forums held in certain regional areas.

Trials of funding models will be conducted and assessed in determining the most appropriate arrangements and a review of contractual mechanisms is to be undertaken to ensure the most appropriate approach (or approaches) are developed.

As it is expected that bus reform in rural and regional areas will take some years to be finalised, a number of interim measures are being recommended to sustain the industry prior to the roll-out of bus reform.

1.2 What does bus reform mean for...

...the community?

For the community, bus reform aims to ensure that essential public transport services are maintained and that the Government has the ability to purchase the right mix of services.

Bus reform is also about ensuring that the community is properly consulted before service changes are made. While some operators do this well, the Government believes this needs to be a contractual obligation because the services are so important to the community. By updating service level policies, changes can be made to provide a reasonable level of access which reflects local requirements.

The Government is not making changes to the eligibility requirements of the SSTS and, of course, any changes to services will need to take into account distance and travelling times for school students.

Bus reform also means access to a better range of concessions. Following the first phase of the bus reform program: the Review of Bus Services in NSW undertaken by the Hon Barrie Unsworth (the Unsworth Review) - the Government agreed to look at expanding all day travel under the \$2.50 Pensioner Excursion Ticket (PET) to larger country towns. In metropolitan Sydney and outer-metropolitan areas, bus reform has meant half fare concession travel for university students – not just for travel to and from classes – and other improvements.

...taxpayers?

For taxpayers, bus reform is about making sure that the arrangements for the delivery of essential public transport services deliver value – in terms of the amount that is being paid for an appropriate service to be delivered. Revised service level policies will take into account the differing needs in communities across NSW, while ensuring the sustainability of services is also considered. The reform will ensure NSW gets value for the funds it is currently providing for bus services.

... bus operators?

Bus reform is about making the best use of available resources to deliver better services to the community. This may involve reorganisation of services where there are currently inefficiencies, such as overlap or duplication.

Funding arrangements will be reviewed to ensure that cost inputs accurately reflect operating costs and anomalies in the existing arrangements are considered – such as the treatment of “average age,” the impact of “category shift” and the failure of the current system to take into account the impacts of different operating environments (like unsealed roads).

The aim is for viable, sustainable bus services with fair and reasonable remuneration for all bus operators.

1.3 The process to date

The Rural and Regional Bus Reform Consultative Taskforce

With new contracts in place in each of the 15 metropolitan Sydney contract regions, and negotiations under way for the 10 outer-metropolitan regions – Newcastle, Wollongong, the Central Coast, the Blue Mountains and the Lower Hunter – in early 2006, the Deputy Premier and Minister for Transport, the Hon John Watkins MP, established the Rural & Regional Bus Reform Consultative Taskforce to progress rural & regional bus reform.

The role of the Taskforce is to:

- drill down into the issues raised by the Unsworth Review and ensure that the nature and extent of any problems is fully understood;
- develop and make recommendations to the Minister on the different options for improving the planning, funding and contracting of bus services; and
- identify the interim arrangements that should apply prior to the full roll out of bus reform where flaws in the existing arrangements are creating serious viability problems for some operators.

In undertaking this role, the Taskforce has been required to consult with members of the industry and the community and report to the Minister, in August 2006, on reform options that may be trialled.

The Terms of Reference for the Taskforce are at Attachment A to this report.

Membership of the Taskforce

The Taskforce has members from the industry's peak body, the Bus and Coach Association of NSW (BCA) and the Ministry of Transport.

BCA members of the Taskforce are:

- Darryl Mellish, the BCA's Executive Director;
- Peter Ferris, Chair of the BCA's Rural & Regional Reform Board Committee and CEO of the Buslines Group);
- George Tisse, Chief Executive Officer of the Busways Group, representing larger operators;
- Peter Jones, Director of Jones Brothers in Bathurst and Lithgow, representing medium sized operators; and
- Ian Templeman, who operates five "non-commercial" contracts in West Wyalong, representing small operators.

From the Ministry, Taskforce members are:

- Deborah Sutton (the Taskforce Chair) and Catherine Reilly who are Principal Policy Officers in the Ministry's Bus Reform team;
- Phil Sullivan who manages the Transport Operations Division's Northern Office in Newcastle;
- Lyall Kennedy, Director, Network Development, head of the Ministry's Network Development team; and
- Mark Brimfield, Senior Project & Liaison Officer with the Local & Community Transport team.

Three Working Groups looking at funding, service planning and contracting options have provided information to the Taskforce.

1.4 Activities of the Taskforce and its Working Groups

The Taskforce

In accordance with the requirements of its Terms of Reference, the Taskforce held monthly meetings between February and July 2006, with special meetings scheduled for 9 May 2006 and 16 June 2006 to discuss the interim relief measures that might be implemented while bus reform is rolled out.

The Taskforce convened three meetings outside of Sydney and took that opportunity to hold information sessions about bus reform for bus operators and members of the community prior to the meeting. These information sessions were held in the regional areas of Nowra (March), Mudgee (May) and Tamworth (June). Issues discussed at these forums are detailed in section 1.5 below.

The Working Groups

- **The Funding Model Working Group**

The role of the Funding Model Working Group has been to assess the existing "commercial" and "non-commercial" funding models, identify the problems with those arrangements and develop practical, workable solutions.

As part of this process, two Risk Workshops were held with bus operators – one in Sydney in April and one in Wagga Wagga in May. These Risk Workshops aimed to:

- identify the key risks involved in running a bus business (such as patronage, operational costs and capital risk); and
- consider which party to the contract (the Ministry or the bus operator) is best placed to manage those risks.

The risk assessment process formed part of the research that has been undertaken to inform the Taskforce. It is important to understand what areas of risk the industry and Government faces and the impact of those risks. This information will assist in identifying options for alternative funding models and determining areas requiring interim arrangements.

Work to date has indicated that the industry has a clear view of the risks it is willing to bear, assuming service planning guidelines are flexible, while the Government will finalise its position in light of the funding model trials.

This work was used to help develop different options for funding bus services:

- a Gross Cost model where all risk lies with Government, and which is a revision of the “non-commercial” or Pricewaterhouse Coopers (PwC) model;
- a Net Cost model, which is similar to the existing “commercial” funding model,
- and
- a Risk Sharing model which is a hybrid of the Gross and Net Cost models.

Trial of these alternative funding models will test the suitability of both the current and alternative models in sustaining the industry and dealing with the identified risks.

Components of each of these funding model options may be modified in testing the different approaches. Further information about these funding model options is set out in Section 5 of this report.

It is proposed that each of these funding model options be assessed through a series of desktop (paper-based) trials over the period from October 2006 to 30 June 2007. These trials would help determine which model or models deliver a viable, sustainable bus industry as well as the best possible value for Government funds.

The final configuration of any funding models adopted will take into account the party best placed to manage that risk which will include consideration of the extent of risk that the industry can sustain and the level of risk premium the Government can justifiably pay.

Membership of the Funding Model Working Group

The Funding Model Working Group comprises representatives from the BCA and the Ministry.

BCA members are:

Darryl Mellish, Executive Director of the BCA;
Frank D'Apuzzo, Managing Director of the Buslines Group;
Luke Gray, Managing Director TITLE, of Surfside Buses; and
George Tisse of the Busways Group.

Ministry members are:

Deborah Sutton (Chair) and Catherine Reilly from the Bus Reform team; and
Pat Murphy Manager, Financial Management Analysis and Reporting from the Ministry of
Transport

SAHA International was appointed to provide advice on financial issues and to assist with the development of funding model options.

• **The Service Planning Working Group**

The Service Planning Working Group's role was to look at options for improving service planning arrangements.

The key issues in this area are:

- Ensuring the ability to develop a local network of bus services;
- Providing the community with the ability to be appropriately involved in the planning and development of services, including the opportunity for regular review;
- Developing an objective basis for the development of a service level policy, which provides for clear and realistic expectations of the services to be delivered and recognises both actual and potential demand;
- Reviewing existing Service Level Policy and establishing appropriate service levels for rural and regional areas;
- Ensuring the most effective use of capital and recurrent funding by minimising overlap and suplications and provides the ability to target resources; and
- Determination of the most appropriate parties to undertake service planning, taking into account resources available, skills, local knowledge, risk exposure and incentive.

A key issue for the Working Group has been the consideration of arrangements where a series of services are provided by a number of separate operators. Because of the essential nature of these services and the amount of funding involved, it is recognised that a framework will need to be developed that enables a review of all services that feed into a common area. Contract mechanisms will then need to be developed to ensure ongoing coordination of services. To this point, the Working Group has focussed on route and school services, but future work will look at the relationship between bus operations and the community transport task.

The Tamworth area has been identified as a suitable location to investigate different strategies as it involves a mix of commercial operators and non-commercial operators with different levels of interaction.

It is proposed to examine how a network would be developed which recognises the different travel needs to and from rural areas, villages, surrounding towns and the regional centre. By doing this in Tamworth, this exercise would be undertaken in

RURAL AND REGIONAL BUS REFORM CONSULTATIVE TASKFORCE

Terms of Reference

Background

The Minister for Transport, the Hon. John Watkins MP, has agreed to the establishment of a joint Government/BCA Rural and Regional Bus Reform Taskforce. The role of the Taskforce will be to develop principles and options for, and provide advice on, implementation of the recommendations from the Unsworth Review of Bus Services (February 2004) relating to rural and regional bus services.

Reform Objectives

The Government's objective is to develop new contracting, service planning and funding arrangements for rural and regional NSW which provide:

- performance based contracts incorporating a passenger focus, consistent service standards and mechanisms to ensure continuity of essential passenger services;
- transparent funding arrangements that support value for money, proper allocation of risk and a sustainable industry; and
- effective service planning arrangements which reflect local travel patterns, minimise duplication and represent optimal use of the transport funding and assets in each location.

Taskforce Composition and Process

The Taskforce will comprise of up to five representatives from the Ministry of Transport covering its bus reform, network development, operations and community transport divisions and up to five members representing the private bus industry and reflecting the mix of small, medium and large operations in rural and regional NSW. Additional representatives will be co-opted as needed to participate on working groups to address key issues. The Minister will also seek advice from other key stakeholders.

The Taskforce and/or its working groups may meet with key stakeholders, such as operators, relevant government agencies and the Ministry of Transport's Director General, in the course of its deliberations as appropriate. Taskforce meetings will be held monthly. Working group meetings will be held as needed.

Reform Principles

The rural and regional reform process will be underpinned by the principles outlined in the final report of the Review of Bus Services, including the need to:

- ensure the best possible use of the rural and regional bus fleet;
- develop a more equitable, updated funding model that links return to operational effort, provides for a rational, consistent and transparent allocation of risk and does not favour some operators at the expense of

