

REPORT ON FARES FOR PRIVATE BUSES

From 4 January 2005

**Report to the
NSW Minister for
Transport Services**

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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Transport Services**

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1 SUMMARY OF RECOMMENDATIONS

The Tribunal has conducted its 2004 review of fares for NSW private buses. As part of the review process, the Tribunal undertook extensive public consultation, invited submissions and held a public hearing on 14 October 2004 in conjunction with its hearing on fares for Sydney Buses.

1.1 Recommendation on fare levels

The Tribunal recommends that:

- Maximum private bus fares for single journeys in the Sydney metropolitan area covered under new contracts with the Ministry of Transport should be brought into line with the new maximum single fares determined by the Tribunal for Sydney Buses as from 4 January 2005. While most fares will decrease, in absolute terms, the changes will range from an increase of 40 cents for one-section fares to a decrease of \$4.60 for 36-section fares.
- Maximum Transitway bus fares for single journeys should be brought into line with the new maximum single fares determined by the Tribunal for Sydney Buses as from 4 January 2005. While most fares will decrease, in absolute terms, the changes will range from an increase of 10 cents for 1 to 2 section fares to a decrease of \$1.40 for 16+ section fares.
- Maximum Transitway fares for TravelTen tickets should be adjusted such that a discount of at least 15 per cent relative to ten single Transitway fares is maintained.
- Maximum private bus fares under existing commercial contracts should be permitted to rise by **3.81** per cent in line with the increase in the Bus Industry Cost Index (BICI).
- Revenue required under non-commercial contracts should be increased by between **3.14** per cent and **7.59** per cent, depending on the bus category involved and the revenue requirement determined by the PwC 2004 model.

1.2 Recommendation on metropolitan fare harmonisation

A unique feature of this review is the fare harmonisation proposal put forward by the Ministry of Transport (MoT). The Tribunal examined the MoT proposal and accepts the important role fare harmonisation must play in the context of the reforms that are currently underway in the NSW bus industry. In particular, the Tribunal notes that government and private buses will be running the same services over selected routes, notably along 43 proposed strategic corridors. The Tribunal accepts that, in general, buses of the same quality, travelling the same distance, should charge the same full fare.

The Tribunal has received assurances from the Minister for Transport Services that the Government will assist operators who are in financial difficulty as a result of the new arrangements¹.

¹ Letter to the Tribunal from the Minister for Transport Services dated 4 November 2004.

For these reasons, in relation to fares for private buses in the Sydney metropolitan area subject to new contracts and Transitway services, the Tribunal supports the general direction of MoT's fare harmonisation approach, and recommends the adoption of its specific fare proposals for single private bus and single Transitway fares.

However the Tribunal has not been persuaded by the Ministry's argument that the discount on all TravelTen tickets should be standardised at 15 per cent. The Tribunal requests the Ministry to consider this issue further before next year's fare review.

1.3 Recommendation on the Bus Industry Cost Index (BICI)

The Tribunal reviewed the Bus Industry Cost Index, verified as far as it could the consistency and representativeness of the cost items and made some amendments to them based on the latest available data. It extended the period over which the percentage rise in the index was considered to 15 months. It did this as a means of compensating operators for the delay that has occurred since the previous fare review.

1.4 Recommendations on non-commercial contracts

In order to determine the revenue required across four different bus categories, the Tribunal reviewed the PricewaterhouseCoopers (PwC) model supplied by the BCA. It has examined the movements in various cost items in the model and has recommended increases in revenue required consistent with the model.

It also recommends that the structure and assumptions of the PwC model be revisited by the MoT with a view to correcting payment anomalies that appear to exist between operators of different bus categories.

2 INTRODUCTION AND REVIEW PROCESS

In reaching its recommendations, the Tribunal was guided by:

- the Ministry of Transport's proposal on fare harmonisation in the broader context of its bus reform program
- the Terms of Reference for the review (Appendix 1) and
- the Premier's letter dated 18 May 2004 (Appendix 2).

The Tribunal's recommendations aim to balance the concerns of the Ministry of Transport, the private bus operators (as represented by the Bus and Coach Association) and private bus customers. In particular, its pricing decisions support the Ministry's proposals for bus reform in the metropolitan area and its broad intentions for bus reform in outer metropolitan and other areas.

2.1 Scope

The Tribunal's role in regulating private buses is to recommend the **maximum fares** that operators can charge for regular passenger services under commercial contracts.² The Tribunal also makes recommendations on reimbursements to operators on non-commercial contracts.

2.2 Tribunal's review process

The Tribunal's review process included undertaking its own research and analysis, and conducting public consultation. As part of this review, the Tribunal:

- invited the Ministry of Transport (MoT), the Bus and Coach Association (BCA) and other interested parties to submit their views, and received 35 written responses (see Appendix 3 for a list of submissions)
- collected detailed financial information from the Ministry of Transport (MoT)
- held a public hearing on 14 October 2004 and invited some of the parties who made submissions to discuss relevant issues (see Appendix 3 for a list of participants).

In addition, the Tribunal explicitly considered all the matters outlined in the Terms of Reference. These matters, which are listed in full in Appendix 1, relate to:

- **consumer protection** – protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions
- **economic efficiency** – greater efficiency in the supply of services; the cost of providing the services concerned; relativities with the Government owned bus services, including in terms of service, efficiency, cost and ticketing products
- **financial viability** – the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant

² For the next fare review, under the *Passenger Transport Amendment (Bus Reform) Act 2004*, which became law on 16 July 2004, the Tribunal's role is altered from one in which it makes maximum fare recommendations to the Director-General of the Ministry of Transport to one in which it makes maximum fare determinations that apply to the whole metropolitan bus industry.

assets; the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts

- **environmental protection**—promotion of ecologically sustainable development via appropriate pricing policies.

It also considered each of the issues raised in the Premier's letter dated 18 May 2004 (see Appendix 2) which included:

- making determinations based on five-year price paths
- providing fare increases that reflect the rise in the Consumer Price Index (CPI) as long as the operators involved have made efficiency gains
- providing fare increases above CPI if operators can demonstrate improvements in service quality that are linked to specific initiatives
- shifting to a single fare review and making a single fare change for all metropolitan bus operators.

The Tribunal also took into account likely future developments in the Ministry's bus reform agenda. Such developments included:

- new bus regions and routes throughout metropolitan Sydney
- a new bus funding model, applied to the metropolitan area in 2005 and to be rolled out to other areas in subsequent years
- the introduction of an electronic card as the centrepiece of a new ticketing system; the card is to be known as T-Card.

Finally, the Tribunal considered all the information it obtained through its own investigations and public consultations.

2.3 Decision making

In reaching its recommendations on fares, the Tribunal had to weigh the relative interests of private bus transport stakeholders. For example, passengers seek affordable public transport and ongoing improvements in service quality. Bus operators seek prices that provide financial viability and the ability to enhance services. The general community seeks to maximise the benefits of public transport to the environment and the economy.

The diversity of these interests usually requires the Tribunal to trade off passenger affordability concerns, service quality expectations and social and environmental benefits against the financial viability of private bus operators and any public funding requirements. This year, the proposed reduction in metropolitan fares and the new funding model reduced customers' concerns over fare levels, particularly for single tickets.

The Tribunal's consideration of the terms of reference and the Premier's letter in relation to specific pricing decisions is discussed throughout the report. Table A1.1 indicates where each matter is discussed. For further information relating to the Tribunal's review, including copies of all submissions, see the Tribunal website: www.ipart.nsw.gov.au.

3 SUMMARY OF SUBMISSIONS

The Tribunal received and considered submissions from the MoT, the BCA and other stakeholders as part of its review. The main issues raised in submissions are summarised below.

3.1 Ministry of Transport

In response to the Ministerial Inquiry into Sustainable Transport³ and the Ministerial Review of Bus Services in NSW,⁴ the MoT is undertaking major reform of bus services in New South Wales. It has identified the following as key parts of its reform agenda:

- introducing new legislation to remove what were, in effect, perpetual contracts for bus operators, and instead to encourage integrated services for better service to commuters
- reducing Sydney's 87 bus contract areas to 15 in 2005 and then to 8 by 2012; one "lead entity" is to be responsible for the planning and delivery of services in each region with a view to improving service planning and delivery
- establishing 43 strategic corridors across Sydney that will link key regional centres, supported by a bus priority investment program to improve service reliability
- developing new service planning guidelines to increase community involvement in service design and to target resources to demand
- negotiating new performance-based contracts that will combine incentives and penalties to drive improvements, improve performance reporting and encourage fleet upgrades to improve accessibility, ride quality and environmental performance
- establishing a new funding model for metropolitan bus services that will provide:
 - incentives to operators to increase patronage
 - more capacity for Government to target subsidies to priority services
 - payment for actual school travel
 - more effective risk allocation between operators and Government.

To implement this agenda successfully, the fares charged by private and government buses would need to be similar. Currently the fares are quite different – with those charged by private buses generally being higher than those charged by government buses.

In recognition of this, MoT proposed in its submission to the Tribunal that fares charged by private and government bus operators in the Sydney metropolitan region should be harmonised as part of this review. MoT's specific proposals in relation to private bus fares within and outside the Sydney metropolitan area are outlined below.

³ Widely known as the Parry Report, after its chairman Dr Thomas Parry, it made 45 recommendations aimed at developing a framework for better funding and delivery of public transport in NSW.

⁴ Widely known as the Unsworth Report, after its chairman Mr Barrie Unsworth, it made 48 recommendations designed to improve bus services in NSW.

3.1.1 MoT’s proposal for Sydney metropolitan private bus fares

In relation to metropolitan private bus services, MoT proposed that the majority of existing private bus ticket prices be decreased except for former 1-section and 3-section fares. If adopted *in toto*, the MoT proposal would mean that:

- single fares charged on private and government buses across metropolitan Sydney⁵ would be brought into line from January 2005
- TravelTen products would be introduced on private bus routes in 2005 and all discounts on all metropolitan bus routes would be aligned to 15 per cent over the next two years.

Single fares

To align the fares for single trips on private and STA buses, the MoT proposed that Sydney Bus fares be increased, that private bus fares be reduced and that the grouped section pricing of the STA fare structure be adopted by private operators⁶.

The current private bus fares for single tickets, averaged across each group of sections, and the proposed private bus fares proposed by the MoT are shown in Table 3.1. The more detailed breakdown, showing all current private bus sections and fares separately, is shown in Table 3.2.

Table 3.1 Individual fares as per the MoT proposal

Sections	Current Fare	New Fare	Change
1-2	\$1.50	\$1.60	+\$0.10
3-5	\$2.90	\$2.70	-\$0.20
6-9	\$4.10	\$3.60	-\$0.50
10-15	\$5.50	\$4.30	-\$1.20
16+	\$6.60	\$5.20	-\$1.40

Introduction of TravelTen tickets

As part of the MoT’s bus reform package, the new private bus contracts will require operators to offer TravelTens. Their prices are to be set at a discount of 15 per cent to the price of 10 single trips. Sydney Buses TravelTens will be brought into line, under the MoT proposal, with these private bus TravelTens over two years.

TravelPass tickets

MoT stated that the new Metropolitan Bus Contracts for private buses would not include a requirement to offer TravelPasses, so “fare harmonisation between the STA and private buses on the TravelPass product is therefore not relevant”.⁷

⁵ The MoT submission defines Metropolitan Sydney as the area bounded by the Hawkesbury River, Nepean River and the Royal National Park, as depicted in Attachment C of the MoT submission.

⁶ Private bus fares are currently set for each section, rather than grouped as is the case for STA fares.

⁷ MoT submission, p 14.

Table 3.2 Individual fares for each private bus section as per the MoT proposal

SECTION	Current fare	Proposed fare	Percentage change	Absolute change
1	\$1.20	\$1.60	33%	\$0.40
2	\$1.80	\$1.60	-11%	-\$0.20
3	\$2.50	\$2.70	8%	\$0.20
4	\$2.90	\$2.70	-7%	-\$0.20
5	\$3.30	\$2.70	-18%	-\$0.60
6	\$3.60	\$3.60	0%	-
7	\$3.90	\$3.60	-8%	-\$0.30
8	\$4.20	\$3.60	-14%	-\$0.60
9	\$4.60	\$3.60	-22%	-\$1.00
10	\$4.80	\$4.30	-10%	-\$0.50
11	\$5.10	\$4.30	-16%	-\$0.80
12	\$5.30	\$4.30	-19%	-\$1.00
13	\$5.60	\$4.30	-23%	-\$1.30
14	\$5.80	\$4.30	-26%	-\$1.50
15	\$6.00	\$4.30	-28%	-\$1.70
16	\$6.30	\$5.20	-17%	-\$1.10
17	\$6.50	\$5.20	-20%	-\$1.30
18	\$6.70	\$5.20	-22%	-\$1.50
19	\$6.90	\$5.20	-25%	-\$1.70
20	\$7.10	\$5.20	-27%	-\$1.90
21	\$7.30	\$5.20	-29%	-\$2.10
22	\$7.50	\$5.20	-31%	-\$2.30
23	\$7.70	\$5.20	-32%	-\$2.50
24	\$7.80	\$5.20	-33%	-\$2.60
25	\$8.00	\$5.20	-35%	-\$2.80
26	\$8.20	\$5.20	-37%	-\$3.00
27	\$8.30	\$5.20	-37%	-\$3.10
28	\$8.50	\$5.20	-39%	-\$3.30
29	\$8.70	\$5.20	-40%	-\$3.50
30	\$8.90	\$5.20	-42%	-\$3.70
31	\$9.00	\$5.20	-42%	-\$3.80
32	\$9.20	\$5.20	-43%	-\$4.00
33	\$9.40	\$5.20	-45%	-\$4.20
34	\$9.50	\$5.20	-45%	-\$4.30
35	\$9.70	\$5.20	-46%	-\$4.50
36	\$9.80	\$5.20	-47%	-\$4.60

3.1.2 T-Card

The MoT submission notes that the introduction of smart card ticketing known as T-Card is progressing. This will mean a single ticket will be able to be used on all forms of public transport once the card is operational. T-Card will be introduced in stages between mid-2004 and 2007. The fares proposed by the MoT for this review support the principles of a smartcard-based ticketing system. Offering the same bus fares for the same service regardless of location on the public transport network would enhance and simplify operation of the new ticketing system.

3.1.3 MoT's arguments in support of its fare harmonisation proposal

The MoT argued that its proposal to harmonise fares across bus operators would be⁸:

- **Positive for consumers** – the proposal would remove the current STA fare advantage and ensure fare equity across bus operators, which will facilitate a level playing field on shared strategic routes.
- **Economically efficient** – equal fares across industry would assist successful introduction of the T-Card. Fare harmonisation promotes competition on service and quality levels, thus enhancing the efficiency in the supply of services.
- **Financially viable** – equalising fares across the bus industry represents the first step towards establishing a sustainable fares policy. IPART would remain able to consider arguments in the future for fare increases based on cost recovery and efficiency improvements.
- **Ecologically sustainable development** through appropriate pricing policies. Price reductions, especially in low patronage private bus areas, would encourage increased use of public transport relative to cars.

In addition, MoT argued that bus reform, including fare harmonisation, was vital to ensuring the long-term financial viability of the bus industry in Sydney. At the public hearing, the Acting Director-General of the Ministry of Transport put the view that the primary purpose of planned bus reform in metropolitan Sydney is:

...the survival and provision of bus services in Western Sydney and other parts of Sydney that don't currently have an STA service provision.

Unsworth, and analysis that has been done subsequently, has demonstrated that the private bus industry is under enormous financial stress, and it has been facing a period of very significant decline in patronage. This fare harmonisation is just one part of a comprehensive reform program to bring private bus operators back to financial sustainability, and hopefully build a path of growth going forward.⁹

3.1.4 MoT's proposal for private bus services outside Sydney

MoT's fare harmonisation proposal only applies to the Sydney metropolitan area this year. New contracting, funding and service planning arrangements for outer metropolitan Sydney and rural and regional NSW are to be developed from early 2005.

Therefore, MoT proposed that fares for outer metropolitan, rural and regional private bus operators on commercial contracts be increased in line with the movement in industry costs, as measured by the Bus Industry Cost Index (BICI)¹⁰.

In relation to operators on non-commercial contracts, the MoT requested:

...given that the vast majority of non-commercial operators are signed to contracts that require payments to be calculated using the Price Waterhouse model, IPART should once more assess any change in non-commercial payments using that model¹¹.

⁸ MoT submission, p 8.

⁹ Transcript of Public Hearing 14 October 2004, p 6, lines 15-26.

¹⁰ MoT submission, p 16.

¹¹ MoT submission, p 18.

3.2 Bus and Coach Association

At the Tribunal's public hearing the Bus and Coach Association (BCA) indicated it was supportive of the MoT's fare harmonisation proposal for bus fares in metropolitan Sydney¹². The BCA noted in its submission that it has long advocated equitable fares and concessions regardless of the form of ownership of the bus service provider¹³.

The BCA also submitted that industry costs as measured by the BICI had risen 3.39 per cent in the year to June 2004. The BCA sought an increase of 3.39 per cent to the fare scales applying to operators on commercial contracts, and a further increase of 1.7 per cent to compensate operators for the delay in implementing the fare increase¹⁴.

The BCA noted that in 2003 the MoT did not allow an increase to the rural fare scale. The BCA submitted that some form of additional payment was necessary for operators on the rural fare scale to compensate for this, and to overcome financial viability concerns.

The BCA requested that payments to non-commercial operators be increased to the amounts calculated by the 2004 PricewaterhouseCoopers (PwC) model.

3.3 Western Sydney Regional Organisation of Councils

Western Sydney Regional Organisation of Councils (WSROC) stated that it supported:

...many of the proposals outlined in the MoT submission, especially the recommendations to align single fare bus tickets between STA and private buses within 12 months and to introduce TravelTen tickets to private buses.¹⁵

However, it raised several concerns about MoT's proposal, specifically the level of discount on the TravelTen tickets (which it suggested should be at least 25 per cent); the lack of other bulk purchase tickets offered under the new contract and implications for CityRail ticketing, particularly in relation to its discount levels and product range.

3.4 Western Sydney Community Forum

Western Sydney Community Forum (WSCF) recommended the Tribunal accept the MoT proposal for harmonisation of single fares and supported the introduction of a uniform discount to apply to TravelTens. It recommended the discount be 20 per cent rather than 15 per cent.

¹² Transcript of Public Hearing, p 12 line 25.

¹³ BCA submission, p 2.

¹⁴ The BCA has used a factor of 12/8 to determine the delayed implementation adjustment, based on a four month delay from the expected 1 July 2004 implementation date.

¹⁵ WSROC submission, p 1.

3.5 Action for Public Transport

In its submission commenting on the MoT's proposals, Action for Public Transport (APT):

...welcomes the reform of bus services being implemented by the MoT, part of which is the standardisation of bus fares across the whole of Sydney. While we have concerns with some details, we support the general proposals.¹⁶

It supported the standard fare schedule proposed for single fares on all buses but argued for a minimum discount on TravelTens of 20 per cent.

3.6 NSW Council of Social Service

The NSW Council of Social Service (NCOSS) submission stated that in general, it:

...supports the MoT submission to IPART which recommends a single stage fare harmonisation process, with an emphasis placed on reducing some fares on private operator services.¹⁷

However, it expressed concern at the level of discount proposed for TravelTens, and advocated a 20 per cent discount. It also recommended that fare increases be limited to CPI or below in the outer metropolitan areas during the transition period to new contracts.

3.7 Other organisations and individuals

The Tribunal received submissions from a number of other organisations and individuals. The issue most often raised in these submissions was the proposed 15 per cent discount on TravelTens. Six submissions suggested that this discount should be 20 per cent or more.

Several submissions requested clarification on the future of TravelPass products in the light of the MoT proposal and the introduction of T-Card. Others put the view that, without a TravelPass product, people in some areas of Sydney would continue to buy more than one flag-fall when they undertook multiple trip journeys, and that this was inequitable.

¹⁶ APT submission dated 27 September 2004, p 3.

¹⁷ NCOSS submission, p 2.

4 TRIBUNAL'S ASSESSMENT OF FARE HARMONISATION

This chapter presents the Tribunal's analysis of the MoT's proposal for metropolitan fare harmonisation insofar as it relates to private bus fares. A similar analysis in relation to Sydney Buses was undertaken as part of the Tribunal's determination for STA fares.¹⁸

4.1 Fare Harmonisation

The full harmonisation proposal for all metropolitan bus operators, and which covers single and TravelTen tickets, is shown in Appendix 4. The Tribunal accepts the important place fare harmonisation will play in the reform of the NSW bus industry, and especially how imperative it will be where government and private buses are offering services over the same routes (notably along the 43 proposed strategic corridors).

It also accepts that, in general, buses of the same quality, travelling the same distance, should charge the same full fare.

Few, if any, consumer groups and other participants at the public hearing objected to fare harmonisation, either in principle or to the MoT's specific proposal for private bus fares in particular. However, many expressed reservations about MoT's target discount of 15 per cent on all TravelTen products. The Tribunal considers that a 15 per cent discount is neither representative of interstate practice nor consistent with public perceptions¹⁹. It therefore recommends MoT reconsider the issue of the level of the discount before the next fare review.

4.2 Calculation of weighted average fare change

In the past, the Tribunal has not needed to calculate a weighted average change in private bus fares because it has recommended that one, uniform, percentage rise be granted.

In this review, not all ticket prices are being altered by the same percentage. To calculate a weighted average change in fares for private buses in this review, the Tribunal has followed the same practice it has used for several years in calculating average fare changes for STA services. Specifically, it has used boardings to weight the various individual fare changes shown in Table 3.2.

The boardings figures used are those derived from previous research undertaken by consultants to the Ministry. In particular, the Tribunal has used the estimates of boardings made on private buses in 2002 provided by Saha Consulting. Weighted by these boardings, the average decrease of fares for existing single tickets offered by private buses under the MoT proposal is **3.02** per cent.

Of course, the overall fall in private bus fares paid by passengers in 2005 may be considerably larger if discounted private bus TravelTens are introduced as the MoT expects. The Tribunal has not included the possible introduction of these type of tickets in its weighted average calculations because no boardings data can exist for them, as yet.

¹⁸ IPART, *Report on the Determination of Fares for State Transit Authority*, December 2004.

¹⁹ Discussion on the level of discount for TravelTen tickets is presented in the Tribunal's determination for STA fares, IPART, *Report on the Determination of Fares for State Transit Authority*, December 2004.

4.3 Possible effects on patronage

It is difficult to know how the harmonisation proposal might affect private bus patronage. Actual patronage data is limited and assumptions have to be made about how the introduction of the new PET and the relative price changes will affect future patronage.

An area where patronage may be significantly enlarged is the express services to the city via the M2 tollway. Single ticket fares for adult commuters who travel 22 bus sections will be \$5.20 from January rather than the current \$7.50 - a 31 per cent fare reduction.

If TravelTen tickets on private bus routes were to be introduced at a 15 per cent discount, those same commuters would face discounts to the current cost of the single fare of over 40 per cent. The present discounts on similar multi-trip products offered by most private express operators are around 10 per cent.

4.4 Service quality

The MoT submission contained little information on the current standards of service in the private metropolitan bus industry. It did suggest that the bus reform process would improve performance and reporting standards in the near future. For example, it argued that:²⁰

The new Metropolitan Bus Contract funding model will result in improved performance standards industry-wide. The operational performance regime payment is designed to motivate operators to improve performance in punctuality and reliability. Payments will be related to operator performance in these areas against a benchmark, with penalties also applying for poor performance. The service quality incentive payment is designed to motivate operators to improve performance in measures that relate to aspects of the passengers' experience other than punctuality and reliability. Operators will be assessed on a range of weighted measures including:

- **Customer satisfaction** (independently surveyed twice yearly);
- **Customer complaints** (volume and response times);
- **Load standards** (audited by MoT); and
- **Vehicle presentation.**

New measures of punctuality and reliability referenced to benchmarks and the construction of a service quality index (SQI) for each operator would be very useful to the Tribunal in conducting future reviews. Both the IPART Act and the new bus legislation²¹ require the Tribunal to consider service standards and service quality in its fare-setting process. In the past, effective measurement of these standards has often been lacking.

²⁰ MoT submission, p 37.

²¹ *Passenger Transport Amendment (Bus Reform) Act 2004.*

5 TRIBUNAL'S ASSESSMENT OF THE BICI

Fares for regular passenger services not yet included in the harmonisation proposal are set according to six schedules²².

The Tribunal does not make recommendations on each fare schedule. Rather it recommends a uniform percentage increase that is directly related to the rise in industry costs as measured by the Bus Industry Cost Index (BICI).

The Tribunal's approach to the BICI is to consider whether each cost item is:

1. *consistent* with the previous years' item description
2. *representative* of the class of costs for which the item was selected, and
3. *verifiable* as to the size of the change.

The Tribunal has made its own enquiries on each item but has not conducted a detailed examination of each. It uses as its starting point the written quotes and other evidence supplied by the BCA. The BCA, in turn, draws on relevant industry sources and other data.

5.1 Analysis of the Bus Industry Cost Index

The BICI as submitted by the BCA showed that bus costs as measured by the index had risen 3.39 per cent in the year to June (Table 5.1). The only items to show large rises were various insurances and the cost of a major bus service. There was also a 24 per cent rise in the Custom Coach body but its impact on bus leasing costs was offset by a large fall in the Mercedes chassis cost.

Compared to previous years, the overall increase in the BICI presented by the BCA was smaller (Table 5.2). However, the variation in individual cost items can be quite marked from year-to-year. For this review, the Tribunal examined each of the items in the index and made several amendments, which are discussed below.

Finally, the BCA requested a 1.7 percentage point adjustment to compensate for the delay expected to occur in the implementation date of the fare increase.

²² The six private bus fare schedules are for 1) metropolitan operators that qualify for the diesel subsidy scheme, 2) metropolitan operators that do not qualify, 3) urban fringe operators that qualify, 4) urban fringe operators that do not qualify, 5) country town operators and 6) rural operators.

Table 5.1 Private bus industry cost index

Individual Item Costs	Base Weights	Costs		Percentage Change	Contribution to total rise
	1 July 03	1 July 03	30 June 04		
Capital costs					
Mercedes chassis		\$234,500	\$198,934		
Custom coach body		\$181,500	\$225,500		
Bond rate		5.53%	5.65%		
Monthly lease paym't	17.00%	\$7,952	\$8,136	2.32%	0.39
People costs					
Award rate of pay	41.41%	\$646.60	\$667.20	3.19%	
Superannuation	3.67%	\$58.19	\$60.05	3.19%	
Payroll tax	2.26%	\$42.29	\$43.63	3.19%	
Workers comp.	2.47%	\$38.66	\$38.00	-1.71%	
Total	49.81%				1.47
Bus ins/rego					
Greenslips	1.63%	\$2,092.50	\$2,661.00	27.17%	
Compre per \$1000	1.37%	\$13.83	\$14.56	5.23%	
Registrations	0.68%	\$882.00	\$907.00	2.83%	
Total	3.68%				0.53
Bus lubricants	10.10%	\$0.9088	\$0.9117	0.32%	0.03
Repairs/maint					
Major service	4.33%	\$1,200.00	\$1,356.83	13.07%	
Tyres	1.07%	\$677.60	\$697.40	2.92%	
Total	5.40%				0.60
All other costs (CPI)	14.01%	139.37	143.07	2.65%	0.37
Total	100.00%				3.39%
Adjustment factor if fare increase from 1 November 2004 (i.e. 12/8)					150%
Total Claim for fare increase 2003/2004					5.09%

Source: BCA submission, Attachment 1, p 4.

Table 5.2 Annual changes in BICI cost items in recent years

	2000/01	2001/02	2002/03	2003/04
Capital costs				
Mercedes chassis	1.6	2.2	22.0	-15.2
Custom coach body	3.4	19.2	6.5	24.2
Bond rate (level)	6.10%	6.32%	5.53%	5.65%
<i>Monthly lease payment</i>	2.1	10.1	12.5	2.3
People costs				
Award rate of pay	3.7	3.2	3.3	3.2
Superannuation	3.7	16.2	3.3	3.2
Payroll tax	0.5	0.9	3.3	3.2
Workers compensation	18.4	13.6	2.6	-1.7
Bus insurance/registration				
Greenslips	9.1	14.3	-2.5	27.2
Comprehensive insur per \$1000	14.5	36.5	13.1	5.2
Registrations	0.7	12	2.7	2.8
Bus lubricants	8.9	-7.1	2.1	0.3
Repairs/maintenance				
Major service	0.0	3.1	8.6	13.1
Tyres	11.1	3.0	3.0	2.9
All other costs (CPI)	3.3	2.9	3.6	2.7
Total	4.1	4.2	4.9	3.4

Source: IPART reports, various. The 2002/03 rise covered a 15 month period. The annual equivalent rise in the BICI would have been 3.9 per cent.

5.1.1 Bus capital costs

The leasing cost of the bus in the BICI increased 2.32 per cent in the year ending June 2004. The modest increase masks much larger movements in the sub-components of the leasing cost. The bond rate was little changed. By contrast, the chassis component fell by 15 per cent but the body component increased by 24 per cent.

The 15 per cent fall in the chassis price occurred, in part, because last year's price was incorrect. Mercedes had double-counted the GST when providing the written quote to the BCA. The correct figure should have been \$213,182, not \$234,500. The Tribunal has confirmed the error with Mercedes. The Tribunal queried last year's figure with Mercedes during its 2003 review, but was assured the quote was accurate.

If the error had been corrected in time, the BICI would have increased 3.95 per cent last year, not 4.87 per cent. Last year's fare increase would also have been 0.92 percentage points lower.

That said, the corrected chassis price has still fallen by 6.7 per cent (from \$213,182 to \$198,934). Mercedes suggested that the reasons for the lower price may include reduced manufacturing costs following the introduction of a new model and the pass-through of imported components into lower Australian prices as a result of the appreciation of the Australian dollar in 2003. Two other quotes obtained by the Tribunal for a comparable chassis show small rises in 2003/04, in contrast to the Mercedes price fall.

The price of bus bodies quoted by Custom Coaches has increased by 24 per cent over the past 12 months. Discussions with Custom Coaches (the supplier of coach bodies) indicate that the increase is predominantly due to the inclusion of air conditioning as a standard feature. The price of coach bodies excluding air conditioning increased by 3.03 per cent.

The Tribunal accepts the inclusion of air conditioning on the grounds that it is rapidly becoming a standard feature on new passenger buses. It is already a standard feature on all new buses purchased by STA and figures provided by the BCA indicate that 86.6 per cent of all new buses registered in NSW in 2003/04 were air conditioned. In its submission the BCA stated:

While air conditioning is not a legal requirement, Custom Coaches have indicated that the vast majority of buses being built include air conditioning, as it is the standard expected by our customers. The MoT has previously indicated (while negotiating PAR) that they expect all route service buses to be fitted with air conditioning.²³

The Tribunal has verified that the current cost of a comparable air-conditioned bus, at least in one other state jurisdiction, is in line with the dollar cost cited in the BICI.

²³ BCA submission, Attachment 1, p 1.

5.1.2 People costs

It has been common practice for the Tribunal to allow in the BICI the latest Award determined by the NSW Industrial Relations Commission for private bus drivers.

The BCA included in the BICI its most recent offer to drivers based on the outcome of the State Wage Case of 25 May 2004. That offer was a 3.19 per cent rise in wage and related costs.

On 4 November 2004 the NSW Industrial Relations Commission accepted this increase based on the State Wage Case and applied it to the Award covering private bus drivers. The Tribunal therefore accepts this as the increase in wage costs applicable to the BICI.

5.1.3 Bus insurance and registration

The price of greenslips rose 27.2 per cent in the year to 30 June 2004. The BCA provided a premium list from Zurich by way of supporting documentation. The Tribunal has confirmed the size of the rise with Zurich. It also notes that Sydney Buses reported a rise of 29.6 per cent in its greenslip costs in 2003/04 which the Tribunal has calculated represents a rise of 27.7 per cent per vehicle in its fleet.

In the absence of further evidence, the rise in the price of greenslips in the BICI appears reasonable. However, as was the case with bus capital costs, the reliance on a single quote raises some question of its representativeness.

5.1.4 Bus lubricants

The BCA provided the Tribunal with satisfactory data on the daily price of diesel fuel throughout the year.

5.1.5 Bus repairs and maintenance

The cost of a major service carried out by Mercedes increased 13.1 per cent in 2003/04 to \$1357. This rise appears to be rather high, on two grounds. First, it is high relative to the 3.1 per cent and 8.6 per cent rises in 2001/02 and 2002/03 (Table 5.2). Second, that series of rises compares unfavourably with the rises in the price of "motor vehicle repair and servicing" paid by the average Australian household over the last three years: 4.7 per cent, 3.1 per cent and 2.8 per cent respectively (as measured by the relevant component in the Australian CPI).

Mercedes has confirmed that the increase was not related to any incorrect double-counting of GST. Mercedes indicates that labour is a significant component of servicing, and likely to have contributed to increased costs. But the average rise in Australian wage costs per employed person was under 5 per cent in the year to June 2004, so this cannot be the full explanation.²⁴

²⁴ The ABS labour cost index rose 3.8 per cent in the year to end-June 2004. For private workers only, the rise was 3.4 per cent. No data are available by occupation or industry as yet.

One quote for a comparable service from another provider was provided to the Tribunal by the BCA. The quote was a higher absolute dollar cost per service, and the cost rose 11.1 per cent in 2003/04. The total cost for maintenance and materials at Sydney Buses rose 7.4 per cent in 2003/04, or 5.9 per cent on a per vehicle basis.

Given the mixed nature of the available evidence, the Tribunal accepts the rise as quoted by Mercedes but believes its representativeness is doubtful and requests the BCA to provide more than one quote in future reviews.

5.1.6 All other costs

Private bus operators incur other costs which are not specifically shown in the BICI. The category "All other costs" is meant to represent these unspecified miscellaneous cost items. It is increased at each review by the annual average rise in the Sydney CPI adjusted for the effects of the introduction of A New Tax System. In 2003/04, the rise in the adjusted Sydney CPI was not 2.65 per cent as supplied by the BCA, but 2.87 per cent²⁵, for which the BICI was amended accordingly.

5.1.7 Delayed implementation adjustment – additional quarter of data

The BCA requested an adjustment to the fare increase to take into account the delay involved in implementation. The BCA sought to inflate the BICI-based fare increase by a factor of 12/8. That factor, the BCA asserted, takes account of an anticipated 4 months delay from the 1 July implementation date that the BCA considers standard and amounts to an additional 1.7 per cent, or a total fare increase of 5.09 per cent.

Instead of compensating private bus operators by adjusting the 12-month rise in the BICI by a factor related to the length of the delay (over which there was some disagreement at the public hearing), the Tribunal decided to extend the period covered by the BICI by an additional quarter. The Tribunal considers this a more objective and verifiable way in which to quantify the impact of the delay.

The BCA provided updated data for the September quarter 2004 for five cost items, namely:

- The bond rate – the increase over the 15 months to September 2004 is 5.63 per cent and the increase in the leasing cost component of the BICI is 2.28 per cent
- Greenslips – the increase over the 15 months to September 2004 is 28.49 per cent
- Registrations – the increase in the 15 months to September 2004 is 4.08 per cent
- Fuel – the increase over the 15 months to September 2004 is 3.35 per cent
- CPI – the increase over the 15 months to September 2004 is 3.20 per cent.

As a result of these changes, the rise in the BICI is 3.81 per cent over the 15 months to September 2004. Table 5.3 summarises the impact of the amendments to the BICI made by the Tribunal and Table 5.4 presents the amended BICI in full.

²⁵ Calculated as the average of four quarters to 30 June 2004 over five quarters to 30 June 2003.

Table 5.3 Summary of Tribunal's proposed amendments to the BICI

	Total increase required (%)
BCA Submission	3.39
Use of correct adjusted Sydney CPI	3.42
Additional quarter of data	3.81
Tribunal's amended BICI	3.81

Table 5.4 Amended Bus Industry Cost Index

Individual Item Costs	Base Weights	Costs		Percentage Change	Contribution to total rise
	1 July 03	1 July 03	30 Sept 04		
Capital costs					
Mercedes chassis		\$234,500	\$198,934		
Custom coach body		\$181,500	\$225,500		
Bond rate		5.53%	5.63%		
Monthly lease paym't	17.00%	\$7,952	\$8,133	2.28%	0.39
People costs					
Award rate of pay	41.41%	\$646.60	\$667.20	3.19%	
Superannuation	3.67%	\$58.19	\$60.05	3.19%	
Payroll tax	2.26%	\$42.29	\$43.63	3.19%	
Workers comp.	2.47%	\$38.66	\$38.00	-1.71%	
Total	49.81%				1.47
Bus ins/rego					
Greenslips	1.63%	\$2,092.50	\$2,688.75	28.49%	
Compre per \$1000	1.37%	\$13.83	\$14.56	5.23%	
Registrations	0.68%	\$882.00	\$918.00	4.08%	
Total	3.68%				0.56
Bus lubricants	10.10%	\$0.9088	\$0.9392	3.35%	0.34
Repairs/maint					
Major service	4.33%	\$1,200.00	\$1,356.83	13.07%	
Tyres	1.07%	\$677.60	\$697.40	2.92%	
Total	5.40%				0.60
All other costs (CPI)	14.01%	137.60*	142.01*	3.20%	0.45
Total	100.00%				3.81%

* Calculated as the average of five quarters

5.2 Compensation for 2003 freeze of rural fares

In 2003 the MoT determined that the fare increase recommended by the Tribunal would be applied to the metropolitan, urban fringe and country town fare schedules, but not to the rural schedule. At the time, the MoT noted that:

The freeze on rural bus fares has been implemented to provide country users of public transport with a more equitable transport system. "Many passengers do not realise that there is a 25 per cent premium on rural private bus fares over country town private bus fares, an anomaly that needs to be addressed" the spokesman said. "This freeze means the maximum regulated fare will stay the same on private bus journeys between centres such as Yass and Goulburn, Forster and Taree, and Junee and Wagga".²⁶

²⁶ MoT media release 15 August 2003.

In its submission the BCA sought an adjustment to the rural fare scale to compensate for the lack of rural fare increase in 2003.

The MoT has indicated to the Tribunal that such an adjustment is unwarranted:

The freeze on rural fares for 2003-04 was implemented by the Ministry to provide country users with a more equitable transport system, in circumstances where a 25% premium was already in existence on private rural fares. The freeze was aimed at preventing the perpetuation of further inequities between rural and country town fare zones.

Given the BCA's representations concerning the impact on industry, the Ministry is supporting the call in the current fare review process for a Bus Industry Cost Index increase in both rural and country town fare scales. However, in anticipation of continuing bus industry reforms, and in the light of the Unsworth Review's recommendation to have single fare scales for both metropolitan and regional areas, it is not considered appropriate that there be any retrospective adjustment. The decision to freeze rural fares was lawfully made in respect of a previous fare determination by the Tribunal. It is the Ministry's view, therefore, that it should not be revisited as part of the Tribunal's current review.²⁷

The Tribunal has received no evidence of inequity or that rural bus operators are financially unviable. The rural fare scale is still set at a premium of around 20 per cent to country town fares. As in previous years, therefore, it recommends that the Director-General increase all relevant fare scales in line with the latest rise in the BICI.

5.3 Tribunal recommendation on private bus fares

The Tribunal recommends that private bus fares for commercial contracts not affected by fare harmonisation should rise by 3.81 per cent on 4 January 2005. This increase takes into account cost increases faced by the industry over a 15 month period. As such, no additional adjustment for delayed implementation is recommended, nor is an additional increase for rural operators.

In its submission, MoT stated,

In relation to SSTS and half fare concession payments in Outer Metropolitan areas on Metropolitan, Urban Fringe or Country Town fare scales, it is recommended that IPART consider applying any increase from the commencement of Semester 2 of the current school year and 1 July, 2004 respectively²⁸.

The Tribunal considers the back-dating of SSTS and half fare concessions a matter for the Ministry. Should the Director-General wish to back-date some payments to 1 July 2004, the appropriate increase in the payments under those arrangements would be 3.42 per cent which is the rise in the BICI in the year to 30 June 2004.

Should the Director-General wish to back-date payments to 1 October 2004, the appropriate increase in the payments would be 3.81 per cent which is the rise in the BICI in the year to 30 September 2004.

²⁷ Letter from MoT to the Tribunal dated 25 October 2004.

²⁸ MoT submission, p 16.

6 TRIBUNAL'S ASSESSMENT OF NON-COMMERCIAL MODEL

Revenue requirements for private bus operators on non-commercial contracts are based on the costs of running particular categories of bus, with an allowed return on investment.

From the mid-1990s, bus costs were modelled in a framework developed by consultant Pricewaterhouse Coopers for the MoT and the BCA. Known originally as the PWU model, now the PwC model, it was used to determine revenue requirements for each bus that operated under a non-commercial contract.

Last year the BCA proposed a new model, developed in conjunction with the Institute of Transport Studies at Sydney University, known as the ITS model. The model contained some improvements over its predecessor, but the Tribunal understands that around 1400 of the 1800 current non-commercial contracts still referred specifically to "PWU parameters".

In the absence of a 2003 version of the PwC model, the Tribunal recommended that the Director-General increase revenue requirements by the percentage increases in the only model available, the ITS model. The adoption of that recommendation created some inconsistent outcomes across operators who run more than one category of bus.

This year, the BCA has submitted both a 2003 and 2004 version of the PwC model.

6.1 Assessment of the non-commercial model

The Tribunal has examined each of the cost and rate of return items for 2003 and 2004 and is satisfied as to their representativeness and consistency within the framework of the PwC model. The revenue requirements derived from the 2004 PwC model are set out in Table 6.1.

Table 6.1 Revenue required by type of bus - PwC model 2004

Items in Non-Commercial model	Cat. 1 \$	Cat. 2 \$	Cat. 3 \$	Cat. 4 \$
COSTS				
Bus-related costs	13,733	15,394	17,877	19,356
Driver-related costs per hour	18,995	18,995	18,995	18,995
Driver-related costs per day	1,968	1,968	1,968	1,968
Fuel-related costs	2,532	2,152	3,131	3,564
Other distance-related costs	3,852	3,978	6,323	7,557
	41,080	42,487	48,294	51,440
DEPRECIATION				
Depreciation	2,512	4,599	5,362	7,744
Depreciation (spare bus allowance)	251	460	536	774
REQUIRED RETURN				
Return on Investment	4,575	8,736	14,985	20,372
Return on Investment on spares	458	874	1,498	2,037
NET REVENUE REQUIRED PER BUS	48,876	57,155	70,675	82,367
GST	4,888	5,715	7,068	8,237
TOTAL REVENUE REQUIRED PER BUS	53,764	62,870	77,743	90,604

Some costs in the PwC model were straightforward to verify. For example 'bus-related costs' and 'other distance-related costs' are inflated by the change in the Sydney CPI (with an ANTS adjustment, as used in the BICI) and the bond rate is taken from Reserve Bank published data.

Other cost items were less straightforward. Bus capital costs are key inputs to the depreciation and return on investment items in the PwC model. Only one set of quotes was provided for them. Of the four categories of vehicles:

- Category 1 bus prices fell 0.8 per cent in 2003/04
- Category 2 bus prices fell 0.6 per cent in 2003/04
- Category 3 bus prices fell 1.4 per cent in 2003/04
- Category 4 bus prices rose 8.8 per cent in 2004/04.

Driver-related costs comprise up to 39 per cent of the revenue required in the PwC model. Increases in this item are driven by increases in the Award rates for private bus drivers, ruled on by the IRC. The wage increase in the PwC model is 3.19 per cent, the same as the increase in the BICI.

The BCA did not request a delayed implementation adjustment for buses providing services under non-commercial contracts on the ground that the Tribunal's recommended increases are expected to be backdated to 1 July 2004 by the Ministry. For the same reason, updating the PwC model to the end of September quarter 2004 was not appropriate.

In the absence of better information, the Tribunal decided to accept the PwC 2004 model as submitted by the BCA. However, it would like to see more than one quote for each cost item in any future review of non-commercial contracts.

6.1.1 Design of the PwC model

The PwC model is comprised of a number of cost items (Table 6.1 shows a breakdown). Each of these aggregate dollar amounts is in turn derived from a set of unit costs. For example, 'Driver related costs per hour' represents the labour cost of the driver. The item is the product of the hourly wage rate based on the Award for bus drivers, multiplied by the number of driving hours stipulated in the specific contract (the PwC base-case contains an assumption of 4 hours per day for 201 days).

The model was designed in this way to provide appropriate levels of remuneration to around 1800 contracts covering a diverse range of services. It was not intended to be an index of cost movements. Rather, the inputting of the contract specific parameters (kilometres, hours, days) was intended to mirror the differences in costs faced by operators of different services and compensate them accordingly.

6.2 Applying the revenue requirements to Ministry payments

In determining the remuneration for each of the 1800 buses on non-commercial bus contracts, the MoT practice was, until last year, to run the PwC model for each contract. This was necessary because each contract prescribes a number of days, hours per day and kilometres travelled per day depending on the route covered by the contract.

Prior to 2003, the Tribunal submitted the PwC model it had approved for the MoT's use in calculating payments. In accepting the model each year, the Tribunal had implicitly agreed to the increases in unit costs of each item. If some items had increased more than others - for example if fuel costs had increased faster than wage rates - a contract with relatively longer distances than hours would have received a larger dollar increase than an average contract.

But in 2003 the Tribunal had no PwC model to provide to the MoT, so the MoT increased each of the unit costs in the 2002 model by the overall increase in revenue requirements determined by the Tribunal as they related to each of the four bus categories. This had the result that payments on all contracts relating to a specific category of bus increased by exactly this percentage but the increases differed across bus categories.

Therefore, for example, drivers' wage costs are now being modelled at different rates depending on the category vehicle driven. This is inconsistent with the Award, and with the intent and application of the PwC model prior to 2003.

In order to prevent such anomalies, the Tribunal recommends that the Director-General apply the absolute dollar revenue requirements calculated by the PwC model. This results in increases to reimbursements that incorporate not only the increase in costs from 2003 to 2004 as measured by the PwC model, but also capture the differences between the 2002 and 2003 PwC model to the extent that these were not reflected in the change in the ITS model. The outcome will be, in effect, to unwind any impact of having employed the ITS model last year.

Table 6.2 summarises the revenue requirements and percentage changes in revenue to operators resulting from the Tribunal's recommendations.

Table 6.2 Revenue requirements and percentage changes

Year	2003	2004	Percentage Changes (%)
		<i>As determined by PwC model</i>	<i>From 2003 to 2004</i>
Category 1	\$52,126	\$53,764	3.14
Category 2	\$60,045	\$62,870	4.70
Category 3	\$72,258	\$77,743	7.59
Category 4	\$84,942	\$90,604	6.66

Note: This table refers to contract (age) complying, DAFGS eligible buses.

6.3 Unsworth Report critique

The Unsworth Report criticised the PwC model on the following grounds:

While, as a sector, non-commercial contract operators may be over-remunerated, the available evidence is that individually, not all non-commercial operators are doing equally well.

INDEC suggests that the reason for the enormous disparity in the distribution of EBITDA is that the current funding model, the PwC model, is heavily skewed in favour of:

- The 375 operators who hold multiple contracts (and, in particular, the 21 who hold 10 or more contracts), and
- Those operators who are operating the larger category 3 and category 4 buses (and, in particular, those operators with short routes and low daily operating hours).²⁹

The second criticism –that category 3 and category 4 bus operators, especially those on short routes and low daily hours, are advantaged by the PwC model – suggests to the Tribunal that the structure of the PwC model be reassessed.

The first criticism relates more to the system of contracting in place than to the PwC model. Currently there is one contract for each bus, and each contract reimburses the total operating cost of that bus for the year, in addition to providing a fixed rate of return over these costs. The contracting system does not take into account economies of scale of operating more than one bus. While the system has in place one contract per bus rather than one per operator, operators who are able to extract economies will continue to derive larger profits than those with only one contract.

6.4 Tribunal recommendation on revenue required

The Tribunal recommends that the Director-General adopt the absolute dollar revenue requirements as generated by the 2004 version of the PwC model.

In terms of percentage changes across the four bus categories, revenue requirements will rise by approximately

- **Category 1** buses, 3.14 per cent
- **Category 2** buses, 4.70 per cent
- **Category 3** buses, 7.59 per cent
- **Category 4** buses, 6.66 per cent.

Further, the Tribunal recommends that the structure and assumptions of the PwC model be revisited by the MoT with a view to correcting the payment anomalies that appear to exist between operators of different bus categories.

²⁹ Review of Bus Services in NSW, Final Report, p 63.

7 FURTHER MATTERS TO BE CONSIDERED

Customers

The overall impact of the Tribunal's fare recommendations on customers as a whole is likely to be small if only because urban transport fares comprise less than one per cent of an average Australian household's spending as reflected in the current weights in the Consumer Price Index.

But for individual users of public transport, the proportion would be considerably higher. The income range for private bus users is very wide since buses are used extensively for both commuting and non-commuting purposes.

While most private bus passengers in metropolitan Sydney will benefit from a drop in fares, passengers in outer metropolitan Sydney and rural and regional NSW will face a modest increase in fares.

Environment

The impact on the environment from the fare recommendations in terms of pollution and congestion is likely to be minimal given that the state's bus fleets are tiny compared to the NSW stock of passenger motor vehicles of over three million.

Government funding

Given Government reforms to funding of the private bus industry, it is difficult to quantify the impact of the Tribunal's recommended fare changes. However, the Tribunal has received assurances from the Minister for Transport Services that the Government will assist operators who are in financial difficulty as a result of the new arrangements.

The payment made by Government under non-commercial contracts in 2003/04 was \$117.0m. The increase in revenue required under these contracts of between 3.14 and 7.59 per cent implies that Government funding would rise by approximately \$6m in a full year.

7.1 Impact of fare recommendations on private bus customers

7.1.1 Income profile of private bus users

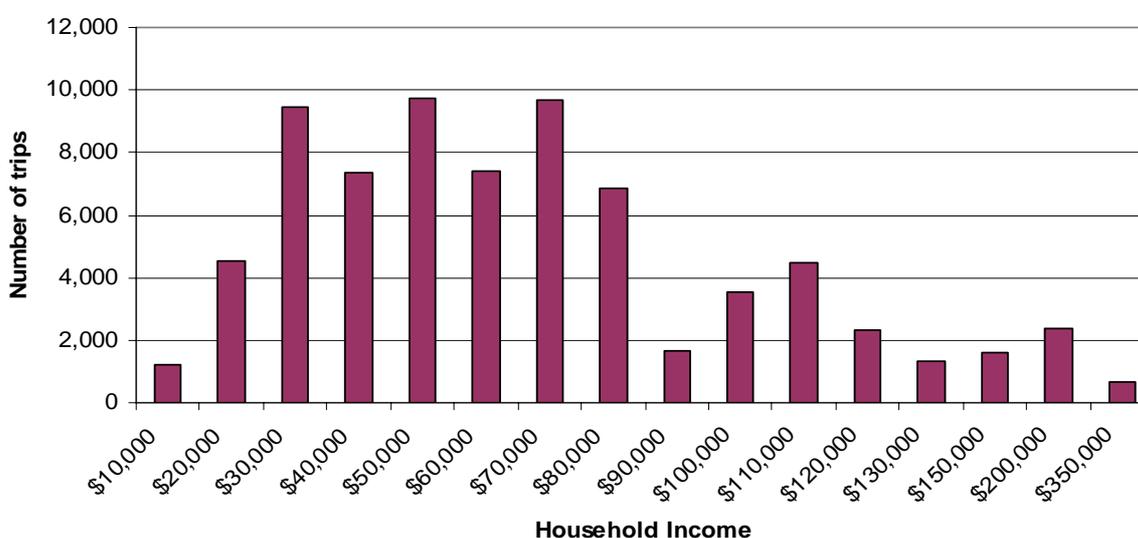
Private bus passengers in Sydney have the lowest average personal and household incomes of all public transport users (Table 7.1). Most trips are taken by people with household incomes below \$90,000 (Figure 7.1).

Table 7.1 Income profile of Sydney public transport users

Mode	Number Of Trips	Average Personal Income	Average Household Income	Median Household Income
Priv bus Sydney	70,524	\$32,423	\$66,781	\$56,212
STA Buses	257,345	\$44,581	\$86,214	\$69,524
Sydney Ferries	30,010	\$72,307	\$121,765	\$120,952
CityRail	494,730	\$46,847	\$86,842	\$71,864
Taxis	116,182	\$60,163	\$109,760	\$95,472

Source for this table & following figure: TPDC, HTS 2002 Full fare paying passengers, average weekday.

Figure 7.1 Household income of private bus users in Sydney



The vast majority of private bus trips are taken using single or return tickets (89 per cent according to the TPDC). The income of periodical ticket purchasers is much higher (Table 7.2), a reflection of the fact that the majority of periodical tickets relate to express services into the city of Sydney. This concentration of commuters is very different from the mix of passengers who use the traditional private bus services along local and feeder routes.

Table 7.2 Household income by ticket type

	Household Income	
	Median	Average
Single/return/daily ticket	\$43,732	\$61,679
Periodical	\$96,824	\$109,372

Source: TPDC, Household Travel Survey 2002 Full fare paying passengers, average weekday.

7.2 Environmental issues

As an alternative to private motor vehicles, the benefits of public transport include reduced congestion and pollution. The extent to which these benefits are realised depends on factors such as the relative monetary cost of public versus private transport and the responsiveness of private vehicle users to changes in relative non-monetary costs (such as road congestion, the effectiveness of bus priority measures, public transport accessibility, reliability, safety and frequency).

The Tribunal has considered environmental issues and the influence of fares on the use made of public transport. Most of the available evidence suggests that price has a small role to play in influencing the decision to use public transport.

During the 2001/02 Determination of Public Transport Fares, the Tribunal commissioned an independent study by the Centre for International Economics (CIE) on subsidies and the social costs and benefits of public transport.³⁰

The study indicated that changes in public transport fare levels are unlikely to have a major impact on patronage levels, and that a range of factors are considered by the traveller when determining travel mode. The study states:³¹

The effectiveness of public transport subsidies in controlling transport externalities depends partly on the influence they have on fares, and, through these, on the relative price of travel by these modes compared with car. The influence is only partial because subsidies can also be used to change the quality of service at a given fare – through expenditure that changes journey speed, frequency, reliability, comfort and safety. The EPA and NCOSS have emphasised that these factors play a significant role in inhibiting public transport patronage. Mees (2000, p 86) also points out that ‘... public transport is already cheaper than owning and operating a car. It is flexibility, convenience and door to door travel times that count most’.

Although changes in fare levels are likely to have only a limited effect on public transport usage, the Tribunal is mindful that higher fares can have social impacts.

A much broader environmental issue is the underpricing of road use. The CIE study considered the issue of appropriate pricing of alternate transport modes and the Parry Inquiry advocated that a close look be given to road pricing in Sydney.

7.3 Government funding for private operators

Due to the reforms to the bus industry and the introduction of a new funding model, it is not possible to estimate the impact of the recommended fare changes on government funding of private buses. However the Tribunal has received assurances from the Minister for Transport Services that Government will assist operators who are in financial difficulty as a result of the new arrangements.

³⁰ Centre for International Economics, *Subsidies and the social costs and benefits of public transport*, March 2001. Available from the Tribunal’s website, www.ipart.nsw.gov.au.

³¹ Op cit, p 38.

The two main sources of Government (taxpayer) funding for private bus operators are:

1. the School Student Transport Scheme (SSTS) for transporting students and
2. top-ups for half-fare concessions to pensioners, retired senior citizens, and the unemployed.

Total payments under these two arrangements to private operators were \$381.8m in 2002/03.³² SSTS payments were the bulk: \$349.9m, of which approximately one third was paid under non-commercial contracts, and the remainder under commercial contracts.³³ The rest was pensioner half-fare concession payments of \$31.9m to private bus and ferry operators.

Non-commercial contract operators would receive an increase in revenue of between 3.14 and 7.59 per cent depending on the category of vehicle under the Tribunal's recommendations.

7.4 Matters raised in the Premier's letter

7.4.1 Five-year price path considerations

Recommendation #18 of the Ministerial Inquiry, which primarily concerned CityRail, elicited a response from Government that said:

Public transport agencies will seek fare adjustments through the IPART. The Government supports a 5 year price path to give transport agencies revenue certainty.

The Tribunal has considered the possibility of implementing a five-year or, more generally, a multi-year price path for public transport fares. The advantage of the revenue certainty it may generate must be weighed against the detailed informational requirements which ought to underpin it.

For the present review, such information is not available. Progress on the collection of private bus industry financial and performance data is likely to be substantial in 2005 because such data are a required part of the new contract arrangements for metropolitan bus operators. The Tribunal is, therefore, likely to be able to more fully consider the five-year price path option next year.

7.4.2 Fare increases up to the CPI subject to efficiency gains

The lack of detailed information on efficiency measures for private buses has made it difficult for the Tribunal to reach a view on their role in the present review. The Tribunal expects appropriate measures of efficiency and the gains made in them to be submitted for consideration at the next review, at least as far as metropolitan buses operated under the new contracts are concerned.

³² Ministry of Transport, *Annual Report, 2003*, p 75.

³³ *Review of Bus Services in NSW Discussion Paper – Bus Services in Rural & Regional NSW*, Ministry of Transport website, undated, third page.

7.4.3 Fare increases above CPI for service improvements

A central feature of service improvements in recent years has been the introduction of new buses. These buses have been air-conditioned, low floored and environmentally sound. The Tribunal has had regard to the rising standard of buses in considering this year's determination.

APPENDIX 1 TERMS OF REFERENCE

"I, Bob Carr, Premier, approve, under Section 9(1)(b) of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Tribunal entering into an arrangement with the Minister for Transport to investigate and report on the following matters related to the private bus industry:

1. fares for regular services regulated under the *Passenger Transport Act 1990*
2. level of remuneration received from the Government for commercial and non-commercial school services.

A final report is to be provided to the Minister for Transport by June each year.

In conducting this investigation, the Tribunal should consider:

- i. the cost of providing the services concerned;
- ii. relativities with the Government owned bus services, including in terms of service, efficiency, cost and ticketing products;
- iii. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;
- iv. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- v. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- vi. the need to maintain ecologically sustainable development;
- vii. the social impact of the recommendations;
- viii. 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 as notified to the Tribunal by the Minister for Transport); and
- ix. the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts.

In conducting the investigation the Tribunal will invite submissions from the Bus and Coach Association, the relevant unions and other stakeholder groups, including the general community."

The table below indicates where each of the terms of reference and matters raised in the Premier’s letter have been addressed in the report.

Table A1.1 Consideration of the terms of reference and Premier’s letter

Terms of Reference	Report reference
i. cost of providing the service	Sections 5.1 and 6.1
ii. relativities with Government-owned buses	Section 4.1
iii. protection of consumers from abuse of monopoly power	Section 7.1
iv. need for greater efficiency in supply of services	Section 5.1
v. impact of pricing on borrowing and capital requirements	Section 5.1
vi. ecologically sustainable development	Section 7.2
vii. social impact of recommendations	Section 7.1
viii. standards of quality, reliability and safety	Section 4.4
ix. effect on level of Government funding	Section 7.3
Premier’s letter	
a.) five-year price path	Section 7.4.1
b.) fare increase up to CPI subject to efficiency gains	Section 7.4.2
c.) fare increase above CPI subject to service improvements	Section 7.4.3

APPENDIX 2 PREMIER'S LETTER



Premier of New South Wales
Australia

18 May 2004

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

I am writing in relation to IPART's forthcoming review processes with respect to passenger transport fares for 2004-2005, in the context of the Government's recently announced transport reforms.

In light of recent performance issues on the CityRail network, I direct under section 7(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act') that the 2004-05 IPART fare review process for CityRail be deferred until further notice. However, fare reviews of other public transport modes should proceed.

Following the Ministerial Inquiry into Sustainable Transport, the NSW Government has committed to delivering parity in fare structures and consistent service levels across public and private bus and ferry transport operators.

I therefore request under section 13(l)(c) of the Act that, when making its investigations into passenger transport fares for all public transport modes, the Tribunal consider the following matters that arise from the Inquiry's recommendations:

- the making of a determination based on a 5-year price path;
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to efficiency gains; and
- providing for fare increases above the CPI to clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives such as bus priority measures.

In respect of the Tribunal's section 9 investigations of privately owned public transport fares, I would ask that you also have regard to the above matters.

Bus Services:

In order to progress with a consistent fare structure for the bus industry and to implement reforms arising from the Unsworth Review of Bus Services, several changes to the existing arrangements, including legislation and the role of IPART, are being considered by the

Government. The proposed legislative amendments will not commence in the first half of 2004.

When calling for public and industry submissions I request, pursuant to section 13(l)(c) of the Act, that IPART consider the Government's preferred approach of moving to a single fare review, including moving to a single fare change applicable to all bus operators.

I also request that IPART consider whether any State Transit fare increase for 2004-05 and later years should be applied on a "weighted average" basis aimed at better aligning Government and private operator fares. Such an approach would result in IPART determining an overall price change for bus fares. Individual fare products may be adjusted to varying degrees but the changes must, in aggregate, be less than or equal to the overall adjustment determined by IPART.

For non-commercial bus services, the Government is developing a new funding approach along the lines recommended by the Unsworth Review of Bus Services (see p.70 of the Final Report), but this may not be completed for 2004-05. Therefore it may be appropriate that the process used for the 2003-04 review be used in 2004-05.

Ferry Services:

In respect of ferry services, under section 13(l)(c) of the Act, I also request that IPART consider adopting the same process outlined above (i.e. single fare increase figure for both private and public operators). As there are no relevant legislative changes planned in relation to ferries, I request that in all other respects IPART consider following existing processes for 2004-2005.

I have no objection to the contents of this letter being made publicly available, if you consider it appropriate.

If your officers wish to discuss these matters, they should contact Ms Zoe de Saram, Policy Manager, Economic Development Branch, at The Cabinet Office on (02) 9228 4930.

Yours sincerely

Bob Carr
Premier

APPENDIX 3 LIST OF SUBMISSIONS AND HEARING PARTICIPANTS

The Tribunal received submissions from the following organisations and individuals:

Organisations

Action for Public Transport
Bus and Coach Association
Blue Mountains Commuter and Transport Users Association
Central Coast Regional Organisation of Councils
Commuter Council of NSW
Engineers Australia Sydney Division, Transport Panel
Independent Transport Safety and Reliability Regulator
Lower Hunter Councils Transport Group
Manly Council
Ministry of Transport
NSW Council of Social Service
Public Interest Advocacy Centre
Rockdale City Council
Ryde Mental Health Consumer Network
Transit Planners Pty Ltd
Transport Workers Union
Vaucluse Progress Association
Western Sydney Community Forum
Western Sydney Regional Organisation of Councils

Individuals

Mr James Barry
Ms Loma Bridge
Mr David Caldwell
Mr Chris Dickson
Mr Kevin Eadie
Mr Mitchell Geddes
Mr Giles Heng
Mr Stephen Hodgkinson
Ms Kristina Keneally
Dr Estelle Lazer
Mr Peter Mills
Mr B. Noad
Ms Freda M. Pont
Mr Norman Rich
Mr Robert Scott
Ms Leyla Spencer

The following people attended the Public and Private Bus Public Hearing held at the Tribunal's offices on 14 October 2004:

Representatives of IPART:

Mr James Cox, Acting Chairman
Ms Cristina Cifuentes, Part-time Member
Dr Dennis Mahoney, Program Manager, Transport

Hearing participants:

Mr Mark Duffy, Acting Director-General, Ministry of Transport
Mr John Lee, Acting CEO, State Transit Authority
Mr Darryl Mellish, BCA NSW
Mr Allan Miles, Action for Public Transport
Ms Joan Gennery, Western Sydney Community Forum
Mr Alex Gooding, Western Sydney Regional Organisation of Councils
Mr Dinesh Wadiwel, NSW Council for Social Services

Also attending the hearing were:

Mr Colin Berwick (Premier Illawarra)
Mr David Caldwell
Ms Rhonda Daniels (DIPNR)
Mr Frank D'Apuzzo (Buslines Group)
Mr Paul Dunn (STA)
Ms Elissa Freeman (PIAC)
Mr Mitchell Geddes
Mr Darko Krizmank (Westbus)
Mr Richard Langereis (Ministry of Transport)
Mr Peter Mills
Mr Mick Pieri (TWU)
Ms Sheridan Rapmund (IPART)
Ms Liz Reedy (ITSRR)
Mr Colin Reid (IPART)
Ms Pauline Ross (Ministry of Transport)
Mr Paul Schuman (STA)
Mr Richard Smith (Busways)
Ms Nadine Thorburn (CityBus Direct)
Mr Peter Threlkeld (Transit First)
Mr George Tisse (Busways)
Mr Paul Trevaskis (Blue Mountains Commuter and Transport Users Association)

APPENDIX 4 FARE HARMONISATION PROPOSAL IN FULL

The specific fares proposed by the MoT are set out in Table A4.1. Also shown are the changes in each fare in both absolute dollars and cents and percentages.

Table A4.1 Individual adult fares proposed by the MoT for 2004/05 and 2005/06

PRIVATE BUS FARES

SECTION	Current fare	Proposed fare	Percentage change	Absolute change
1	\$1.20	\$1.60	33%	\$ 0.40
2	\$1.80	\$1.60	-11%	-\$ 0.20
3	\$2.50	\$2.70	8%	\$ 0.20
4	\$2.90	\$2.70	-7%	-\$ 0.20
5	\$3.30	\$2.70	-18%	-\$ 0.60
6	\$3.60	\$3.60	0%	\$ -
7	\$3.90	\$3.60	-8%	-\$ 0.30
8	\$4.20	\$3.60	-14%	-\$ 0.60
9	\$4.60	\$3.60	-22%	-\$ 1.00
10	\$4.80	\$4.30	-10%	-\$ 0.50
11	\$5.10	\$4.30	-16%	-\$ 0.80
12	\$5.30	\$4.30	-19%	-\$ 1.00
13	\$5.60	\$4.30	-23%	-\$ 1.30
14	\$5.80	\$4.30	-26%	-\$ 1.50
15	\$6.00	\$4.30	-28%	-\$ 1.70
16	\$6.30	\$5.20	-17%	-\$ 1.10
17	\$6.50	\$5.20	-20%	-\$ 1.30
18	\$6.70	\$5.20	-22%	-\$ 1.50
19	\$6.90	\$5.20	-25%	-\$ 1.70
20	\$7.10	\$5.20	-27%	-\$ 1.90
21	\$7.30	\$5.20	-29%	-\$ 2.10
22	\$7.50	\$5.20	-31%	-\$ 2.30
23	\$7.70	\$5.20	-32%	-\$ 2.50
24	\$7.80	\$5.20	-33%	-\$ 2.60
25	\$8.00	\$5.20	-35%	-\$ 2.80
26	\$8.20	\$5.20	-37%	-\$ 3.00
27	\$8.30	\$5.20	-37%	-\$ 3.10
28	\$8.50	\$5.20	-39%	-\$ 3.30
29	\$8.70	\$5.20	-40%	-\$ 3.50
30	\$8.90	\$5.20	-42%	-\$ 3.70
31	\$9.00	\$5.20	-42%	-\$ 3.80
32	\$9.20	\$5.20	-43%	-\$ 4.00
33	\$9.40	\$5.20	-45%	-\$ 4.20
34	\$9.50	\$5.20	-45%	-\$ 4.30
35	\$9.70	\$5.20	-46%	-\$ 4.50
36	\$9.80	\$5.20	-47%	-\$ 4.60

A section is 1.6 kilometres in length

Private bus ticket changes

Under the MoT proposal, most current (single) ticket prices on the private metro bus network are cut by at least 10 per cent. However, the amalgamation of sections to fit the STA and Transitway section segments created big fare rises for two individual tickets, as Table A4.1 indicates. That said, neither rise exceeded 40 cents.

The overall reduction in private ticket fares, according to MoT calculations, was 5.42 per cent. The Tribunal could not reproduce the figure. A spreadsheet subsequently supplied by MoT indicated that the weighted average fall in private bus single tickets was 5.60 per cent.

The weights used for this calculation are estimates of 2006 revenue from single ticket sales by aggregated sections derived by Saha Consulting (drawing on previous research by Indec Consulting). On the basis of very limited information, the research conducted by the MoT's consultants appeared to be defensible and reasonable.

STA BUS FARES

SECTION	Current fare	Proposed fare	Percentage change	Absolute change
1-2	\$1.60	\$1.60	0%	\$ -
3-5	\$2.70	\$2.70	0%	\$ -
6-9	\$3.50	\$3.60	3%	\$ 0.10
10-15	\$4.00	\$4.30	8%	\$ 0.30
16+	\$4.80	\$5.20	8%	\$ 0.40

STA BUS FARES - TRAVELTENS

SECTION	Current fare	Proposed fare	Percentage change	Absolute change	Current Discount	Proposed Discount
1-2	\$11.80	\$12.70	8%	\$ 0.90	26%	21%
3-5	\$19.70	\$21.30	8%	\$ 1.60	27%	21%
6-9	\$24.50	\$27.90	14%	\$ 3.40	30%	23%
10-15	\$33.20	\$36.10	9%	\$ 2.90	17%	16%
16+	\$41.80	\$44.70	7%	\$ 2.90	13%	14%

STA BUS FARES - TRAVELTENS - second stage to get to 15% discount

SECTION	Year 1 fare	Year 2 fare	Percentage change	Absolute change	Proposed Discount
1-2	\$12.70	\$13.90	9%	\$ 1.20	15%
3-5	\$21.30	\$23.50	10%	\$ 2.20	15%
6-9	\$27.90	\$31.40	13%	\$ 3.50	15%
10-15	\$36.10	\$37.50	4%	\$ 1.40	15%
16+	\$44.70	\$45.30	1%	\$ 0.60	15%

TRANSITWAY BUS FARES

SECTION	Current fare	Proposed fare	Percentage change	Absolute change
1-2	\$1.50	\$1.60	7%	\$ 0.10
3-5	\$2.90	\$2.70	-7%	-\$ 0.20
6-9	\$4.10	\$3.60	-12%	-\$ 0.50
10-15	\$5.50	\$4.30	-22%	-\$ 1.20
16+	\$6.60	\$5.20	-21%	-\$ 1.40

However, it is not usual for the Tribunal to weight price changes by forecasts. When the latest available estimates of actual private bus boardings are used as weights (the latest is 2002), the weighted average change in single ticket prices is **-3.02** per cent. (It would be marginally bigger by 0.1 or 0.2 percentage points if the larger price falls beyond 16 sections were included but these cannot be properly weighted because boardings are amalgamated beyond 15 sections.)

Sydney Buses ticket changes

Although the Tribunal did not alter individual ticket prices (with one exception mentioned below), it made several changes to the way average changes across various ticket types were calculated. The changes were:

1. Correct a small MoT error Subsequent to its submission, the MoT advised the Tribunal that it had incorrectly calculated the proposed *concession* TravelTen fares. With the correct fares, the weighted average increase of 6.1 per cent was shaved to **6.02** per cent.

2. Unround MoT roundings Some 'half fare' fares are greater than half the corresponding adult fare. For example, the MoT proposal increases the Sections 3-5 concession single fare from \$1.30 to \$1.40 but leaves the adult ticket unchanged at \$2.70. This occurs because the MoT has calculated the concession fare by taking half the adult fare and rounding up to the nearest 10 cents.

The Tribunal has determined that STA's traditional and preferred approach - which is to round such fares *down* whenever rounding up would generate a concession fare that was more than half the adult equivalent - will continue to be followed. As a result, some concession fares will be below the fares implied within the MoT proposal. This change reduced the overall increase in STA fares to **5.62** per cent.

3. Adopt boardings as weights In previous reviews, the Tribunal has used boardings as weights rather than revenue (again, consistent with past STA practice). When this is done, the weighted average rise in STA single and TravelTen fares is **5.05** per cent.

4. Determining a smaller rise for the 16+ sections TravelTen. The Tribunal determined a maximum fare of \$44.20 for this ticket in order to prevent the discount from shrinking below 15 per cent. Taking this into account the weighted average rise in STA single and TravelTen fares is **5.04** per cent (singles rise on average by 1.11 per cent and TravelTens by 9.11 per cent).

On a stand-alone basis, a rise of 5.04 per cent would be substantially above the 2.16 per cent rise in the Sydney CPI in 2003/04 but the Tribunal recognises that such a rise is part of a much broader and fundamental agenda. To derive the overall change in fares for private bus singles and STA singles/TravelTens together, the Tribunal combined the private bus - 3.02 per cent and the STA change of +5.04 per cent to arrive at a weighted average rise of **2.44** per cent. The weights used are the boardings for singles supplied by Saha (for 2002) and for singles and TravelTens supplied by STA (for financial year 2003/04).

The weighted average change in the combined singles and TravelTens (the latter for STA only) of 2.44 per cent is marginally greater than the 2003/04 rises in the national CPI of 2.35 per cent and the Sydney CPI of 2.16 per cent.

APPENDIX 5 ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
BCA	The BCA or Bus and Coach Industrial Association is the peak industry organisation for the NSW private bus and coach sector.
BICI	Bus Industry Cost Index
HTS	Household Travel Survey - these surveys are conducted by the TPDC
MoT	The Ministry of Transport, formerly the Transport Co-ordination Authority, formerly the Department of Transport
PAR	Performance Assessment Regime - a series of best practice objectives and standards for buses.
PTA	Passenger Transport Act 1990
RTA	Roads and Traffic Authority, NSW
SSTS	SSTS or School Student Transport Scheme provides subsidised travel for eligible school students on government rail, government and private bus and ferry services and long distance coaches. The scheme can only be used for travel between home and school.
STA	The STA or State Transit Authority is the government-owned provider of bus services in Sydney and bus and ferry services in Newcastle.
TPDC	The Transport Population and Data Centre. It is the major source of transport data for the Sydney Statistical District (Sydney, Wollongong, Blue Mountains, Central Coast and Newcastle). The TPDC, formerly within the Ministry of Transport, is now a division of the Department of Infrastructure, Planning and Natural Resources.