

CABINET - SUBJECTS FOR CONSIDERATION, 29 MARCH 2005 11:00 AM

Not Relevant

1 New Initiatives/Policy Matters

Not Relevant

103 MTRAN12/05CS

Human Resource Implications of the Tram
Acquisition Project
DEFERRED

Not Relevant

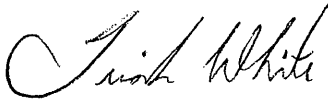
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|----|---|---|
| 1. | TITLE: | HUMAN RESOURCE IMPLICATIONS OF THE TRAM ACQUISITION PROJECT |
| 2. | MINISTER: | Trish White, MP
Minister for Transport |
| 3. | PURPOSE: | <ol style="list-style-type: none"> 1. For Cabinet to note the Human Resource implications of the tram acquisition project and the proposed industrial relations strategy of TransAdelaide to deal with the issue. 2. For Cabinet to approve the increased services planned by TransAdelaide in the operation of new trams in 2006, and associated budget changes. |
| 4. | IDENTIFY THE RELEVANT GOVERNMENT POLICY AND/OR STATE STRATEGIC PLAN TARGET | <ol style="list-style-type: none"> 1. State Strategic Plan target of doubling public transport share of passenger journeys. 2. Sustainable Adelaide Policy. 3. No Retrenchment Policy. |
| 5. | RESOURCES REQUIRED FOR IMPLEMENTATION: | Budget Forward Estimates currently contain a cost saving of \$825,000 per annum following the introduction of new trams. It is recommended that this saving be redirected to increased services, thus reducing the financial and human cost of redeployment of surplus staff. |
| 6. | COMMUNITY AND ENVIRONMENTAL IMPACT | Community will gain with the provision of increased services and increased accessibility for elderly and disabled.
Environmental impact is favourable with reduced emissions. |
| 7. | RISKS | No significant changes |
| 8. | CONSULTATION: | Employees and their Unions.
Department of Treasury and Finance.
Workplace Relations. |
| 9. | COMMUNICATION STRATEGY | Public announcement by Premier and Minister for Transport. |
| 8. | URGENCY: | Normal 10-day rule. |

9. **RECOMMENDATIONS:**

It is recommended that Cabinet:

- 4.1 Note the Human Resource implications of the tram acquisition on TransAdelaide and the State Budget and the proposed industrial relations strategy for dealing with the issue.
- 4.2 Approve an increase of service frequency on weekdays by TransAdelaide following the introduction of new trams from 10 minutes to 7.5 minutes at peak and from 15 to 12 minutes at interpeak.
- 4.3 Approve the reduction in savings target from \$825,000 to \$246,000, for 2006-07.
- 4.4 Approve the removal of the savings target of \$825,000 per annum for 2004-05 and 2005-06.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.



Trish White
MINISTER FOR TRANSPORT

15/3/2005

TO: THE PREMIER FOR CABINET

RE: HUMAN RESOURCE IMPLICATIONS OF THE TRAM ACQUISITION PROJECT

1. PROPOSAL

- 1.1 For Cabinet to note the Human Resource implications of the tram acquisition project and the proposed industrial relations strategy of TransAdelaide to deal with the issue.
- 1.2 For Cabinet to approve the increased services planned by TransAdelaide in the operation of new trams in 2006, and associated budget changes.

2. BACKGROUND

- 2.1 In August 2004 Cabinet approved the purchase of 9 new Bombardier Flexity Classic trams. I undertook to return to Cabinet with a separate submission detailing:
 - the human resources implications of the tram acquisition project on TransAdelaide and the State Budget; and
 - a proposed industrial relations strategy for dealing with this issue.
- 2.2 At the completion of the commissioning process from January 2006 to May 2006 of the new trams (delivered from December 2005 to April 2006), TransAdelaide will operate a fleet of nine new trams and five refurbished H class trams. Comparison between the existing and new fleet is as follows:

TABLE 1

	Existing Tram (Coupled Set)	New trams (single vehicle)
LENGTH	36 metre	31 metre articulated
SEATED PASSENGERS	128	70
STANDING PASSENGERS	60	109
TOTAL PASSENGERS	188	179

- 2.3 The Government has given an undertaking that the new fleet will continue to have conductors. Currently, a tram operator and two conductors are required on the existing trams when configured as a coupled set (i.e. two trams connected). However, as the new trams are fully accessible the entire length, a tram operator and only one conductor will be required for similar capacity.
- 2.4 The existing trams require a high level of maintenance support with 14.5 staff currently employed. The new trams and the retained five old trams are expected to require a maintenance crew of seven full time and one part time employees (7.5FTE), at the present level of service frequency.

3. DISCUSSION

3.1 Proposal

- 3.1.1 The extent of surplus employees depends upon the level of services offered with the new trams. TransAdelaide now operates a timetable with a 15-minute frequency during weekdays, increasing to 11 minutes in the peak periods. 133 services per day are operated through the weekday and 119 on Saturdays and Sundays. If the new fleet runs at the current timetable service level, and with the five most recently refurbished H-Class trams being retained to operate only on weekends and public holidays (making up to 20 trips per day as a tourist and charter service), a total of 22 employees would become surplus.
- 3.1.2 The Booz Allen Hamilton report of 2002 predicted a 25% increase in demand due to the customer attraction of the new trams and increased services generated by more trips, which at peak would increase from 9 to 11 per hour. The report estimated that 9 trams were required to provide the service, with substantial spare capacity on tram number 8, and tram number 9 kept in reserve for maintenance purposes.
- 3.1.3 Cabinet subsequently endorsed the purchase of nine trams in September 2003. As a result, nine trams were ordered on the basis that eight would be in service at peak, with one spare in reserve for maintenance activities, and having a capacity to accommodate a 25% growth in patronage. In addition, the DTUP project team were mindful of the difficulty of buying one or two more trams for additional services. Allowance was also made for additional tram capacity to be available to allow passengers to adjust to a tram with a significantly higher proportion of standing to seated accommodation.
- 3.1.4 TransAdelaide has undertaken projections of increasing frequency of services at peak and interpeak, on the basis that the fixed investment already committed on rolling stock and infrastructure can be used to further improved levels of service. Further, the other significant area of operational cost - labour - would already be incurred by Government as a result of the no-retrenchment policy being applied to surplus labour generated by new trams.
- 3.1.5 Costs of redeployment are significantly higher, due to high support needs, than costs for the same people in operational roles. Attrition rates in the tram business have been much slower than expected in the 2 years that have elapsed since the initial projections as employees wait in anticipation of TVSPs. Attrition following redeployment will continue to be slow due to employees having minimal skills and lack of employment flexibility. With low enthusiasm for different work, a long and expensive redeployment "tail" will occur. The projection in Appendix 1 and graph in Appendix 2 demonstrate that it will take 4 years before additional service costs start to exceed redeployment costs.

- 3.1.6 TransAdelaide proposes, therefore, that the number of services per weekday be significantly increased from 133 to 176 giving a frequency of 7.5 minutes at morning and afternoon peak and 12 minutes at interpeak. This level of service, plus the greater accessibility and comfort levels of the new trams, is expected to result in a further increase in patronage. In addition, the number of surplus operational staff would be reduced from 15 to 3 and maintenance staff from 7 to 6. It is expected that 9 surplus staff can be redeployed within an earlier timeframe.
- 3.1.7 A strategy is being developed for the redeployment of the remaining redeployees, including a program for enhancement and rejuvenation of TransAdelaide's 84 stations and the development of a maintenance program for plant and equipment, currently under a lease agreement, but which will be required to be purchased in the near future.
- 3.1.8 Extension of the line to the Adelaide Railway Station, assuming a 7.5 minute frequency to/from Victoria Square at all times, would require all 9 trams to be in service plus 4 (of 5) of the refurbished H-type trams at peak. It should be noted that the Light Rail operation in Sydney uses all its trams at peak successfully. If the Government decides to proceed with this extension, it would mean that no operational staff would become surplus, and provide the possibility of retaining some surplus maintenance staff for operational purposes.

3.2 Economic, financial and budgetary implications

- 3.2.1 The Budget Forward Estimates presently contain a cost saving of \$825,000 per annum to be achieved by lower operating and maintenance costs of the new trams, from 2004-05 onwards. With new trams not due to be delivered until December 2005 through to April 2006 and with the commissioning time required they will not be operating to full efficiency until July 2006. Subsequently, the savings incorporated into the Forward Estimates cannot commence until the 2006-07 Financial Year.
- 3.2.2 The proposal to increase service levels would effectively reduce these savings, from \$825,000 to \$246,000 per annum to provide additional service to the public and make better use of the capacity of the new trams. The basis of these cost projections are shown in Appendix 3. No attempt has been made to forecast revenue gains resulting from the expected further patronage increases.

3.3 Impact on the community and the environment

Increased services will provide significant community benefit and the new trams with their low floor accessibility will provide greatly improved access for elderly and disabled members of the community.

The increased passenger trips will assist the environment by reducing harmful emissions and road congestion, and improve road safety.

3.4 Human Resource Implications

The following table demonstrates the impact of the two options for service frequency with the new trams:

TABLE 2

	Current Operation	Options for Operation with New Trams	
		Maintaining Current Timetable Frequency 10 min. Peak - 15 min. Interpeak	Increased Service Frequency 7.5 min Peak - 12 min Interpeak
Fleet	15 H-Class	9 LRV 5 H-Class	9 LRV 5 H-Class
Trams used in peak	12 H-Class	6 LRV	8 LRV
Services operated	133 week day 119 weekends	133 week day 119 weekends	176 week day 119 weekends
Operational Staff	52	37	49
Maintenance Staff	14.5	7.5	8.5
Surplus Staff	-	22	9

Operational staff (driver/conductors) will be redeployed and offered other job opportunities in TransAdelaide, or other Government agencies, providing vacancies arise and if redeployed staff have the appropriate skills or capability to be re-trained. Because of the nature of the current workforce in the tram operation, the period in redeployment is expected to be extensive. If the recommended option of increasing services is approved, there will be only 3 surplus operational staff.

Maintenance staff will be surplus under all options of service level. In addition, it is likely that some of the present staff members will be unwilling, or unable, to be trained in the new skills required in modern electronically based vehicles. Job opportunities within Government are limited with very few maintenance activities now being carried out under Government control. The increased usage of the new trams would mean retention of one additional maintenance employee.

1.5 Industrial Relations Strategies

From the Premier's first announcement of the purchase of new trams TransAdelaide management has informed and consulted employees in the Tram Business Unit and their Unions, and has been open about the fact that there would be some surplus employees on the introduction of new trams. While no definitive numbers have been given, nor can be until a final decision is made about service levels, indications have been made that the surplus could be of the order of 15 - 24 people. In addition, it has been clearly outlined that new skills would have to be acquired by maintenance staff in order to deal with modern electronically based trams.

Employees have been assured of TransAdelaide's intention to make available resources for re-training and re-skilling and that every effort will be made to find other employment within TransAdelaide or wider government.

TransAdelaide will continue to maintain this communication and consultation to ensure that employees are informed and involved.

The Unions concerned, the Rail, Tram and Bus Industry Union (RTBIU), the CEPU, the AWU and the AMWU have been kept informed and consulted on the process through the medium of TransAdelaide's Joint Liaison Consultative Committee, which meets monthly. This process will continue.

EBA negotiations with tram operators and maintenance staff are due to begin shortly and are expected to focus upon reclassification and increased pay rates with the "greater demands" of the new trams. Tram Operator pay rates are considerably lower than comparative rates in the Train operations, whilst the maintenance staff would expect to be reclassified to an existing higher electronics grade. An allowance has been made in the financial modelling for this proposal, to allow for some reclassifications of employees.

Two driver/operators and two maintenance staff will undergo training and familiarisation with the new trams in Germany. This will have a positive impact on both operations and industrial relations.

As part of the Infrastructure Upgrade of the Tramway, a short period of full track closure in mid 2005 is proposed to enable major works to be undertaken. A closure provides significant cost and project completion time benefits though, from an industrial relations perspective, it will require delicate handling of the arrangements for temporarily surplus employees.

3.5.1 Consultation

In addition to the consultation procedures with employees and their Unions, consultation has occurred with:

- Department of Treasury and Finance (DTF)
- Workplace Relations

3.5.2 Implementation Plan

The additional services would be implemented from July 2006.

3.5.3 Communication Strategy

The existing consultation and communication strategy with employees and their Union would continue.

3.5.4 Executive Council

No requirement for Executive Council approval.

4. RECOMMENDATIONS

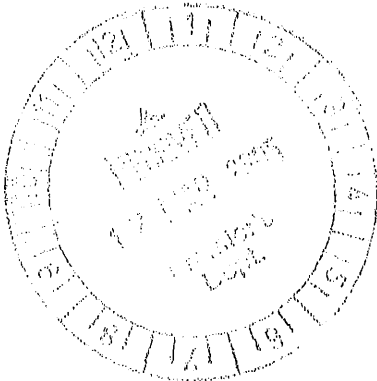
It is recommended that Cabinet:

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Trish White

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MINISTER FOR TRANSPORT

12 / 12 / 2005



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		Average Cost per annum - all inclusive		Average Cost per annum - base costs		
Tram Operator MTOPO5	15	\$58,301	\$58,301	\$42,068		
Mechanical Tradesperson	7	\$58,437	\$58,437	\$56,686		

	Year 1	Year 2	Year 3	Year 4	Year 5
Labour Cost per Tram Operator MTOPO5 per annum	\$58,301	\$42,909	\$43,767	\$44,643	\$45,535
Expected Reduction of Tram Operators per annum	3	2	1	4	5
Number of Redeployed Tram Operators at end of period	12	10	9	5	0
Labour Cost per Mechanical Tradesperson MTCO09 per annum	\$58,437	\$57,820	\$58,976	\$60,156	\$61,359
Expected Reduction of Mechanical Tradespersons per annum	2	1	1	1	2
Number of Redeployed Mechanical Tradespersons at end of period	5	4	3	2	0
Labour Costs	\$1,137,689	\$732,190	\$622,206	\$462,888	\$175,198
Incidentals - Medicals, Training, etc	\$50,040	\$30,791	\$31,561	\$32,350	\$16,579
TOTAL COSTS	\$1,187,729	\$762,981	\$653,767	\$495,238	\$191,777

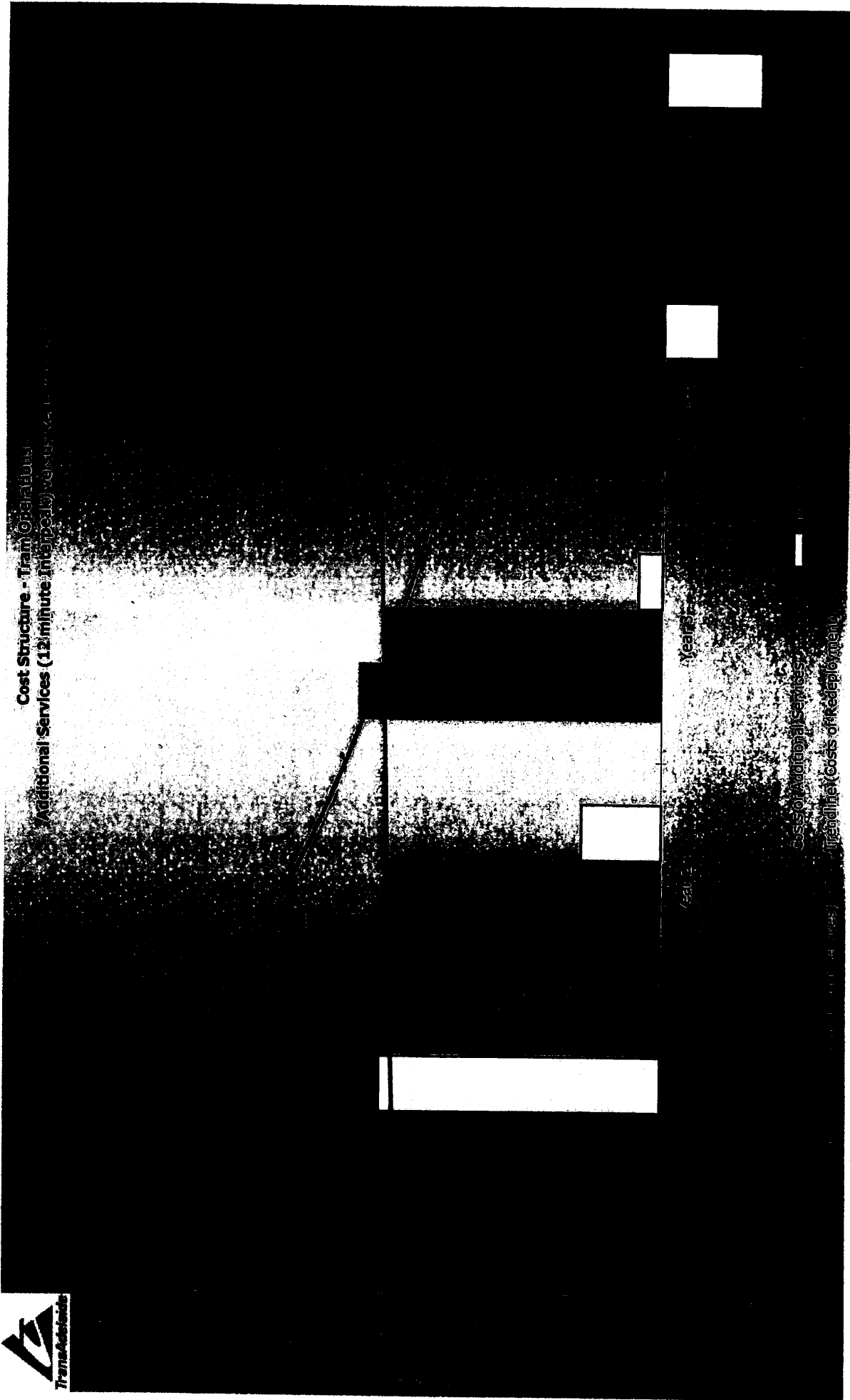
AVERAGE PER ANNUM GROSS YEAR PERIOD

ASSUMPTIONS

- * Source information for determining labour costs - 2004/2005 labour budgets GL2 - MTOPO5 and TF3 - MTCO09.
- * Year 1 Labour costs have been based upon average MTOPO5 and MTCO09 rates that include penalties and overtime. This has been verified with Human Resources 20/01/05 as correct.
- * Year 2 and onwards Labour costs have been based upon average MTOPO5 and MTCO09 rates that exclude penalties and overtime. This has been verified with Human Resources 20/01/05 as correct.
- * Labour rates have been indexed year on year as follows: MTOPO5 2%, MTCO09 2%, consistent with DTF forward estimate increases.
- * Labour costs have been calculated assuming those who leave do so by the middle of that year - ie 6 months costs incurred only.
- * No Funding deals have been considered to support permanent placement.
- * Incidentals include once off set up costs of \$20,000 in Year 1.
- * Contract Labour, External Site Rental and Incidentals have been indexed by 2.5% per annum year on year - consistent with DTF forward estimate increases.
- * The time value of money has not been considered given that DTF forward estimates by agency do not consider this.



Cost Structure - Train Operations
Additional Services (12 minute in 10 peak)



Years

Cost of Additional Services
Headline (cost of redeployment)

NEW TRAM PROJECT - RECURRENT BUDGET - REVISED VARIANCE

TRANSADELAIDE TRAM OPERATIONS

	Current Operations Budget 2004/2005 \$	New tram operation existing services		New tram operation 7.5 m Peak & 12m interpeak	
		Variance from current budget		Variance from current budget	
		costs		costs	
	\$	\$	\$	\$	\$
Labour Expense					
Supervisory (GL1) Direct Labour	289,393	344,164		344,164	
Supervisory (GL1) Indirect Labour Costs	105,552	116,107		116,107	
Operations (GL2) Direct Labour	2,193,431	1,696,639		2,244,996	
Operations (GL2) Indirect Labour Costs	739,661	708,842		755,071	
Total Operations Labour	3,328,037	2,865,751	462,286	3,460,338	-132,301
Supplies/Services/Ownership Costs					
General Operating Expenses	242,613	242,613		242,613	
Contract Penalties	50,000	50,000		50,000	
Security	38,000	38,000		88,000	
Power - Tram Cars	261,788	401,788		496,751	
Leasing	18,000	18,000		18,000	
Insurance	136,710	141,710		141,710	
Depreciation	746,162	746,162		746,162	
Overheads	1,293,844	1,293,844		1,293,844	
Total Supplies/Services/Ownership Costs	2,787,117	2,932,117	-145,000	3,027,080	-239,963
Total Operations Expenditure	6,115,154	5,797,868	317,286	6,487,418	-372,264

TRANSADELAIDE TRAM MAINTENANCE

	Current Operations Budget 2004/2005 \$	New tram operation existing services		New tram operation 7.5 m Peak & 12m interpeak	
		Variance from current budget		Variance from current budget	
		costs		costs	
	\$	\$	\$	\$	\$
Labour Expense					
Direct Labour	690,842				
Indirect Labour Costs	220,359				
Total Maintenance Labour	911,201	533,000	378,201	583,000	328,201
Supplies/Services/Ownership Costs					
Site Maintenance	38,703				
Rollingstock Maintenance	736,823				
Leasing	11,047				
Insurance	315				
Depreciation	57,540				
Total Supplies/Services/Ownership Costs	844,428	549,000	295,428	554,000	290,428
Total Maintenance Expenditure	1,755,629	1,082,000	673,629	1,137,000	618,629
TOTAL TRAM LABOUR COSTS	4,239,238	3,398,751	840,487	4,043,338	195,900
TOTAL TRAM SUPPLIES/SERVICES/OWNERSHIP COSTS	3,631,545	3,481,117	150,428	3,581,080	50,465
TOTAL TRAM COSTS	7,870,783	6,879,868	990,915	7,624,418	246,365