
Contracting-out of Bus Services: The New South Wales Experience

Rod Gilmour

New South Wales Department of Transport
Sydney, NSW, Australia

1. The NSW Public Transport Environment

1.1 Government philosophy

The philosophy of the New South Wales Government is that public transport should be operated on a commercial basis as much as possible. It follows then that, as far as practicable, private and government bus operators should compete in the same commercial environment, which means that each should be subject to similar controls and opportunities.

1.2 The structure of public transport providers

The *State Rail Authority* (SRA) is the government authority responsible for the management of the state rail infrastructure and the provision of rail services in NSW. Electrified rail services operate on 1,700 kilometers of track in the more urban areas of NSW, while diesel cars are used in the outlying regions.

The *State Transit Authority* (STA) is a government authority, which operates a range of commercial and non-commercial bus and ferry services in the inner areas of Sydney and Newcastle.

Private Bus Operators, with four times as many buses as STA, are major providers of public transport in NSW. Private operators provide services in the outer areas of Sydney and Newcastle and in other major centers including Wollongong and the Central Coast. In many cases these buses serve as feeders to rail.

Taxi Operators Taxis operate in all major urban areas of NSW including Sydney, Newcastle and Wollongong. There are five authorized taxi networks in the Sydney metropolitan area with a total of around 4,000 taxis and 18,000 authorized drivers. It is estimated that these taxis perform in excess of one million passenger trips per week.

1.3 Legislative reform

The introduction of the Transport Administration Act 1988 and the Passenger Transport Act 1990 have resulted in the NSW Government Transport Authorities adopting a commercial outlook. This has resulted in greater transparency of Government payments to SRA, STA and private transport providers, while the heightened competitiveness allows the market to perform its proper role. As a result of the commercialization of the Government Transport Authorities, their "bottom line" performance has improved resulting in savings for the people of NSW. The quality of all public transport services has also improved as a result of the establishment of new standards of safety, reliability and cleanliness for all public passenger vehicles.

The Transport Administration Act, 1988

The Transport Administration Act 1988 established a commercial charter for STA and SRA under which commercial practices were adopted, and boards were required to have commercial expertise. SRA and STA are compensated for any losses arising from Ministerial directions as to the services and concessions that must be provided. Non-commercial services are provided by SRA and STA on a commercial basis

through the signing of Community Service Obligation (CSO) contracts. Non-commercial services may also be provided by private operators under contracts pursuant to the Transport Administration Act.

The Passenger Transport Act, 1990

To ensure that public transport is operated in NSW on a commercial basis wherever possible and that private and government operators compete on a "level playing field," the Passenger Transport Act 1990 was developed as a replacement for the Transport Licensing Act 1931.

The Passenger Transport Act states two of its objectives as:

- 1) the provision of a system of accreditation for transport operators
- 2) to dispense with the licensing of ferries and buses providing instead for:
 - ferry and bus services to be operated under fixed term contracts
 - deregulation of long distance and tourist services
 - more equal regulation of government and non-government buses and ferries

The Passenger Transport Act is designed to guarantee a minimum level of service and create a framework to achieve transport efficiency by balancing the needs of the community with commercial viability.

The requirements of the new performance based service contract system under the Act clearly delineates responsibilities and accountabilities. The terms and conditions of service contracts address areas such as minimum service level requirements (detailing the frequency of service to be provided in specific areas), service quality conditions including on-time running, maintenance standards for buses, driver/customer relations, and a maximum scale of fares.

There are two kinds of contract: commercial, where revenue comes mainly from fare-paying passengers; and non-commercial, where revenue is by payment from the government for an 'agreed contract price'.

1.4 The Department of Transport

The Department of Transport is the policy and regulation core of the NSW public transport system. It maintains a role of planning, approval, and monitoring of industry performance, while avoiding unnecessary interference in day-to-day management issues.

By ensuring that transport regulation and policy is external to the government transport operators, private and government operators are able to compete on a more equal footing. Under this arrangement, the accountability of the Government Transport Authorities is enhanced. SRA and STA report to the Minister via the Department of Transport and the Department of Transport is represented on the boards of STA and SRA. In addition, The Department of Transport administers Community Service Obligation Contracts for SRA and STA and monitors the performance of these organizations.

2. Contract Management

To further illuminate the nature of the provision of bus services in NSW via contracts administered by The Department of Transport, Nightride late night bus services and rural coach services will be examined.

In 1992, new contracts for the provision of rural coach services were entered into under the Passenger Transport Act 1990. In late 1993, new contracts for the provision of Nightride late night rail services, also under the Passenger Transport Act, will commence.

Though each of these services are not truly commercial, since fares do not fully cover the cost of the service, they are commercial in design. It is considered that such contracts are best entered into under the passenger Transport Act rather than the Transport Administration Act for the following reasons:

- Regular commercial bus services operate in "exclusive right" zones pursuant to contracts under the Passenger Transport Act. Services such as Nightride and the Rural Coaches may be operated within 40km of these regular commercial bus services providing their contracts are under the Passenger Transport Act. Operation within closer proximity may be negotiated if necessary.

If Nightride and Rural Coach services were contracted under the Transport Administration Act, it would be more difficult to resolve the problem of these services crossing the exclusive zones for commercial bus operators.

- The Nightride and Rural Coach services, being commercial in nature, should operate on the same principles as other commercial bus services that are covered by the Passenger Transport Act.
- It is desirable that Passenger Transport Act provisions regarding accreditation and service quality apply to the Nightride and Rural Coach services to ensure optimal service.

3. "Nightride" Late Night Bus Services

3.1 Background

By 1989, violence on late night Sydney Metropolitan trains had become a concern of the NSW Government. Patronage on late night trains was generally low, and one reason for this was the perception of many, particularly women, that at night trains were not a safe mode of travel.

Simply withdrawing late night trains was not favored as many people in Sydney require transport between midnight and dawn to access shiftwork and entertainment venues. While taxis provide one alternative to private cars, the expanse of Sydney means that, for many, taxis are prohibitively expensive for travel between the city and outer suburbs. One option considered was the replacement of late night trains with buses as violence was less likely on buses, because bus passengers are visible to the driver and activities on the bus can be observed by other road users. In addition, buses can be run more cost effectively than near empty trains.

There were some objections to the concept of replacing late night trains with bus services from parties including the rail unions and from some individuals. The grounds for objections included:

- If you replace trains with buses, you will simply get crime displacement, i.e., attacks will occur at bus stops and on buses.
- Nightride is the start of a general decrease in public transport.
- People are safer on trains than on the street and trains may be made safer by equipping rail staff with radios etc.

- People will not accept the new services and will choose to drive even if drunk.
- Trains are environmentally friendly - buses are not

Some of these objections could be addressed at the time. The present NSW Government's focus has always been on improving the efficiency and effectiveness of public transport rather than decreasing public transport. It is recognized that public transport must be available for equity reasons, to minimize congestion, and because of the environmental impact of transport.

This focus is evidenced by the fact that, in general, the one hour frequency of the Nightride services, which has been in place since the introduction of the services, is generally greater than that offered by the replaced rail services. In response to environmental concerns, it can be shown that the total impact on the environment, when the generation of electricity for trains is taken into account, is reduced if buses replace trains with low patronage levels. The other concerns have largely proved unwarranted. The evidence for this will be presented later.

3.2 Introduction of Nightride services

Nightride services began operation in 1989 as a replacement for late night rail services with a strong emphasis on passenger security. A positive image was important to establish in the public mind that Nightride was a new initiative with specific benefits to travelers. The distinctive "Nightride" name and logo, therefore, were developed. A comprehensive advertising/poster campaign was undertaken, and all printed material and street signage included the name and logo. Initially, Nightride was instituted on a trial basis and continued thereafter as non-commercial services provided under contract by private bus operators and the State Transit Authority.

3.3 Service features

There are eleven Nightride services currently operating, all of which will continue under new contracts after October 1993. The routes cover north, south, central, and western Sydney and generally follow the rail corridors.

Typically, Nightride operates hourly between midnight and dawn on a daily basis. Additional Nightride services are provided, if needed, for special events, such as the Gay Mardi Gras and on Australia Day and during the Christmas/New Year period.

On each Nightride bus, there is an on-board taxi booking facility so that passengers may be met by taxis when they alight the bus. Bus drivers are also able to contact the police should the need arise, and an effort is made to ensure all bus stops are well lit and as secure as possible.

3.4 Contracts

The current Nightride operators were chosen by an open tender process. The contracts, which are held by six operators including STA, cost approximately \$3.5 million per annum before revenue is taken into account.

All bus tender processes administered by the Department of Transport operate on a similar basis. Throughout the process, there is consultation with the Bus and Coach Association, the body representing all bus operators, to ensure that any problems are resolved in a productive and reasonable manner.

Tenders are initially evaluated on the basis of satisfaction of mandatory criteria including the specification that the operator is accredited and can satisfy the minimum service specifications. Tenders that satisfy mandatory criteria are examined in terms of the quality of the proposed services, which includes bus characteristics, (such as age) and proposals for services in excess of minimum levels. To formalize the comparison of tenders, a weighting system is used, which incorporates the quality factors and the cost of the service.

Flexibility is built into all contracts so that minor service variations including the provision of additional services on the contracted route can be provided as necessary.

Termination of any contract occurs if the operator fails to provide the service and does not notify the Department of Transport, if there is serious misconduct on the part of the contractor, if the contractor breaches the contract, if the contractor does not observe all relevant legalization, or if the contractor is no longer commercially viable.

Nightride contracts are of two years duration with an optional one year extension, which is at the discretion of the Director General of Department of Transport. It is considered necessary to let Nightride contracts of relatively short duration to ensure that:

- NSW is receiving the most efficient and effective Nightride services possible.
- The formulation of Nightride services is appropriate in terms of public expectations and needs.
- Changes in the regulations and/or the business environment can be taken into account.
- Testing of the market can take place regularly to ensure full contestability and obtain value for the money.

Nightride contracts of relatively short duration do not disadvantage operators, because the services are provided by operators who run general daytime bus services and their buses would be idle very late at night if they were not providing Nightride services. For this reason, the cost of Nightride services reflects the marginal cost of providing them.

3.5 Current situation

The existing nightride contracts are due to expire at the end of October 1993. All the existing Nightride services will continue to operate under new contracts after this date. As indicated earlier, these new contracts will be under the Passenger Transport Act.

An open tender process will be run as described in the previous section. It is anticipated that there will be in excess of ten tenders per route, as Nightride services have proved popular with the operators and their staff. This should result in some very competitive tenders. A management consultant, who is chosen after a consideration of proposals from various consultants, manages the tender process. All steps are taken to ensure the integrity of the tender process in terms of security and fairness.

The new Nightride contracts will be slightly different to the existing contracts in that:

- Operators will retain all revenue rather than returning it to the Department of Transport - payments to contractors will reflect this. This provides an incentive for operators to maximize patronage.

- Payments to contractors will not be revised every six months as a result of price variations in fuel, wages, etc. Such revisions are not appropriate for contracts of two years duration and in view of Australia's current low inflation, which is expected to be maintained over the two year period. As a result, risk to the NSW Government will be minimized.
- Minor route changes will be included in the new contracts to maximize public satisfaction with the services.
- There will be minor restrictions on pickups in some locations during certain times to ensure that there is no conflict with the commercial services of bus operators who have exclusive operation zones under the Passenger Transport Act.

3.6 Revenue

Fares for the Nightride service vary between \$1.40 And \$4.80. Taxi fares are between three and 15 times greater than the equivalent Nightride fare; the Nightride advantage increases with distance travelled. Nightride fares are set by the Department of Transport and apply on a uniform basis across all Nightride services. Relevant periodical rail tickets may be used on Nightride services as Nightride services were instituted to replace rail services. Around 70 percent of Nightride passengers use rail tickets, which partly accounts for a the cost recovery figure of approximately 15 percent.

3.7 Economy, efficiency, and effectiveness

Nightride services have resulted in more economic, efficient, and effective late night transport as:

- Nightride services cost approximately half as much as the late night trains they replaced. However, there are approximately 700,000 Nightride passengers per annum, which is around three times as many passengers as the replaced late night trains carried.
- Service quality and effectiveness has not been compromised by the introduction of Nightride. In fact, service characteristics including security, reliability, and frequency exceed or at least equal levels on the former late night trains.
- Nightride services have facilitated night time rail track maintenance.

3.8 Security and public response

Concerns that Nightride services would not result in improved passenger security compared to trains have proved unfounded. Records are kept of all incidents on Nightride services and since the commencement of Nightride there has been a reduction in the amount, and in the seriousness of reported crime on late night transport - crime displacement has not occurred.

Women have responded well to the service and they now comprise 30 percent of passengers. In a survey of passengers carried out by one of the private operators with a Nightride contract in July 1992, 86 percent of respondents rated on board security as excellent or good, and 84 percent rated the taxi connection as excellent or good. Reliability was also rated highly by survey respondents. The majority of the comments from the survey were positive and include "In general I find the service excellent. It is reliable safe and friendly" and "best service on wheels - keep up the good work".

The Department of Transport has also received comments such as, "I board the bus at St Marys, to be

greeted by one of your ever courteous and friendly drivers into a nice warm clean and safe bus that always runs on time."

It has been estimated that 82 percent of Nightride passengers use the service for social reasons. This tends to indicate a high level of public support, as these users choose to travel by Nightride - they are not bound by work commitments, etc. In addition, there have been requests from the public for an expansion of the services.

4. "Rural Coach" Rail Replacement Services

4.1 Background

In the late 1980s, the NSW Government decided to discontinue the provision of rural coaches to a number of rural centers. This was necessary due to continuing low patronage on the rail services and the need for a cost effective transport option in line with demand.

Initially, SRA operated coach services were introduced as a replacement for the rural trains. However, in 1990, private bus operators chosen by tender began to provide the replacement coaches under contract to SRA. This allowed for greater efficiency as various operators were able to compete for the right to operate the services.

There were additional coach services provided under these contracts than had been provided by SRA, and there was some additional rail replacement. During the course of these Rural Coach Contracts, some of the contracted services were withdrawn when patronage figures indicated that the demand for the service was not great enough to justify its continuation.

In 1992, the administration of the Rural coach contracts was transferred to the Department of Transport for the following reasons:

- To effect a separation between the provision of coach services and the legitimate role of SRA as a provider of rail services.
- To maintain benefits to certain groups, necessitating the provision of through ticketing, concessions, and connections between bus and rail services. (The Department of Transport is better able to manage these aspects of the provision of rural coach services due to its role in the co-ordination of all public transport.)

SRA's role in the day to day operation of the rural coaches is in the context of its position as a train operator with a commitment to customer service.

4.2 Service features

The quality of the coaches used is high and this is taken into account in the evaluation of tenders. Coaches are air-conditioned with comfortable seating and must have suitable luggage facilities.

The coaches operate feeder services from outlying areas connecting with the rail services. The coaches must meet specified rail services and stop at particular centers en-route. Operators are encouraged to submit proposals on the best way to meet these requirements including details of appropriate timetables. All passengers carried on the rural coach services must make a reservation prior to travelling through

Countrylink, which is operated by SRA. Since July 1 1992, operators have been permitted to carry non-rail passengers as long as they book through Countrylink and all rail commitments are met.

4.3 Contracts

As indicated previously, the present Rural Coach contracts are under the Passenger Transport Act. These contracts are of two years duration, which is considered necessary to ensure the most efficient and effective services. There is an option for a two year extension of the contract which is at the discretion of the Director-General of the Department of Transport. The relatively short duration should not disadvantage operators as, generally, these operators will be the providers of other long distance or regular route (local area) services, and, thus, rural coach services comprise only a portion of their business.

4.4 Recent developments

The above mentioned contracts were instituted after the re-tendering process in the second half of 1992. The tender process employed was similar to that discussed under the section on Nightride with a consultant used to manage the tender process.

More than 500 individual tenders from 65 different operators were received for the 41 routes. On all routes and particularly those for which many operators tendered, the tender process resulted in very competitive submissions and innovative proposals. In many cases and after extensive community consultation, the operators that were proposing services in their local area were able to include additional services for which there was a strong demand in their proposals. Where such services were well priced, they were included in the service contracts.

As a result, new contracts, which were put in place in early January 1993, resulted in a more cost effective provision of services through better utilization of resources - operators' proposals allowed many routes to be networked so that the 41 routes are covered by 28 contracts held by 18 operators. The cost of these contracts, without considering revenue, is approximately \$10 million per annum.

4.5 Revenue

All fares are set by Countrylink based on the distances covered by the service. Various concessions and through ticketing are available. The Rural Coach Services are unique in that they maintain the full benefit of the SRA fare structure (i.e. there are additional concessions not available on non-SRA services and through [rail-coach] ticketing is available).

SRA collects all the revenue for the rural coach services. The Department of Transport bills SRA for the cost of the rural coach contracts. As the rural coach services are non-commercial, the loss borne by the SRA is taken into consideration when the total payment to the SRA is calculated. It is to be noted that this loss is significantly less than that which was incurred when the rural trains were operated.

4.6 Economy, efficiency, and effectiveness

The rural coach services have resulted in more economic, efficient and effective rural long distance transport as:

- Rural coach services resulted in considerable savings of over the rural trains they replaced.
- Service coverage has been maintained. Patronage on the Rural Coaches is comparable to that on the

replaced trains as the slight overall decline in patronage can be attributed to the decline in the use of all long distance transport brought about by the recession and the effect of deregulation air transport.

- Buses provide a more demand responsive and flexible transport option than trains - routes and services can be added or withdrawn to maximize public utility.
- With the new contracts the Department of Transport is able to guarantee the existing frequencies and more suitable timetabling of services for local communities.
- The overall result of the most recent tender process is annual savings of \$1.2 million compared to the cost of previous contracts. The savings were possible — even though the quality of the services was maintained — because of the innovative solutions proposed by the successful tenderers and the fact that many operators now have established fleets capable of carrying out the services.
- The new contracts result in better value for the money, open and effective competition, and higher quality services.
- As coaches are now permitted to use the operator's livery rather than the State Rail logo, the operators have greater flexibility in the use of vehicles and the operators are more accountable as a result of public awareness as to the operator of the service.

4.7 Public response

Indications are that the Rural Coach services are operating effectively. And, as the coaches travel to some areas that were not previously serviced by trains, many people now enjoy improved long distance public transport. Various requests have been made for extensions and variations to rural coach services and these requests have been met where ever possible.

As all passengers must book through Countrylink, the requirements of the public can be monitored and adjustments made to the service where necessary. All operators are required to maintain a telephone service for customer enquiries and complaints. Also the Department of Transport examines any passenger complaints as necessary. Consequently, a high level of customer responsiveness is maintained.

5. Final Comments

The institution of a contract system for the provision of public bus services in NSW has proved to be an effective way of ensuring value for the money, responsiveness, quality and flexibility in the provision of the services.

All bus operators now know that, if they are efficient and effective operators, they will have a chance to consolidate and expand their businesses via open competition with other operators.

Under such a system the public is better able to understand the process of government regulation of public bus transport. And operators, confident that a fair framework has been established, work in close constructive consultation with the Government.

