



PUBLIC ACCOUNTS COMMITTEE

Inquiry into the School Student Transport Scheme



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Charter of the Committee

The Public Accounts Committee has responsibilities under the *Public Finance and Audit Act 1983* to inquire into and report on activities of government that are reported in the State's Public Accounts and the accounts of the State's authorities.¹ The Committee, which was established in 1902, scrutinises the actions of the Executive Branch of Government on behalf of the Legislative Assembly.

The Committee recommends improvements to the efficiency and effectiveness of government activities. The sources of inquiries are the Auditor-General's reports to Parliament, referrals from Ministers and references initiated by the Committee. Evidence is primarily gathered through public hearings and submissions. As the Committee is an extension of the Legislative Assembly its proceedings and reports are subject to Parliamentary privilege.

Members of the Committee

The Committee comprises members of the Legislative Assembly and assumes a bi-partisan approach in carrying out its duties.

Chairman:	Joseph Tripodi MP, Member for Fairfield
Vice-Chairman:	The Hon. Pam Allan MP, Member for Wentworthville
Members:	Ian Glachan MP, Member for Albury
	Katrina Hodgkinson MP, Member for Burrinjuck
	Richard Torbay MP, Member for Northern Tablelands
	Barry Collier MP, Member for Miranda

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¹ See Part 4 of the Act – The Public Accounts Committee.



Chairman's Foreword

The Public Accounts Committee is pleased to present its report on the School Student Transport Scheme (SSTS).

The Committee consulted widely in preparing this report. It accepted submissions from interested organisations and Departments. Hearings were held in Sydney in mid 2000.

The impetus for this inquiry was the sustained increasing costs of the scheme to the taxpayers of NSW. At the beginning of the 1990's, the total cost of the scheme was \$264 million. In 2001/02, the budget is \$416 million. Witnesses to the inquiry, particularly the Department of Transport, considered the key reason for the increasing cost of the SSTS over recent years was the dezoning of public schools by the Department of Education and Training in 1990. Dezoning allowed students more choice when selecting their school, rather than being confined to their local public school.

However, there is substantial evidence the key cause of increasing cost of the SSTS over recent years has been real increases in fares charged by commercial bus operators. These fares are determined by the Department of Transport. This led the Committee, in addition to looking for reforms within current delivery arrangements, to explore broader structural reforms and raise some alternatives for discussion.

Reforms within the current delivery framework

The Committee considers substantially greater attention by the Department of Transport is required in managing the scheme. Of key concern to the Committee was the lack of reliable data and data analysis by the Department of Transport. The Committee had difficulty obtaining consistent reliable data from the Department and this limited the extent of analysis which was able to be undertaken. Particular areas identified for attention are:

- ensuring available data, such as total cost, cost per beneficiary and beneficiaries, is reliable and properly analysed to determine key trends and drivers of the scheme;
- streamlining the administration of eligibility and ensuring that the process is reliable;
- improved description of performance standards in bus contracts and ensuring the Department of Transport collects sufficient information from contractors to effectively manage the scheme;
- assessing actual pass usage rates and eliminating payments to operators for "phantom riders;" and
- improving the monitoring of contract performance and compliance through a targeted and comprehensive audit program.



While policies such as dezoning were found to be less important in driving recent cost increases, it is clear education policies have had an impact on the overall size of the scheme. Despite a previous recommendation from Public Accounts Committee, it is apparent there is insufficient coordination and communication between the Departments of Education and Transport. Further, it appears NSW Treasury needs to play a greater role in managing a 'whole of Government' approach through ensuring the transport implications of educational policies are properly considered by the Department of Education and Training.

Framework reforms for discussion

Users of the SSTS, students, schools and the Department of Education and Training have little control over the purchase of student transport by the Department of Transport. This results in the scheme being unresponsive to changing demands of students and schools. Further, the Department of Education and Training and schools do not have to consider the transport implications of education decisions. One option to manage this is to transfer budgetary responsibility for the SSTS to the Department of Education and Training or individual schools. In addition the report discusses a particular model for distributing SSTS entitlements. The model builds in economic incentives for individual schools to use the SSTS efficiently and limit abuse of the Scheme. The Committee considers a full evaluation of various models for the delivery of the SSTS should be considered by NSW Treasury, the Department of Education and Training and the Department of Transport.

As noted, real increases in commercial contract bus fares have been a substantial factor in the increasing cost of the scheme. With this in mind, the Committee is concerned the lack of a Performance Assessment Regime and the lack of transparency in the Department of Transport's price regulation process present risks to optimal price setting and service standards. As a first step, the Committee considers private bus fare determinations should be referred to the Independent Pricing and Regulatory Tribunal.

Currently, private bus contracts are not contestable. This is because, subject to achieving minimum service levels, contracts with the existing operator are automatically renewed. A more fundamental reform is to allocate private commercial bus contracts by competitive tender. The Committee is of the view private providers are not subject to appropriate competitive pressures (in the form of actual competition or competitive benchmarking through an effective performance assessment regime) to drive cost efficiency and ensure optimum service levels. A well structured tender process for private commercial bus contracts could be used to introduce competition to the private bus industry and improve cost efficiency and service standards.



The Committee notes the new Director-General of the Department of Transport, Mr Michael Deegan, has already acted to address many of the issues raised in this report. Key initiatives include:

- appointment of a senior executive to manage bus and ferry reform;
- an action plan to address issues raised in the recent review of bus contract compliance by PricewaterhouseCoopers has been developed and key initiatives commenced; and
- fare increases for private buses for 2001/02 and 2002/03 have been referred to IPART.

The Committee thanks the representatives of the Department of Transport and Allen Consulting Group for assistance with the preparation of this report.

A handwritten signature in cursive script that reads 'Joe Tripodi'.

Joseph Tripodi MP
Chairman



Executive Summary

Introduction

The Public Accounts Committee resolved to undertake a review of the School Student Transport Scheme (SSTS) in late 1999. The review had regard to the transport needs of school students and budgetary developments for the State Government. The terms of reference for the review were:

- The need for equitable and affordable transport access for students to attend school, with a specific consideration of issues important to rural and urban school commuters;
- The relationship between the SSTS and regular route bus services;
- The impact of educational policies on the Department of Transport's expenditure;
- Student safety and welfare; and
- Other related matters the Committee may find necessary to consider.

School student transport is administered by the Department of Transport under the *Passenger Transport Act 1990*, the *Passenger Transport (Bus Services) Regulation 2000* and the *Transport Administration Act 1988*.

The SSTS provides free travel to all NSW students to attend the school of their choice (not just the nearest school) if they meet the eligibility criteria for distance. These are:

- infant students (ie, kindergarten to year two) – all are eligible;
- primary students (years three to six), – must reside more than 1.6 km (on a radial basis), or 2.3 km or more by the most practicable walking route; or
- secondary students (years seven to twelve) – must reside more than 2km (on a radial basis), or 2.9 km or more by the most practicable walking route.

The Department of Transport reimburses operators such as private bus companies, STA or Cityrail, for the carriage of eligible students. In the case of Private Vehicle Conveyance, reimbursement is made direct to the parent/guardian.

In 2001/02, there are approximately 664,100 beneficiaries receiving subsidised travel under the Scheme and the total SSTS budget is \$416 million.²

² NSW Treasury, *Budget Estimates 2001/2002*, pages 18-27



Findings and Recommendations

Finding: Current systems for issuing SSTS passes and monitoring changes in the demographics of SSTS beneficiaries are cumbersome (pages 11 – 12).

As the number of students is such a key feature of the SSTS, it is essential the application process is rigorous and robust. The recent review conducted by PricewaterhouseCoopers disclosed many cases where students are either no longer eligible or records kept by operators cannot easily verify initial application details. The review found 13% of non-commercial contract returns and 12% of commercial contract returns included students who did not appear on school records.³ This is inevitable in a system that is predominantly paper based, requires applications to be processed and audited by at least three organisations, and where a paper application can remain current for six years.

There is also a lack of clarity in the various responsibilities of those involved in determining eligibility for the SSTS. To ensure consistency in the application of eligibility criteria, consideration could be given to centralising the application processing task, using technology to both assess eligibility and track changes in student enrolments.

Recommendations

1. The current processes and accountabilities for SSTS applications be reviewed to clarify responsibilities and to improve accuracy.
2. A single central database of student information be accessible by both the Department of Education and Training and the Department of Transport.
3. The application processing task be centralised and applications reviewed annually.

Finding: The transport implications of education decisions are not properly considered. The SSTS has not been responsive to changing demands (pages 14 – 22).

Educational policies such as rezoning and increased retention rates have impacted on demand for the SSTS, through encouraging more students to travel further. Further, decisions on the location of schools do not have to consider the cost of transporting students, as these costs are borne by the Department of Transport. As a result, public and private schools are able to shift some of their costs to the Department of Transport. They do this by purchasing cheaper land further from the school's student base and requiring the Department of Transport to provide free transport for the students. On the other hand, the SSTS has not fully responded to changes in educational policies such as the introduction of Vocational Education Training.

³ PricewaterhouseCoopers, *NSW Department of Transport: SSTS Bus Contract Review*, January 2001, page 19.



Finding: The key driver of increasing costs of the scheme recently is likely to be increasing transport fares, rather than de-zoning of schools (pages 23 – 27).

The Committee heard from many witnesses, particularly the Department of Transport, that the key cause of the increasing cost of the SSTS were education policies such as the de-zoning of public schools. De-zoning does appear to have had an initial impact on the SSTS through increasing the number of beneficiaries in the early 1990's. However, there is evidence real increases in the fare schedules for commercial contract buses, set by the Department of Transport, has been a substantial factor driving increases in the overall cost of the scheme.

Education policies such as improved retention rates, school location, or a student's choice of school have an impact on the size of the SSTS. However, a range of factors directly under the control of the Department of Transport appear to have driven the cost of the SSTS, at least over recent years.

Finding: The Department of Transport has not collected sufficient, reliable data to properly manage, and be accountable for, the SSTS (pages 27 – 29).

Despite concerns over the increasing cost of the Scheme, the Department of Transport has not undertaken detailed quantitative analysis of the reasons for the increasing costs of the SSTS. Currently, data for the SSTS focuses on gross numbers of eligible students, the bus contracts required to provide services and the cost of the Scheme. The Committee found there were frequent discrepancies in data reported in Annual Reports, recent Budget Papers and information supplied directly from the Department upon request by the Committee.

Analysis of the costs of the scheme, and the extent of actual pass usage by students, was limited by the reliability and availability of data from the Department. For example, despite evidence of changing travel patterns, the Department has not collected reliable data on pass usage in the last seven years.

The Committee was also concerned the Department provided data to the Committee which was later found to be unreliable and the source of the data could not be found by the Department.

Recommendation

4. The Department of Transport ensure it has systems in place to collect sufficient reliable information to help it analyse and manage of the costs of the SSTS.

Finding: Some stakeholders consider there is insufficient public information on the duties and obligations in bus contracts (pages 33 – 34).

A concern was raised over the lack of information about the system and detail of provisions in bus contracts. Stakeholders argued this meant they were unable to



properly address issues related to the quality or timeliness of local transport arrangements.

Recommendation

5. Bus contracts be made public in order to improve transparency and the accountability of both operators and the Department of Transport.

Finding: There is limited performance information on service standards in commercial bus contracts (pages 34 – 37).

The *Passenger Transport Amendment Act 1997* provides for higher performance standards and accountability in the bus industry. According to the then Minister for Transport, the legislation was aimed at ensuring commercial contract bus operators would only avoid having their exclusive rights opened to competitive tender if best practice objectives and service standards were achieved.⁴

The Department of Transport has released two Discussion Papers outlining the proposed framework for implementing a Performance Assessment Regime for bus operators, first in September 1998 and again in March 2000. These performance measures have not yet been implemented.

Recommendation

6. The Department of Transport implement an effective Performance Assessment Regime (which has been under consideration for a number of years) without any substantial delay.

Finding: There appears to be high levels of non-conformance with contract, and other, requirements of the SSTS by bus operators (pages 37 – 39).

A recent review of bus contracts by PricewaterhouseCoopers found:

- in 44.7% of non-commercial contracts, there were variances between the contracted time and the actual time taken to deliver students to or from school (under non-commercial contracts payments are, in part, based on the trip time);
- there were differences between the contracted distance and the actual distance travelled in 23% of non-commercial contracts;
- operators were not using Department of Transport authorised section maps when computing student fares in 27.2% of commercial contracts; and
- in 26.7% of contracts, there were students whose fares had been incorrectly calculated as the wrong section points were used.⁵

⁴ Legislative Assembly Hansard, *Passenger Transport Amendment Bill: Second Reading Speech*, 28 May 1997, page 9475.

⁵ PricewaterhouseCoopers, *NSW Department of Transport: SSTS Bus Contract Review*, January 2001, page 3.



There are many possible explanations for these findings, for example, adverse road conditions may force a change in route. However, such levels of variance from requirements is a concern to the Committee and indicates the Department needs to improve its contract management and compliance regimes for the SSTS.

Recommendation

7. The Department of Transport ensure contracts and contract returns are effectively monitored to ensure compliance with the requirements of the contracts and the accuracy of claims for reimbursement. In particular:
- all contracts be audited annually and an operator risk profile be established and maintained. This will involve the use of a database detailing problems identified and
 - the Department introduce fines and penalties for operators who are consistently found to be non-compliant.

Finding: It is likely commercial contract bus operators are being paid for student usage of their services which is in excess of the actual usage (pages 39 – 43).

The funding mechanism used to reimburse commercial operators under the SSTS have been criticised for a lack of transparency. It results in SSTS payments being used to cross-subsidise other, less profitable, route services. Of particular concern has been the issue of “phantom riders” (students issued with a SSTS pass, but who use it rarely).

Since 1996, an average usage rate of 77% has been factored into the payment system in metropolitan areas (79% in non-metropolitan areas). These figures are based on the findings of an extensive survey of school travel pass usage conducted in 1994. There is evidence the 77% utilisation rate now overstates actual usage in metropolitan Sydney. Whilst the Department of Transport does not hold reliable pass usage data for recent years (the last comprehensive data is from the 1994 survey) there is some data collected by the Department’s Transport Data Centre:

- there has been a rise in private vehicle passenger trips to school from 41% in 1991 to 51% in 1999; and
- in 1999, the estimated Sydney region bus pass usage rate was approximately 50%.⁶

The current system may give a misleading picture if some areas are experiencing reduced demand while others are growing. Using area specific data would also make the SSTS more responsive to local demands. Payments to operators based on actual usage would eliminate payments for “phantom riders.”

⁶ The Department further advised that due to the small sample sizes involved there are potentially large residual standard errors in this data and that the data is only indicative of pass usage rates.

**Recommendation**

8. In areas where bus transport services are provided under a commercial contract, transport operators receive SSTS payments on the basis of actual usage.

Finding: It appears commercial contract bus operators are using the SSTS to cross-subsidise other less profitable services (pages 45 – 47).

While there is a widespread view the SSTS is cross-subsidising other less profitable route services, there is little information on the amount of this subsidy, or its distribution. The subsidy is effectively concealed in SSTS payments. While for some operators the subsidy may be vital in maintaining minimum services on some routes, other operators may not need such assistance. Under the current payment regime, it is not possible to analyse the extent of the subsidy or its distribution.

The Committee is of the view transparency and accountability are paramount in public finances. As such, the cross-subsidisation embedded within the SSTS needs to be unbundled in order to identify and to assess the impact of the subsidies on operators and communities.

Recommendation

9. Subsidies paid to transport operators be identified and the impact of subsidies on operators and communities be assessed.

Finding: The contract requirement for operators to provide sufficient bus capacity to carry 92% of pass holders is difficult to enforce and inequitable (page 47).

Current commercial bus contracts require operators to provide sufficient bus capacity to carry 92% of student pass holders. This is a difficult element of the contract to enforce. The requirement would seem inequitable when operators are paid for, 77% - 79% of pass holders while being required to provide capacity sufficient to carry 92%.

Recommendation

10. The current requirement to provide sufficient bus capacity to carry 92% of applicable bus pass holders be modified or dropped.

Finding: There is the possibility of improving efficiency through reviewing and rationalising bus contractual arrangements in rural areas (pages 47 – 48).

In their recent review of SSTS bus contracts, PricewaterhouseCoopers noted inefficiencies in the Scheme in rural areas. Following a review of the allocation of routes it was evident:



- bus routes had not been assessed since the introduction of a run;
- there had been many route variations since the introduction of a route;
- routes could service up to 17 schools; and
- the operator followed the original route per the contract where more suitable routes appeared to be available.⁷

PricewaterhouseCoopers argued that a rationalisation of routes would reduce the costs of the scheme. Further, the opportunity to rationalise the routes is imminent as many non-commercial contracts are almost due for renewal.⁸

Recommendations

11. The Department of Transport initiate consultations with operators to determine the rationalisation of services, where possible.
12. Where appropriate, the number of non-commercial contracts be rationalised by combining multiple contracts with the same operator under one contract.

Finding: The structure of payments under the SSTS is likely to result in an under-utilisation of buses, particularly under non-commercial contracts (page 49).

Evidence suggests the number of students travelling on buses is often significantly less than the available bus capacity. Further, outside peak periods, buses are often idle for the rest of the day. Therefore an opportunity exists for school buses in non-urban areas to provide improved transport to the broader community in non-peak hours if the pricing arrangements provide sufficient incentive.

Recommendation

13. The Department of Transport survey communities and review existing information to find a mechanism to increase the use of SSTS buses outside peak hours.

Finding: There is insufficient coordination and communication between the Departments of Education and Transport (pages 50 – 56).

There is a need for a formal liaison mechanism to be established between the Department of Education and Training and the Department of Transport to ensure the impacts of educational policies on the SSTS are properly considered and the SSTS properly responds to changes in the structure of education. This was a recommendation made by the Public Accounts Committee in its 1993 Report. However, from the evidence gathered during this review, it appears such a mechanism was not properly established.

⁷ PricewaterhouseCoopers, *NSW Department of Transport: SSTS Bus Contract Review*, January 2001, page 33.

⁸ *Ibid*, page 33.

**Recommendation**

14. Formal consultation arrangements be established between the Departments of Education and Transport to consider education initiatives which have transport implications. Consultations should include senior executives from both agencies.

Further, the Committee considers Treasury should have an active role in ensuring agencies have appropriately considered the cost impacts on other agencies of their policies.

Recommendation

15. Treasury should be involved in any consultations between the Department of Transport and the Department of Education and Training which affect the Budget.

Finding: There is insufficient communication between local education authorities and local transport providers (pages 56 – 61).

Communication and consultation between bus operators and schools needs to be improved. However, any such arrangements must not be allowed to fail due to unreal expectations of the impact they might have on local services. To avoid unreal expectations, liaison arrangements need to be clearly defined and the powers, roles and responsibilities of parties need to be identified and understood.

Recommendation

16. Formal liaison arrangements be established to ensure appropriate communication between bus operators, parents, students and schools.

Finding: Current arrangements are not sufficiently flexible to cover transport to after school care or transport to TAFE or alternative campuses (pages 65 – 77).

Approximately 60% of NSW students are subsidised by the SSTS, which is almost twice that of the next most subsidised state (Tasmania) and is three times the non-NSW average.

Considerable savings could be made if the eligibility criteria were altered to limit the number of students eligible for travel under the SSTS. However, for reasons of equity the Committee considers all students who are currently eligible for the SSTS should remain so.

A number of submissions noted the increasing number of school students who travel from school to child care facilities. These child care facilities may be at another school or with a family relative. Currently, such travel is prohibited under the SSTS.



Many witnesses before the Committee also noted the changes in educational policy such as joint secondary school TAFE programs. An increasing number of senior students are participating in special programs at TAFE, or participate in work experience programs as part of their curriculum and are not entitled for free travel to these activities.

Recommendations

17. The SSTS policy be reviewed to consider methods of efficiently accommodating education innovations such as joint secondary school/TAFE programs, work experience programs and other appropriate education related travel.
18. Those students who are currently eligible for travel between school and their place of residence be entitled to travel between school and childcare facilities.

Finding: Transferring private bus fare decisions to IPART would improve the monitoring of service standards and the efficiency of prices (pages 78 – 80).

One concern with the existing funder/provider structure is the Department of Transport has a significant role as both a regulator and funder. The relationship between the purchaser (the Department of Transport) and the provider (transport operators) can become confused, especially when the purchaser also carries out a regulatory function. To address this concern, the Government has referred deliberation of private bus fare increases for 2001/02 and 2002/03 to IPART.

Recommendation

19. The pricing of commercial contract bus services continue to be referred to IPART and the methodology for determining price changes be reviewed to address concerns raised by IPART.

Finding: Cost effectiveness and service standards are at risk because a system of competitive benchmarking is yet to be implemented (pages 80 – 93).

Current commercial contracts provide a monopoly right to the contractor to operate bus services in a particular area. Renewal of this right occurs every five years subject to the provider meeting Minimum Service Levels. A key concern with this approach is the granting of monopoly rights is not, at least periodically, contestable. This was recognised by the Government when it introduced the *Passenger Transport Act 1997* to allow the implementation of a Performance Assessment Regime. However, as discussed, the Department of Transport is yet to implement such a regime.

In order to promote efficient and effective provision of services, the Committee considers competitive tendering of the monopoly rights issued under commercial and non-commercial contracts should be considered.



Australian jurisdictions which have put their public transport systems out to competitive tender have seen a saving in costs. However, there are still reservations about such a move in New South Wales.

The Committee considers competitive tendering could be introduced as a means of ensuring the competitiveness of transport in general and reducing the costs of the SSTS. However, this will require a number of changes to the current contracts which allow for automatic renewal subject to maintaining a basic standard of performance.

For profitable bus contract areas or routes, tenderers would be willing to pay the Government for the monopoly right to operate bus services. For non-profitable areas, operators would be competing on the basis of the subsidy they would require to provide the specified services.

A number of issues need to be considered in any discussion to competitively tender transport services such as:

- whether to tender both commercial and non-commercial routes;
- contract length;
- tender evaluation; and
- the relationship between school and normal route services.

Recommendation

20. The Department of Transport and Treasury consider options for competitively tendering bus transport services.

Finding: Transferring the SSTS to the Department of Education and Training could solve many of the current problems with the Scheme (pages 93 – 102).

There is a dislocation between users of the SSTS (students, schools and the Department of Education and Training) and the Department of Transport as funder of SSTS services. Current transport arrangements are often perceived as inflexible, limiting schools in delivering innovative education. On the other hand, it appears as if the actions of the Department of Education and Training and individual schools can have a substantial impact on the cost of the SSTS. These impacts are often not properly considered.

One option to overcome this problem is to transfer the budget for the SSTS to the Department of Education and Training or individual schools. Student transport could then be purchased through the Department of Transport (through a formal purchaser/provider relationship) or directly from transport providers. Schools would then have more control over transport purchasing and be more accountable for the transport implications of educational decisions.



Recommendation

21.NSW Treasury, the Department of Transport and the Department of Education and Training further explore the full costs and benefits of alternative models for the SSTS such as transferring the program to the Department of Education and Training.

Finding: There have been substantial efforts to improve school bus safety over recent years (pages 103 – 106).

The Committee appreciates the legitimate concerns all parents and schools have for the safety of their children. In many of the submissions made to the Committee, a range of safety and service issues were identified. Whilst there appears to be a consensus amongst parents that the safest form of travel for their children to school is by private car, studies have produced evidence to the contrary. Detailed research carried out in December 1994 by The University of Sydney indicated it is safest to travel to school by bus.

The Committee found that a number of programs and initiatives to deal with safety issues on school transport had been initiated across Australia. These include speed restrictions around school buses and in school zones and flashing lights to warn that the bus is stopping. Further, the NSW Joint Standing Committee on Road Safety (STAYSAFE) has recently completed an inquiry into traffic control in the vicinity of schools.