



April 2005

Red Light For Bus Industry

The New South Wales Private Bus Industry

The private bus industry in New South Wales is currently undergoing changes which will drastically change the structure of this industry in years to come.

In light of the above and the recent collapse of Westbus it is worthwhile looking further at the changes and the possible effects these changes will have on the participants in the industry.

Some Facts

- The NSW Private Bus industry operates over 6,000 buses.
- Over 10,000 people are employed within the sector.
- Over 100 million passenger trips are taken each year.
- 21 operators provide public transport services in the greater Sydney area.
- Australia wide, the industry revenue for 2003/04 was in excess of \$2,900 million.

Changes Afoot

Industry Consolidation

The NSW Government has introduced a scheme whereby the current 87 individual contracts to provide public transport services will be consolidated into 15 transport regions. It is expected that this will provide better planning of bus routes and uniform fares.

All private operators are currently having to tender for the transport regions.

Obviously 87 into 15 does not go, and therefore it is likely that the government's reforms will lead to significant consolidation of the industry as those providers winning the contracts seek to acquire the vehicles and staff of the unsuccessful operators to service their regions.

Alternately, or more likely, smaller operators unable to win a contract or merge with successful tenderers will no longer be able to operate and will be forced to close.

The abrupt cessation of these firm's operations may result in shortfalls to secured lenders and creditors, as typical assets (vehicles), by their very nature, normally have a forced sale value less than the amount owed.

To date, only one provider (Connex, a large French company) has managed to come to a mutually acceptable arrangement with the NSW State Government to provide transport services.

Fare Reductions

The NSW Ministry of Transport introduced uniform fares across the Sydney region with effect from 4 January 2005, resulting in a reduction in the fares able to be charged by private operators in order to bring them into line with state owned and operated State Transit routes.

The government has offered partial compensation to private operators to make up for the lost income however this was expected to cease by 31 March 2005, leaving private operators to absorb the fare reduction.

Clearly this fare reduction poses a significant problem for all operators. Mr Darryl Mellish, of the Bus and Coach Association has told the acting director-general of the Ministry of Transport that the government's failure to fully reimburse the operators for their lost revenue will threaten their very survival.

This process will lead to reduced margins for private operators, thus increasing their vulnerability to rising costs such as fuel and wages, and may result in several operators being forced to close their doors. Indeed one operator has already abandoned their routes rather than attempt to negotiate a profitable contract with the NSW government incorporating the new, lower fares.

Wage Increases

The Transport Workers Union of Australia is currently negotiating with the Bus and Coach Association for increases in pay rates for bus drivers which will bring pay rates into line with bus drivers employed by State Transit. Recently the government offered a 19 percent increase in wages over three years to drivers.

The rise in costs caused by this increase will further reduce margins for private bus operators as they will be prevented from passing these costs onto the public due to the standardisation of fares.



This increase in costs has the capacity to drive private bus operators into the red, with reduced profits or even losses ensuing.

With the exception of the fare reductions, the above points are as yet unresolved, with negotiations between the TWU, the BCA, private operators and the NSW government continuing, albeit after a recent breakdown in talks which threatened to result in a strike stranding up to 20,000 northern Sydney commuters over pro-union terms which the government attempted to include in the new contracts. Therefore we have not yet seen the full impact of the current changes and may not do so for some months to come.

It may be that the BCA can succeed in negotiations to have the government offer better terms to their members and minimise cost impacts from wage increases, however, it is clear that whatever the outcome of the current negotiations, the NSW private bus industry is looking at a traumatic immediate future.

How can Taylor Woodings help

For lenders, the best way to ensure the security of your debt is to continue to gain a full and complete understanding of the financial position of your client, in particular of their cost structure, margins and position of any negotiations with the NSW State Government. When this information is not forthcoming or you are unsure as to its accuracy, then you may wish to consider engaging an independent insolvency practitioner to act as an **investigating accountant** or to undertake a **Limited Scope Review** to gain access to up to date and relevant information of the company's affairs.

**Should you wish to discuss this matter or require more detailed advice on a particular situation please contact Quentin Olde, Partner,
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