

RURAL AND REGIONAL BUS FARES

2009 fare review

August 2009

IPART will determine the maximum fares that can be charged from January 2010 for regular bus services in rural and regional NSW. This review does not cover fares for services in outer metropolitan areas, such as the Newcastle/Hunter region, Wollongong region, the Central Coast or the Blue Mountains. Fares for these areas are reviewed as part of IPART's metropolitan and outer metropolitan review, which is run as a separate process.

IPART determines maximum fares only. As a result, it will not review the discount applied to pensioner or student concession tickets or the cost or availability of the Regional Excursion Daily (RED) ticket. Bus operators can, and commonly do, charge fares below the maximum fares determined.

How the review will be conducted

IPART will make an assessment of how the cost of providing bus services in rural and regional NSW has changed over the previous year using the Bus Industry Cost Index (BICI) and then determine maximum bus fares taking into account the factors it is required to consider and the comments provided to it in submissions.

In 2007, IPART extensively reviewed and consulted on the BICI. IPART does not intend to review the weights of the various cost components in the BICI as these were settled in the 2007 fare review where IPART indicated it would use the weightings, updated for changes in relative prices of cost items, and inflators for the next five years.¹

IPART is seeking written submissions by **7 October 2009**. It is helpful if submissions address the factors that IPART is obliged to consider. Stakeholders may also wish to refer to the estimated increases in the BICI. Both these issues are discussed below.

IPART expects to hold a short public hearing in October/November. IPART will publish its report and fare determination in mid December 2009 and fare changes will take effect from January 2010. The report and determination will be available

¹ IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, December 2007.

from the IPART website and mailed to people who make a submission to the review or request a copy.

The review timetable is available from IPART's website (www.ipart.nsw.gov.au). This timetable will be updated from time to time.

Factors IPART must consider when making the determination

In the past IPART has made recommendations on fares for rural and regional bus services to the Minister under terms of reference provided to it by the Premier. This year, IPART's review is being conducted under section 28J of the *Passenger Transport Act 1990* which requires the Tribunal to consider the following matters:

- ▼ the cost of providing the services concerned
- ▼ the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- ▼ the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- ▼ the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all of the feasible options to protect the environment
- ▼ the social impact of the determination
- ▼ standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise) and any suggested or actual changes to those standards
- ▼ contractual arrangements prevailing in the industry
- ▼ such other matters as the Tribunal considers relevant.

Estimated change in the bus industry cost index (BICI)

In recent years, IPART has increased maximum fares in line with the increase in the cost of providing bus services. To estimate the change in costs IPART uses an industry specific cost index called the Bus Industry Cost Index (BICI) – See Appendix A for an explanation of how the BICI is calculated.

Table 1 below provides an estimate of the likely increase in costs using the most up to date data available. The likely increase based on the data available is 3.7 per cent. The inflators for workers' compensation, superannuation, payroll tax and bus capital costs are estimates only and will be updated before IPART finalises its decision. As a result, IPART's final calculation of the BICI is expected to differ from the figures shown below.

Table 1 Estimated change in the cost of providing bus services over the past year

Cost item	Index weight	Inflator	Inflator value	Contribution to 2009 change
Salaries & Wages	41.7%	Productivity adjusted WPI ^a	3.8%	1.6%
Workers Compensation	1.6%	NWPI - Workers Compensation ^b	-5.3% [Estimate]	-0.1% [Estimate]
Superannuation	3.5%	NWPI – Superannuation ^{a,c}	3.8% [Estimate]	0.1% [Estimate]
Payroll Tax	2.1%	NWPI - Payroll Tax ^{a,c}	3.8% [Estimate]	0.1% [Estimate]
Bus Fuel and Lubricants	11.5%	Average daily price of diesel across rural and regional NSW (obtained from Fueltrac)	-3.7%	-0.4%
Bus Repair and Maintenance	4.5%	CPI - Repair and Servicing	2.5%	0.1%
Insurance	1.7%	CPI - Insurance	11.4%	0.2%
Capital Costs - Bus	19.0%	Bus Lease Payment	8.3% [Estimate] ^d	1.6% [Estimate]
Other Costs	14.4%	CPI	3.1%	0.4%
Total	100%			3.7%

^a WPI is the Wage Price Index published by the Australian Bureau of Statistics. NWPI is the Non-wage Price Index also published by the Australian Bureau of Statistics. No productivity adjustment has been applied to these figures.

^b Estimated using average annual change in NWPI – workers compensation between June 2006 and June 2008.

^c The inflators for Superannuation and Payroll Tax are not yet available. They have been estimated in this table by WPI.

^d The inflator value in this table has been calculated assuming the capital costs of buses increased by the same percentage in 2008/09 as occurred in 2007/08. IPART is considering alternative data sources to estimate changes in capital cost of buses.

Note: Columns may not add due to rounding.

Source: Index weights are sourced from IPART, *Review of fares for rural and regional bus services for 2009*, December 2008, p 17.

In 2007, IPART reviewed the BICI in detail and fixed its components for five years. This year it will apply the weightings and inflators determined previously. However, IPART would welcome comment on the following related issues:

- ▼ The best method of estimating the capital cost of buses – last year IPART calculated the cost of a loan repayment based on an interest rate equal to the 5-year bank bill swap rate and a borrowed amount equal to the cost of a bus provided by BusNSW. IPART would like to use more independent data to estimate the cost of a bus².
- ▼ The extent to which changes in labour costs should be adjusted to take account of any potential productivity gains (so the benefits of productivity gains are shared)

² For further detail see IPART, *Review of fares for rural and regional bus services for 2009*, December 2008, Chapter 3.

by passengers, through lower fares, and operators)³ and appropriate methods of measuring productivity gains for rural and regional buses.

How to make a submission

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by 7 October 2009.

Submissions received after the deadline will not be accepted unless an extension has been granted prior to the due date.

We would prefer to receive submissions by email <ipart@ipart.nsw.gov.au>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

2009 Review of rural and regional bus fares
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Our normal practice is to make submissions publicly available on our website <www.ipart.nsw.gov.au>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning a member of the bus review team on (02) 9290 8400.

If you would like further information on making a submission, IPART's submission policy is available on our website. You can also sign up to our email notification service to receive updates regarding transport related matters, including information on events and documents related to this review.

³ In 2008, IPART set its productivity adjustment to zero for rural and regional buses. IPART noted the lack of data about industry specific productivity gains and the desirability of obtaining more data, particularly passenger kilometres. For further detail see IPART, *Review of fares for rural and regional bus services for 2009*, December 2008, Chapter 3.

A How the BICI works

In 2007, IPART reviewed the BICI in detail and fixed its components for five years. This year it will apply the weightings and inflators determined previously.

The BICI is intended to measure, in percentage terms, how much the overall cost of providing bus services has changed in the 12 months since IPART's last review. The BICI consists of a basket of bus cost items – such as fuel, labour and insurance costs. These items are weighted according to the proportion of the overall cost of providing bus services they represent. IPART updated the BICI weights in 2007, based on the results of an industry survey of costs conducted by Indec consulting. IPART decided that those weights, adjusted each year for changes in the relative costs of the costs items, would apply for the next five years. Consequently, for the 2009 review IPART will adopt the weights used in the last review, updated for the cost increase measured by the inflator⁴.

Each cost item has a relevant 'inflator'. The inflators are selected on the basis that they provide the best available indication of how the cost item changes over time. Wherever possible, IPART has selected inflators that are based on publicly available information. For example, the relevant inflator for the bus repair and maintenance cost item is the change in the repair and servicing component of the CPI.

At the start of each review, IPART establishes the relative weighting for each cost item in the BICI, and its relevant inflator. It then establishes the change in that inflator over the review period, and multiplies the weighting by this value, to establish the contribution of any increase or decrease in the cost item since the last review to the overall change in the cost of providing bus services. Both the weighting of the cost item and value of the inflator affect its contribution to this overall change. The table below sets out a simplified example of the BICI calculation.

Illustrative example of how the change in the BICI is calculated

Cost item	Weighting at start of the review	Change in relevant inflator	Calculated contribution to change in the BICI
	%	%	%
Labour	40	5.0	2.0
Fuel	30	10.0	3.0
Insurance	20	1.0	0.2
Maintenance	10	15.0	1.5
Total	100	-	6.7

⁴ For example, in the 2008 BICI diesel fuel costs accounted for 10.7 per cent of total costs. Over 2007/08 the cost of diesel fuel rose more quickly than other items in the index, resulting in fuel costs in the 2009 BICI now accounting for 11.5 per cent of total costs.