



ACT
Government

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ACTION Expenditure Review

**Government response to the final report
prepared by MRCagney**

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Table of Contents

Introduction	4
MRCagney recommendations	5
Fares and ticketing (section 5)	6
Network and services (section 6).....	8
Industrial relations and work practices (section 7)	10
General organisational improvements (section 8)	12
Service Delivery Models (section 9).....	14

Introduction

The ACT Government undertook an expenditure review of ACTION over 2014-15 because the cost of service delivery by ACTION had been on an upward trajectory for a considerable period. There was a need to understand the causes of these cost pressures and identify opportunities to improve the financial performance of ACTION.

To assist with this review, the Government engaged MRCagney, a specialist transport consultancy firm. In March 2015, MRCagney provided a final report that comprehensively examined ACTION's performance, suggested a range of specific business improvements and discussed alternative service delivery models for public transport.

A key finding was that the number of Canberrans taking public transport declined from 2011 to 2014. The share of Canberrans taking public transport to work decreased from 7.8 per cent in 2011 to 7.1 per cent in 2014, despite an increase in public transport expenditure. This means that ACTION was earning less revenue and requiring a higher subsidy per passenger.

Clearly, more work needs to be done to make public transport a stronger alternative to driving for many Canberrans. Improving the customer experience of ACTION is needed to support patronage and as a result improve financial sustainability. This will be a key emphasis of the Government's work over the next six to twelve months.

Additionally, the MRCagney report makes a strong case that long term structural reform is required to deliver lasting improvements to public transport outcomes.

The establishment of Transport Canberra on 1 July 2016 will be a key step towards delivering these lasting improvements. Transport Canberra will be a new agency that will have its sole focus on public transport and will have strong strategic management capabilities.

The reforms that are underway and that will be further strengthened with the establishment of Transport Canberra constitute a long term sustained piece of work. The resulting capacity to enhance our bus service offering in an efficient and flexible manner will progressively improve over a number of years. This work is being pursued in a planned, focused and targeted manner.

In particular, Transport Canberra will be responsible for delivering an integrated transport system that seamlessly combines different modes of transport such as bus and light rail. This integration will be a key objective of the new agency. While the MRCagney report includes some discussion around the impacts of light rail, this should be considered a starting point for further work by Transport Canberra.

The Government is also in the final stages of a corporate restructure of bus operations within Territory and Municipal Services Directorate. This restructure has addressed the

recommendations in the MRCagney report for a modern public transport model based on purchaser-provider lines. It will support Transport Canberra's ability to deliver business improvement reform.

Due to the significant changes that are taking place, it is timely for the Government to provide a stocktake of its plans for public transport in Canberra. In the interest of transparency, the MRCagney report¹ is being publically released as it represents an important source of advice to the Government. This document is intended to provide context around the MRCagney report and how the Government is responding to the recommendations included in the report.

The report is also timely in view of the upcoming Auditor General report into Canberra's frequent public transport network.

MRCagney recommendations

The MRCagney report includes recommendations across the following areas:

- fares and ticketing;
- network and services;
- industrial relations and work practices;
- general organisational improvements; and
- service delivery models.

This document outlines the Government's high level strategy for these areas, and responses to MRCagney's specific recommendations.

¹ Commercially confidential material has been redacted from the public version of the MRCagney report.

Fares and ticketing (section 5)

ACTION currently uses a 'flat fare structure', where passengers can have one fare anywhere in Canberra and transfer for free within 90 minutes of their first boarding. For MyWay tickets, an off-peak discount applies between 9:00am to 4:30pm and after 6:00pm on weekdays, and all day on weekends and public holidays. The level of off-peak discount varies by passenger type.

The MRCagney report advises that fare systems face a trade-off between value, revenue and simplicity, where:

- value – fares reflect the cost of providing the service;
- revenue – fares reflect passengers willingness to pay; and
- simplicity – fare systems should minimise complexity.

MRCagney found that a range of changes to fare products and ticketing could support improved results. In particular, MRCagney suggest that, if the ACT Government were to shift to a distance based fare, while keeping revenue neutral, the Government could increase public transport journeys by 9.6 per cent. Further options include:

- altering the fare cap approach from a monthly basis to a weekly basis, to improve customer incentives;
- discouraging the use of cash to improve boarding speeds;
- linking concession entitlements to MyWay cards to reduce the need for bus drivers to check identification; and
- implementing all-door alighting and potentially boarding to speed up boardings.

However, MRCagney noted that it may be preferable to delay implementation of an entirely new fare system until a new ticketing system hardware is installed. MRCagney concluded by recommending further analysis of an integrated package of changes.

ACT Government plans

The ACT Government agrees that further analysis is warranted, noting that significant changes to fare structures should involve substantial community consultation. The Government is developing a fare strategy for consultation in 2016 that will consider a range of different fare options including distance based fares, and fare incentives such as the current monthly trip cap arrangements. A fare increase of 2.5 per cent as foreshadowed in the 2015-16 Budget will proceed in January 2016.

The Government is also already taking forward MRCagney’s practical recommendations around discouraging the use of cash (to speed up boarding) by trialling the cashless 202 from Gungahlin and promoting all-door access at busy corridors.

The ACT Government notes that the introduction of light rail coincides with the opportunity to work on a generational technology replacement for the MyWay system, as suggested by MRCagney. MyWay has been a reliable system but was introduced in April 2011 and the intent is to have an integrated payment system that will be the same for bus and light rail in Canberra and that takes advantage of modern payment options.

ACT Government response to recommendations – Fares and ticketing

MRCagney recommendation	ACT Government response
Investigate in more detail changing to a distance based fare system.	Agreed in principle. Work has commenced on an options paper for future public transport fares in Canberra. This parallels and will build on work going on in other Australian states. Consultation is planned for 2016. This will take account of the need to maintain equity and avoid increased costs for those needing to travel longer distances.
Remove monthly caps and replace with weekly caps.	Agreed in-principle. The Government will explore options as part of the development of a fare strategy.
Provide on-board MyWay sales and remove paper tickets or cease to provide change.	Noted. The Government is trialling the 202 Gungahlin service to speed up boarding and improve timeliness, and customer response has so far been positive.
Concession fare entitlements – link concession entitlements to MyWay cards: initiate information sharing discussing with tertiary and welfare organisations.	Agreed in-principle. The Government will consider concession identification issues as part of ongoing revenue protection work.
Increasing the average price – carefully consider whether the reduced bus patronage and increased car use and parking demand is an overall desirable outcome.	Partially agreed. The intent to improve cost recovery of ACTION services is agreed however this needs to be considered in the overall context of affordability and value for money for customers, as well as the Government’s commitment to increasing ACTION patronage and meeting its sustainable transport targets.
Ticketing and boarding practices – Implement all-door alighting and boarding policy.	Agreed in principle. The Government will consult on introducing rear door boarding to busy, high demand corridors to improve boarding speeds at major bus stations. ACTION’s policy on the use of rear doors changed in 2011 to permit drivers to open them at any safe location to enhance passenger egress.

Network and services (section 6)

MRCagney outlines that public transport service delivery generally has two high-level objectives: patronage; and coverage. Bus networks can be designed to serve commuter peak travel demand and move large numbers of people, or to provide mobility and transport choice to as much of the population as possible (or some combination of the two). Due to limited resources, trade-offs exist between patronage and coverage.

MRCagney suggest that more accurate timing data could be obtained by ACTION from the recently introduced real-time passenger information system (building on MyWay data). MRCagney also notes that a number of existing conditions within the Enterprise Agreement impact on the efficiency and cost of operating the bus network.

Based on analysis of a range of factors, MRCagney identifies a number of underperforming trips that could potentially be removed without unduly impacting on users.

MRCagney also advise that re-opening the Woden depot would improve the efficiency of the network by reducing dead running, and that a further depot at Mitchell will be needed in the longer term. The Government's fleet would also benefit from an accelerated replacement strategy to reduce the average age of the fleet.

ACT Government plans

The ACT Government notes the trade-offs that exist between patronage and coverage, and notes that underperforming trips exist in the network. The Government will consider the overall network design as part of regular network updates that may include removing some of the identified trips. However, while the Government will always consider improving the efficiency of service delivery the Government has no intention to reduce the overall coverage provided to Canberra.

- ACTION introduced network changes in November 2014 and May 2015 that took forward many of MRCagney specific recommendations. Some lower patronised services were removed and use of better route timing resulted in an increase in on time running from 73% to 79% which is a key factor in providing a positive passenger experience. Patronage levels have remained constant with these changes.

In the short term, the corporate restructure within Territory and Municipal Services Directorate aims to provide additional capability with respect to supporting network design and analysis. The establishment of Transport Canberra will further support this. The Government will continue to work to optimise ACTION's network, noting MRCagney's advice

and suggestions. The next round of significant network changes will be mid 2016. Changes planned for 2015 were deferred.

In terms of investment that would be required in bus depots and the ACTION fleet, these items remain under consideration in the context of the Government's overall budget process. ACTION is half way through a replacement program for 77 orange buses with new air conditioned models.

ACT Government response to recommendations – Network and services

MRCagney recommendation	ACT Government response
Optimisation of running times – subject to more detailed analysis/verification of work undertaken, recommend adoption of optimised running times on all routes/time periods.	Agreed. The corporate restructure in Territory and Municipal Services and increased feedback from drivers and passengers will improve opportunities to optimise network running times.
Rationalisation of under-used services – subject to more detailed analysis, delete the identified AM peak hour trips and the underperforming evening trips.	Noted. The Government has no intention to reduce overall coverage outcomes. However, the Government will consider the overall network design as part of regular network updates - the next major update is mid 2016.
Fleet upgrade strategy – the proposed fleet replacement strategy needs to be upgraded to a fleet strategy that includes targets for maximum age and allows for fleet growth.	Agreed. ACTION is developing a fleet strategy. The need for investment in the ACTION fleet will be considered in the context of the overall 2016-17 Budget process and future budgets.
Depot strategy – re-establish Woden depot immediately, and construct a new depot at Mitchell by 2020.	Noted. The need for re-establishing the Woden depot will be considered in the context of the overall 2016-17 budget process. The Government has already made investments to relocate old fuel tanks.

Industrial relations and work practices (section 7)

MRCagney review of the Enterprise Agreement for ACTION identified two aspects that are likely to contribute to ACTION's higher operating costs:

- high pay rates – the overall rate paid to ACTION is significantly higher than other bus operators in comparable jurisdictions (on average ACTION driver pay is \$21,883 per annum higher than comparable operators in NSW and SA); and
- complexity – the Enterprise Agreement is more complex than other jurisdictions.

While it can be argued that drivers wages reflect an appropriate compensation and other jurisdictions do not pay their employees enough, MRCagney advise that the Enterprise Agreement contains a number of specific clauses that give rise to and/or maintain less efficient practices within ACTION.

Most bus operators specify a 38 to 40 hour week, within which shifts can vary in length allowing more efficient route and shift scheduling. However, in the ACT, the Enterprise Agreement guarantees 8 hours of work each day for full time drivers – limiting options for different patterns across the week.

MRCagney also advised that revenue leakage could be decreased, and provided a framework for the development of a fare revenue protection strategy and program.

ACT Government plans

The Government will work with ACTION employees and their unions to develop a new agreement that ensures good pay and fair working conditions for employees, and incorporates a higher level of flexibility for management. Continuous improvement of the employer framework is important – with more efficient operations we can offer more services, more routes, more regular runs, more jobs, and a better working environment.

Working with our employees and their unions will be a sustained process. Future arrangements will be informed by the strategic planning and network design process for future integrated light rail and bus services, and by negotiations concerning the 2017 Enterprise Agreement.

ACTION is also pursuing improvements identified in the review and is engaging with employees and unions on opportunities to improve work practices. For example, one discussion concerns the time available for repairs to buses that enter the workshop in the evening and need servicing before the morning. More flexible shift arrangements could

assist in getting buses back on the road in time, reducing the chance of late or cancelled services in the morning peaks.

In terms of revenue protection arrangements, the Government has commenced work on a strategy for revenue protection with a view to completing this work in 2016. This will use existing transport officer resources.

ACT Government response to recommendations – Industrial relations and work practices

MRCagney recommendation	ACT Government response
Poor labour productivity and efficiency – renegotiate Enterprise Agreement and conditions.	To be considered further. The Government has opened discussions with employees and unions on opportunities to improve work practices. For the next Enterprise Agreement in 2017, the Government is looking forward to developing a more flexible framework in full consultation with workers.
Salaries and wages – roll back of penalties for public holidays; move to 40 hour week and rolling shifts; remove driver ownership of shifts; review generous leave entitlements; implement standardised absence management approach; review both standard and emergency driver relief ratios; remedy payroll issues and appoint specialist staff for analysis and reconciliation; realign maintenance shifts; remove institutionalised overtime.	Partially agreed. The Government is committed to providing good pay and working conditions for employees. The Government will seek to promote more flexible and more efficient working arrangements as part of the development of the 2017 Enterprise Agreement.
Revenue leakage – development of a formal revenue program; formal roles for revenue protection purposes; relaunch of revenue program; driver training.	Agreed. The Government has commenced work on a revenue protection strategy, with a view to completing this work by early 2016. Transport Officers have received training and the necessary authorisation to undertake revenue protection. Procedures to govern the on bus inspection of tickets and the issue of infringements have been drafted and will be finalised by the end of 2015.

General organisational improvements (section 8)

MRCagney recommended establishing a purchaser-provider organisational structure that involves a clear separation of roles between the public transport group within Territory and Municipal Services (the purchaser) and ACTION (the provider). MRCagney also suggests adjustments to ACTION's structure that would support this shift. This includes establishing identical procedures for the two currently operating depots.

As a further extension of the purchaser-provider model, MRCagney provides a strategic planning framework and process. Improved business information collection and integration of performance information into planning processes is a key feature of the proposed framework.

MRCagney also provided a range of recommendations around components of the overall strategy framework. This included finance and accounting, cost management, maintenance, IT and a number of other areas. The Government could also improve back-office arrangements for absence management and incident management. In terms of procurement, ACTION would benefit from introducing strategic sourcing that rationalises the number of suppliers.

ACT Government plans

The ACT Government accepts MRCagney's recommendations as to establishing a new corporate structure based on purchaser-provider lines. Based on MRCagney's high level framework and structure, the Government conducted a thorough examination of the skills and capabilities that are required in a modern operational environment.

The Government is in the final stages of a restructure, which will improve ACTION's capability to pursue business improvements over time. The Government has also commenced work on the business improvements identified in the review. The establishment of Transport Canberra from 1 July 2016 will be a further opportunity to improve strategic management capabilities for public transport operations in Canberra.

The Government is already getting expert assistance in examining ACTION's IT systems, strategic business processes and operational procedures such as taking forward the MRCagney recommendations around maintenance improvements. This work will be progressed in consultation with staff and unions.

ACT Government response to recommendations – General organisational improvements

MRCagney recommendation	ACT Government response
Structure not optimal for multi operator environment – develop identical depot structures; implement specialist roles in adjusted ACTION structure; adjust transport officer numbers.	Partially agreed. The Government has undertaken a corporate restructure to strengthen the purchaser-provider lines. Depot structures are more similar with only differences due to geographical reasons eg lost property office at Tuggeranong. Transport numbers are stipulated in the ACTION Enterprise Agreement.
Shifts – realign maintenance shifts; remove weekend overtime; implement maintenance time data entry.	Partially agreed in principle. The Government is examining maintenance arrangements and will be considering further changes over time in consultation with staff and unions.
Implement strategic planning and management system via supplied frameworks.	Agreed. The Government has engaged expert assistance to improve strategic planning and management within the business and will be examining opportunities to further improve strategic management capabilities as part of the establishment of Transport Canberra.
Deficient operating processes – implement suggested accounting framework; document incident processes; implement absence management.	Agreed. Work is progressing.
IT system deficiencies – build an implement netBI data extracts for TIMS and Transequal and reassign licences for netBI.	Agreed. Work is progressing.
Limited formal problem solving – choose and implement problem solving methodology.	Agreed. Work is progressing.
Other improvements – implement finance costing improvements; implement ACTION management processes; implement fleet and maintenance strategies; extend strategic sourcing; evaluate and adopt alternative training methodologies; conduct investigation of rear door loading; investigate alternative provision of IT services.	Agreed in-principle. Following the corporate restructure, as an immediate next step the Government is examining IT and maintenance arrangements. The full scope of organisational improvements will take time to implement, and some will need to be re-evaluated in the context of the new transport agency.

Service Delivery Models (section 9)

MRCagney notes that a wide range of service delivery models exist for procuring, operating and regulating public transport services. In Australia, over the last fifteen years, bus services have been characterised by a shift to outsourcing and competitive tendering. MRCagney advises that competitive tendering of bus services have resulted in improvements in service quality, increases in patronage and cost reductions in a range of 10 to 30 per cent.

- The outsourcing model would involve the ACT Government establishing several depot based operations contracts, based on groups of routes allocated to each depot. The main assets would be retained by government, leased to the private sector operator. The operator would negotiate a new Enterprise Agreement and select staff from among current ACTION staff.

Based on the experience of other cities in Australia, MRCagney advise that a fully implemented outsourcing model could save the ACT Government around \$27 million per annum in the medium term (2018-19), and by up to \$47 million (about 46 per cent) in the longer term (mid 2020s), or to allow network frequency and coverage improvements of a commensurate amount.

Alternatively, MRCagney suggest that the Government could pursue a Reformed Public Operator model that involved a phased program of efficiency and effectiveness improvements that would restructure ACTION along private sector lines. This model could save the ACT Government \$10 million per annum in the medium term (2018-19), or by \$12 million per annum in the longer term (mid 2020s). It should be noted that the majority of these savings related to service changes.

The MRCagney report also includes a limited discussion of the implications of light rail for service delivery. MRCagney indicates that it has been suggested that the light rail operator, in a staged approach, expand its role to cover services currently not undertaken by ACTION (such as airport services and city centre loops). MRCagney recommends against this approach, as it would incur added expense and the Government's time would be better spent formalising a 'franchising' action plan.

ACT Government plans

The ACT Government has considered the issues put forward by MRCagney and has decided on the Reformed Public Operator model. The Government is committed to working with our employees and their unions to deliver a better service while ensuring good pay and fair working conditions. The Government's chosen approach will keep the public asset in public hands and protect fair working arrangements for our workforce.

Retaining the ACTION bus service in public hands also maintains the Government's full capacity to devise bus routes that meet community needs including for disadvantaged groups, rather than focussing solely on questions of efficiency.

Transport Canberra will consider and take forward the recommendations involved with the Reformed Public Operator model. Transport Canberra will be designed to promote strategic management capabilities and will be well placed to take this model forward. However, the specific, long term recommendations around the Reformed Public Operator model will need to be re-evaluated in the context of the new agency. In particular, major changes to services need to be considered in the context of the role ACTION has in providing coverage services as well as commercial routes.

Additionally, Transport Canberra will be responsible to delivering an integrated transport system that seamlessly combines different modes of transport such as bus and light rail. Transport Canberra will also be responsible for managing the procurement and implementation process for light rail.

ACT Government response to recommendations – Service Delivery Models

MRCagney recommendation	ACT Government response
The ACT Government should pursue outsourcing through competitive tendering of ACTION's operations, including vehicle maintenance and related functions.	Not agreed. The Government has decided to pursue the Reformed Public Operator model. The Government has decided to maintain ACTION as a public business.
It has been suggested that the light rail operator, in a staged approach, expand its role to cover services not currently undertaken by ACTION (eg airport services / city centre loops). We do not recommend this approach for two reasons: <ul style="list-style-type: none"> • it will incur significant added expense; and • we believe time would be better spent formalising a 'franchising' action plan and reviewing options for improving EA outcomes. 	Noted. Transport Canberra will be responsible for overseeing the delivery of light rail and integrated transport and the Government intends that Transport Canberra will assess the best way forward on specific light rail service issues.