

Rural and regional bus fares from January 2011

Maximum fares for regular bus passenger services in
rural and regional NSW

Transport — Final Report
December 2010



Independent Pricing and Regulatory Tribunal

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1 Executive summary

In regional and rural areas of NSW, bus operators provide regular passenger services to fare-paying passengers under contracts between them and the NSW Government. The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for setting the maximum fares operators can charge for these services, in line with the requirements of section 28J of the *Passenger Transport Act 1990* (Appendix A).

We have completed our 2010 review of these bus fares, and have determined new fares to apply from 2 January 2011. The purpose of this report is to explain our determination, and the analysis that supports it.

1.1 How do fares change under the determination?

Under the 2010 Determination, maximum fares for bus services on **country town routes** increase by 2.4% before rounding. This increase is in line with the estimated change in the costs of providing rural and regional bus services over the past 12 months, as measured by the Bus Industry Cost Index (BICI). It is also similar to the change in the Consumer Price Index of 2.3%.¹ For passengers, it means fares will increase by between 0 and 60 cents per journey, depending on the length of the journey and the impact of rounding. Some fares will not increase because the change in fares is applied to the Master Fare schedule and then this is rounded to the nearest 10 cents. For journeys of 10 sections or less (which includes most journeys on country town routes), it means an increase of 0, 10 cents or 20 cents.

Maximum fares for bus services on **rural routes** decrease by 10% before rounding. This reflects our view that the current difference between fares for same-distance journeys on rural and country town routes cannot be justified on the basis of the available information, and hence that these fares should be harmonised over time (discussed further below). For passengers, it means maximum fares will decrease by between 20 cents and \$2.70, depending on the length of the journey and the impact of rounding. Table 1.1 shows the new maximum fares for a selection of country town and rural journeys, and compares them to the current maximum fares. Appendix B provides a full list of new fares for each route.

¹ The change in the CPI (Sydney) using the average of 4 quarters to June 2010 divided by the average of 4 quarters to June 2009.

1.2 Why did we decide to decrease fares for services on rural routes?

Currently, the fares for services on rural routes are around 25% higher than those on country town routes for journeys of the same distance. While we may not be aware of the entire history surrounding this difference, based on our analysis, we cannot see sound reasons for this difference to continue. The analysis suggests that together, contract payments from the government and revenue from fare-paying passengers exceed operators' costs (including an appropriate return on capital) by a substantial margin. In addition, the profitability of operators servicing rural routes only appears to be higher than those servicing country town routes only or both country town and rural routes (see section 4.2).

Therefore, we consider that fares for rural routes should be reduced to the same level as those for country town routes. However, we decided not to do this in one step, due to concerns about the limitations of the data used in our analysis (which included only one year of financial data reported by operators). Rather, we expect to move these fares towards country town fares over several years, depending on any further information provided for subsequent reviews. From January 2011, the difference between rural fares and country town fares will be around 11%, which is around half the current difference.

Table 1.1 Adult fares for country town and rural bus services

Section	Country town fares				Rural fares			
	2010	2011	Change (\$)	Change (%)	2010	2011	Change (\$)	Change (%)
1	\$2.10	\$2.10	\$0.00	0.0%	\$2.60	\$2.40	-\$0.20	-7.7%
2	\$3.00	\$3.10	\$0.10	3.3%	\$3.80	\$3.50	-\$0.30	-7.9%
3	\$3.80	\$3.90	\$0.10	2.6%	\$4.80	\$4.30	-\$0.50	-10.4%
4	\$4.50	\$4.60	\$0.10	2.2%	\$5.70	\$5.10	-\$0.60	-10.5%
5	\$5.00	\$5.20	\$0.20	4.0%	\$6.40	\$5.80	-\$0.60	-9.4%
6	\$5.60	\$5.80	\$0.20	3.6%	\$7.10	\$6.40	-\$0.70	-9.9%
7	\$6.10	\$6.20	\$0.10	1.6%	\$7.70	\$6.90	-\$0.80	-10.4%
8	\$6.60	\$6.70	\$0.10	1.5%	\$8.30	\$7.50	-\$0.80	-9.6%
9	\$7.00	\$7.20	\$0.20	2.9%	\$8.90	\$8.00	-\$0.90	-10.1%
10	\$7.50	\$7.60	\$0.10	1.3%	\$9.40	\$8.50	-\$0.90	-9.6%
20	\$10.90	\$11.20	\$0.30	2.8%	\$13.80	\$12.40	-\$1.40	-10.1%
30	\$13.70	\$14.00	\$0.30	2.2%	\$17.30	\$15.60	-\$1.70	-9.8%
40	\$16.10	\$16.50	\$0.40	2.5%	\$20.30	\$18.30	-\$2.00	-9.9%
50	\$18.20	\$18.60	\$0.40	2.2%	\$23.00	\$20.70	-\$2.30	-10.0%
60	\$20.10	\$20.60	\$0.50	2.5%	\$25.50	\$22.90	-\$2.60	-10.2%
70	\$21.90	\$22.50	\$0.60	2.7%	\$27.70	\$25.00	-\$2.70	-9.7%

Note: Adult fares are equal to the master fare, rounded to the nearest 10 cents.

1.3 How does our determination affect bus operators?

We consider that our fare determination is not likely to have a significant impact on bus operators, including those that service rural routes only, for several reasons. First, as noted above, data provided by bus operators to Transport NSW suggest that operators' current profitability is high. For those servicing rural routes only, these data suggest that in aggregate, their contract-specific revenues were 53% higher than their contract-specific expenses in 2008-09. If all these operators faced the maximum impact discussed above, their revenues would still be 50% higher than their expenses in total.

Second, for most operators (and about 90% of operators that serve rural routes only), fare revenue makes up less than 10% of their total revenue. Our analysis of the worst case impact of a 10% fall in revenue from fare-paying passengers on rural routes, and a concomitant 10% reduction in half fare concession payments from the Government suggests that the maximum impact on operators would be a 2.5% reduction in revenue related to operating a bus contract.

Third, while there are operators that appear less profitable than the average, analysis of data for these operators suggests that either the impact on their revenue will be negligible, or that they have misreported their data (and therefore we cannot determine the impact of the fare changes on them).

1.4 How does our determination affect the NSW Government?

We also consider that our fare determination is not likely to have a significant impact on the Government. The bulk of contract payments to regional and rural bus operators are payments under the School Student Travel Scheme (SSTS), and these are not affected by changes to maximum fares. There is likely to be some increase in payments for half fare concession passengers as a result of the 2.4% increase in fares for country town services. But these should be largely offset by the decrease in these payments as a result of the 10% decrease in fares for rural services.

As noted above, concerns about the quality of the data provided to Transport NSW by bus operators created difficulties for us in assessing the impact of our determination on stakeholders, and thus in making our pricing decisions. Transport NSW needs to continue its efforts to ensure the accuracy of data reported by operators. Transport NSW has indicated that it will be taking a more proactive role in ensuring the accuracy of data reported by operators in the future, and administering the contracts.

1.5 Structure of this report

The following chapters explain how and why we reached our final determination in detail:

- ▼ Chapter 2 explains the context, scope and consultation process for our review, and sets out the analytical approach we used to make our determination.
- ▼ Chapter 3 discusses our finding on the change in rural and regional bus operators' costs in the past 12 months, and the most significant issues we considered in reaching this finding
- ▼ Chapter 4 explains our decision on whether to increase maximum fares for both country town services and rural services in line with the change in operators' costs, or to reduce those for rural services to bring them in line with country town fares
- ▼ Chapter 5 discusses our analysis of the impact of our determination on passengers, bus operators, the Government and the environment
- ▼ Chapter 6 provides information on rural and regional bus operators' service performance in 2009-10
- ▼ Appendix A sets out the requirements of the *Passenger Transport Act 1990*
- ▼ Appendix B sets out the new fares to apply from January 2011 and the master (unrounded) fare schedules
- ▼ Appendix C sets out the regions relevant for this determination, and
- ▼ Appendix D details our calculation of the change in the Bus Industry Cost Index.

2 Context, scope and approach for this review

In rural and regional areas of NSW, regular passenger bus services are provided on behalf of the NSW Government by privately owned bus operators. Each operator has a contract with the Government, administered by Transport NSW. There are currently 2 types of contract in these areas:

- ▼ *Rural & Regional Bus Service Contract – Contract A*, which is for the provision of dedicated school bus services (previously known as non-commercial services)², and
- ▼ *Rural & Regional Bus Service Contract – Contract B*, which is for the provision of regular passenger services to fare-paying passengers (previously known as commercial services). However, operators on this contract may also provide dedicated school services, and carry school students on regular passenger services (without charging them fares).

IPART is responsible for determining the maximum fares operators can charge full-fare-paying passengers for services provided under Contract B. Operators cannot charge more than these fares. However, they can – and many do – charge less than the maximum fares we set.

IPART has no role in relation to Contract A, so our fare determination has no impact on the funding arrangements for services provided under Contract A. We also have no role in relation to the discount applied to pensioner or student concession fares provided under Contract B, as this decision is made by the Government. In addition, we have no role in relation to the price or availability of Regional Excursion Daily (RED) tickets, as these decisions are negotiated between bus operators and Transport NSW. To assist concession passengers to understand changes in their fares, Appendix B and our determination set out the concession fares that would apply under current NSW Government policies.

The sections below provide more information on the context and scope of our 2010 review of maximum fares for bus services provided under Contract B, and explain the matters we were required to consider and the analytical approach we used in making our determination. Box 2.1 outlines our consultation process for this review.

² These services can carry fare paying passengers provided that there is capacity and the travel of school students is not impeded.

Box 2.1 What review process did we follow?

In conducting this review, we undertook public consultation as well as our own analysis. In particular, we:

- ▼ Released a fact sheet in August 2010, which outlined our review process and provided an indicative fare increase based on the estimated change in the cost of providing rural and regional bus services. We calculated this change by updating the Bus Industry Cost Index using the most up-to-date data available at the time. (Chapter 3 explains this index and its use in determining rural and regional bus fares.)
- ▼ Advertised the review in rural and regional media and sought initial public submissions in response to the fact sheet. We received 2 submissions — from Bus NSW and the Combined Pensioners and Superannuants Association.
- ▼ Released a discussion paper in October 2010, which focussed on the current difference in the fares for country town and rural services of equivalent distances, and sought public submissions on this and other issues. We received 2 submissions — from the Council of Social Services of NSW and the Northern Rivers Social Development Council.
- ▼ Held a public hearing in Sydney on 25 October 2010, to provide stakeholders with another opportunity to contribute to the review.

We considered all the comments made in submissions and at the public hearing before making our final determination.

2.1 Where do rural and regional bus services operate?

In NSW, the rural and regional bus areas include all areas other than the Sydney metropolitan area and the outer metropolitan areas, which include Newcastle, Wollongong, the Hunter region and Blue Mountains (see Appendix C).

Currently, some 78 bus operators provide services in rural and regional areas under Contract B. The size of these operators' fleets varies widely — from 1 bus to 125 buses.³ However, the median size is 9 buses, and relatively few operate less than 3 buses or more than 100 buses.

Of these operators:

- ▼ Around one-quarter service country town routes only. These routes are typically within the boundaries of towns with a population greater than 7,500 (although there are exceptions to this). Bus services on these routes are covered by the country town fare schedule.
- ▼ Around one-quarter service rural routes only. These services are covered by the rural fare schedule.
- ▼ The remaining 50% of operators service both rural and country town routes.

³ Information provided to IPART by Transport NSW, September 2010.

Non-contracted bus/coach operators (such as Greyhound and Murrays) also provide bus services for longer journeys (over 40km) in regional and rural areas. These operators do not receive contract payments from the Government, and are not required to charge regulated fares. Therefore they are not affected by our fare determination.

2.2 What are the contract arrangements for rural and regional bus services?

As noted above, each of the operators providing rural and regional bus services under Contract B has its own contract with the Government. These contracts specify what services the operator will provide, and what service and performance standards it will meet. They also detail the funding arrangements for these services.

The funding arrangements include retaining all of the revenue the operator collects from fare-paying passengers.⁴ They also include receiving specified contract payments from the NSW Government, which are negotiated between Transport NSW and the bus industry. For all operators, the contract payments are much greater than the fare revenue they collect. For example, contract payments typically comprise more than 90% of the annual revenue operators generate from contracted services.

Contract payments may include:

- ▼ Payments under the School Student Transport Scheme (SSTS), which compensate operators for carrying school students without charging them a fare. The size of these payments is governed by the contract, and is not related to the fares we determine.
- ▼ Payments for half fare and other concession passengers, which compensate operators for the fare revenue they lose as a result of offering concession fares to eligible passengers, in line with government policy. These payments increase when maximum fares increase (even though they are not directly linked to the difference between the full adult fare and the concession fare).

In total, the Government's contract payments to rural and regional bus operators under Contract B were \$172 million in 2008/09 and \$167 million in 2009/10.⁵ The payments for the SSTS were much larger than those for concession fares.⁶

⁴ This is in contrast to metropolitan and outer metropolitan operators, whose contracts require them to return the fare revenue they collect to the Government.

⁵ Information provided by Transport NSW, December 2010. The figure for 2009/10 is actual payments made in that year. Negative indexation of costs for 2009/10 was applied in the 2010/11 financial year. In total payments related to operating contract services in 2009/10 are equal to \$164 million.

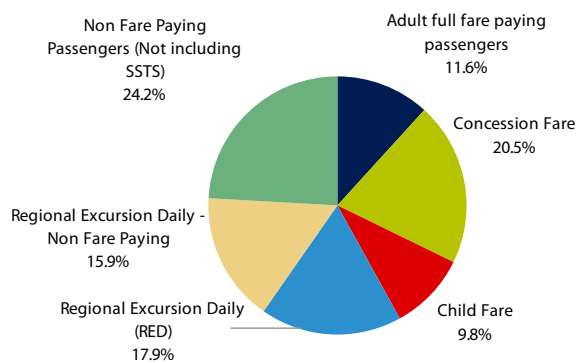
⁶ For example in the six months from January 2010, SSTS contract payments comprised 94.5% of total contract payments under Contract B.

2.3 How are regular bus services used?

The main users of bus services provided under Contract B are school students and concession passengers. Exact information on school student usage is not known, but based on the assumptions the Government has previously used in determining contract payments under Contract B, journeys by SSTS passengers are more than 7 times the number of journeys by other passengers.⁷

Of the journeys made by non-SSTS passengers, only 12% were by adult passengers paying the full fare. The bulk of journeys were made by concession passengers paying half fare (children and concessions) or less (passengers using the Regional Excursion Daily ticket or that travel free). (Figure 2.1)

Figure 2.1 Bus use by non-SSTS passengers

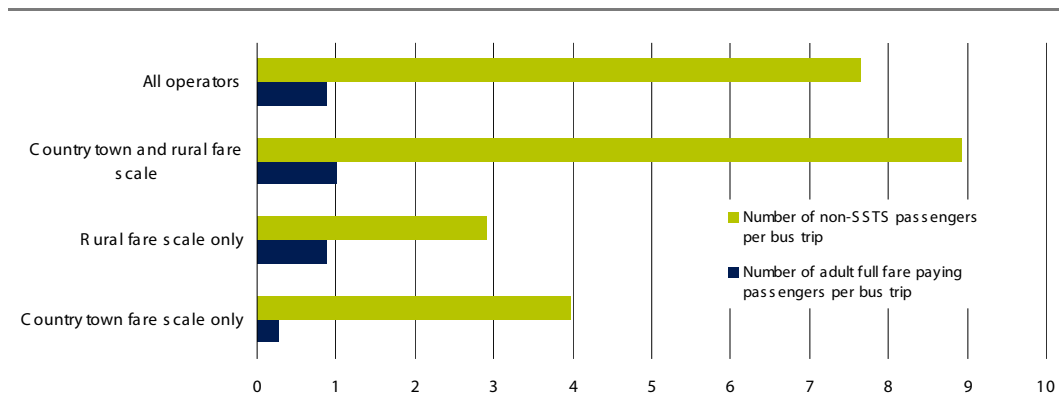


Note: RED is the Regional Excursion Daily all day ticket. The category 'Regional Excursion Daily non-fare paying' is for journeys made subsequent to the first trip on this ticket for that day. Non fare paying passengers include vision impaired people, ex-members of the Defence forces with disabilities and carers.

Data source: Transport NSW and IPART calculations.

When all rural and regional bus operators are taken into account, the average number of non-SSTS passengers per bus trip is just over 7 passengers. This number is even lower for those operators who service country town only or rural routes only (Figure 2.2).

⁷ This is based on 79% of eligible students using the service and return services provided on 202 days per year.

Figure 2.2 Average bus utilisation by operator type

Data source: Transport NSW and IPART calculations.

2.4 What matters were we required to consider in making our determination?

Our responsibility for determining maximum fares for rural and regional bus services is set out in the *Passenger Transport Act, 1990*. Section 28J of this Act specifies a range of matters that we must consider in making determinations. These matters relate to the following issues:

- ▼ the cost of providing the services concerned
- ▼ the contractual arrangements that prevail in the industry concerned
- ▼ the need to protect consumers from abuses of monopoly power
- ▼ the need for greater efficiency in the supply of services
- ▼ the need to maintain ecologically sustainable development by appropriate pricing policies that take account of all of the feasible options to protect the environment
- ▼ the social impact of the determination, and
- ▼ standards of quality, reliability and safety of the services concerned.

(Appendix A provides more information on our legislative requirements.)

2.5 What approach did we use to make our determination?

The analytical approach we used to make our determination on maximum fares for rural and regional bus services ensured that we considered all of the matters identified above. This approach comprised 4 main steps:

1. As in previous reviews, we calculated how rural and regional bus operators' costs had changed over the past 12 months, using an industry-specific cost index known as the Bus Industry Cost Index (BICI). (Chapter 3 provides more information about this index.)

2. Next, we decided on the extent to which rural and regional bus fares should change in line with the change in these costs. One of the major issues we considered was whether to change all fares by the same percentage, or whether to harmonise the fares for country town services and rural services. As our discussion paper⁸ for this review indicated, the fares for rural bus services are currently about 25% higher than those for country town services of the same distance. To help us make this decision, we conducted several analyses to determine whether or not this difference was justified on economic or other grounds.
3. Next we assessed how changes in fares would impact on bus operators, bus passengers, the NSW Government and the environment. In particular, we focused on how reductions in rural fares would impact on rural bus operators and therefore how quickly rural fares should move towards the level of country town fares.
4. Finally, we determined the percentage change for country town fares and rural fares, applied this to each adult master (unrounded) fare in the relevant master fare schedule and then rounded this fare to the nearest 10 cents.

We did not directly take account of service standards in making our determination aside from considering changes in costs related to air conditioning. Nevertheless, we reviewed the available data on operators' service performance and have summarised our findings in this report.

⁸ IPART, *Discussion Paper for public hearing*, October 2010.

3 Change in rural and regional bus operators' costs

As for past reviews, one of the main factors we considered in deciding on the appropriate change in maximum fares for rural and regional bus services was the change in the cost of providing these services over the past 12 months. This includes the change in the ordinary cost of providing bus services, plus any one-off changes outside of the ordinary cost.

To measure the change in the ordinary cost, we used the Bus Industry Cost Index (BICI). We inflated the cost items in the BICI using the inflators we chose in our 2009 review, and applied the weightings updated from the 2009 review. This is in line with our decision as part of the 2007 review (for fares for 2008) to use these inflators and weightings for the following 5 years.⁹

We also considered 2 issues related to the BICI, including:

- ▼ whether the current inflator for the capital costs item of the BICI accurately reflects the change in this cost item, and
- ▼ whether to adjust the inflator for the salaries and wages item of the BICI for expected productivity gains over the coming year.

Finally, we considered whether it was necessary to adjust the change in the ordinary cost of providing bus services measured by the BICI to reflect one-off cost increases associated with the requirement in service contracts that air conditioning be installed in all new buses.

The section below sets our finding on the total change in operators' costs as measured by the BICI. The subsequent sections discuss our considerations and conclusions in relation to each of the above issues, while Box 3.1 explains how the BICI works. For more detailed information on our calculations in updating the BICI, see Appendix D.

⁹ As part of our 2007 review, we revised the weightings and inflators in the BICI to ensure they reflect the costs of providing rural and regional bus services, and where possible ensure that the cost items are inflated by data that is independent, verifiable and transparent. At that time, we indicated that we would use the weightings, updated for changes in relative prices of cost items, and inflators for the next five years. For more information, see IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, December 2007.

3.1 IPART's finding on the change in the cost of providing bus services

IPART's finding is that the change in the costs of operating rural and regional bus services over the past 12 months was 2.4%, as measured by the BICI and shown in Table 3.1.

Table 3.1 Change in the ordinary costs of providing bus services 2009/10, as measured by the BICI

Cost item	Index weighting	Inflator	Inflator value	Contribution to change
	%		%	%
Bus capital costs	17.6	Lease payment	9.4	1.7
Salaries and wages	43.1	WPI – all industries	3.1	1.3
Superannuation	3.6	NWPI – superannuation	3.5	0.1
Payroll tax	2.1	NWPI – payroll tax	0.5	0.0
Workers compensation	1.6	NWPI – workers compensation	3.0	0.0
Insurance costs	1.9	CPI – insurance services	8.0	0.1
Fuel	10.9	FUELtrac data	-13.0	-1.4
Bus maintenance	4.6	CPI – repair and servicing	3.2	0.1
All other costs	14.7	CPI	2.3	0.3
Total	100.0			2.4

Note: Figures have been rounded, and as a result columns may not add.

Source: Index weights are sourced from IPART, *Review of fares for rural and regional buses from January 2010*, December 2009, p 43.

As the table indicates, the main drivers of the increase in the ordinary cost of providing bus services were increases in bus capital costs and salaries and wages. However, the increases in these 2 cost items were partly offset by a decrease in the fuel cost item.

Our finding on the change in the ordinary cost of providing bus services reflects our decisions to:

- ▼ use the current inflator for the bus capital costs cost item for this review, but to examine the scope to use a different, independent inflator for our next review
- ▼ not adjust the salaries and wages cost item for expected productivity gains, as there is insufficient evidence of productivity growth across the Australian economy or the transport-related sectors of this economy in the past year.

We also decided not to adjust the total increase in the BICI to reflect one-off cost increases associated with the requirement that air conditioning be installed in all new buses.

Our finding on the change in the cost of providing rural and regional bus services is very similar to the change in the Consumer Price Index (CPI) over the same period, which was 2.3%.

Box 3.1 How the Bus Industry Cost Index works

The BICI aims to measure the change in the costs experienced by the rural and regional bus industry as a whole, from year to year. It includes a basket of bus operators' cost items – such as capital costs, wages and salaries, fuel, insurance, repairs & maintenance and other costs.

Each item in the basket has a **weighting**, which is based on the proportion of an average operator's total costs that it represents. It also has an **inflator**, which is a relevant data series or index which reflects the likely change in that cost item. For example, the salaries and wages cost item is inflated by the annual change in the Wage Price Index published by the Australian Bureau of Statistics.

To calculate the annual change in this BICI, we take the current weightings of each cost item and multiply it by the relevant cost inflator (expressed as percentage). This gives the contribution of each cost item to the cost index. We then sum the contributions for each of the cost items to give the percentage change in the cost index.

The table below shows a simplified example where a cost index indicates that an average operator's total costs have increased by 10%. In this example, the salaries and wages cost item represent 60% of an average operator's costs, and so have a weighting of 60. This cost item increased by 5.0% in the previous 12 months, so we multiplied 60 by 5.0%. The answer – 3% – represents the contribution of the increase in salaries and wages costs made to the operator's total increase in costs. This is done for each cost item and then the contributions are summed to arrive at the total increase in operators costs.

Simplified example of a cost index calculation

Cost Item	Weighting (%)	Change	Contribution to index
Salaries and wages	60	5.0%	3.0%
Bus purchase and repairs	30	10.0%	3.0%
Fuel costs	10	40.0%	4.0%
Overall change in costs	100		10.0%

3.2 Continue to use the current inflator for bus capital costs for this review

As indicated above, as part of our 2007 review (for fares beginning in 2008), we revised the weightings and inflators in the BICI to ensure they accurately reflect the costs of providing rural and regional bus services and, where possible, the inflators rely on data that is independent, verifiable and transparent.

The only inflator where this was not possible was the one used for the bus capital costs item. To inflate this item, Transport NSW provides us with 3 quotes for a bus chassis and a single quote for a bus body (which it obtains and uses to escalate the capital cost component of rural and regional bus service contracts for its payments under the SSTS). We combine this information with current interest rates to estimate

a lease payment and then use the percentage change in this payment compared to the previous year to inflate the capital cost item of the BICI.

We are concerned that this approach may overestimate the capital costs associated with providing bus services that should be borne by passengers. As Table 3.2 shows, the estimated lease payment used in inflating the BICI has increased by 60% since 2001, or an average of 5.4% per year. Much of this is due to the increase in the quoted cost of a bus body (from Customs Coaches), which has almost doubled over this period. In turn, this increase likely reflects changes in the specifications for the bus body for which quotes are provided. For example, air conditioning was added to these specifications in around 2008. Changes of this magnitude far outstrip changes in costs of other similar manufactured products over the past 10 years.¹⁰

Table 3.2 Change in capital cost measures used in the BICI

Year (of review)	Inflator (estimated lease payment)	Cost of bus chassis	Cost of bus body	Total bus capital cost
	%	\$	\$	\$
2001		\$188 067	\$143 000	\$331 067
2002	10.14%	\$192 206	\$170 500	\$362 706
2003	12.86%	\$234 500	\$181 500	\$416 000
2004	2.32%	\$198 934	\$225 500	\$424 434
2005	5.17%	\$202 934	\$245 850	\$448 784
2006	2.24%	\$207 334	\$251 900	\$459 234
2007	5.37%	\$213 600	\$258 500	\$472 100
2008	8.33%	\$207 758 ^a	\$247 980 ^a	\$455 738 ^a
2009	-6.26%	na	na	\$437 143 ^a
2010 (this review)	9.40%	\$196 864 ^a	\$274 120 ^a	\$470 984 ^a
Total change 2001 to 2010	60.1%	4.7%	91.7%	42.3%
Annual change 2001 to 2010	5.4%	0.5%	7.5%	4.0%

^a Capital costs adjusted to be ex-GST for 2008 onwards. This means the figures from 2008 onwards are not directly comparable to those pre 2008 and changes for capital costs understate the change as applied in IPART's index.

Note: The capital cost component of the BICI is based on a lease payment. The lease payment depends on the capital cost of buses, the interest rate at which the lease is estimated and the term of the lease.

Source: IPART final reports for fares for rural and regional buses 2002 to 2010.

In our view, there is insufficient evidence that these increases in bus capital costs are providing bus users or the NSW Government with value for money.

¹⁰ For example, the producer price index for motor vehicle manufacturing has increased by only 1.4% in total from June 2001 to June 2010 (ABS Producer Price Indexes Australia, Catalogue Number 6247.0, Tables 10 and 11).

In addition, under the current approach, the capital costs of **new** buses are used to estimate a lease payment that (ideally) ought to be representative of all old and new buses. This means that when capital costs are increasing, the change in the BICI will over-compensate bus operators for this increase, as most of their bus fleet will have been purchased at the previous lower cost.

Over the 12 months being considered in this review (2009-10), the estimated lease payment increased by 9.4%. This was due to a 7.7% rise in the total bus capital costs and a small increase in interest rates. Part of the rise in the total bus capital costs was a correction from the previous year, when this cost fell by 1.7% because Transport NSW obtained quotes below recommended retail prices.¹¹ The rise also reflects an increase in the cost of a bus chassis, due to the removal of a 5% import concession on a tariff that applies to bus chassis.¹² However, the substantial appreciation in the Australian dollar in 2009/10 relative to 2008/09¹³ should have offset these price pressures, so we would have expected to see a reduction in the costs associated with purchasing new buses.¹⁴

Given the concerns raised above, we plan to examine the scope for using an independent inflator for the bus capital costs item in the BICI as part of next year's review.

3.3 No adjustment to the salaries and wages cost item for expected productivity gains

Productivity measures the rate at which outputs (eg, goods and services) are produced per unit of input (eg, labour, capital, raw materials). When an industry's productivity increases, it means it is producing more outputs for a given level of inputs than it did previously. For example, it may have reduced its costs, or increased the quantity or value of its output (eg, by improving the performance of its goods or the quality of its services).

Productivity improvements will reduce the need for bus operators to be compensated for rising costs. For those cost items inflated by the change in the Consumer Price Index (CPI), this adjustment occurs automatically, because the CPI includes a measure of economy-wide productivity gains. However, for others – particularly, the salaries and wages cost item, which is adjusted by the Wage Price Index (WPI) – we need to consider whether we should make this adjustment ourselves.

¹¹ The capital costs item of the BICI fell by 6.3% in total, due to the 1.7% fall in the bus capital cost and a lower interest rate.

¹² Bus chassis make up about 40% of bus costs. The tariff and removal of concession are available at: Customs Tariff Act 1995 (Cth), Schedule 3, Section 18, Chapter 86; and Tariff Concessions Gazette, TC10-20, May 2010.

¹³ 14% on a trade weighted basis.

¹⁴ A higher Australian dollar should translate into lower prices for imported products.

For this review (as for the previous 2 reviews), we decided to inflate the salaries and wages cost item by the change in the WPI without adjusting for productivity gains. This decision was based on:

- ▼ lack of evidence to suggest that the productivity of the Australian economy or the transport sector has improved over the past year
- ▼ inconclusive evidence that demographic trends in rural and regional NSW have had a positive impact on the productivity of bus operators in these areas over the past year.

In addition, we have no specific indicators that can be used to assess productivity of rural and regional bus services.

3.3.1 No evidence that productivity has grown in the economy and transport sector

We looked at Australian Bureau of Statistics (ABS) estimates of multifactor productivity (MFP)¹⁵ growth over the last 8 years to assess whether productivity gains had occurred over the past year or in previous years. We focused on MFP (rather than labour productivity) because the BICI does not incorporate the use of additional capital, or 'capital deepening', except through changes in the specifications of buses in the capital cost component. In addition, the ABS considers that it is the better measure for identifying improvements in underlying technical efficiency (which is the normal aim of productivity analysis).¹⁶

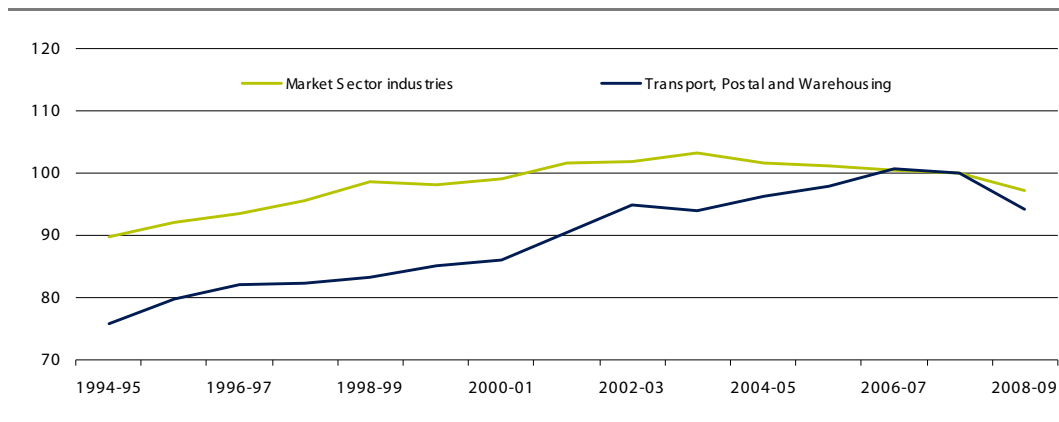
We found that while there is typically productivity growth in the 'market sector' of the Australian economy, this has not been true in recent years. Over the last 4 decades, the MFP of the market sector of Australia's economy grew by an average of 1.1% per year. However, from 2004/05, this MFP declined. Productivity Commission analysis suggests that this decline was largely due to specific developments in the mining, utilities and agricultural sectors.¹⁷ The MFP of the transport, postal and warehousing industry sector – which is likely to be a better proxy for productivity changes in rural and regional bus services – also declined from 2005/06 by 1.2% per year (see Figure 3.1).

These findings do not suggest that productivity gains have occurred over the past year in the Australian economy or the transport sector.

¹⁵ MFP takes account of both labour and capital productivity. It uses industry gross value added (in volume terms) to measure economic output, and total hours worked to measure labour input. The capital input is a measure of different capital assets such as dwellings, other buildings and structures, and machinery and equipment, along with livestock, intangibles and non-agricultural land.

¹⁶ ABS 2008, Australian Economic Indicators: Feature article: A Spotlight on Quarterly Labour Productivity, September.

¹⁷ Productivity Commission 2009, *Australia's Productivity Performance*, submission to the House of Representatives Standing Committee on Economics, September.

Figure 3.1 ABS estimates of selected industry multifactor productivity indices (%)

Data source: ABS 2010, No. 5260.0.55.002.

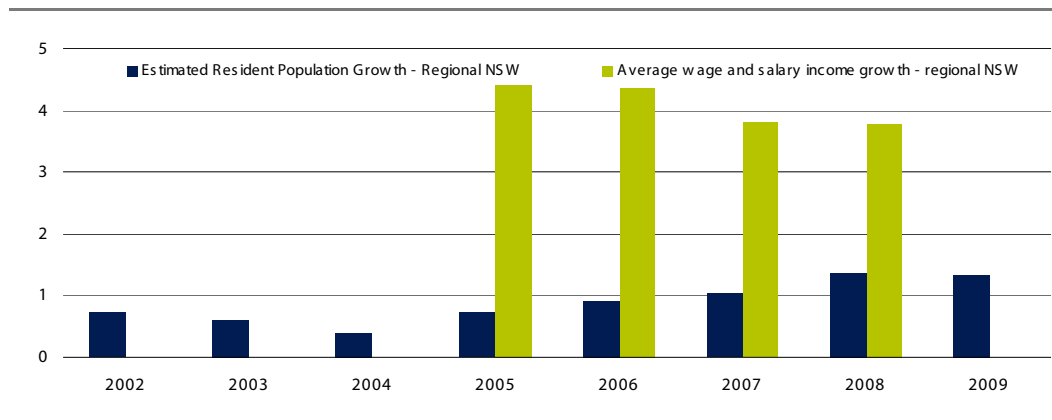
3.3.2 Inconclusive evidence that demographic trends in rural and regional NSW are likely to have a positive impact on bus operators' productivity

A major driver of productivity changes in rural and regional bus services is the number of people who can potentially use these services. For example, population growth (which would increase this number of people) could lead to more passengers using the same bus services. On the other hand, income growth could lead to fewer passengers using these services if this results in more people owning cars and using them to travel instead of buses.

We looked at the latest available ABS data on the growth in population and average wage and salary incomes in regional NSW, to assess whether this growth could have a positive impact on the productivity of rural and regional bus operators. We found that the estimated population of regional NSW Local Government Areas (LGAs) grew by 1.3% in 2009 (Figure 3.2), outpacing the average annual population growth in these areas of 0.9% between 2001 and 2009. This higher than average population growth is likely to increase demand for bus services and therefore raise the productivity of rural and regional bus operators.

We also found that the average wage and salary income in regional NSW increased by 3.8% in 2007-08 (Figure 3.2), which was slightly below the average increase for the 4 years to then. This lower-than-average income growth may also signal the potential for productivity gains in rural and regional bus service provision, given that income affects the demand for, and usage of, such services.

However, we don't consider that the impact of these trends on the productivity of bus operators is certain. For example, increased usage of rural and regional bus services is likely to depend on range of factors, including the location of employment, the quality of the services, and the price of alternative means of transport, not just population and income growth.

Figure 3.2 ABS estimates of regional population and income growth (%)

Notes: Regional NSW refers to ABS NSW LGAs excluding those located in Sydney, Newcastle and Wollongong; estimated resident population growth based on calendar year data. Average wages and salary income growth based on financial year data.

Data source: ABS 2010, No. 3218.0, *Regional Population Growth* and No. 6524055002DO003_200304200708, *Estimates of Personal Income for Small Areas*.

3.4 No adjustment for cost increases associated with the requirement that air conditioning be installed in new buses

In its submission to this review (and to our 2008 and 2009 reviews), Bus NSW suggested that the change in operators' costs measured by the BICI should be adjusted to account for one-off cost increases related to air conditioning. Operators' contracted service standards were changed to require that air conditioning be installed on all new buses (after IPART's review of the BICI undertaken in 2007). Bus NSW argued that this requirement has increased operators' maintenance and fuel costs. We have twice previously assessed and rejected these arguments.¹⁸

Transport NSW has incorporated air conditioning costs associated with maintenance and fuel use into the contract payments operators receive under the SSTS (see section 2.2). For fuel, the payments have been adjusted on the basis that air conditioning increases fuel use by 4.2 litres per 100 kilometres (about 10%) and that 5% more buses are air conditioned each year. For maintenance, the costs associated with air conditioning are assumed to be 52.5% of total maintenance costs, and that 5% of these costs are allowed as an increase to the maintenance cost index each year.¹⁹

¹⁸ IPART 2008, *Review of fares for rural and regional bus services 2009*, pp15-16; IPART 2009, *Review of fares for rural and regional bus services*, pp. 11-12.

¹⁹ Transport NSW Contract B template, pp 12-13.

We have decided not to include these costs for the same reasons as in our previous reviews. Specifically:

- ▼ for fuel costs, the BICI does not reduce fuel costs if fuel efficiency increases as does the index used by Transport NSW. As newer buses can be expected to be more fuel efficient than the older buses that they replace, this would need to be accounted for, and
- ▼ for maintenance, the information necessary to estimate increases in maintenance costs was set out in our report on our 2009 review, as advised by Indec. We are not satisfied that this information has been provided.

In addition, the analysis presented in Chapter 4 suggests that contract payments more than cover operators' expenses in total. In this case, adjustments made by Transport NSW are likely to adequately compensate operators for the increased costs associated with the requirement that new buses be air conditioned.

As a secondary point, the inclusion of one-off cost increases identified by the industry without considering the possibility of cost savings will likely bias estimates of the changes in costs upwards over time. In this case, any examination of one-off cost increases would have to include an examination of potential cost savings.

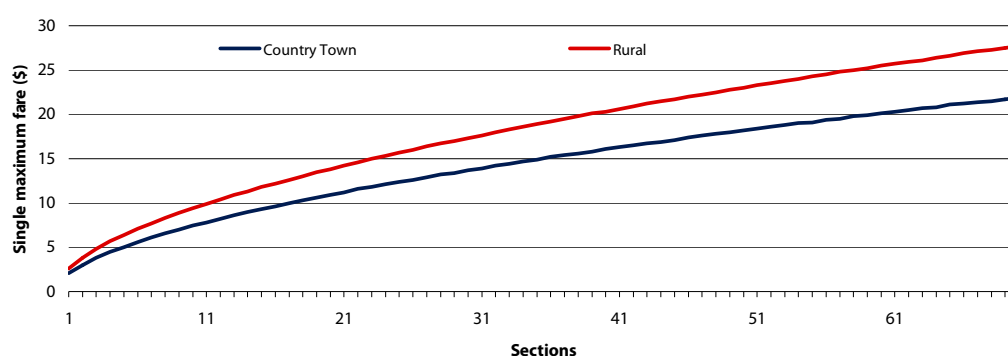
4 Change in maximum fares, and the relativity between country town and rural fares

As Chapter 2 noted, rural and regional bus operators may service 2 types of routes:

- ▼ country town routes that typically run within the boundaries of towns with a population greater than 7,500,²⁰ and/or
- ▼ rural routes that service village to town routes, and town to town routes.

There is a separate fare schedule for each of these routes, and currently the maximum fares on the rural fare schedule are around 25% higher than those on the country town fare schedule for the same distance journeys (Figure 4.1).

Figure 4.1 Fare schedules for 2010 for rural and regional bus services



Data source: IPART, *Review of fares for rural and regional buses from January 2010*, December 2009.

As part of our review, we considered whether we should retain the relativity of country town and rural fares by increasing both by the change in bus operators' costs measured by the BICI (discussed in Chapter 3), or whether we should harmonise the fares. We examined the available evidence to determine whether the higher rural fares are justified on economic grounds such as ensuring rural operators recover a sufficient return on their capital and can continue to provide services at a lower fare level. We also considered this difference in light of the other matters we are required

²⁰ There are several exceptions to this, as some routes between country towns are limited to charging the country town fare. These are the routes between Coffs Harbour and Sawtell, and between North Nowra and Bomaderry. The North Nowra to Bomaderry route is short and therefore not much of an exception, while the Coffs Harbour to Sawtell service is over 16 kilometres.

to consider in making our determination, particularly the social impact of the determination.

The sections below summarise our findings and decision, then discuss our considerations in reaching this finding and decision.

4.1 IPART's findings and decision on the change in maximum fares for country town and rural services

IPART's findings are that:

- There is insufficient evidence to justify continuing to charge passengers on rural bus services higher fares than those on country town services for same-distance journeys.
- The current evidence is subject to some uncertainty, as it is drawn from operator-reported data on their revenues and expenses from contracted services, and only one year of data under the new contract arrangements is available.

Therefore, our decision is to increase country town fares by 2.4% (in line with the change in the BICI), and to reduce rural fares by 10% so they move towards the level of country town fares for same-distance journeys.

The best available evidence based on the first year of contract reporting suggests that bus operators are obtaining greater revenues from contract payments and fares than are necessary to cover the costs of providing contract services (including an appropriate return on capital), particularly operators that provide services on rural routes only. This suggests that customers or taxpayers may be bearing a higher burden than justified by the provision of bus services and the imposition of a legislative barrier to competition for bus services of distances shorter than 40 kilometres.²¹ Reducing rural fares towards the level of fares for country town services will reduce the costs to passengers and reduce the costs to Government associated with half fare concession payments.

Issues have been raised about the quality of data reported to Transport NSW by bus operators.²² Given these issues, we will reconsider the relativity between rural and country town fares in next year's fare review and decide whether to continue to harmonise these fares, when a second year of reporting data from the bus contract arrangements will be available.

We have focused on the profitability of bus operators rather than differences in costs or use of services in making our decision on whether the current fare difference between country town and rural fares is appropriate. This is because, within the current contractual arrangements, we cannot meaningfully derive an appropriate

²¹ *Passenger Transport Act 1990*, section 16.

²² Public Hearing, 25th September 2010.

share of costs that should be provided by fare-paying passengers. However, we can seek to ensure that operators do not recover more revenues in total from the NSW Government and passengers than necessary to earn an appropriate return on their capital.

A number of submissions were made regarding differences between country town and rural fare levels. Moving rural fares down towards the level of country town fares was supported by 3 submissions, as long as this would not compromise services.²³ These views reflected concerns about equity and social disadvantage of rural passengers. Bus NSW noted that changes to fare levels could induce changes to service provision or require compensation from Transport NSW.²⁴

Transport NSW has indicated that changes in rural fares that are different to changes in country town fares are able to be accommodated within the current contractual arrangements.²⁵

4.2 Differences in the profitability of rural and country town bus services

Under the new contracting arrangements, bus operators are required to report financial data to Transport NSW. This includes:

- ▼ contract-specific revenues (from fares and government payments) and expenses related to providing these services (including depreciation), and
- ▼ business-level financial information, which can include activities related to bus charters, plus any other activities of the company (convenience stores, depots etc).

Contract-specific information requires underlying assumptions about allocating expenses to particular parts of the business and is not audited. Business-level information is audited. The first year of data reporting is 2008-09. Information for 2009/10 should become available in March 2011.

We examined the first year of data, and found that on average, bus operators appear to have been highly profitable in 2008/09, both at the contract-specific level and the business level (Table 4.1). In aggregate, operators' reported contract-specific revenues were 30% higher than their contract-specific expenses.²⁶ In addition, the contract payments they received from the Government more than covered their contract-specific expenses. At the business-level, their average profit margins – defined as earnings before interest, tax, depreciation and amortisation (EBITDA) – were 34%.

²³ Submissions from Combined Pensioners and Superannuants Association, Northern Rivers Social Development Council and Council of Social Services of NSW.

²⁴ BusNSW submission, October 2010.

²⁵ Transcript from Public Hearing, October 2010, p 7.

²⁶ Expenses reported by bus operators should include depreciation.

Operators servicing rural routes only appear to have been even more profitable than other operators (Table 4.1). For example, their reported contract-specific revenues were 53% higher than their contract-specific expenses, and their average profit margin at the business level was 40%.

Table 4.1 Profitability of bus operators by fare scale 2008/09

Financial measure	Country town only operators	Country town and rural operators	Rural only operators	All operators
Number of operators with data	13	31	17	61
Contract-specific revenues ^a	20.6	150.1	17.9	188.6
Contract-specific expenses	15.1	118.8	11.7	145.6
Contract payments (to operators for which other information is available)	15.2	128.8	10.8	154.8
Ratios				
Contract-specific revenues as a share of contract-specific expenses	1.36	1.26	1.53	1.30
Contract payments as a share of contract-specific revenues	0.74	0.86	0.61	0.82
Contract payments as a share of contract-specific expenses	1.00	1.08	0.93	1.06
Business level average profit margin	34%	31%	40%	34%

^a Revenue figures excluded for a small number of outliers.

Note: Business level information is an average across operators while other figures are ratios aggregated across the relevant sector.

Source: Bus operator reports to Transport NSW.

Revenues from operating bus services should be higher than expenses in order to provide a return on the capital invested in these businesses. The appropriate margin will reflect the amount of capital invested in the business and the return on capital. We expect that an appropriate margin would be in the order of 10%. For example, the capital cost component of the BICI, which captures the return on capital and depreciation, was 17.6% for this review. Alternatively, for metropolitan operators the building block component of costs related to the return on capital was equivalent to 9% of the other cost building blocks.²⁷ Table 4.1 suggests that rural and regional bus operators in aggregate and rural operators in particular currently earn a much greater margin than this.

²⁷ IPART, *Review of fares for metropolitan and outer metropolitan bus services from January 2010 - Final Report*, December 2009, p 4.

We also considered Transport NSW and Bus NSW's view that the available data on revenues and expenses from contracted services are subject to uncertainty, as it was collected in the first year of a new reporting environment for new contract arrangements.²⁸ Therefore the quality of the data is likely to vary. Our examination of the data supports this view. For example, as indicated above, some operators reported information for their entire business instead of their contract-specific activities. This can distort some figures and make it difficult to analyse the impact of fare changes.

For this reason, we decided not to reduce rural fares to the same level as country town fares in one year. Instead, we have moved rural fares towards the level of country town fares, and will reconsider this issue next year when additional data are available.

4.3 Profitability of rural operators in response to a change in fares

We consider that the profitability of rural bus operators will be only slightly impacted if fares are reduced by 10% for a number of reasons. First, the current evidence suggests that profitability is typically high. Second, fare revenue is a small share of revenue for most operators; it is estimated to contribute less than 10% of contract revenue for 90% of operators that only service rural routes. Third, our examination of the data for the least profitable operators suggests that these operators will be unaffected by changes in fare revenue, or alternatively that they misreported their financial data so we were unable to identify the impacts on changes in fares.

While profitability is high for most operators, there are bus operators whose reported profitability is low. For example, of the 48 operators (for which we have data) that could charge the maximum rural fare on some routes, 5 operators earned revenues that exceeded expenses by less than 5%. For 4 of these operators, this outcome may reflect reporting issues rather than low profitability. For example, 2 of these operators reported revenues and expenses for the whole of business, 1 operator reported contract-specific revenues but expenses for the whole business, and 1 operator reported contract-specific revenues that were below the payments made by the NSW Government to that operator. For these operators, it is not possible to determine the impact of lowering rural fares on the financial viability of the contracted service. The 5th operator received almost no revenue from fares and therefore would not be affected by changes in fare revenue.

Based on this analysis, we consider that there is minimal risk that some rural operators will become unviable at lower fare levels and that this risk is outweighed by the benefits to passengers.

²⁸ Public hearing 25 October 2010.

4.4 Social impacts

A number of submissions noted that people using bus services in rural areas were disadvantaged through higher fares, as well as often socially disadvantaged in other ways. With the best available evidence suggesting that rural operators are able to adequately cover costs (and an appropriate return on capital) under lower fares, we consider that there is room to reduce fares for these passengers and hence reduce the disadvantage from higher fares.

We note that there are concession fares (including the regional excursion daily ticket) that provide lower fares for the most socially disadvantaged passengers.

5 Expected impact of fare changes

In reaching our decisions for this determination, we considered the impacts of the fare changes on passengers, bus operators, the Government and the environment, as required under Section 28J of the Passenger Transport Act (see Appendix A). The section below summarises our findings, while the subsequent sections discuss our analysis on these impacts in more detail.

5.1 IPART's findings on expected impacts of fare changes

The expected impacts of fare changes as a result of our determination will be able to be managed within the current operating environment for rural and regional bus services.

Our analysis of the impact on passengers indicates that a subset of people in rural and regional NSW are likely to be particularly vulnerable to increases in bus fares, including individuals and families on low incomes who don't have access to alternative forms of transport. However, for country town fares, the increase is fairly small and is only slightly higher than the increase in the CPI. In addition, for many of the more disadvantaged passengers, the impact of this increase is mitigated by the Government (through access to concession fare tickets), or avoided altogether (through access to free school travel under the SSTS or Regional Excursion Tickets).

For rural passengers, the decrease in maximum fares of 10% will make bus travel more affordable for passengers on services that charge the maximum fare.

For bus operators, the analysis discussed in Chapter 4 indicates that the combination of government contract payments and fare revenue more than covers their aggregate costs in providing the contracted bus services, and suggests they currently enjoy high levels of profitability. The financial information reported by operators that service rural routes suggests that the 10% reduction in maximum fares for these services will have a minor impact on most of them. We identified 5 operators that appear to be financially vulnerable. Of these, one generated a very small share of revenue from fares and so will be unaffected by changes in fare revenue. For the others, we were not able to calculate the impacts due to the misreporting of financial data.

For the NSW Government, the impact is expected to be minor. The increase in fares for country town services is likely to increase the 'top up' payments it makes to operators for carrying certain passengers on half-fare concession tickets. However, the decrease in fares for rural services is likely to decrease these payments.

For the environment, we consider there is limited potential for rural and regional bus fare pricing policies alone to influence issues such as greenhouse gas emissions and air pollution. Therefore, any impact – either positive or negative – is likely to be minimal.

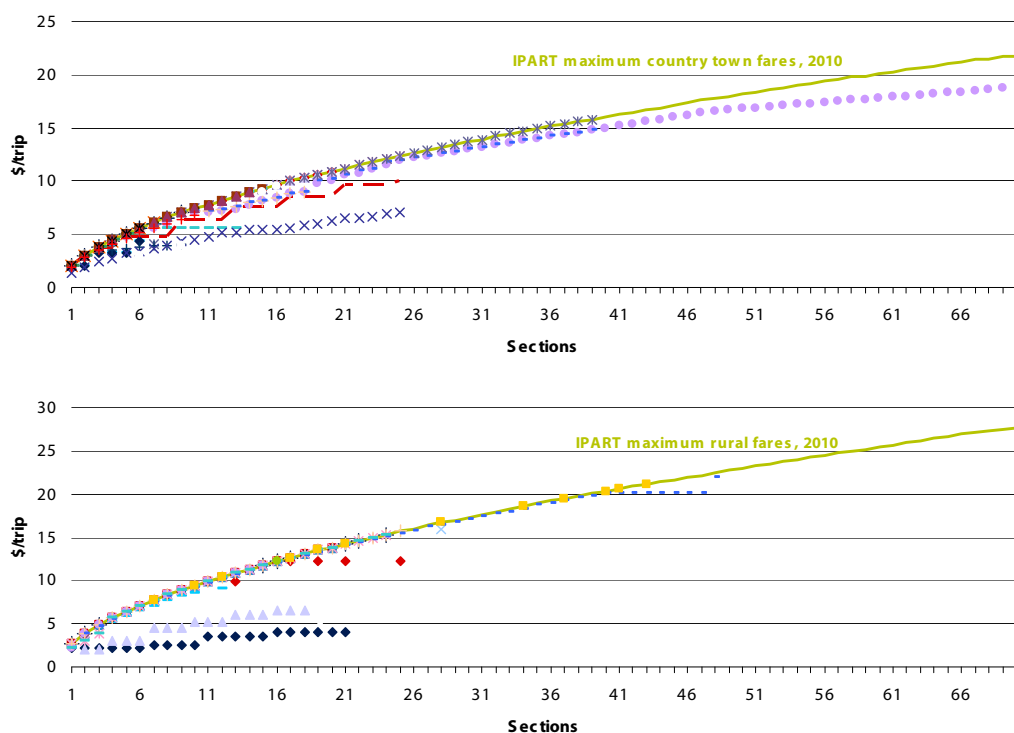
5.2 Impact on passengers

As previous chapters discussed, under our determination, maximum country town fares increase by around 2.4% (depending on the effect of rounding). This percentage change is similar to the change in the CPI (2.3%) over the past year. Maximum fares for rural bus services decrease by around 10% (again depending on rounding). To assess the likely impact of these changes on passengers, we looked at:

- ▼ the affordability of fares
- ▼ access to alternative modes of transport in these areas
- ▼ changes in and the relativity of maximum fares in rural, regional and metropolitan NSW.

However, note that the actual impacts on passengers will depend on the fares charged by bus operators, which can and often are below the maximum fares set by IPART (Figure 5.1).

Figure 5.1 Bus fares charged by operators by distance



Note: Calculated for 45 operators based on fares charged in 2010.

Data source: Fare information available on the web sites of bus operators.

5.2.1 Affordability of bus services

To consider the impact of price changes on the affordability of bus services in rural and regional areas of NSW, we looked at the average incomes in these areas and compared them with those in Sydney. We also compared maximum bus fares in metropolitan, rural and country town areas.

ABS data indicate that incomes across rural and regional areas are significantly lower than those in Sydney. In 2007/08, the average wage and salary income in these areas was over \$300 a week less than Sydney. In some Local Government Areas (LGAs), the difference was minimal, but in others the average wage and salary income was up to \$460 a week less than in Sydney.²⁹ After taking into account rent and mortgage repayments in each statistical division, the median weekly household disposable income (income minus housing costs) in rural and regional NSW is still likely to be significantly less than in Sydney.³⁰

Within country town and rural areas, average incomes are generally lower in rural areas. ABS data indicate that out of the 10 NSW LGAs that recorded the lowest average wage and salary income in 2007–08, a total of 8 had populations of less than 7,500.³¹ People living in these LGAs are likely to use rural bus services, because in general, country town routes are within the borders of towns with a population greater than 7,500.

The fares charged for bus travel are highest for rural areas, then country town areas and lowest in metropolitan areas.

These findings suggests that people residing in rural and regional areas are likely to have less capacity to pay higher maximum fares for bus services than those in Sydney, and people in rural areas are likely have less capacity to pay higher fares than those in country towns. The latter suggests that our decision to reduce rural fares would have a small positive social impact.

5.2.2 Access to alternative modes of transport

We looked at household access to a private motor vehicle, as except for taxis, motor vehicles are the only real alternative to bus services for most people living in rural and regional NSW. While some country towns have access to the NSW rail network, this provides a link with major regional centres and is not designed for day-to-day travel (eg, to places of work or local shopping centres and other facilities).

ABS data indicate that almost 30% of low-income households in rural and regional NSW (those with a household income of less than \$350 a week) do not have access to a motor vehicle (Figure 5.2). This is lower than the proportion of low-income

²⁹ ABS 2010, 6524.0, Estimates of Personal Income for Small Areas, Time Series, 2003-04 to 2007-08.

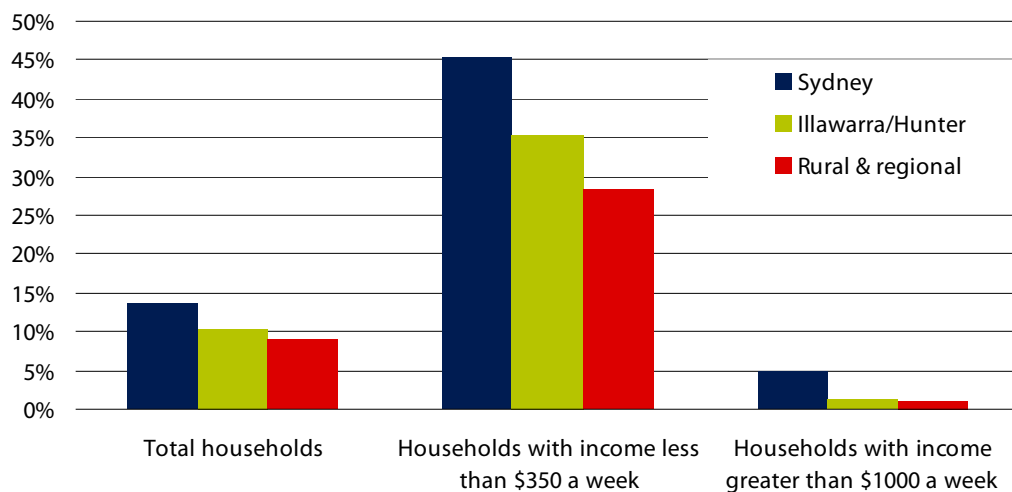
³⁰ ABS, Census 2006.

³¹ ABS 2010, 6524.0, Estimates of Personal Income for Small Areas, Time Series, 2003-04 to 2007-08.

households in the Sydney, Illawarra and Hunter metropolitan areas. But it is significantly higher than the average for rural and regional households, which is just under 10%.

These findings suggest that our decision to reduce rural fares may have small positive social impacts for disadvantaged rural passengers that are unable to access concession-fare bus services.

Figure 5.2 Households without access to a motor vehicle (%)



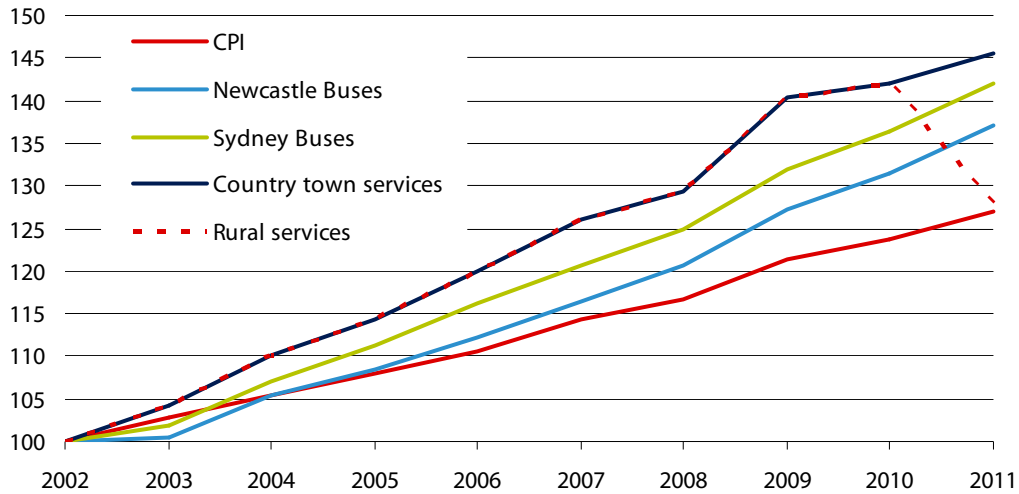
Data source: ABS, 2006 census.

5.2.3 Changes in rural and regional fares and metropolitan fares

We considered how maximum fares had changed in rural and regional areas versus metropolitan areas to consider whether bus services were becoming more or less affordable in rural and regional areas. We compared the rate at which these maximum fares have grown to each other and to the rate of change in the CPI over the 8 years to 2010. Then we did the same comparisons for the 9 years to 2011, to identify the impact of our 2010 determination on this relativity.

We found that over the 8 years to 2010, maximum fares in rural and regional areas grew at a faster rate than maximum fares in Sydney and Newcastle (4.5% each year compared to 3.9% and 3.5% respectively). They also grew considerably faster than the rate of change in the CPI (2.7%). In 2011, the increase in maximum fares for country town services will be below the increases expected for metropolitan services, and the maximum fares for rural services will decrease. As a result, the 2010 determination on rural and regional fares will reduce the difference in the growth rates somewhat. In particular, country town fares will have risen 45% between 2002 and 2011 and rural fares 28%, while Newcastle and Sydney fares will have risen 37% and 42% respectively, and the change in the CPI will be around 27% (see Figure 5.3).

Figure 5.3 Index of changes in bus fares since 2002 compared with the CPI

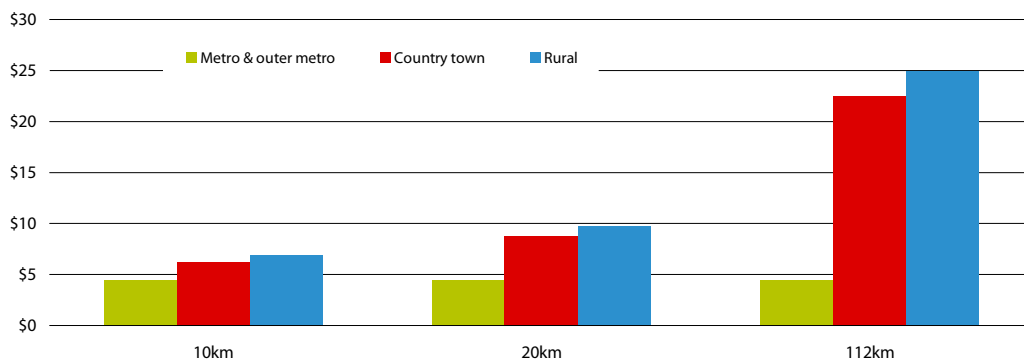


Note: Fare increases in 2002 and 2003 each cover more than a single calendar year due to the timing of the fare reviews. CPI used is for the previous calendar year. For example the CPI for 2010 is the average of CPI for the four quarters in 2009. For the CPI for 2010, this is year to September 2009, as this is the latest data available. The MyZone changes introduced by the NSW Government mean that fares for longer distance Sydney bus services have not risen by as much as shown in the figure.

Data source: ABS Sydney CPI, IPART reports.

We also compared the levels of maximum fares in 2011 for rural and regional areas to those in metropolitan and outer metropolitan areas, particularly for longer distance trips. As Figure 5.4 shows, rural and country town fares are higher than metropolitan and outer metropolitan fares, and rural fares are still higher than country town fares, even after the 10% reduction in the former.

Figure 5.4 Maximum bus fares across NSW (2011)



Note: Fares for metropolitan and outer metropolitan areas for 2011 are based on IPART's determination in 2009.

Data source: 2010 fares.

One of the reasons for the higher maximum fares in rural and country town areas is the different fare structures that apply. In metropolitan and outer metropolitan areas, fares increase for every section travelled up to 6 sections (about 10 km), then remain flat. In contrast, country town and rural fares increase for every section of travel up to 70 sections (112 km).

5.3 Impact on bus operators

To assess the impact of our determination on bus operators, we focused primarily on the impact on those operators that provide services on rural routes (where maximum fares decrease by 10%). We expect that our determination will have minimal impact on operators that service country town routes only, as the increase in maximum fares for services on these routes is equivalent to the estimated increase in the costs of providing bus services in rural and regional areas.

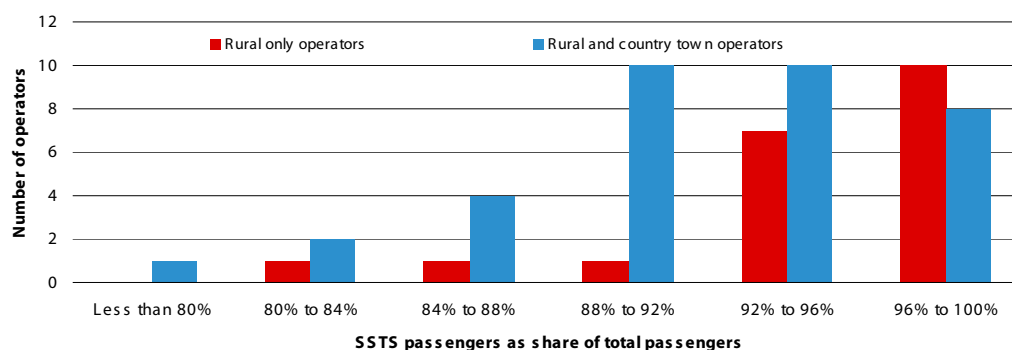
Bus operators that operate in rural areas only or both country towns and rural areas will be affected by lower revenue from full adult fares and likely lower revenue from half fare concession payments for rural fares. The magnitude of these impacts on individual bus operators will depend on:

- ▼ the share of fare-paying passengers that use rural services relative to country town services
- ▼ the share of passengers on rural services that are adult and concession passengers versus School Student Transport Scheme (SSTS) passengers, and
- ▼ the current fares charged by bus operators (because a number of operators charge below the maximum allowable fares).

Whether the impact on bus operators is material for their operations will depend on the current financial performance of the operator. For example, bus operators that have high levels of profitability would generally continue to do so under reasonable changes in fares.

The current level of information provided by bus operators to Transport NSW and available to us did not allow us to make a rigorous assessment of the financial impacts on each bus operator. However, we did assess the worst case impacts on operators on the basis of available information.

In calculating contract payments for these operators, Transport NSW assumes that SSTS card holders have a 79% attendance rate for bus usage. If this is correct, SSTS passengers comprise the majority of passengers for all operators providing rural services, and more than 88% for all but a handful of these operators (Figure 5.5). Of the operators that have more fare paying passengers, most do not charge the maximum fares set by IPART and serve a mixture of rural and country town routes.

Figure 5.5 SSTS passengers as a share of total passengers 2010

Data source: 2010 fares. The operator with less than 80% has an estimated 52% of passengers using SSTS. Note that this operator does not charge the maximum fares set by IPART.

SSTS passengers bring in less revenue per passenger than fare-paying passengers for the same distance journey. For example, under previous contract arrangements, payments under the SSTS provided revenue equivalent to 50% of the adult maximum fare for kindergarten to year 6 students, and 60% of this fare for years 7 to 12 students. While we recognise that contract payments under the SSTS are no longer linked to the maximum fares we determine, so that this ratio may have changed, we use this as a guide to the impacts on operators.

Therefore, in estimating the worst case impact for operators that provide rural services, we assumed that the revenue they earned per SSTS passenger in 2010 was 55% of the 2010 maximum fares.³² We also assumed that:

- ▼ 14% of passengers were fare-paying passengers (ie, at the higher end of the spectrum for bus operators) and different passenger types were travelling the same distances
- ▼ all of these passengers were paying the maximum rural fare.

We found that under these assumptions, a reduction in rural fares of 10% and a reduction in half fare concession payments of 10% is equivalent to a reduction in contract-specific revenues of 2.5%. We consider this is likely to be the maximum impact on bus operators from a reduction in maximum rural fares of 10%.

As Chapter 4 discussed, our analysis suggests that in aggregate, the contract-specific revenues of operators providing rural services only were 53% higher than their contract-specific expenses in 2008/09, while those for operators providing rural and country town services were 26% higher. If all operators faced the maximum impact, then this would fall to 50% and 23% respectively.

³² The indexation of SSTS contract payments has been higher than IPART fares making this a conservative assumption.

We recognise that the operation of some contracts is less profitable than others. Therefore, we tried to assess the impact of the reduction in maximum rural fares on the least profitable operators. We found that of the 48 operators (for which we have data) that could charge the rural fare on some routes, 5 earned revenues that exceeded expenses by less than 5%. For 4 of these operators, this outcome appears to reflect reporting issues. For example, 2 of these operators reported revenues and expenses for the whole of business, 1 operator reported contract-specific revenues but expenses for the whole business, and 1 operator reported contract-specific revenues that were below the payments made by the NSW Government to that operator. For these operators, it was not possible to determine the impact of removing the difference between rural and country town fares on the financial viability of the contract service. The 5th operator received almost no revenue outside of contract payments, and therefore would not be affected by reductions in revenues from fares.

Based on the above analysis of the information available to us, we are satisfied that the 10% in maximum rural fares will have only small impacts on operators servicing rural routes. For those operators that appear to be financially vulnerable, impacts are either very small or measures of financial vulnerability are distorted through misreporting of data and we are not able to determine the impact on these bus operators.

5.4 Impact on the NSW Government

The bulk of government-funded payments to rural and regional bus operators are provided through the SSTS. These payments were negotiated directly between the Government and the industry and are no longer affected by changes to maximum fares.

An increase in maximum fares for country town services will increase the amount paid to operators for passengers travelling on half-fare concession tickets on these services. The reduction in maximum fares for rural services will reduce the amount paid to operators for passengers travelling on half-fare concession tickets on these services.

IPART does not have information on the share of half fare concession payments related to country town services and rural services to calculate the net impact of the changes to fares. We expect that the impacts on government contract payments under the half fare concession payment will be close to zero, balancing an increase from country town services with a decrease from rural services.

5.5 Impact on the environment

IPART is required to consider the need to maintain ecologically sustainable development as part of the *Passenger Transport Act 1990* and this issue has also been raised in submissions from stakeholders.³³

In our view, the potential for pricing policies, such as the structure and level of bus fares in rural and regional areas, to help maintain ecologically sustainable development and protect the environment is limited. The majority of travel on rural and regional bus services is undertaken by non-fare-paying school students, with fare-paying passengers providing less than 10% of revenue to rural and regional bus operators. Of the remaining passengers who do pay fares, many are not charged the maximum amount (either because they are entitled to a concession fare, or because they receive a discount at the discretion of the bus operator).

There is no doubt that the level and structure of fares faced by passengers is one of the factors that influences the use of bus services versus alternative modes of transport. As such, IPART's decision may have some environmental impacts related to greenhouse gas emissions and air pollution. However, previous analysis has found that bus patronage is relatively insensitive to changes in fares. In particular, this analysis estimated that the price elasticity of demand for bus travel was around -0.38.³⁴ That is, a 1% increase in fares would reduce patronage by only 0.38%, other things being equal.³⁵

In addition, fares are not the only factor that influences bus usage. Other important factors include household incomes, population, location of employment, service quality, and the price of alternative means of transport. These non-fare factors are important, and in our view may even outweigh the effect of fares.

As demand for buses is fairly inelastic, we consider that the small fare increases for country town services in our determination are unlikely to have a significant impact on the level of bus use even for the small proportion of passengers who are charged the maximum fare. For rural services, the reduction in fares of about 10% could lead to small increases in usage. To the extent that this is the case, and increased usage is accommodated on the same services, there would be positive environmental impacts from reduced car use and hence reduced greenhouse gas emissions.

³³ Northern Rivers Social Development Council submission, November 2010.

³⁴ IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, October 1996.

³⁵ The price elasticity of demand indicates how sensitive bus users are to a change in the fare. It measures the percentage change in patronage as a result of a 1% change in the fare.

6 Service performance

The service performance measures required to be reported by rural and regional bus operators are determined by the service contracts. We have no role in setting these measures; however, we would like to publish information on the service performance of operators so that this information is available to passengers.

New contracts determined in 2008 provide for reporting of service standard information. Operators are required to regularly report information on their performance in areas such as reliability, patronage, performance against specified key performance indicators (KPIs), complaints, complaint handling processes and service disruptions. This information has been provided by Transport NSW for this review.

Performance reporting by bus operators covers:

- ▼ the number of incomplete and cancelled trips (and the number of timetabled trips)
- ▼ the number of trips that were more than 1 minute early or more than 5 minutes late
- ▼ the number of buses that were full
- ▼ the number of wheelchair accessible trips (and number of these that were late or cancelled), and
- ▼ customer feedback, both positive and negative.

The value of these measures of service standards is unclear as there is no process for verifying the information provided by bus operators to Transport NSW.

Taken at face value, the service standard information collected by Transport NSW suggests that service standards were high on average in 2009/10. For example, on average few trips were incomplete or cancelled and few are early or late (Table 6.1).

The worst-performing operator in each category typically had poor performance. For example, one operator reported 30.4% of trips were incomplete, one reported 31.2% of trips were late and one reported that in 41% of trips the bus was full (Table 6.1). In addition, there were a number of operators that offered no timetabled wheelchair accessible trips. This level of performance did not extend to many operators, with the 5th percentile operator (with operators ranked from poorest performance to best performance) having 3.1% of trips late, 0.2% of trips incomplete and 0.1% of trips with a full bus.

Whether or not these figures provide an accurate picture of service standards is not known as the data is not verified or audited.

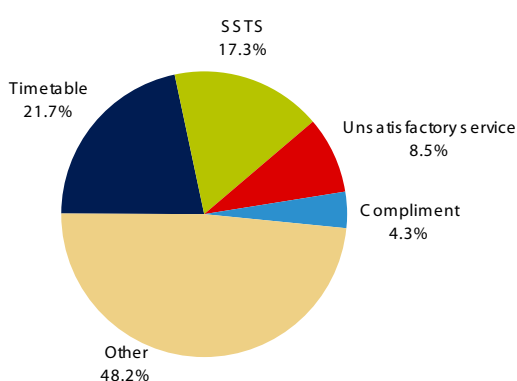
Table 6.1 Service measures 2009/10

Service measure	Share of all trips %	Share of trips — worst performing operator %	Share of trips —worst performing 5% %
Share of trips incomplete	0.3%	30.4%	0.2%
Share of trips cancelled	0.0%	0.3%	0.0%
Share of trips early	0.0%	1.1%	0.0%
Share of trips late	0.7%	31.2%	3.1%
Bus full	0.1%	40.8%	0.1%
Wheelchair accessible trips	33.0%	0.0%	0.0%
Wheelchair accessible trips incomplete or cancelled	1.3%	16.4%	5.3%

Source: IPART analysis based on information provided to Transport NSW by bus operators.

Across over 60,000 bus trips each month there was an average of 1,000 reports of customer feedback. Of the customer feedback provided, most is in categories that do not allow ready consideration of whether the feedback is positive or negative (or neither). For example, almost half of reported customer feedback is allocated to the other category (Figure 6.1).

Figure 6.1 Customer Feedback



Data source: IPART analysis based on information provided by Transport NSW.

IPART does not have information on how these service standards have changed over the past 12 months.



Appendices

A Legislative requirements

A.1 Requirements of the Passenger Transport Act

Section 28J of the Passenger Transport Act states that:

1. This section applies to any service contract for a regular bus service that authorises or otherwise permits the holder (or a person providing the service for the holder under a subcontract or other arrangement) to charge passengers of the service a fare for the use of the service.
2. The Independent Pricing and Regulatory Tribunal (the Tribunal) is to conduct investigations and make reports to the Minister on the following matters:
 - a) the determination of appropriate maximum fares for regular bus services supplied under service contracts to which this section applies,
 - b) a periodic review of fare pricing policies in respect of such services.
3. In respect of an investigation or report under this section, the Minister may require the Tribunal to consider specified matters when making its investigations.
4. Division 7 of Part 3 of the *Independent Pricing and Regulatory Tribunal Act 1992* is taken to apply to an investigation under this section in the same way as it applies to an investigation under Part 3 of that Act.
5. In making a determination under this section, the Tribunal is to consider the following matters:
 - a) the cost of providing the services concerned,
 - b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service,
 - c) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
 - d) the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all of the feasible options to protect the environment,
 - e) the social impact of the determination,
 - f) 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,

- g) contractual arrangements prevailing in the industry,
- h) such other matters as the Tribunal considers relevant.

Protection of the Environment Administration Act – section 6(2)

Section 6 of the *Protection of the Environment Administration Act (1991)* states that:

2. For the purposes of subsection (1) (a), ecologically sustainable development requires the effective integration of economic and environmental considerations in decision-making processes. Ecologically sustainable development can be achieved through the implementation of the following principles and programs:
 - a) the precautionary principle—namely, that if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.

In the application of the precautionary principle, public and private decisions should be guided by:

- i) careful evaluation to avoid, wherever practicable, serious or irreversible damage to the environment, and
 - ii) an assessment of the risk-weighted consequences of various options,
- b) inter-generational equity—namely, that the present generation should ensure that the health, diversity and productivity of the environment are maintained or enhanced for the benefit of future generations,
 - c) conservation of biological diversity and ecological integrity—namely, that conservation of biological diversity and ecological integrity should be a fundamental consideration,
 - d) improved valuation, pricing and incentive mechanisms—namely, that environmental factors should be included in the valuation of assets and services, such as:
 - i) polluter pays—that is, those who generate pollution and waste should bear the cost of containment, avoidance or abatement,
 - ii) the users of goods and services should pay prices based on the full life cycle of costs of providing goods and services, including the use of natural resources and assets and the ultimate disposal of any waste,
 - iii) environmental goals, having been established, should be pursued in the most cost effective way, by establishing incentive structures, including market mechanisms, that enable those best placed to maximise benefits or minimise costs to develop their own solutions and responses to environmental problems.

Table A.1 indicates where the relevant Passenger Transport Act requirements are addressed within our report.

Table A.1 IPART's consideration of Section 28J Passenger Transport Act matters

Clause 5	Report Chapter
a) cost of providing the service	Chapters 3 & 4
b) protection of consumers from abuse of monopoly power	Chapter 4
c) need for greater efficiency so as to reduce costs	Chapter 3
d) need to maintain ecologically sustainable development	Chapter 5
e) social impact of the determination	Chapters 4 & 5
f) standards of quality, reliability and safety of the services	Chapter 6
g) contractual arrangements prevailing in the industry	Chapters 3, 4 & 5

B Fares to apply from 2 January 2011

To set maximum fares for rural and regional buses, we:

- ▼ Increased the (unrounded) adult fares on the country town master fare schedule by 2.4%, in line with our finding on the estimated change in costs of providing bus services (discussed in Chapter 3).
- ▼ Reduced the (unrounded) adult fares on the rural master fare schedule by 10%, in line with our decision to harmonise fares country town and rural journeys of the same distance over several years (discussed in Chapter 4).
- ▼ Rounded each fare on both these schedules to the nearest 10 cents.

Tables B.1 and B.2 below provides the new (rounded) fares to apply from 2 January 2011, and compare them to the (rounded fares) that applied in 2010. Table B.3 provides the new (unrounded) master fare schedules for 2011.

These tables also show fares for half-fare concessions, which we calculated by applying current Government policy. As noted in Chapter 2, we have no role in setting these fares.

Table B.1 Maximum Country town fares to apply in 2011, compared to those that applied in 2010

Section	Adult 2010	Adult 2011	Change	Change	Concessn. 2010	Concessn. 2011	Change	Change
1	\$2.10	\$2.10	\$0.00	0.0%	\$1.00	\$1.00	\$0.00	0.0%
2	\$3.00	\$3.10	\$0.10	3.3%	\$1.50	\$1.50	\$0.00	0.0%
3	\$3.80	\$3.90	\$0.10	2.6%	\$1.90	\$1.90	\$0.00	0.0%
4	\$4.50	\$4.60	\$0.10	2.2%	\$2.20	\$2.30	\$0.10	4.5%
5	\$5.00	\$5.20	\$0.20	4.0%	\$2.50	\$2.60	\$0.10	4.0%
6	\$5.60	\$5.80	\$0.20	3.6%	\$2.80	\$2.90	\$0.10	3.6%
7	\$6.10	\$6.20	\$0.10	1.6%	\$3.00	\$3.10	\$0.10	3.3%
8	\$6.60	\$6.70	\$0.10	1.5%	\$3.30	\$3.30	\$0.00	0.0%
9	\$7.00	\$7.20	\$0.20	2.9%	\$3.50	\$3.60	\$0.10	2.9%
10	\$7.50	\$7.60	\$0.10	1.3%	\$3.70	\$3.80	\$0.10	2.7%
11	\$7.80	\$8.00	\$0.20	2.6%	\$3.90	\$4.00	\$0.10	2.6%
12	\$8.20	\$8.40	\$0.20	2.4%	\$4.10	\$4.20	\$0.10	2.4%
13	\$8.60	\$8.80	\$0.20	2.3%	\$4.30	\$4.40	\$0.10	2.3%
14	\$9.00	\$9.20	\$0.20	2.2%	\$4.50	\$4.60	\$0.10	2.2%

Section	Adult 2010	Adult 2011	Change	Change	Concessn. 2010	Concessn. 2011	Change	Change
15	\$9.30	\$9.60	\$0.30	3.2%	\$4.60	\$4.80	\$0.20	4.3%
16	\$9.60	\$9.80	\$0.20	2.1%	\$4.80	\$4.90	\$0.10	2.1%
17	\$10.00	\$10.20	\$0.20	2.0%	\$5.00	\$5.10	\$0.10	2.0%
18	\$10.30	\$10.60	\$0.30	2.9%	\$5.10	\$5.30	\$0.20	3.9%
19	\$10.60	\$10.80	\$0.20	1.9%	\$5.30	\$5.40	\$0.10	1.9%
20	\$10.90	\$11.20	\$0.30	2.8%	\$5.40	\$5.60	\$0.20	3.7%
21	\$11.20	\$11.50	\$0.30	2.7%	\$5.60	\$5.70	\$0.10	1.8%
22	\$11.60	\$11.80	\$0.20	1.7%	\$5.80	\$5.90	\$0.10	1.7%
23	\$11.80	\$12.10	\$0.30	2.5%	\$5.90	\$6.00	\$0.10	1.7%
24	\$12.10	\$12.40	\$0.30	2.5%	\$6.00	\$6.20	\$0.20	3.3%
25	\$12.40	\$12.70	\$0.30	2.4%	\$6.20	\$6.30	\$0.10	1.6%
26	\$12.60	\$12.90	\$0.30	2.4%	\$6.30	\$6.40	\$0.10	1.6%
27	\$12.90	\$13.20	\$0.30	2.3%	\$6.40	\$6.60	\$0.20	3.1%
28	\$13.20	\$13.50	\$0.30	2.3%	\$6.60	\$6.70	\$0.10	1.5%
29	\$13.40	\$13.70	\$0.30	2.2%	\$6.70	\$6.80	\$0.10	1.5%
30	\$13.70	\$14.00	\$0.30	2.2%	\$6.80	\$7.00	\$0.20	2.9%
31	\$13.90	\$14.30	\$0.40	2.9%	\$6.90	\$7.10	\$0.20	2.9%
32	\$14.20	\$14.50	\$0.30	2.1%	\$7.10	\$7.20	\$0.10	1.4%
33	\$14.40	\$14.80	\$0.40	2.8%	\$7.20	\$7.40	\$0.20	2.8%
34	\$14.70	\$15.00	\$0.30	2.0%	\$7.30	\$7.50	\$0.20	2.7%
35	\$14.90	\$15.30	\$0.40	2.7%	\$7.40	\$7.60	\$0.20	2.7%
36	\$15.20	\$15.50	\$0.30	2.0%	\$7.60	\$7.70	\$0.10	1.3%
37	\$15.40	\$15.70	\$0.30	1.9%	\$7.70	\$7.80	\$0.10	1.3%
38	\$15.60	\$16.00	\$0.40	2.6%	\$7.80	\$8.00	\$0.20	2.6%
39	\$15.80	\$16.20	\$0.40	2.5%	\$7.90	\$8.10	\$0.20	2.5%
40	\$16.10	\$16.50	\$0.40	2.5%	\$8.00	\$8.20	\$0.20	2.5%
41	\$16.30	\$16.70	\$0.40	2.5%	\$8.10	\$8.30	\$0.20	2.5%
42	\$16.50	\$16.90	\$0.40	2.4%	\$8.20	\$8.40	\$0.20	2.4%
43	\$16.70	\$17.10	\$0.40	2.4%	\$8.30	\$8.50	\$0.20	2.4%
44	\$16.90	\$17.30	\$0.40	2.4%	\$8.40	\$8.60	\$0.20	2.4%
45	\$17.10	\$17.50	\$0.40	2.3%	\$8.50	\$8.70	\$0.20	2.4%
46	\$17.40	\$17.80	\$0.40	2.3%	\$8.70	\$8.90	\$0.20	2.3%
47	\$17.60	\$18.00	\$0.40	2.3%	\$8.80	\$9.00	\$0.20	2.3%
48	\$17.80	\$18.20	\$0.40	2.2%	\$8.90	\$9.10	\$0.20	2.2%
49	\$18.00	\$18.40	\$0.40	2.2%	\$9.00	\$9.20	\$0.20	2.2%
50	\$18.20	\$18.60	\$0.40	2.2%	\$9.10	\$9.30	\$0.20	2.2%
51	\$18.40	\$18.80	\$0.40	2.2%	\$9.20	\$9.40	\$0.20	2.2%
52	\$18.60	\$19.00	\$0.40	2.2%	\$9.30	\$9.50	\$0.20	2.2%
53	\$18.80	\$19.20	\$0.40	2.1%	\$9.40	\$9.60	\$0.20	2.1%
54	\$19.00	\$19.40	\$0.40	2.1%	\$9.50	\$9.70	\$0.20	2.1%

Section	Adult 2010	Adult 2011	Change	Change	Concessn. 2010	Concessn. 2011	Change	Change
55	\$19.10	\$19.60	\$0.50	2.6%	\$9.50	\$9.80	\$0.30	3.2%
56	\$19.40	\$19.80	\$0.40	2.1%	\$9.70	\$9.90	\$0.20	2.1%
57	\$19.50	\$20.00	\$0.50	2.6%	\$9.70	\$10.00	\$0.30	3.1%
58	\$19.80	\$20.20	\$0.40	2.0%	\$9.90	\$10.10	\$0.20	2.0%
59	\$19.90	\$20.40	\$0.50	2.5%	\$9.90	\$10.20	\$0.30	3.0%
60	\$20.10	\$20.60	\$0.50	2.5%	\$10.00	\$10.30	\$0.30	3.0%
61	\$20.30	\$20.80	\$0.50	2.5%	\$10.10	\$10.40	\$0.30	3.0%
62	\$20.50	\$21.00	\$0.50	2.4%	\$10.20	\$10.50	\$0.30	2.9%
63	\$20.70	\$21.20	\$0.50	2.4%	\$10.30	\$10.60	\$0.30	2.9%
64	\$20.80	\$21.30	\$0.50	2.4%	\$10.40	\$10.60	\$0.20	1.9%
65	\$21.10	\$21.60	\$0.50	2.4%	\$10.50	\$10.80	\$0.30	2.9%
66	\$21.20	\$21.70	\$0.50	2.4%	\$10.60	\$10.80	\$0.20	1.9%
67	\$21.40	\$21.90	\$0.50	2.3%	\$10.70	\$10.90	\$0.20	1.9%
68	\$21.50	\$22.10	\$0.60	2.8%	\$10.70	\$11.00	\$0.30	2.8%
69	\$21.70	\$22.20	\$0.50	2.3%	\$10.80	\$11.10	\$0.30	2.8%
70	\$21.90	\$22.50	\$0.60	2.7%	\$10.90	\$11.20	\$0.30	2.8%

Note: Adult fares are equal to the master fare, rounded to the nearest 10 cents.

Table B.2 Maximum Adult rural fares to apply in 2011, compared to those that applied in 2010

Section	Adult 2010	Adult 2011	Change	Change	Concessn. 2010	Concessn. 2011	Change	Change
1	\$2.60	\$2.40	-\$0.20	-7.7%	\$1.30	\$1.20	-\$0.10	-7.7%
2	\$3.80	\$3.50	-\$0.30	-7.9%	\$1.90	\$1.70	-\$0.20	-10.5%
3	\$4.80	\$4.30	-\$0.50	-10.4%	\$2.40	\$2.10	-\$0.30	-12.5%
4	\$5.70	\$5.10	-\$0.60	-10.5%	\$2.80	\$2.50	-\$0.30	-10.7%
5	\$6.40	\$5.80	-\$0.60	-9.4%	\$3.20	\$2.90	-\$0.30	-9.4%
6	\$7.10	\$6.40	-\$0.70	-9.9%	\$3.50	\$3.20	-\$0.30	-8.6%
7	\$7.70	\$6.90	-\$0.80	-10.4%	\$3.80	\$3.40	-\$0.40	-10.5%
8	\$8.30	\$7.50	-\$0.80	-9.6%	\$4.10	\$3.70	-\$0.40	-9.8%
9	\$8.90	\$8.00	-\$0.90	-10.1%	\$4.40	\$4.00	-\$0.40	-9.1%
10	\$9.40	\$8.50	-\$0.90	-9.6%	\$4.70	\$4.20	-\$0.50	-10.6%
11	\$9.90	\$8.90	-\$1.00	-10.1%	\$4.90	\$4.40	-\$0.50	-10.2%
12	\$10.40	\$9.40	-\$1.00	-9.6%	\$5.20	\$4.70	-\$0.50	-9.6%
13	\$10.90	\$9.80	-\$1.10	-10.1%	\$5.40	\$4.90	-\$0.50	-9.3%
14	\$11.30	\$10.20	-\$1.10	-9.7%	\$5.60	\$5.10	-\$0.50	-8.9%
15	\$11.80	\$10.60	-\$1.20	-10.2%	\$5.90	\$5.30	-\$0.60	-10.2%
16	\$12.20	\$11.00	-\$1.20	-9.8%	\$6.10	\$5.50	-\$0.60	-9.8%
17	\$12.60	\$11.40	-\$1.20	-9.5%	\$6.30	\$5.70	-\$0.60	-9.5%
18	\$13.00	\$11.70	-\$1.30	-10.0%	\$6.50	\$5.80	-\$0.70	-10.8%
19	\$13.50	\$12.10	-\$1.40	-10.4%	\$6.70	\$6.00	-\$0.70	-10.4%

Section	Adult 2010	Adult 2011	Change	Change	Concessn 2010	Concessn 2011	Change	Change
20	\$13.80	\$12.40	-\$1.40	-10.1%	\$6.90	\$6.20	-\$0.70	-10.1%
21	\$14.20	\$12.80	-\$1.40	-9.9%	\$7.10	\$6.40	-\$0.70	-9.9%
22	\$14.60	\$13.10	-\$1.50	-10.3%	\$7.30	\$6.50	-\$0.80	-11.0%
23	\$15.00	\$13.50	-\$1.50	-10.0%	\$7.50	\$6.70	-\$0.80	-10.7%
24	\$15.30	\$13.80	-\$1.50	-9.8%	\$7.60	\$6.90	-\$0.70	-9.2%
25	\$15.70	\$14.10	-\$1.60	-10.2%	\$7.80	\$7.00	-\$0.80	-10.3%
26	\$16.00	\$14.40	-\$1.60	-10.0%	\$8.00	\$7.20	-\$0.80	-10.0%
27	\$16.40	\$14.80	-\$1.60	-9.8%	\$8.20	\$7.40	-\$0.80	-9.8%
28	\$16.70	\$15.00	-\$1.70	-10.2%	\$8.30	\$7.50	-\$0.80	-9.6%
29	\$17.00	\$15.30	-\$1.70	-10.0%	\$8.50	\$7.60	-\$0.90	-10.6%
30	\$17.30	\$15.60	-\$1.70	-9.8%	\$8.60	\$7.80	-\$0.80	-9.3%
31	\$17.60	\$15.90	-\$1.70	-9.7%	\$8.80	\$7.90	-\$0.90	-10.2%
32	\$18.00	\$16.20	-\$1.80	-10.0%	\$9.00	\$8.10	-\$0.90	-10.0%
33	\$18.30	\$16.40	-\$1.90	-10.4%	\$9.10	\$8.20	-\$0.90	-9.9%
34	\$18.60	\$16.70	-\$1.90	-10.2%	\$9.30	\$8.30	-\$1.00	-10.8%
35	\$18.90	\$17.00	-\$1.90	-10.1%	\$9.40	\$8.50	-\$0.90	-9.6%
36	\$19.20	\$17.30	-\$1.90	-9.9%	\$9.60	\$8.60	-\$1.00	-10.4%
37	\$19.50	\$17.50	-\$2.00	-10.3%	\$9.70	\$8.70	-\$1.00	-10.3%
38	\$19.80	\$17.80	-\$2.00	-10.1%	\$9.90	\$8.90	-\$1.00	-10.1%
39	\$20.10	\$18.00	-\$2.10	-10.4%	\$10.00	\$9.00	-\$1.00	-10.0%
40	\$20.30	\$18.30	-\$2.00	-9.9%	\$10.10	\$9.10	-\$1.00	-9.9%
41	\$20.60	\$18.60	-\$2.00	-9.7%	\$10.30	\$9.30	-\$1.00	-9.7%
42	\$20.90	\$18.80	-\$2.10	-10.0%	\$10.40	\$9.40	-\$1.00	-9.6%
43	\$21.20	\$19.10	-\$2.10	-9.9%	\$10.60	\$9.50	-\$1.10	-10.4%
44	\$21.50	\$19.30	-\$2.20	-10.2%	\$10.70	\$9.60	-\$1.10	-10.3%
45	\$21.70	\$19.50	-\$2.20	-10.1%	\$10.80	\$9.70	-\$1.10	-10.2%
46	\$22.00	\$19.80	-\$2.20	-10.0%	\$11.00	\$9.90	-\$1.10	-10.0%
47	\$22.20	\$20.00	-\$2.20	-9.9%	\$11.10	\$10.00	-\$1.10	-9.9%
48	\$22.50	\$20.20	-\$2.30	-10.2%	\$11.20	\$10.10	-\$1.10	-9.8%
49	\$22.80	\$20.50	-\$2.30	-10.1%	\$11.40	\$10.20	-\$1.20	-10.5%
50	\$23.00	\$20.70	-\$2.30	-10.0%	\$11.50	\$10.30	-\$1.20	-10.4%
51	\$23.30	\$21.00	-\$2.30	-9.9%	\$11.60	\$10.50	-\$1.10	-9.5%
52	\$23.50	\$21.20	-\$2.30	-9.8%	\$11.70	\$10.60	-\$1.10	-9.4%
53	\$23.80	\$21.40	-\$2.40	-10.1%	\$11.90	\$10.70	-\$1.20	-10.1%
54	\$24.00	\$21.60	-\$2.40	-10.0%	\$12.00	\$10.80	-\$1.20	-10.0%
55	\$24.30	\$21.80	-\$2.50	-10.3%	\$12.10	\$10.90	-\$1.20	-9.9%
56	\$24.50	\$22.10	-\$2.40	-9.8%	\$12.20	\$11.00	-\$1.20	-9.8%
57	\$24.80	\$22.30	-\$2.50	-10.1%	\$12.40	\$11.10	-\$1.30	-10.5%
58	\$25.00	\$22.50	-\$2.50	-10.0%	\$12.50	\$11.20	-\$1.30	-10.4%
59	\$25.20	\$22.70	-\$2.50	-9.9%	\$12.60	\$11.30	-\$1.30	-10.3%

Section	Adult 2010	Adult 2011	Change	Change	Concessn 2010	Concessn 2011	Change	Change
60	\$25.50	\$22.90	-\$2.60	-10.2%	\$12.70	\$11.40	-\$1.30	-10.2%
61	\$25.70	\$23.10	-\$2.60	-10.1%	\$12.80	\$11.50	-\$1.30	-10.2%
62	\$25.90	\$23.30	-\$2.60	-10.0%	\$12.90	\$11.60	-\$1.30	-10.1%
63	\$26.10	\$23.50	-\$2.60	-10.0%	\$13.00	\$11.70	-\$1.30	-10.0%
64	\$26.40	\$23.80	-\$2.60	-9.8%	\$13.20	\$11.90	-\$1.30	-9.8%
65	\$26.60	\$24.00	-\$2.60	-9.8%	\$13.30	\$12.00	-\$1.30	-9.8%
66	\$26.90	\$24.20	-\$2.70	-10.0%	\$13.40	\$12.10	-\$1.30	-9.7%
67	\$27.10	\$24.40	-\$2.70	-10.0%	\$13.50	\$12.20	-\$1.30	-9.6%
68	\$27.30	\$24.60	-\$2.70	-9.9%	\$13.60	\$12.30	-\$1.30	-9.6%
69	\$27.50	\$24.80	-\$2.70	-9.8%	\$13.70	\$12.40	-\$1.30	-9.5%
70	\$27.70	\$25.00	-\$2.70	-9.7%	\$13.80	\$12.50	-\$1.30	-9.4%

Note: Adult fares are equal to the master fare, rounded to the nearest 10 cents.

Table B.3 Adult master (unrounded) fares

Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2010	2011	Change (\$)	2010	2011	Change (\$)
1	\$2.05	\$2.10	\$0.05	\$2.62	\$2.36	-\$0.26
2	\$3.05	\$3.12	\$0.07	\$3.85	\$3.46	-\$0.38
3	\$3.80	\$3.90	\$0.09	\$4.80	\$4.32	-\$0.48
4	\$4.46	\$4.57	\$0.11	\$5.66	\$5.09	-\$0.57
5	\$5.05	\$5.17	\$0.12	\$6.41	\$5.76	-\$0.64
6	\$5.63	\$5.76	\$0.14	\$7.09	\$6.38	-\$0.71
7	\$6.10	\$6.25	\$0.15	\$7.71	\$6.94	-\$0.77
8	\$6.59	\$6.75	\$0.16	\$8.32	\$7.49	-\$0.83
9	\$7.04	\$7.21	\$0.17	\$8.91	\$8.02	-\$0.89
10	\$7.46	\$7.64	\$0.18	\$9.41	\$8.47	-\$0.94
11	\$7.83	\$8.02	\$0.19	\$9.90	\$8.91	-\$0.99
12	\$8.25	\$8.45	\$0.20	\$10.42	\$9.38	-\$1.04
13	\$8.59	\$8.80	\$0.21	\$10.89	\$9.80	-\$1.09
14	\$8.99	\$9.20	\$0.22	\$11.34	\$10.21	-\$1.13
15	\$9.33	\$9.55	\$0.22	\$11.81	\$10.63	-\$1.18
16	\$9.61	\$9.84	\$0.23	\$12.23	\$11.01	-\$1.22
17	\$9.98	\$10.22	\$0.24	\$12.65	\$11.38	-\$1.26
18	\$10.32	\$10.57	\$0.25	\$13.04	\$11.74	-\$1.30
19	\$10.59	\$10.85	\$0.25	\$13.46	\$12.11	-\$1.35
20	\$10.94	\$11.20	\$0.26	\$13.83	\$12.45	-\$1.38
21	\$11.22	\$11.49	\$0.27	\$14.24	\$12.81	-\$1.42
22	\$11.56	\$11.83	\$0.28	\$14.60	\$13.14	-\$1.46
23	\$11.83	\$12.11	\$0.28	\$14.98	\$13.48	-\$1.50
24	\$12.09	\$12.38	\$0.29	\$15.32	\$13.79	-\$1.53

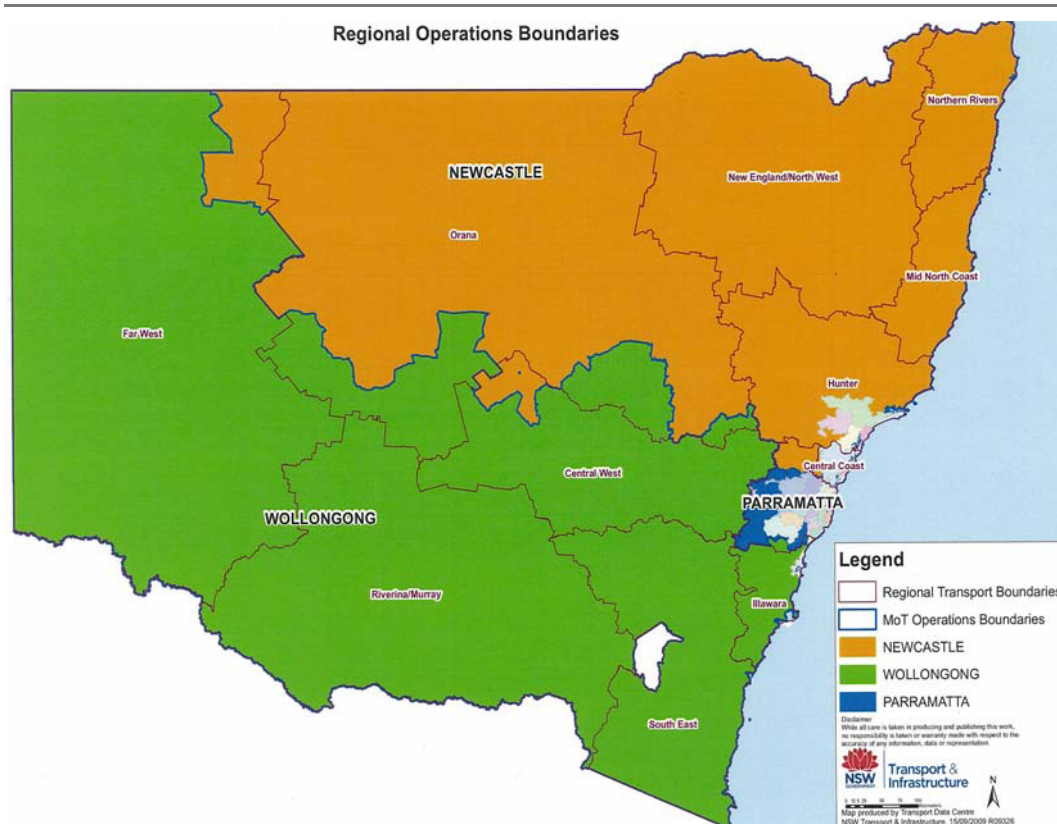
Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2010	2011	Change (\$)	2010	2011	Change (\$)
25	\$12.40	\$12.69	\$0.30	\$15.65	\$14.09	-\$1.57
26	\$12.64	\$12.94	\$0.30	\$16.03	\$14.43	-\$1.60
27	\$12.93	\$13.24	\$0.31	\$16.39	\$14.75	-\$1.64
28	\$13.16	\$13.48	\$0.32	\$16.68	\$15.01	-\$1.67
29	\$13.41	\$13.73	\$0.32	\$17.00	\$15.30	-\$1.70
30	\$13.69	\$14.02	\$0.33	\$17.32	\$15.59	-\$1.73
31	\$13.92	\$14.26	\$0.33	\$17.64	\$15.87	-\$1.76
32	\$14.21	\$14.55	\$0.34	\$17.96	\$16.16	-\$1.80
33	\$14.45	\$14.80	\$0.35	\$18.26	\$16.44	-\$1.83
34	\$14.68	\$15.04	\$0.35	\$18.56	\$16.70	-\$1.86
35	\$14.91	\$15.26	\$0.36	\$18.90	\$17.01	-\$1.89
36	\$15.17	\$15.53	\$0.36	\$19.20	\$17.28	-\$1.92
37	\$15.35	\$15.72	\$0.37	\$19.49	\$17.54	-\$1.95
38	\$15.61	\$15.99	\$0.38	\$19.79	\$17.81	-\$1.98
39	\$15.85	\$16.23	\$0.38	\$20.06	\$18.05	-\$2.01
40	\$16.08	\$16.47	\$0.39	\$20.32	\$18.29	-\$2.03
41	\$16.27	\$16.66	\$0.39	\$20.64	\$18.58	-\$2.06
42	\$16.50	\$16.90	\$0.40	\$20.90	\$18.81	-\$2.09
43	\$16.72	\$17.12	\$0.40	\$21.18	\$19.06	-\$2.12
44	\$16.93	\$17.34	\$0.41	\$21.45	\$19.31	-\$2.15
45	\$17.11	\$17.52	\$0.41	\$21.71	\$19.54	-\$2.17
46	\$17.36	\$17.78	\$0.42	\$21.97	\$19.77	-\$2.20
47	\$17.56	\$17.98	\$0.42	\$22.23	\$20.01	-\$2.22
48	\$17.77	\$18.20	\$0.43	\$22.48	\$20.24	-\$2.25
49	\$17.99	\$18.42	\$0.43	\$22.78	\$20.50	-\$2.28
50	\$18.18	\$18.62	\$0.44	\$23.01	\$20.71	-\$2.30
51	\$18.40	\$18.84	\$0.44	\$23.31	\$20.98	-\$2.33
52	\$18.56	\$19.00	\$0.45	\$23.55	\$21.19	-\$2.35
53	\$18.79	\$19.24	\$0.45	\$23.78	\$21.40	-\$2.38
54	\$18.97	\$19.43	\$0.46	\$24.02	\$21.62	-\$2.40
55	\$19.13	\$19.59	\$0.46	\$24.25	\$21.83	-\$2.43
56	\$19.36	\$19.82	\$0.47	\$24.51	\$22.06	-\$2.45
57	\$19.53	\$20.00	\$0.47	\$24.76	\$22.28	-\$2.48
58	\$19.75	\$20.23	\$0.48	\$24.97	\$22.48	-\$2.50
59	\$19.89	\$20.37	\$0.48	\$25.20	\$22.68	-\$2.52
60	\$20.15	\$20.63	\$0.48	\$25.49	\$22.94	-\$2.55
61	\$20.29	\$20.78	\$0.49	\$25.69	\$23.12	-\$2.57
62	\$20.50	\$20.99	\$0.49	\$25.92	\$23.33	-\$2.59
63	\$20.67	\$21.17	\$0.50	\$26.15	\$23.53	-\$2.61
64	\$20.80	\$21.30	\$0.50	\$26.39	\$23.75	-\$2.64

B Fares to apply from 2 January 2011

Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2010	2011	Change (\$)	2010	2011	Change (\$)
65	\$21.08	\$21.58	\$0.51	\$26.61	\$23.95	-\$2.66
66	\$21.23	\$21.74	\$0.51	\$26.87	\$24.18	-\$2.69
67	\$21.38	\$21.90	\$0.51	\$27.08	\$24.37	-\$2.71
68	\$21.54	\$22.06	\$0.52	\$27.28	\$24.55	-\$2.73
69	\$21.70	\$22.23	\$0.52	\$27.50	\$24.75	-\$2.75
70	\$21.94	\$22.47	\$0.53	\$27.75	\$24.97	-\$2.77

C Map of rural and regional bus areas

Figure C.1 Map of rural and regional bus regions (shaded orange, green and blue)



Note: The labels Newcastle, Wollongong and Parramatta denote the regional office of Transport NSW that is responsible for administering rural and regional bus contracts in that area.

Data source: Transport NSW.

D Calculation of the Bus Industry Cost Index

As Chapter 3 explained, each year the individual items in the Bus Industry Cost Index (BICI) are inflated to reflect the changes in the cost of those items over the past year. Each cost item is inflated by a relevant data series or index, such as the Wage Price Index published by the Australian Bureau of Statistics. The results are then added together to calculate the annual change in the cost index.

Over recent years, we reviewed and revised the inflators used in the BICI. In general, we aimed to ensure that these inflators are:

- ▼ based on independent and verifiable data that is publicly available
- ▼ a reasonable estimate of cost changes for operators
- ▼ consistent with inflators used for other transport industries where relevant.

With the exception of bus capital costs, we decided to inflate each of the cost items by the same inflators as was used last year. The inflators have been given significant consideration in the last 2 years and have not been the focus of IPART's or stakeholders' considerations for this review.

The section below provides an overview of the inflators for each cost item and the value of these inflators over the review period (1 July 2009 to 30 June 2010). The subsequent sections discuss the BICI calculation, each cost item's inflator and its value in more detail.

D.1 Annual increase in costs measured by the BICI

To analyse the increases in the ordinary costs of providing rural and regional bus services, we calculated the increase in costs for each cost item in the BICI (measured by its 'inflator'), then multiplied each inflator by the relevant weighting for that item and summed the increases calculated (see Box 3.1 for a simplified example of the BICI calculation). Using this method, we found that ordinary costs increased by 2.4% over the year to 30 June 2010.

D.2 Overview of the inflators and their value

With the exception of bus capital costs, we applied the same inflators we have applied in previous years. The sections below discuss our analysis and findings on each cost item in detail.

D.2.1 Capital costs - bus

Specific issues relating to the current method used to estimate costs associated with capital for buses has been discussed at length in chapter 3.

Increases in the capital cost of buses are measured by estimating the annual change in the cost of making loan repayments on a bus – the bus capital annuity payment rate (ie, the monthly lease payment). This lease payment is calculated using an interest rate and an estimate of the capital cost of a bus in each year, over a 5-year loan term.

For the past 2 years we have used the 5-year Bank Bill Swap Reference Rate as the rate of interest in this calculation. However, in this year's review we have used 5-year Government bond yields, which are made publically available by the Reserve Bank of Australia.

In previous years, we have accepted estimates of bus capital costs provided by BusNSW, based on quotes for a basic bus body and chassis. Over the past 3 years, we have sought to improve the independence and transparency of this information. In 2008 we indicated that we would seek data from Transport NSW (formerly the Ministry of Transport) and assess its suitability for use in the rural and regional bus review.

For this year's review, Transport NSW provided a set of quotes for rural and regional buses that it intends to use to escalate the capital cost component of the SSTS contract payments for Contract B rural and regional bus service contracts. Transport NSW considers that the average of these quotes is indicative of the change in costs for rural and regional operators because they are based on consistent specifications that are directly relevant to the services being provided under rural and regional bus service Contract B. The quotes obtained by Transport NSW are set out in Table D.1.

Table D.1 Quotes for rural and regional buses obtained by Transport NSW (ex GST)

	2008/09	2009/10
Quote 1	\$433,950	\$464,920
Quote 2	\$449,230	\$458,173
Quote 3	\$428,250	\$489,860
Average	\$437,143	\$470,984

Source: Transport NSW.

We decided to use the quotes obtained by Transport NSW for rural and regional buses as the basis for the bus capital cost in the inflator calculation. Despite the limitations with this data set out in chapter 3, it remains the best source of data at present.

Given the substantial increases in capital costs using this index, IPART will monitor this measure to ensure that it continues to provide an appropriate increase in costs appropriate for bus passengers.

Using the method described above, we found there was a 9.4% increase in the monthly lease payment for buses (Table D.2). When multiplied by the weighting for this cost item, the increase in this cost resulted in a 1.7% increase in the total costs of providing bus services.

Table D.2 Components used to estimate annual change in bus capital costs

	2008/09	2009/10	Change
Average cost of a bus ^a	\$437,143	\$470,984	7.7%
Interest rate ^b	4.60%	5.24%	13.8%
Lease cost ^c	\$8,170	\$8,940	9.4%

^a Ex GST. Average of the 3 quotes provided by Transport NSW.

^b 5-year Government bond yields. IPART no longer obtains access to 5-year Bank Bill Swap Reference Rate.

^c Estimated using a monthly loan repayment based on the capital costs, interest rate and a 5-year loan term.

D.2.2 Wages and salaries, superannuation, payroll tax and workers compensation costs

We again will use the following methods to inflate the various labour cost categories:

- ▼ wages and salaries using the change in the Wage Price Index (WPI) in NSW for all industries published by the ABS³⁶
- ▼ superannuation, payroll tax and workers compensation using the change in the relevant Non-Wage Price Index (NWPI)³⁷.

As WPI is released quarterly, we calculated the annual change using the average index value over the 4 quarters to June 2010 divided by the average index value over the 4 quarters to June 2009. The NWPI measures are annual figures. For these measures we divide the annual figure for 2010 by the annual figure for 2009 to obtain the percentage change.

³⁶ Total hourly rates of pay excluding bonuses; NSW; All industries; Private and Public; All occupations.

³⁷ Financial Year Indexes; NSW; All industries; Private and Public; Payroll tax, Superannuation and Workers' Compensation – Part of the September quarter Labour Price Index released by the ABS in November.

These measures indicated the following.

- ▼ There was a 3.1% increase in salaries and wages costs. After weighting, this increase added 1.3% to the total costs of providing bus services.
- ▼ There was a 3.5% increase in superannuation costs. After weighting, this increase added 0.1% to the total costs of providing bus services.
- ▼ There was a 0.5% increase in payroll tax costs. After weighting, this increase added 0.0% to the total costs of providing bus services.
- ▼ There was a 3.0% increase in workers compensation costs. After weighting, this increase added 0.0% to the total costs of providing bus services.

We also considered whether to adjust the salaries and wages inflator for expected gains in productivity over the coming year. Unlike the Consumer Price Index (which is used to inflate many other cost items in the cost index), the WPI does not already include a measure of economy-wide productivity gains. We did not make a productivity adjustment last year but have done so in previous years, where we felt the data supported such an adjustment.

Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (for example, labour, capital, raw materials). Growth in productivity reflects the achievement of greater outputs for a given level of input. This can be achieved through reduced costs, but also through increased levels of value-adding, such as increased performance or improved service quality.

Our considerations of a productivity adjustment are set out in chapter 3.

D.2.3 Bus insurance costs

We use the insurance services sub-group of the CPI as the inflator for this cost item. As for the other ABS measures for which quarterly data is available, we measured the annual change in the insurance services sub-group (Sydney CPI, all industries) using the average of 4 quarters to June 2010 divided by the average of 4 quarters to June 2009. The resulting annual change in this inflator was 8.0%. After weighting, this resulted in a 0.1% increase in the total costs of providing bus services.

D.2.4 Fuel

As in other transport modes that we regulate using a cost index, we obtained daily fuel price data each year from FUELtrac, an independent source of fuel price information. In order to provide a reasonable indication of the difference in costs between 2 periods, consistent data must be used for each period. To capture price movements throughout the whole year, the average daily price for 12 months should be compared to the average daily price for the previous 12 months.

We used annual averages of FUELtrac diesel price data across the full year, for both years to determine the cost increase. To be as cost reflective as possible, the fuel price data used applies to rural and regional areas, specifically, we used data for 35 country towns in NSW. Using this approach, fuel costs fell by 13.0%. After weighting, this reduced the total cost of providing bus services by 1.4%.

D.2.5 Bus repairs and maintenance costs

We use the motor vehicle repairs and maintenance category of the CPI as the inflator for the repairs and maintenance cost item of the BICI. As for the other ABS measures for which quarterly data is available, we measured the annual change in the Motor Vehicle Repair and Servicing sub-group (Sydney) using the average of 4 quarters to June 2010 divided by the average of 4 quarters to June 2009. The resulting annual change in this inflator was 3.2%. After weighting, this resulted in a 0.1% increase in the total costs of providing bus services.

D.2.6 Other costs

We use the change in the CPI as the inflator for the 'other' cost item of the BICI. As for the other ABS measures for which quarterly data is available, we measured the annual change in the CPI (Sydney) using the average of 4 quarters to June 2010 divided by the average of 4 quarters to June 2009. The resulting annual change in this inflator was 2.3%. After weighting, this resulted in a 0.3% increase in the total cost of providing bus services.

D.3 Weightings for next year's review

In the 2007 review of fares for rural and regional buses, we reviewed the weightings and inflators used in the BICI and made a number of changes. At that time we decided that we would not review the weightings in the index again in detail for a number of years but would update them annually to reflect the change in the inflators.

The weightings that result from this year's BICI calculation are set out in Table D.3. In the absence of a full index reweighting process, we will use these weightings as the base weightings for next year's calculation. These weightings incorporate the additional wage increases included as a result of extending the application of the driver wage parity increase to some other non-driver employees.

Table D.3 BICI weightings for the 2011 review

Cost item	2010 weighting	2010 inflator value	2011 weighting
	%	%	%
Capital costs – bus	17.6	9.4	18.8
Salaries and wages	43.1	3.1	43.4
Superannuation	3.6	3.5	3.7
Payroll tax	2.1	0.5	2.1
Workers compensation	1.6	3.0	1.6
Insurance	1.9	8.0	2.0
Fuel	10.9	-13.0	9.3
Bus repair and maintenance	4.6	3.2	4.6
All other costs	14.7	2.3	14.7
Total	100.00	2.4	100.0

Note: Columns may not add due to rounding.

D.3.1 IPART's weightings relative to actual expenditures

With reporting arrangements now in place, IPART has actual data on expenses that can be compared to the weights used in the BICI. These suggest that IPART's weights are close to those revealed in the actual data, although there are differences in the definitions of various expenditure items. In particular, lease costs as measured by Transport NSW do not include a return on capital.

Table D.4 Expenditure items 2008/09

Expenditure item	Share of total actual expenses 2008/09	BICI weight 2010
	%	%
Driver costs	32.8	
Other labour costs	9.3	
Total labour costs	42.1	50.4
Fuel	12.0	10.9
Bus related costs	10.9	4.6
Lease costs	13.4	17.6
Admin expenses	12.9	
Other	8.7	
Admin expenses and other	21.7	16.6
Total expenses	100.0	100.0

Source: Transport NSW, IPART 2009 Review of fares for rural and regional bus services.

