

## 2008 REVIEW OF BUS FARES

# Rural and regional buses - summary of proposals and review process

September 2008

This fact sheet explains IPART's 2008 review of rural and regional bus fares and the proposals that have been received. The fact sheet is designed to help interested parties understand the process and put together submissions.

### What the review covers

IPART will recommend fare increases for rural and regional buses to the Minister for Transport.

IPART will not set or recommend the percentage discount applied to pensioner or student concession tickets or determine the cost or availability of the Pensioner Excursion Ticket.

### How the review will be conducted

IPART is conducting its review of rural and regional bus fares in parallel to its review of metropolitan and outer metropolitan bus fares. However, IPART will separately consider the issues associated with rural and regional buses and will produce a separate report and recommendations for these fares.

To commence the review process, IPART requested fare proposals from the Bus and Coach Association. The fare proposal is available from IPART's website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)) and is explained in more detail below.

IPART is now seeking submissions to inform its decisions. Submissions are due by close of business on Friday 3 October 2008. In November, IPART will hold a public hearing to discuss the issues raised. All members of the public are welcome to attend the public hearing. Details of the hearing and an agenda will be circulated in advance and more information will be available from the IPART website in October.

IPART expects to finalise decisions in December in time for fare changes in early January 2009. IPART will provide a public report of its decision, which will be available from the IPART website and which will be mailed to all people and groups that make a submission to the review or request a copy.

## What submissions should address

IPART is obliged to consider a number of factors in making its decision (such as the cost of providing services and the impact of fare increases on passengers) so it is helpful if submissions address those factors.

While IPART will take into account all available information in making its decision on fare changes, it will use the fare proposals it received from the industry as a starting point. It is useful if submissions refer to the fare proposal and indicate any specific areas of support or concern.

More information on these issues is provided below to help interested parties to put together submissions. Information on how to make a submission is available from IPART's website under 'How to make a submission'.

## Factors that IPART must consider when making its decision

IPART will make recommendations to the Minister for Transport on increases to maximum fares for rural and regional bus services under an arrangement approved by the Premier. This arrangement specifies the factors that IPART must consider when making its decision.

These factors include:

- ▼ the cost of providing services
- ▼ relativity with Government owned bus services (service, efficiency, costs and ticketing products)
- ▼ protection of consumers from abuses of monopoly power
- ▼ efficiency in the supply of services
- ▼ the impact on borrowing and capital requirements
- ▼ the need to maintain ecologically sustainable development
- ▼ the social impact of the recommendations
- ▼ standards of quality, reliability and safety
- ▼ the impact on the level of Government funding.

## Recent changes to how bus services in rural and regional NSW are provided

Bus operators in rural and regional areas receive payments from the Ministry of Transport for the school student and concession passengers that use their services. On average, these payments make up around 85 per cent of the revenue operators receive. Unlike bus services in metropolitan and outer metropolitan regions, rural and regional bus operators keep the fares they collect from passengers. This means

that around 15 per cent of the operators' profit depends on the number of passengers they carry and the fares they charge.

The Ministry of Transport is in the process of moving rural and regional bus operators onto new service contracts. The new contracts include an indexation approach for industry cost components that the Ministry of Transport and the Bus and Coach Association have agreed to use to increase the payments made to operators for providing school student services.

The Ministry of Transport's fare proposal for metropolitan and outer metropolitan buses includes some background information on the new contracting regime for rural and regional buses that stakeholders may find useful.

### **The Bus and Coach Association's fare proposal**

In the past, IPART has used an index called the Bus Industry Cost Index (BICI) to make recommendations on an annual fare increase for rural and regional buses. The BICI tries to capture the annual change in costs faced by rural and regional bus operators so that maximum fares can be increased to compensate for those cost changes. Last year IPART undertook a detailed review of the BICI and made a number of changes to improve its cost reflectivity and independence.

The Bus and Coach Association (BCA) proposes an 18.5 per cent increase in maximum bus fares. The increase is based on an alternative cost index that the BCA submits is based on the escalation formula in the new rural and regional bus service contract. The BCA submits that this new cost index was developed by Ernst and Young and agreed to by the Ministry of Transport and as such, should be used by IPART for making recommendations on fares.

The bulk of the proposed fare increase results from the BCA's view of increases in general cost items in the BICI over the past 12 months (11.0%). To this the BCA has added costs associated with the contract reform process – including costs associated with new bus operator accreditation standards (BOAS), the obligation to have air conditioning on buses and wage parity for bus drivers with metropolitan and outer metropolitan bus drivers (a total additional 7.5%). The BCA recognises that this is a large fare increase but submits that in practice operators will charge fares below the maximum.

The BCA's proposed fare increase and reasons for it are set out in Table 1.

**Table 1 BCA proposed increase to bus fares – BICI including contract reform costs**

	<b>General cost inflation contribution to index</b>	<b>New contracting arrangements contribution to index</b>	<b>Total contribution to index</b>
Bus capital costs	1.82	-	1.82
People costs	1.93	6.09	8.02
Bus insurance and registration	0.19	-	0.19
Bus lubricants	6.30	0.63	6.93
Bus repairs and maintenance	0.19	0.78	0.97
Other costs	0.60	0.00	0.60
<b>Total</b>	<b>11.02</b>	<b>7.51</b>	<b>18.52</b>

**Source:** BCA proposal, August 2008 – supporting calculations

Appendix A sets out the maximum bus fares that would result from applying the increases in the BCA proposal.

#### **Inflators used for cost increases**

The BCA proposal uses the inflators that are included in the contract to apply to payments made to operators to transport school students under the school student transportation scheme (SSTS). The BCA has asked IPART to adopt this approach for setting fares as well.

Last year IPART reviewed the inflators for the rural and regional bus industry in some detail and decided that for most of the cost items in the BICI there is an independent inflator that should provide a reasonable estimate of the change in efficient costs incurred by bus operators. IPART's decision on the inflators is set out in Table 2 below together with those proposed by the BCA.

The BICI is calculated using data for the twelve months to 30 June each year. For most of the inflators, this data is already available. Table 2 also includes a comparison of the value of each inflator under both the BCA and IPART method.

**Table 2 Comparison of IPART inflators with BCA proposed inflators in the BICI**

Cost item	IPART estimate based on 2007 decisions		BCA proposal	
	Inflator	2008 estimate	Inflator	2008 value
Bus capital cost	Loan payment applied to cost of bus from quotes obtained by IPART compared with value for previous year	-1.5% <sup>a</sup>	Loan payment applied to cost of bus based on quotes obtained by BCA compared with a value specified by BCA for previous year	7.7%
Salaries and wages	Wage Price Index (adjusted for productivity improvements)	3.8% (WPI)	Wage Price Index to 31 March 2008	4.3%
Superannuation	Non-wage Price Index - super	Released Nov 2008	Wage Price Index to 31 March 2008	4.3%
Payroll tax	Non-wage Price Index - payroll tax	Released Nov 2008	Wage Price Index to 31 March 2008	4.3%
Workers compensation	Non-wage Price Index - workers compensation	Released Nov 2008	Wage Price Index to 31 March 2008	4.3%
Insurance costs	CPI - Insurance sub group	2.9%	Quotes from ALIB Businsure for previous year and current year	10.7%
Fuel and lubricants	Average daily fuel price for current year compared with average daily fuel price for previous year - using Mobil Sydney Gate diesel price	18.6% <sup>b</sup>	Average diesel pump price obtained from Fuestrac for 37 towns for final week in June 2008 compared with average Mobil Sydney Gate diesel price for year ending 30 June 2007	58.7%
Bus repair and maintenance costs	CPI - Repair and servicing sub group	2.6%	CPI	3.9%
Other costs	CPI	3.0%	CPI	3.9%

<sup>a</sup> This estimate uses the BCA's 2008 quote for bus costs

<sup>b</sup> As Mobil data has not been provided this figure is based on Fuestrac data for 35 towns in rural and regional NSW.

**Note:** CPI and WPI figures used by IPART are from Sydney index where available. Increases are calculated by comparing the average index value over four quarters for the current year with the average index value over the previous four quarters.

**Source:** IPART *Review of fares for rural and regional buses and private ferries from 2 January 2008 Recommendations to the Minister*, December 2007 and BCA fare proposal, August 2008 - supporting calculations.

Some of the specific issues that IPART has identified regarding the BCA's proposed inflators are discussed below.

### Bus capital costs

The BCA has used the same method that IPART decided on last year, and that was applied in the past. However, the value of the bus used by the BCA for 2007 was

significantly below that applied by IPART in 2007. Calculating the percentage change using the BCA's 2008 bus cost and the IPART 2007 bus cost results in a reduction in this cost item even though interest rates increased over the period.

In 2007 IPART accepted the BCA's argument that there is no independently available estimate of bus costs and agreed to work with the BCA to obtain a set of quotes that could be used. IPART has not yet reviewed the BCA's proposal or considered the reasonableness of the quotes provided but will do so during the course of the review.

#### Insurance costs

The bus insurance cost item consists of the cost of greenslips and comprehensive insurance. As in previous years the BCA has obtained quotes for these services from ALIB Businsure. Last year IPART considered that it was not reasonable to use a single quote to estimate the change in insurance costs. In addition, IPART did not consider it appropriate to rely on information provided by the industry where an appropriate independent and verifiable measure was available.

Last year, IPART decided that this item should be inflated by the insurance services sub-group of the CPI. At that time IPART indicated that it would use this as an estimate of the change in insurance costs in the future and would monitor the use of this as an estimate of the change in costs.

#### Fuel and lubricants

For other transport industries where an index is used, IPART uses Fueltrac data. Last year the BCA argued that the Mobil Sydney Gate price data it provided should be used. While Fueltrac data that is more aligned with rural and regional areas was available, IPART noted that there was not a significant difference between the result obtained from the Mobil and Fueltrac datasets. IPART agreed to use the BCA's Mobil data for 2007 but indicated that it would obtain the dataset from the Ministry of Transport in future years.

The BCA proposal this year is based on Fueltrac data for 2008. The data provided is the average daily pump price for 37 towns in NSW for the last week in June. The BCA has calculated a percentage increase by comparing this figure with the average daily fuel price used by IPART in 2007 - that is, the average daily price over the year to 30 June 2007 based on Mobil Sydney Gate prices.

To capture price movements throughout the year the average daily price for twelve months should be compared to the average daily price for the previous twelve months.

## Costs resulting from the new contracting arrangements

Around 7 per cent of the fare increase proposed by the BCA results from costs associated with the new contracting arrangements for rural and regional bus services. The BCA submits that these costs primarily result from:

- ▼ wage parity with metropolitan areas – the Government has agreed to a one-off wage increase to bus drivers of 7 per cent in recognition of additional responsibilities as a result of bus reform and other requirements<sup>1</sup>
- ▼ higher running costs associated with air-conditioned buses
- ▼ compliance with new bus operator accreditation standards (BOAS).

The labour cost increase is the largest contributor out of the three types of costs with around 6 per cent of the BCA's proposed fare increase coming directly from the introduction of wage parity.

One of the key issues for IPART to consider is the extent to which these costs are actually being incurred and the extent to which they already provided for in the SSTS payments made to operators, which make up the majority of operator revenue.

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<sup>1</sup> Letter from the Ministry of Transport to the BCA dated 19 June 2008 – provided by the BCA

## A Maximum rural and regional bus fares proposed by the BCA

Applying the percentage increases proposed by the BCA to the current maximum fares for rural and regional bus services results in the following fare increases:

**Table A.1 Increase in country town maximum fare scale under BCA fare proposal – adult single fares**

Section	2008 Fare (\$)	2009 Fare (\$)	Change (\$)	Change (%)
1	1.90	2.20	0.30	15.8
2	2.80	3.30	0.50	17.9
3	3.50	4.10	0.60	17.1
4	4.10	4.80	0.70	17.1
5	4.60	5.50	0.90	19.6
6	5.10	6.10	1.00	19.6
7	5.60	6.60	1.00	17.9
8	6.00	7.10	1.10	18.3
9	6.40	7.60	1.20	18.8
10	6.80	8.00	1.20	17.6
11	7.10	8.50	1.40	19.7
12	7.50	8.90	1.40	18.7
13	7.80	9.30	1.50	19.2
14	8.20	9.70	1.50	18.3
15	8.50	10.10	1.60	18.8
16	8.80	10.40	1.60	18.2
17	9.10	10.80	1.70	18.7
18	9.40	11.10	1.70	18.1
19	9.70	11.40	1.70	17.5
20	10.00	11.80	1.80	18.0
21	10.20	12.10	1.90	18.6
22	10.50	12.50	2.00	19.0
23	10.80	12.80	2.00	18.5
24	11.00	13.10	2.10	19.1
25	11.30	13.40	2.10	18.6
26	11.50	13.60	2.10	18.3
27	11.80	14.00	2.20	18.6
28	12.00	14.20	2.20	18.3
29	12.20	14.50	2.30	18.9
30	12.50	14.80	2.30	18.4
31	12.70	15.00	2.30	18.1
32	12.90	15.30	2.40	18.6
33	13.20	15.60	2.40	18.2



34	13.40	15.80	2.40	17.9
35	13.60	16.10	2.50	18.4
36	13.80	16.40	2.60	18.8
37	14.00	16.60	2.60	18.6
38	14.20	16.90	2.70	19.0
39	14.40	17.10	2.70	18.8
40	14.60	17.40	2.80	19.2
41	14.80	17.60	2.80	18.9
42	15.00	17.80	2.80	18.7
43	15.20	18.00	2.80	18.4
44	15.40	18.30	2.90	18.8
45	15.60	18.50	2.90	18.6
46	15.80	18.70	2.90	18.4
47	16.00	19.00	3.00	18.8
48	16.20	19.20	3.00	18.5
49	16.40	19.40	3.00	18.3
50	16.60	19.60	3.00	18.1
51	16.80	19.90	3.10	18.5
52	16.90	20.00	3.10	18.3
53	17.10	20.30	3.20	18.7
54	17.30	20.50	3.20	18.5
55	17.40	20.70	3.30	19.0
56	17.60	20.90	3.30	18.8
57	17.80	21.10	3.30	18.5
58	18.00	21.30	3.30	18.3
59	18.10	21.50	3.40	18.8
60	18.40	21.70	3.30	17.9
61	18.50	21.90	3.40	18.4
62	18.70	22.10	3.40	18.2
63	18.80	22.30	3.50	18.6
64	19.00	22.50	3.50	18.4
65	19.20	22.80	3.60	18.8
66	19.30	22.90	3.60	18.7
67	19.50	23.10	3.60	18.5
68	19.60	23.30	3.70	18.9
69	19.80	23.40	3.60	18.2
70	20.00	23.70	3.70	18.5

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**Table A.2 Increase in rural maximum fare scale under BCA fare proposal – adult single fares**

Section	2008 Fare (\$)	2009 Fare (\$)	Change (\$)	Change (%)
1	2.40	2.80	0.40	16.7
2	3.50	4.20	0.70	20.0
3	4.40	5.20	0.80	18.2
4	5.20	6.10	0.90	17.3
5	5.80	6.90	1.10	19.0
6	6.50	7.70	1.20	18.5
7	7.00	8.30	1.30	18.6
8	7.60	9.00	1.40	18.4
9	8.10	9.60	1.50	18.5
10	8.60	10.20	1.60	18.6
11	9.00	10.70	1.70	18.9
12	9.50	11.30	1.80	18.9
13	9.90	11.80	1.90	19.2
14	10.30	12.20	1.90	18.4
15	10.80	12.70	1.90	17.6
16	11.10	13.20	2.10	18.9
17	11.50	13.70	2.20	19.1
18	11.90	14.10	2.20	18.5
19	12.30	14.50	2.20	17.9
20	12.60	14.90	2.30	18.3
21	13.00	15.40	2.40	18.5
22	13.30	15.80	2.50	18.8
23	13.60	16.20	2.60	19.1
24	14.00	16.50	2.50	17.9
25	14.30	16.90	2.60	18.2
26	14.60	17.30	2.70	18.5
27	14.90	17.70	2.80	18.8
28	15.20	18.00	2.80	18.4
29	15.50	18.40	2.90	18.7
30	15.80	18.70	2.90	18.4
31	16.10	19.00	2.90	18.0
32	16.40	19.40	3.00	18.3
33	16.60	19.70	3.10	18.7
34	16.90	20.00	3.10	18.3
35	17.20	20.40	3.20	18.6
36	17.50	20.70	3.20	18.3
37	17.80	21.00	3.20	18.0
38	18.00	21.40	3.40	18.9
39	18.30	21.60	3.30	18.0

40	18.50	21.90	3.40	18.4
41	18.80	22.30	3.50	18.6
42	19.00	22.60	3.60	18.9
43	19.30	22.90	3.60	18.7
44	19.50	23.20	3.70	19.0
45	19.80	23.40	3.60	18.2
46	20.00	23.70	3.70	18.5
47	20.30	24.00	3.70	18.2
48	20.50	24.30	3.80	18.5
49	20.80	24.60	3.80	18.3
50	21.00	24.80	3.80	18.1
51	21.20	25.20	4.00	18.9
52	21.40	25.40	4.00	18.7
53	21.70	25.70	4.00	18.4
54	21.90	25.90	4.00	18.3
55	22.10	26.20	4.10	18.6
56	22.30	26.50	4.20	18.8
57	22.60	26.70	4.10	18.1
58	22.80	27.00	4.20	18.4
59	23.00	27.20	4.20	18.3
60	23.20	27.50	4.30	18.5
61	23.40	27.70	4.30	18.4
62	23.60	28.00	4.40	18.6
63	23.80	28.20	4.40	18.5
64	24.00	28.50	4.50	18.8
65	24.20	28.70	4.50	18.6
66	24.50	29.00	4.50	18.4
67	24.70	29.20	4.50	18.2
68	24.90	29.50	4.60	18.5
69	25.10	29.70	4.60	18.3
70	25.30	30.00	4.70	18.6

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