



## A journey from adversary to partnership bus reform in NSW

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### A B S T R A C T

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This paper continues to debate the importance of understanding in the NSW Bus reform process of the relationship between central agencies, service providers, the academic community, key consultants and contractors within the setting of the transport service organisation framework. Sydney is a modern city with heavy rail, light-rail, monorail and an extensive Harbour, with bus services owned by Government as well as private interests. The paper addresses the case for reforms, the approach taken, competition policy, the subsequent development of partnerships, performance of the regulator, passenger benefits, growth and the differences between Metropolitan/Outer Metropolitan and Regional and Rural bus services.

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### 1. Executive Summary

New South Wales bus operators, both state and privately owned, have been and continue to be in the middle of major reforms to their contracts, to the planning of their services and to the way in which they are paid under new performance based contracts. The reforms are designed to introduce more transparent services with a more contestable regime of these contracts for the public benefit of the State of NSW.

The reforms, which have been completed in the Metropolitan and Outer Metropolitan regions, have replaced perpetual contracts with few measurable performance standards and were introduced by the New South Wales Government using unprecedented legislative powers. So far the reforms, in the Metropolitan and Outer Metropolitan areas, have resulted in improved viability for bus operators and a number of improvements for the community, but regrettably fall short in delivering the quality of services needed for a city like Sydney. The reforms involve changes to both Government and private operators, but the private bus industry contends that the process for reform, which was designed to achieve greater Government control ahead of quality services with, and, in the absence of real partnership between Government and industry, now requires significant modification.

Regional and rural reforms are midstream and there is better partnership between industry and Government. However, political influence ahead of transport policy and resources from the reforming agencies, and a stand over legacy from the metropolitan reform process still lingers, and may possibly adversely influence service quality outcomes.

The journey from adversary to partnership has not been successfully completed, and therefore, it may take another term of new contracts to achieve the proper outcome.

### 2. Introduction

Over the last decade the New South Wales Government has recognized the importance of bus transport as part of its commitment to the provision of public transport (State Plan, 2006). Prior to that time, heavy rail and Government owned and run bus services were the Government's focus despite the urban sprawl and land use policies in place. The quality of public transport, particularly in Sydney, has been of concern to the community for some time with the standard of the public transport subject to public scrutiny and media attention. This is despite Sydney's public transport performing better than other major cities. The Australian transport culture has been dominated by the use of the car (State Plan, 2006). A large part of the transport task for a bus operator has been to transport school children to and from school under the Government's free school travel scheme. The further away from the highly populated urban areas, the more the Operators' revenue was dependent upon the free school travel scheme. Rapid Bus transit has not been a serious contender for Sydney's proposed new major corridors.

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### 3. The Political Climate

The New South Wales Labor Government has been in power since 1995. There has been a lack of stability in the transport portfolio and, pre bus reform the bus industry had high levels of political contacts, which was resented by a number of politicians and senior bureaucrats. There was increasing awareness that infrastructure spending was not keeping pace with the needs of the community, and the Minister for Transport and Roads, the Honourable Carl Scully attempted in his 'Action for Transport, 2010' to plan for change, but the Government systematically failed to deliver. However, the 10 year planning cycle did start the process of identifying roads and bus transit ways and transit lanes that could form part of improving public transport. This was the forerunner of bus strategic corridors (43) which are now part of the bus contract reforms.

### 4. What Existed Before the Bus Reform Legislation of 2004?

Before the reforms, which saw major changes to the passenger transport legislation, operators had control over where and when their services operated, as long as they complied with minimum service levels. Minimum service levels were largely developed by the bus industry, and were population-based, with adjustments for competing services, such as rail transport. Service levels related to whether the service was a metropolitan service, an urban fringe service, country town service or rural service. Dedicated school services, and village to town and town to town services were also part of the pre 1990 service planning arrangements and continue in regional and rural areas today. Contracts were perpetual and 'grand father' rights meant that little or no measurable performance standards existed and there was almost no flexibility for Government to make changes in the public interest. The only time that any competitive environment existed was for new bus services known as 'Greenfield' areas and even then the logical option was for the adjoining operators to negotiate new services.

Fare box revenue was retained by the operator, and the legislation required that fares were set to cover reasonable inflationary cost increases. This was a growing issue as cost increases were outstripping the community's assessment of the value for money they were getting from public transport, particularly rail services. Regional and rural dedicated school services were funded on a gross cost bases, and other village to town and town services were generally cross subsidized from the Government's payments under the school student transport scheme. There was no integrated planning, and operators' jealously guarded their passengers within their contract area, with pickup and set down restrictions occurring for services that crossed boundaries.

Fleet age was set by Government, and there were very little reporting requirements. Contracts were short, simple documents, which gave the Government little ability to impose improvements and often the only remedy available to them was contract termination. The industry argued that the Director General did have authority to agree on performance measures but these were never used because there was no policy framework to balance both the revenue and the impact of cost changes. Basically the Passenger Transport Act itself, which had been amended in 1990, set out terms that had to be included in the bus service contracts (*Passenger Transport Act, 1990*, as amended). The Government operator, the State Transit Authority (STA), received extensive community service obligation funding, and operated on a cost-plus contract, with little incentive for efficiency. There was considerable fare inequity and service inequity between the Government and the private operators. The growing outer suburbs of Sydney (Metropolitan/Outer Metropolitan) were receiving progressively less of the share of Government transport funding. The private operators provided 55% of the fleet but received 15% of the discretionary

funding. The outer suburbs of Sydney and the surrounding areas of Newcastle and Wollongong and Blue Mountains, tended to be semi-rural in nature as far as the demand for bus services was concerned. The contract and payment incentives were driven by the number of school student passes issued. Some operators reinvested the cross subsidy from the free school travel scheme into additional services while others took profit or continued to operate without having to meet reasonable efficiency benchmarks. Pre-reform, commercial operators were paid for providing 92% capacity for all the eligible School Student Transport Scheme (SSTS) students in their contract area, regardless of the number of students who actually used the service. Revenue from the scheme was used to offset any shortfalls in running lowly patronized route services. The Government could not quantify the cross subsidies and could not relate this to its value for money or transparency requirements.

In general, the Government, the community and the operators were all dissatisfied with the process and these outcomes were the lead up to bus reform. However, some operators that were expecting patronage growth through new growth suburbs or increased student numbers were reluctant to change, particularly in the Sydney Metropolitan area, where operators were experiencing serious viability problems. The allocation of risk and the incentives to grow patronage was based on a long history of an expensive Government operator and many private operators who had developed their businesses over a number of generations, purchasing land when it was relatively cheap, and taking the fare box risk before families had second and third cars.

### 5. The Approach Taken to Reform the New South Wales Bus Industry

The Government released a report in 2003, titled, "Ministerial Inquiry into Sustainable Transport in NSW a Framework for the Future" ("The Parry Report"). The Parry Report concluded New South Wales could not continue with its old arrangements for the provision and funding of transport service (Parry, 2003). This report stated that a 21st century solution was needed to create sustainable transport systems with better deployment of funding and greater efficiency in order to improve value for the taxpayers' dollars. There were also recommendations covering the refocusing of existing subsidies and improved cost recovery.

Before the final report was released the Government had already commissioned a review of bus services in New South Wales (Unsworth, 2004), as it was clear that large sections of the Sydney Metropolitan area were being treated differently to populations in the centre of Sydney as far as public transport was concerned, and it was not feasible to provide heavy and light rail and Government bus solutions in a reasonable time frame, that was also considered cost-effective and value for money. The fact that the Unsworth Report was commissioned before the release of the Parry Report supports the industry view that the reforms were preconceived and lacked strategic vision and industry partnership to add to the decided tactical and operational reforms. These strategies were based on political power not a vision for transport. An interim report was released in 2003 by the Government setting out the case for reforms. The principal objective of the review was to create a bus transport system with common standards of fares and service levels. With the commissioning of the review of bus services in New South Wales the journey, about which this paper focuses began.

In 1992, the Council of Australian Governments, which comprises all nine State, Territory and Commonwealth Governments, commissioned Professor Fred Hilmer to Chair an Independent Committee of Inquiry into National Competition Policy. In 1995, acting on the Hilmer Report's recommendations, a number of reforms were drawn together to form a package, agreed upon by all Australian Governments, called National Competition Policy. This

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