

Transubstantiating Transperth - The Perth Approach to Public Transport Reform

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INTRODUCTION

In September 1993 the Western Australian Government endorsed a plan aimed at developing a more efficient, effective and responsive public transport system in metropolitan Perth, at a reduced cost to the community. It provided for the Department of Transport (Transport) to assume responsibility for the co-ordination of public transport under an Executive Director, Metropolitan Transport, who would also have a strategic role in relation to metropolitan transport policies generally.

Following that decision Transport staff cast around to see who was reforming how they were doing it and how well they were doing it. This included a visit to New Zealand accompanied by the Western Australian Minister for Transport early in 1994. There was plenty going on here and in Australia and thus we had more than enough to guide us.

More importantly, because the reform process was well advanced here, we could look at results as well as theories.

One of the key reform objectives is that the development of public transport in Perth will continue to be integrated and the total system will continue to operate under the name "Transperth". Hence the title of my address, "Transubstantiating Transperth - The Perth Approach to Public Transport Reform". Although the service will change from a monopoly government operation to a competitively tendered model with private sector operators, the outward form of the service in terms of livery, ticketing, marketing and planning will remain the same (or be improved and extended) under the umbrella name of "Transperth".

It is now almost two years since reform began and I am pleased to report that the reform is proceeding well with substantial progress being made in each of the areas of bus, ferry and train passenger transport. Apart from the separation of the roles of policy formulation and service provision the process of cost reduction and innovation by introducing competitive tendering is progressing albeit somewhat more slowly than at first anticipated. At the same time service levels have improved. For the first time in several years there have been substantial extensions of the bus and train services. Eight additional bus services either have already been introduced or will be introduced in 1995. Train services, in response to customer needs, have been extended on Sunday nights. The program of fare rises to an equitable level, while at the same time not adversely affecting public transport patronage, is well advanced. In the current financial year public transport patronage across the three modes is expected to increase. And probably the most pleasing aspect of the reform process has been the enthusiastic acceptance by the government providers, the Metropolitan (Perth) Passenger Transport Trust (recently renamed MetroBus) and Westrail of the reform process and their need to embrace the principles of benchmarking and world's best practice in order to achieve these levels in mid 1996. But before embarking on a description of the detail of these reform achievements I believe it would be useful to describe briefly the public transport context in Perth and then, by way of introduction, recap on the original innovation and reform objectives and strategies.

A BRIEF DESCRIPTION OF THE PERTH TRANSPORT SCENE

The Metropolitan (Perth) Passenger Transport Trust (MTT) was established by an Act of the Western Australian Parliament proclaimed in 1958. The MTT was conceived because of the parlous financial state of the privately owned public transport operators at the time and fostered by the notion that Perth's public transport users would benefit from a single integrated public transport system. All of the initiatives of the past several years have focused on progressing that notion of a single integrated public transport system based on buses, trains and ferries and using the particular strengths of each mode in a complementary way.

Public transport can be seen as having two roles in benefiting the community. The first and traditional role is to provide an adequate level of mobility to the transport disadvantaged. These are people who for reason of age or financial situation do not have access to a motor car. Its second, and in my view, growing role, is to provide an attractive alternative to the private car. It is this second group of public transport users, ie the choice users that we are currently targeting while never losing sight of our bread and butter base load of transport disadvantaged passengers. The objective is that public transport passengers and the general community receive maximum benefit for their respective contributions.

Under Section 23 of the MTT Act, the MTT was required to provide, maintain, protect and manage efficient passenger transport services throughout the metropolitan area of Perth. The MTT was virtually the sole supplier of bus, train and ferry services on scheduled routes in Perth. To carry out this task, it utilised a vehicle fleet of 930 buses, 43 two car electric multiple unit trains and 3 ferries. Staff numbers in the metropolitan area were about 2,700. It provided 240,000 passenger journeys per day and by most measures was one of the most efficient public sector transport providers in Australia. But on the other side of the coin, we must remember that it only provided some 8% of motorised trips and only 36% of work trips to the Central Business District (CBD). By even Australian standards, these latter figures are far too low.

Part of the reason is that Perth is a very hostile environment for public transport. Perth developed in the era of the mass produced motor car. The people of Perth have more cars per head of population than the people of Los Angeles. They drive them on an free flowing system of roads and freeways any city in the world would claim with pride. The CBD of Perth has more parking spaces than Sydney or Melbourne, cities more than three times our size, and 50% more parking than a comparable city, Brisbane. The sprawling city extends from Mandurah in the south to Two Rocks in the north, a distance of 115 kms and from the coast in the west to Chidlow in the east, a distance of approximately 70 kms. This area is twice the size of Greater London and contains only 1/8 of the population. We have the cheapest public transport fares in Australia, the policy direction of the previous Government. Add these factors and the answer inescapably is this - Perth is a challenging place in which to try to run a financially profitable public transport system.

In recent years some \$500 million has been injected into the transport system in major capital works namely

PERTH PUBLIC TRANSPORT CAPITAL WORKS		
Project	Completion	Cost \$M
Kwinana Freeway Buslane	Nov 1991	10
Perth City Busport	1991	32
Rail Electrification	1991	180
Northern Suburbs Transit System	1993	275
Total		497

The underlying thrust of the public transport hardware and facilities has been to emphasise the necessity of using the strengths of various modes in a complementary way to provide an integrated public transport system.

In keeping with this objective, as well as facilities integration, the MTT provided an integrated marketing, information, timetables and ticketing system.

Information was provided by a central telephone information service plus one stop information shops in the CBD and at the railway termini. Timetables were similarly integrated with bus, train and ferry schedules designed to match. Ticketing was also provided as an integrated system and passengers, by purchasing a ticket at their origin, can transfer between modes to their destination on the same through ticket. This was primarily designed for the convenience of the customer, but has the added benefit of providing faster boarding times and therefore benefits to the public transport supplier. These functions have now been transferred to Transport as service co-ordinator.

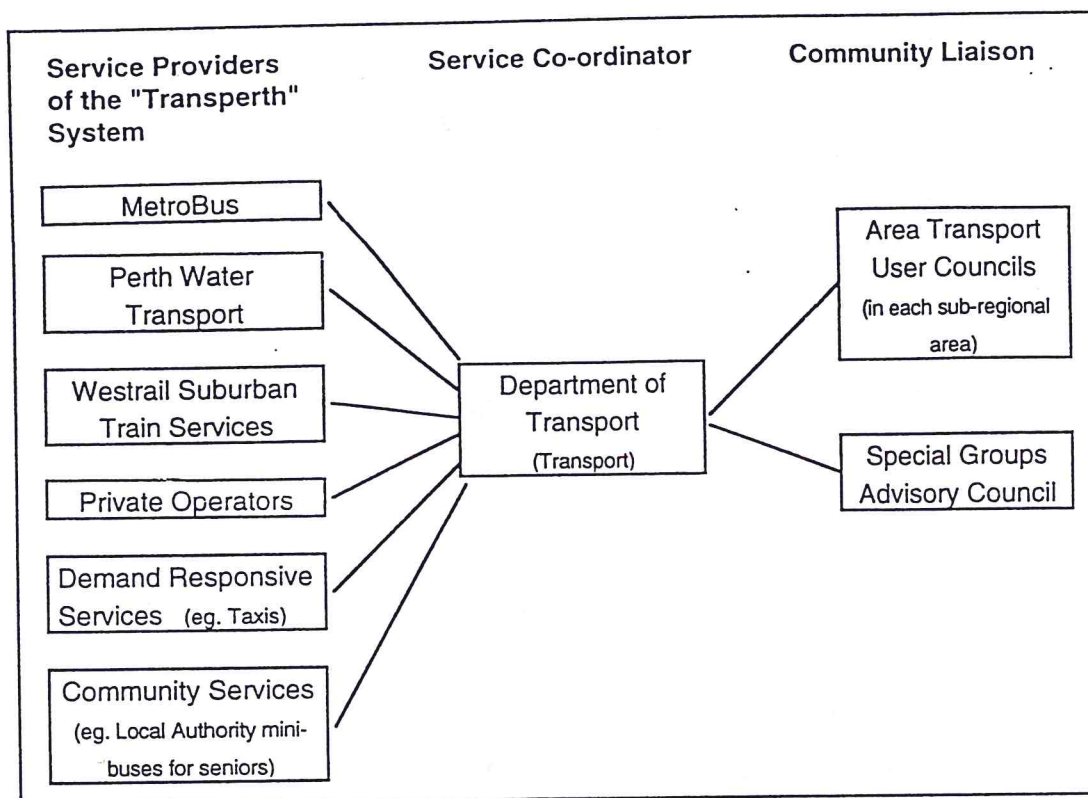
DETAILS OF THE REFORM PROGRAM

In September 1993, the WA Government made probably the most significant public transport reform decision when it endorsed a plan aimed at developing a more efficient, effective and responsive public transport system in metropolitan Perth, at a reduced cost to the community. It provided for:

- the separation of the roles of policy formulation and service provision;
- the facilitation of cost reduction and innovation by introducing competitive tendering.

The new structure comprises three distinct components:

- a service coordinator;
- service providers, and
- community liaison.



The overall aim of the reform is not restricted to cost-efficiency. Rather, the focus is on cost-effectiveness, quality service provision and development. Thus, there are two main objectives.

- * *Service Development* - to maintain and improve the level of mobility provided for those with no ready access to other forms of transport (or alternatives to transport), and to encourage "low priority" car users to travel by public transport to minimise the economic, environmental and social costs of excessive car usage.
- * *Cost-Effectiveness* - to achieve the above service development objectives in the most cost-efficient way by:
 - introducing a competitive operating environment;
 - encouraging innovation and quality in the provision of services;
 - introducing a more appropriate fares structure and fare levels;
 - introducing, where appropriate, priority measures for public transport vehicles;
 - continually reassessing services with users and potential users;
 - encouraging better integration of public transport and land use.

Total targeted savings to Government per annum relative to the 1992-93 MTT budget, appropriately adjusted, were as follows:

	1993-94	1994-95	1995-96
Operating cost savings	\$2.0m.	\$8.5m.	\$26.5m.
Revenue increases	<u>\$4.7m.</u>	<u>\$9.7m.</u>	<u>\$14.7m.</u>
Total savings to Government	\$6.7m.	\$18.2m.	\$41.2m.

SYSTEM OPTIONS

There are several system options and I believe it is useful to define some of these.

Monopoly - both the planning and operating functions of public transport are performed by one Government-owned authority, such as occurred in Perth. Because of the lack of competition or contestability this model tends to produce an inefficient and ineffective transport system which often fails to adequately meet customer requirements.

Consequently, there is a world-wide trend to provide urban bus services under alternative models.

Deregulation - there are no regulations restricting the provision of public transport in a region by any party, other than regulations relating to such matters as safety and vehicle design.

As can be seen from this definition, the reference is to economic deregulation, not safety deregulation.

While deregulation may be considered the ultimate form of competition there are disadvantages to deregulation of public transport especially in Perth. These disadvantages relate to the provision of night and weekend services and the problems that occur when more than one operator is able to operate along a particular route. There is also the negative experience of United Kingdom and New Zealand deregulation which resulted in major patronage decline.

Privatisation - the government enterprise is offered for sale to the private sector without the government operator necessarily being given the opportunity to tender. The planning function may or may not be retained by the government.

Corporatisation - is a way of replicating a competitive private sector environment for government business enterprise and is an extension of the more commercial focus. The five generally accepted principles of corporatisation are :

- clear and non-conflicting corporate objectives;
- managerial autonomy, authority and responsibility, usually achieved by the installation of a non-executive board;
- external performance monitoring and the setting of performance targets;
- rewards and sanctions based on performance, and
- an operating environment which is competitively neutral with comparable organisations in the private sector (including factors such as debt:equity ratio, accounting practices, industrial relations practices, tax equivalent payments, dividend requirements and transparently funded community service obligations).

Corporatisation may take place under Corporations Law or State statute, and the stated preference of the current WA Government is for the latter course.

Competitive Franchise Contracts - the transport system is divided into a number of franchise regions and the planning and operating functions within each region are jointly let to one contractor. Competition exists both between regions (as far as comparative service standards are concerned) and at the bidding stage for each region.

Competitive Operating Contracts - the planning function of the transport system is retained under centralised monopolistic control (normally Government owned), whereas the operating function is subject to competitive bidding

PROGRESS SO FAR

The reform program aims to create a contestable and competitive environment for the provision of public transport in metropolitan Perth, in keeping with Government objectives for the management of public sector services.

In seeking to achieve this aim, the following commitments have been made by Transport and the two Government-owned public transport operators, MetroBus and Westrail.

- Transport will ensure that:
 - Public transport in Perth remains fully integrated and seamless, and that it becomes complete and largely self-correcting and self-administered. The system will continue to operate under the name "Transperth".
 - Service quality is maintained and improved.
 - The level of mobility provided to those with no ready access to other forms of transport (or alternatives to transport) is maintained.
 - "Low priority" car commuters (ie those who do not need their car for work) are encouraged to switch to public transport.
 - Services are provided in a cost-efficient and cost-effective manner.
 - Barriers to entry which distort the competitive environment are removed.
 - Public Transport will not be deregulated.
 - Public Transport will not necessarily be privatised.
- MetroBus and Westrail
 - Are committed to becoming competitive with the private sector by achieving "world's best practice" cost levels by June 1996.
 - Will not be corporatised at least in the short term.

The following actions to implement the reform program have already been taken or are in progress:

- *Separation of functions*
The planning, co-ordination and policy formulation functions have been separated from service delivery and are now carried out by the Executive Director, Metropolitan Transport within Transport.
- *Competitive tendering*
Operators can win the right to provide public transport services under Competitive Operating Contracts. This does not involve deregulation nor necessarily privatisation. Instead, appropriately qualified parties including the Government owned operators will be invited to tender for the exclusive right to provide Transperth services in a clearly defined area, or over a specified route. There will be 15 contract areas for the bus services while the ferry service between Perth City and South Perth is a separate contract.

Tenderers who offer the best balance between quality service, innovation and cost will win. Tenders will be evaluated by a private consultant and care will be taken to factor in any advantage or disadvantage that MetroBus

and Westrail may have, due to their being Government agencies, to ensure that the decision is fair to all tenderers. The successful tenderers will be known as Transperth operators.

- *Reducing barriers to entry*
Two important initiatives have been taken to reduce barriers to entry. They are both consistent with the principles of the Commonwealth's Trade Practices Act and are in keeping with the State Government's competition policy.

These initiatives are:

- Vesting ownership in Transport of common-user facilities and services so that all operators could have equal access to them.
- Making existing buses available to successful tenderers, either by leasing them directly or by selling the government-owned fleet to a third party lessor and leasing the buses back to successful tenderers.

As well as the need to eliminate access to buses as a barrier to entry for potential private bus operators, the reasons for clarifying issues concerning the bus fleet making up the Transperth network include -

- The consequences of Transport's agreement resulting from the Federal Government's Disability Discrimination Act.
- The opportunity to achieve savings in bus ownership costs as part of the Reform Plan.
- The need to provide detail for a Bus Replacement Program to meet the criteria set down in the tender documents for the bus services.

Debate on fleet issues since January of this year suggests there is a hierarchy of critical decision points appropriate to operating within the framework set by Competitive Tendering and Contracting. They are :

- *Control* - the Government must retain control of the fleet both to encourage private enterprise tenders and prevent the establishment of private enterprise monopoly fleets.
- *Ownership* - concerns all existing, replacement and additional parts of the fleet controlled by the Government that makes up the Transperth network. It can be in several forms. A traditional sale and lease back is not expected to provide a significant cost reduction but would release funds for capital investment. A cross border lease may deliver savings of up to \$3.0 million spread over several years, mostly depending on the size of new bus purchases. It may be possible to use the awarding of a new bus tender to encourage the supplier to take up a cross border lease on a portion of the existing fleet.
- *Fleet Coordination* - concerns ensuring fleet meets the reasonable requirements of the Transperth bus operators and that operators meet maintenance and safety requirements. It also includes the requirements of fleet insurance, replacement and financial matters such as an agreed standard lease arrangement with the operators.

- *Operation* - concerns operators utilising the fleet in accordance with contract conditions to provide the services that makes up the Transperth network.
- *Maintenance* - concerns the regular repairs and maintenance of the fleet in accordance with guidelines set down by the Fleet Coordinator.
- *Advertising on buses* - this revenue is currently subject to a contract with an advertising company.

PAYMENT TO TRANSPERTH OPERATORS

THE TYPE OF CONTRACT

Payment to operators can be based on gross cost (ie total cost) or net cost (ie allowing for revenue).

With a simple gross-cost contract, the operator would be paid the cost of operating the services (ie the tender price) while the fare revenue accrues to Transport. This type of contract provides the operator with a high degree of security and a guaranteed income but it does not incorporate any incentive to encourage patronage or, indeed, to maintain the quality of service.

A net-cost contract based on patronage, ie output-based, would provide the greatest incentive to an operator. However, as it is difficult to audit reported patronage such a contract would be open to abuse.

A gross-cost contract is simple to administer while a net-cost contract is more complex in that it requires the allocation of revenue among operators in different contract areas.

GROSS-COST WITH INCENTIVES CONTRACT

Following discussions with private sector operators and consultants, Transport developed a contract which balances the incentive to increase patronage with security for the contractor, ie the "gross-cost with incentives" contract.

Under this type of contract:

- Tenderers will be invited to bid on the service charge they require to cover the total cost of providing services in the contract area, after allowing for anticipated income from a patronage-related and a service-related payment.
- Operators are guaranteed that a proportion of their costs will be covered by the service charge.
- The incentive is provided by the fact that a significant proportion of the operator's income will depend on the number of passengers carried. Hence, it is in the operator's interest to ensure that services are responsive to customer needs and thus promote increased usage.
- Administration is simple because there is no requirement to allocate revenue among a number of operators.

Payments to the operator consist of the following components and will be paid by Transport on a monthly basis. The fare revenue collected will accrue to Transport, however, for convenience it will be retained by the operator and offset against the payment due.

- *Patronage-related payment*

This is based on ticket sales from electronic ticket issuing machines (ETIM) and ticket vending machines (TVM), and MultiRider cancellations and validations on the ticket validating machines (TVAL). The payment will be at a fixed rate for standard fare and concession passengers respectively.

The data required is an accurate count of every passenger boarding. This includes the first boarding where passengers either purchase a cash ticket or cancel a MultiRider ticket, plus the subsequent transfers (within the prescribed transfer period) on cash tickets or by validating MultiRiders. It is intended to introduce magnetic stripe two-trip cash tickets to be sold on-board buses to facilitate the recording of transfers on cash tickets. Transfers will then not be permitted on paper cash tickets.

When tenders are called, Transport will provide tenderers with a patronage profile. The total patronage figure and the associated revenue will be guaranteed by Transport for the first year of the contract. This will ensure that the contractor does not suffer a loss of income if the patronage had been over-estimated. From the second year onwards, the payment will be based on the number of passengers carried.

- *Service-related payment*

Transport will provide tenderers with details of the total revenue kilometres to be covered to provide the agreed services within the contract area. The service-related payment is a fixed rate per revenue kilometre based on the marginal operating cost, including a wages component. This will be paid on actual, not scheduled, kilometres covered.

- *Tendered service charge*

Tenderers are required to bid on the service charge which is the difference between the total cost of the operation and the estimated income from the patronage and service-related payments, described above.

The service charge is made up of two components:

- A fixed cost component comprising management and leasing charges (eg administration, insurance, licensing, bus and equipment leasing etc).
- A variable cost component calculated as follows: Variable operating costs (ie staff costs and operating costs such as fuel, oil etc) less the sum of the patronage-related payment and the guaranteed service-related payment.

The variable cost component will be expressed as a rate per revenue kilometre and be added to the fixed rate per kilometre to pay for any additional kilometres that may be provided under agreement with Transport.

THE TENDERING PROGRAM

In May 1994, Cabinet endorsed a program to tender out the Transperth ferry service and about 50% of bus services by February 1996. The latter was expected to involve a peak requirement of up to 420 buses. This program accelerated the application of competitive tendering principles, but Cabinet noted that the timing and content of all stages would be subject to modification, if required, to take account of the results of the previous tenders.

Cabinet also agreed that the suburban train services and the remaining bus services be put out to competitive tender during the second term of the Government. It was further agreed that annual negotiated operating agreements, commencing in July 1994, be developed with MetroBus for the operation of the bus services, until they are put out to tender, and with Westrail for the suburban train services.

THE FERRY CONTRACT

On 30 August 1994, following an Expression of Interest process advertised on 23 July, Transport invited six parties to submit tenders to operate the Transperth ferry service between Perth City and South Perth. Tenders were received from MetroBus and 3 private sector operators. One tender from the private sector was assessed as non-conforming and was not evaluated further. The remaining three tenders were then evaluated by Price Waterhouse, with technical information from Transport, covering both non-price (ie service quality) and price criteria. Following this process, Vyscot Pty Ltd., trading as Captain Cook Cruises was selected as the preferred tenderer.

Issues relating to access to the common ticketing system, ferry ownership and maintenance, and jetty management were resolved. Captain Cook Cruises formed a new company, Perth Water Transport, which includes the former MTT employees as directors and shareholders to operate the Transperth ferry service from 5 February 1995.

Competitive tendering has resulted in the annual cost of operating the Transperth ferry service being reduced by approximately \$100,000 compared to the cost quoted in the Transperth Annual Report for 1993-94. Furthermore, operation by Perth Water Transport will result in one vessel becoming surplus to requirements. Preliminary indications are that the realisable value of this vessel could be as high as \$80,000, which represents an additional financial benefit to the State.

CONTRACTS FOR TRANSPERTH BUS SERVICES

JOONDALUP NORTH AND ARMADALE SOUTH

Expressions of Interest for the provision of Transperth bus services in the Joondalup North and Armadale South contract areas were called on 24 September 1994. Responses were received from MetroBus and 12 companies in the private sector.

Tenders for the two contract areas were issued in mid-January 1995 and closed on 14 March 1995. A total of 9 tenders were received (one tenderer withdrew prior to interview). The tenders are currently being evaluated.

MIDLAND

Expressions of Interest for the provision of Transperth bus services in the Midland contract area closed on 17 March 1995. There were 12 responses of which four were from interstate, three from overseas (including two from New Zealand) and five from Western Australia.

Following the Expression of Interest, eight respondents were invited to submit tenders on 31 March 1995. Tenders closed on 26 May 1995 and are currently being evaluated.

SUBURBAN TRAIN SERVICES

Following proclamation of the Acts Amendment Act on 1 January 1995, Transport and Westrail are finalising a negotiated-competitive agreement which identifies Westrail's responsibilities as the contracted operator and establishes performance targets to be achieved during the contract year in the context of world best practice quality and costs. Efforts are continuing to better understand and identify the feasibility of fully achieving world best practice targets by June 1996.

COMMON-USER FACILITIES AND SERVICES

MANAGEMENT OF COMMON-USER FACILITIES AND SERVICES

Transperth's common-user assets and services comprise the following:

- Central area facilities, eg the Perth City Busport, the Wellington Street Bus Station, the Kwinana Freeway Buslane.
- Suburban facilities, eg the park 'n' ride facilities and the metropolitan bus/train interchanges.
- The passenger information service for the Transperth system and maintenance of bus stops (but not passenger shelters).
- Electronic ticketing system.

The reform program provides for Transport to own these common-user assets and services and have them managed on its behalf. This will:

- Ensure that all operators have equal access.
- Help to achieve a seamless Transperth system.
- Ensure that quality facilities are provided for passengers and operators alike.
- Help to plan and provide for future requirements.

Currently the central area and the suburban common area facilities and the passenger information service are managed by MetroBus on behalf of Transport under negotiated agreements.

Tenders for the management of the central area facilities, the suburban facilities and the passenger information service are due to be called in July 1995.

The ticketing equipment will be leased to individual operators who will be required to provide for its maintenance.

TRANSFER OF ASSETS

Transferring assets from MetroBus has been described as a central element of any competitive tendering arrangement.

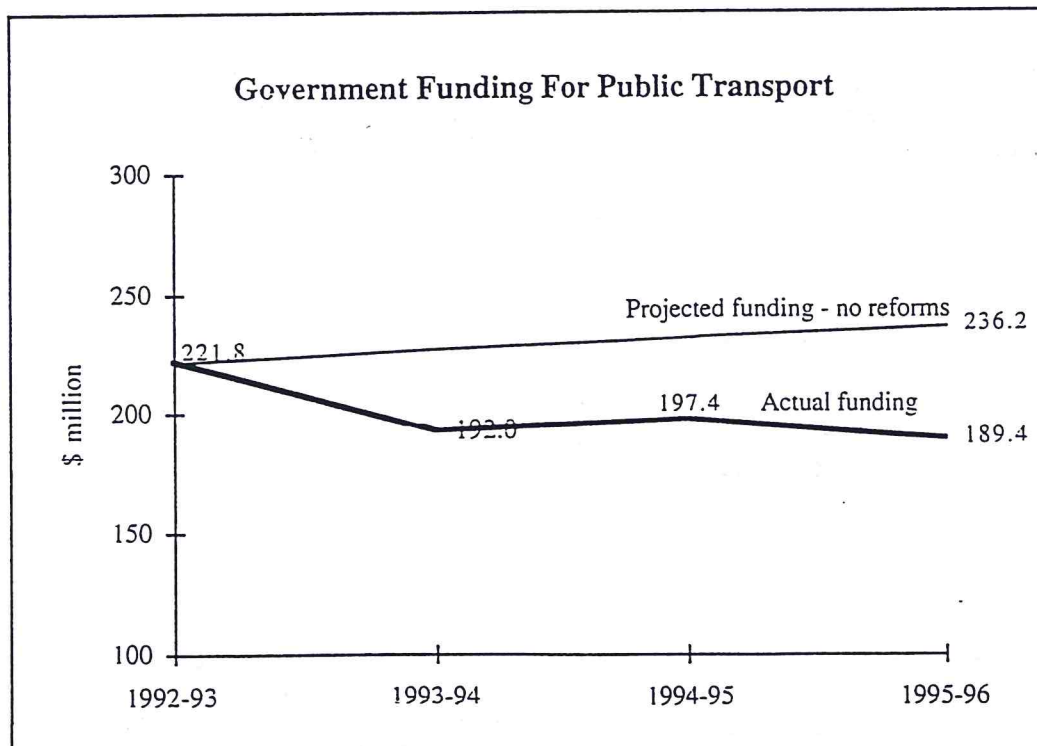
Transport will pay MetroBus an amount equal to the "market value in use" of the assets, which equates with the written down historic book value of the assets. MetroBus will apply the funds it receives from Transport to reduce its debt.

In regard to the bus fleet, one of the proposals is under consideration is to sell the fleet to a third party and lease back the buses to successful tenderers.

GOVERNMENT FUNDING FOR PUBLIC TRANSPORT: 1995-96

Government funding for public transport would have risen to \$236.2 million by 1995-96 in the absence of the reform program, an increase of \$14.4 million over the adjusted 1992-93 budget of \$221.8 million. The reform program is projected to reduce Government funding to \$190.5 million in 1995-96, a saving of \$46.8 million relative to the adjusted 1992-93 budget.

The actual funding requirement compared to the target and the funding requirement if the reform program had not been implemented is illustrated below.



The continued substantial increase in the population of the metropolitan area, particularly in the outer areas, has created an urgent need to improve or introduce bus services. If the use of public transport is to be encouraged (one of the key objectives of the reform program), it is necessary to expand the service.

A number of long overdue improvements in Transperth's bus network were identified in the Bus Services Plan 1994-95. Some of these improvements had been proposed as far back as 1991 but had to be deferred due to budgetary

constraints. Consequently, in a number of rapidly developing areas there are either no bus services or the available service is inadequate.

In a bid to redress this situation eight new bus services requiring about 18 buses and a full year cost of \$1.5 million have been or will be implemented in 1995.

The new services benefit residents of Armadale, Bayswater, Canning, Gosnells, Melville, Swan and Wanneroo. These areas together accounted for nearly 70 per cent of the increase in the population of the Perth Statistical Division between 1986 and 1991 (census years).

In addition Sunday night train services have been extended to midnight.

Further bus service improvements are planned in Ellenbrook, Atwell/Thomsons Lake, Stratton and Waikiki/Warnbro.

Ellenbrook is a developing area which would normally have had to wait for at least two to three years for its initial bus service. However, the developer has agreed to contribute up to \$100,000 in 1995-96 which would cover almost the full cost of providing the service. Little, if any, subsidy would be required from Government.

This developer-funded approach has the potential to expedite the provision of bus services in new suburbs. The availability of even a basic public transport service at an early stage would result in some residents not needing to acquire a second car which, in turn, would have significant community benefits.

Another important initiative planned for the latter half of 1995 is the first stage of a program to improve evening and weekend bus services. This is intended to complement to some extent the enhancements to the electric train services, introduced in early 1995 in response to the extension of retail trading hours. It is expected that the new bus services would commence in the pre-Christmas shopping period.

PASSENGER SATISFACTION

A Passenger Satisfaction Monitor survey is done at six monthly intervals. The seventh such survey (Wave 7), completed in December 1994, indicated that overall satisfaction with the public transport system remains high (74% bus, 91% train) and stable.

CONCLUSION

We are now about half way into the first three year stage of the Perth Public Transport Reform Program. The overall aim of the Program was not restricted to cost-efficiency but focused on maintaining and improving service while reducing the subsidy (cost to the taxpayer). In respect of the first objective we have extended bus and train services and increased patronage. In respect of the second objective there is every indication that the projected savings of \$46.8 million (of a subsidy of some \$200 million) per annum will be made. At the same time the government-owned operators confidently expect to reach world's best practice levels in 1996.

The effectiveness of the Program, however, is only confidently predicted at this moment and is yet to be proved. 1996 will tell the tale.