

Rural and regional bus fares from January 2012

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

Transport — Final Report
December 2011

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1 Summary

In rural and regional 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 2011 review of the maximum bus fares that these operators can charge, and have determined new fares to apply from 1 January 2012. The purpose of this report is to explain our fare determination and the analysis that supports it.

1.1 Change in maximum fares

For country town services, maximum fares 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). Passengers may see fares increase by between 10 cents and 60 cents per journey, depending on the length of their trip, the impact of rounding the fare to the nearest 10 cents and whether the bus company chooses to charge maximum fares.

For rural services, maximum fares will fall by 8% before rounding. This change reflects our view that fares for the same distance journeys on rural and country town routes should be the same. Passengers using rural services may see their fares fall by between 20 cents and \$2 per journey, depending on the length of the journey, the impact of rounding the fare to the nearest 10 cents and whether the bus company currently charges below maximum fares.

Table 1.1 shows the new maximum fares for a selection of journeys, and compares them to current maximum fares. Appendix B provides a full list of new fares for each route.

Table 1.1 Maximum adult fares for country town and rural bus services

Section	Country town fares				Rural fares			
	2011	2012	Change		2011	2012	Change	
			(\$)	(%)			(\$)	(%)
1	\$2.10	\$2.20	\$0.10	5%	\$2.40	\$2.20	-\$0.20	-8%
2	\$3.10	\$3.20	\$0.10	3%	\$3.50	\$3.20	-\$0.30	-9%
3	\$3.90	\$4.00	\$0.10	3%	\$4.30	\$4.00	-\$0.30	-7%
4	\$4.60	\$4.70	\$0.10	2%	\$5.10	\$4.70	-\$0.40	-8%
5	\$5.20	\$5.30	\$0.10	2%	\$5.80	\$5.30	-\$0.50	-9%
6	\$5.80	\$5.90	\$0.10	2%	\$6.40	\$5.90	-\$0.50	-8%
7	\$6.20	\$6.40	\$0.20	3%	\$6.90	\$6.40	-\$0.50	-7%
8	\$6.70	\$6.90	\$0.20	3%	\$7.50	\$6.90	-\$0.60	-8%
9	\$7.20	\$7.40	\$0.20	3%	\$8.00	\$7.40	-\$0.60	-8%
10	\$7.60	\$7.80	\$0.20	3%	\$8.50	\$7.80	-\$0.70	-8%
20	\$11.20	\$11.50	\$0.30	3%	\$12.40	\$11.50	-\$0.90	-7%
30	\$14.00	\$14.40	\$0.40	3%	\$15.60	\$14.40	-\$1.20	-8%
40	\$16.50	\$16.90	\$0.40	2%	\$18.30	\$16.90	-\$1.40	-8%
50	\$18.60	\$19.10	\$0.50	3%	\$20.70	\$19.10	-\$1.60	-8%
60	\$20.60	\$21.10	\$0.50	2%	\$22.90	\$21.10	-\$1.80	-8%
70	\$22.50	\$23.00	\$0.50	2%	\$25.00	\$23.00	-\$2.00	-8%

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

1.2 Why we reduced fares for rural routes again this year

Currently, the fares for services on rural routes are around 11% higher than those on country town routes for journeys of the same distance. Last year, we formed the view that rural and country town fares should be the same and that rural fares should be progressively reduced in order to achieve this.

Financial information for 2009/10 suggests that rural operators are not as profitable as other operators — the opposite of the figures provided for last year's review. In our view, the significant difference in reported profitability raises further concerns that the information contains errors and inconsistencies. Even so, we are satisfied that moving to a single maximum fare scale will not have a significant impact on operators. Fare revenue is a small proportion of overall revenue for most operators. In addition, operators with a higher proportion of fare paying passengers typically charge at or below current country town fares.

As a result of our decision, there will be a single maximum fare scale applying to all regulated rural and regional bus services from January 2012.

1.3 How the determination will 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.

For operators serving country town routes only, the small fare increases are based on our view of the increase in the cost of providing services (rounded to the nearest 10 cents) over the past year and in our view is unlikely to result in a reduction in demand for bus services.

For operators serving rural routes, we have undertaken a more detailed analysis of the impact at an operator level based on the data available to us (see Chapter 4). The majority of operators receive most of their revenue directly from contract payments. We estimate that only 5 operators receive more than 10% of their revenue from fares and of those operators, most currently charge fares below the maximum set for country town routes.

1.4 How the determination will affect the cost to 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 made 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 8% decrease in fares for rural services.

Our concerns about the quality of the data provided to Transport for 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 for NSW needs to continue its efforts to ensure the accuracy of data reported by operators.

1.5 How this report is structured

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 2010/11 and compares it with the service performance outcomes 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 2012 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

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 for 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)¹, 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. Similarly we do not determine the price or availability of Regional Excursion Daily (RED) tickets, as these decisions are negotiated between bus operators and Transport for 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.

¹ 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 2011, 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.)
- ▼ Sought initial public submissions in response to the fact sheet. We received 3 submissions — from Bus NSW, the Northern Rivers Social Development Council and the Council of Social Services of NSW.
- ▼ Held a public hearing in Sydney on 2 November 2011, 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 determination.

2.1 Where 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 of 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.² 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.

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 subject to regulated maximum fares. Therefore they are not affected by our fare determination.

² Information provided to IPART by Transport for NSW, September 2010.

2.2 Contractual 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.³ They also include receiving specified contract payments from the NSW Government, which are negotiated between Transport for NSW and the bus industry. Contract payments tend to be much greater than the fare revenue collected by operators. In fact, 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 2009/10.⁴ The payments for the SSTS were much larger than those for concession fares.⁵

2.3 Who uses rural and regional bus services and for what

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.⁶

³ This is in contrast to metropolitan and outer metropolitan operators, whose contracts require them to return the fare revenue they collect to the Government.

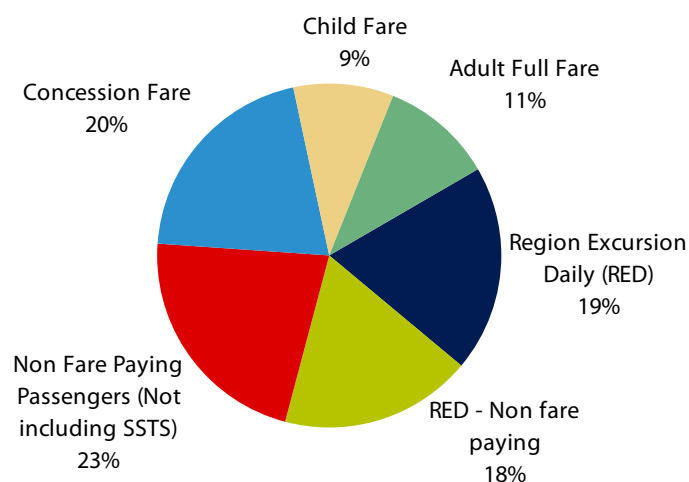
⁴ Information provided by Transport for NSW, August 2011.

⁵ For example in the 2009/10, SSTS contract payments comprised 97% of total contract payments under Contract B.

⁶ This is based on 79% of eligible students using the service and return services provided on 202 days per year.

Of the journeys made by non-SSTS passengers, only 11% are by adult passengers paying the full fare. The bulk of journeys are made by concession passengers paying half fare (children and concessions) or less (passengers using the Regional Excursion Daily ticket or that travel free). (See Figure 2.1.)

Figure 2.1 Bus use by non-SSTS passengers

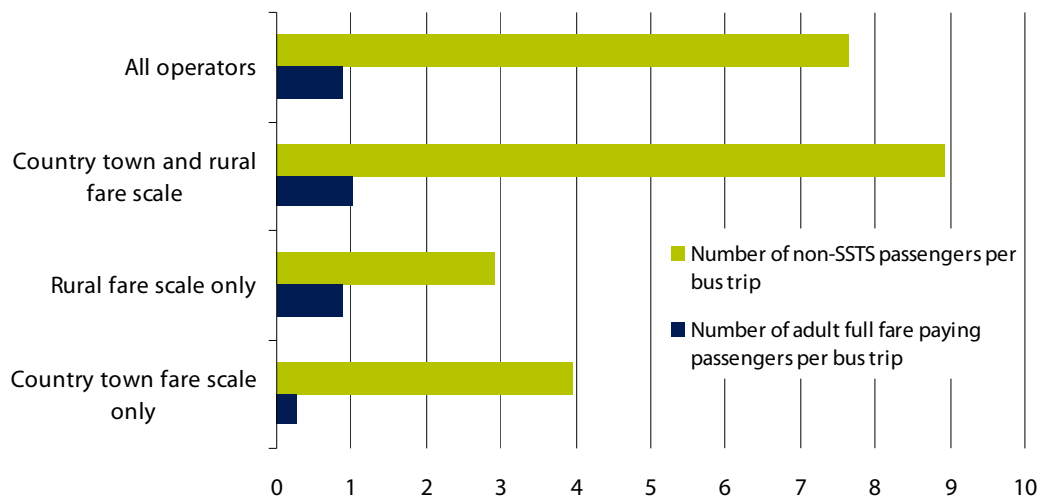


Note: RED is the Regional Excursion Daily all day ticket. The category 'RED – Non fare paying' is for journeys made subsequent to the first trip on the RED ticket for that day. Non fare paying passengers include vision impaired people, ex-members of the Defence forces with disabilities and carers.

Data source: Transport for NSW information for 2009/10 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.⁷ This number is even lower for those operators who service country town only or rural routes only (Figure 2.2).

⁷ Information reported to Transport for NSW by bus operators for 2009/10.

Figure 2.2 Average bus utilisation by operator type (2009/10)

Data source: Transport for NSW and IPART calculations.

2.4 Matters we were 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 Our approach to the determination

The analytical approach we used 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 continue to reduce rural fares so that they are closer to the fares that apply in country towns. The fares for rural bus services are currently about 11% higher than those for country town services of the same distance.
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. Nevertheless, we reviewed the available data on operators' service performance and have summarised our findings in this report.

3 Change in the cost of operating bus services

As in 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 largely the same inflators we used last year, and applied the weightings updated from the 2010 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.⁸

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 inflators for labour costs for expected productivity gains over the coming year.

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.

3.1 Findings on the change in the cost of operating bus services

IPART finding

- 1 We find 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.

⁸ 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 5 years. For more information, see IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, December 2007.

Table 3.1 Change in the ordinary costs of providing bus services in 2010/11, as measured by the BICI

Cost item	Index weighting	Inflator	Inflator value	Contribution to change
	%		%	%
Salaries and Wages	43.4%	Productivity adjusted WPI	3.4%	1.5%
Workers Compensation	1.6%	NWPI - Workers Compensation	0.9%	0.0%
Superannuation	3.7%	Productivity adjusted NWPI - Superannuation	3.5%	0.1%
Payroll Tax	2.1%	Productivity adjusted NWPI - Payroll Tax	-0.6%	0.0%
Bus fuel and lubricants	9.3%	FUELtrac Data	11.9%	1.1%
Bus repair and maintenance	4.6%	CPI - Repair and Servicing	0.3%	0.0%
Insurance	2.0%	CPI – Insurance	2.3%	0.0%
Capital costs - Bus	18.8%	Bus Lease Payment	-4.1%	-0.8%
Other costs	14.7%	CPI	3.0%	0.4%
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 2011*, December 2010.

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

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 in our next review
- ▼ adjust labour cost inflators for expected productivity gains of 0.3%.

Our finding on the change in the cost of providing rural and regional bus services is slightly below the change in the Consumer Price Index (CPI) over the same period, which was 3.0%.

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. In the example, 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 No change to the method of inflating bus capital costs this year

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 for 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.

Last year, we noted a number of concerns with continuing to use this approach.⁹ We committed to monitor the bus capital cost inflator to ensure that it provides an appropriate estimate of the change in costs. The fact sheet we released in August also asked for views on alternatives.

BusNSW was the only stakeholder to comment on this issue. BusNSW supports the current lease payment method as long as the input costs and interest rate reflect the industry's actual costs.¹⁰ In the fact sheet for this year's review, we raised the possibility of using information from a Transport for NSW bus procurement process for metropolitan and outer metropolitan buses.¹¹ BusNSW considers that this process may provide a better bus cost for the calculation but needs to be considered once details of the tender are released.¹²

BusNSW supports the use of a more commercial interest rate but has not specified what rate should be used. BusNSW notes that bus operators experienced an increase in funding costs as a result of the global financial crisis, and asks that if the rate is changed again this year that the change in the rate over the past 5 years be examined rather than focusing on movements over the past 2 years.¹³

In our view, there are no alternatives for either bus costs or interest rates that could be implemented in this review. We intend to consider this matter in more detail as part of the next reweighting process. As a result, we have again used the Transport for NSW quotes and the 5-year bond rate (both consistent with last year's approach). Unlike last year, capital costs are not a driver of fare increases this year; in fact, they reduce the BICI increase.

⁹ See IPART, *Rural and Regional bus fares from January 2011 - Final Report*, December 2010.

¹⁰ BusNSW submission, 3 October 2011, p 3.

¹¹ Transport for NSW has indicated that it is considering using quotes provided by bus manufacturers for a panel of contractors for metropolitan and outer metropolitan bus contracts, which may provide a more reliable measure of the change in the cost of new buses.

¹² BusNSW submission, 3 October 2011, p 3.

¹³ BusNSW submission, 3 October 2011, p 3.

3.3 Adjustment to labour cost items 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).

Applying the BICI without adjusting for labour productivity will tend to over compensate operators over time. As we have not made an adjustment for labour productivity in the last 3 years, we have decided to make a small adjustment this year – 0.3% applied to the salaries and wages item – so that passengers can benefit from productivity improvements. In our view this reflects a conservative view of the productivity achievable in the broader economy.

3.3.1 ABS data on productivity

We have looked at ABS measures of productivity trends in the transport, postal and warehousing sector and in the broader economy. These measures suggest that labour productivity has grown on average over the past 5 years. However, multi-factor productivity has fallen across the economy (Table 3.2).

Table 3.2 Productivity measures – 2010/11 National System of Accounts

	2006/07	2007/08	2008/09	2009/10	2010/11	5-year (geometric) average
	% change	% change	% change	% change	% change	% change
Gross value added per hour worked:						
Transport, postal & warehousing	3.5	-1.7	-6.5	6.2	1.6	0.5
All industries	0.9	0.9	0.5	2.4	-0.8	0.8
Market sector measures (based on hours worked)^a						
Labour productivity	1.0	1.3	0.6	2.7	-0.3	1.0
Multi-factor productivity	-0.3	-0.6	-1.9	0.4	-1.3	-0.7

a The market sector comprises industries for which there are satisfactory estimates of growth in the volume of output.

Source: ABS Australian System of National Accounts, 5204.0, 2010/11 – Tables 13 and 15.

The longer term decline in multi-factor productivity across the economy has been largely linked to developments in 3 sectors:¹⁴

- ▼ *mining* – reflecting depletion of in-situ mineral resource deposits and large capital investment which have not yet translated into mining output
- ▼ *electricity, gas and water* – reflecting increases in capital investment and reduced rainfall, which has necessitated the introduction of demand management initiatives and new capital investments for recycling and desalination, and
- ▼ *agriculture* – due to the extended drought.¹⁵

This suggests that broad productivity estimates may understate the productivity possible in rural and regional buses.

3.3.2 Relativity between WPI and CPI

A productivity adjustment has historically been applied (if applied) to the labour component of the bus industry cost index. The underlying rationale for this is that wages growth will outpace consumer prices across the economy, partly because of productivity gains. As can be seen in Figure 3.1, wages growth in NSW has historically outpaced growth in consumer prices by 0.2% to 1.3% per year since 1998.¹⁶

This difference will reflect:

- ▼ Productivity gains – productivity gains allow for higher production and hence higher real wages.
- ▼ Changes in prices of the goods NSW produces as against the goods NSW consumes – when goods that NSW produces rise more quickly than goods that we consume then wages can rise faster than consumer prices without productivity gains.
- ▼ Capital deepening – the value of additional labour will typically be higher if combined with a larger amount of capital. This also impacts on measures of labour productivity.

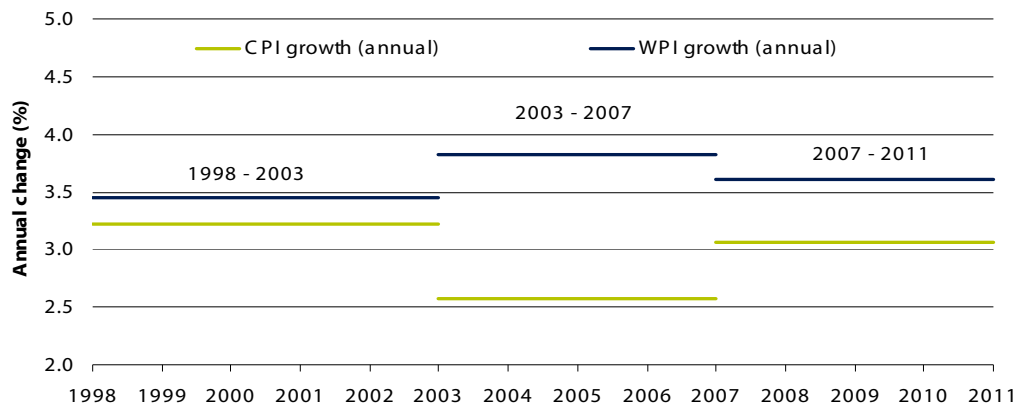
¹⁴ Productivity Commission, *Australia's Productivity Performance*, submission to the House of Representatives Standing Committee on Economics, September 2009.

¹⁵ The Reserve Bank of Australia has also noted that multi-factor productivity estimates across the economy may reflect factors such as measurement problems relating to significant changes in the composition and pricing of output, mining of more input-intensive resources due to higher commodity prices, full employment and the fading effects of earlier economic reforms. (Battellino, R. 2010, *Twenty Years of Economic Growth*, address to Moreton Bay Regional Council, August and RBA Statement on Monetary Policy – August 2010.)

¹⁶ Note that the consumer price measures used for some other parts of the cost index already incorporate productivity changes because they are a consumer price not a price of inputs.

Over the past 5 years, the wage price index in NSW has outpaced the CPI in NSW by 0.6% per year. This has at least partially reflected a high and rising terms of trade, ie, higher prices for the goods Australia exports versus the goods we import.¹⁷

Figure 3.1 Difference between CPI and WPI, NSW



Data source: ABS 2011 Labour Price Index, Cat. No. 6345.0 and ABS 2011, Consumer Price Index, Cat. No. 6401.0.

3.3.3 Industry specific factors affecting productivity

We also examined the available information in order to determine whether there are factors that mean rural and regional bus operators may have higher or lower productivity compared with other businesses in the economy.

Obvious potential drivers of productivity gains for rural and regional buses include higher utilisation of buses, buses better matched to the number of passengers, higher road speeds and higher fuel efficiency. On the other hand, Bus NSW contends that road congestion, reduced road speeds, increased fuel use from Euro standards, and new labour laws would offset any possible labour or fuel efficiencies.¹⁸

We do have data on passenger boardings and number of trips for rural and regional buses for 2009/10 and 2010/11 from Transport for NSW. From this we can construct a utilisation measure, although this does not capture changes in the length of trips. This measure shows that total average utilisation of contracted services increased for 38 operators and decreased for 36 operators from 2009/10 to 2010/11.

BusNSW also submitted that fares should not be used to drive efficiency given that efficiency incentives are built into the contract and funding model.¹⁹ We note that we are not seeking to drive efficiency through fares but to ensure that passengers benefit from efficiency gains made by operators.

¹⁷ The Reserve Bank of Australia notes that terms of trade in the September quarter 2011 were at their highest level in 140 years (*Statement on Monetary Policy*, November 2011, p 39).

¹⁸ BusNSW submission, 3 October 2011, p 2.

¹⁹ BusNSW submission, 3 October 2011, p 2.

3.4 No productivity adjustment to other items in the cost index

Productivity gains may be possible for other items in the cost index apart from labour. However, we have not made any further adjustment to the BICI this year to reflect other types of productivity.

There is evidence that fuel efficiency for buses has generally improved in Australia. ABARE reports that vehicle fuel efficiency in the bus transport sector has improved at an annual average rate of 1.3% (from 12.1MJ per kilometre in 1989/90 to 9.7MJ per kilometre travelled in 2006/07).²⁰ However, ABARE also notes that fuel efficiency *per passenger kilometre* has worsened because of falling utilisation of bus services across Australia. Given this information, we consider that no adjustment for fuel efficiency should be made.

3.5 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 relative costs as measured by the inflators. As the weightings have been in place without significant review for the past 5 years, we intend to reconsider them again next year by examining the costs faced by the industry. This ensures that the index reflects the costs of providing bus services and picks up any changes in the composition of costs.

²⁰ ABARE, *End use energy intensity in the Australian economy*, Research report 09.17, November 2009, p 33.

4 Changes to maximum fares for country town and rural routes

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 7,500,²¹ and/or
- ▼ rural routes that service village to town routes, and town to town routes.

There are separate fare schedules for each of these routes. Last year we reduced fares for rural routes by 10% to bring them closer to the fares on country town routes. Since January this year, maximum fares on the rural fare schedule have been around 11% higher than those on the country town fare schedule for the same distance journeys.

As part of our review, we considered whether we should further reduce rural fares so that they are closer to country town fares or whether we should retain the current 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).

We examined the available evidence to determine whether 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 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.

²¹ 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.

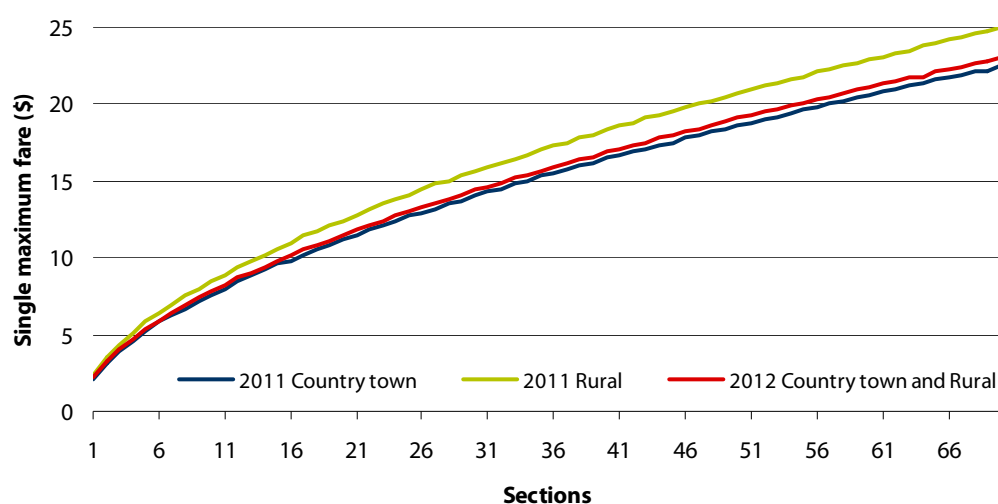
4.1 Findings and decision on the change in maximum fares

IPART finding

- 2 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.
- 3 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 there are inconsistencies in the data provided this year, compared with last year.

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 8% so they are equal to the level of country town fares for same-distance journeys. From January 2012 the same maximum fares will apply on both country town and rural bus routes (Figure 4.1).

Figure 4.1 Comparison of 2011 and 2012 maximum fares



Data source: IPART, *Review of fares for rural and regional buses from January 2011, December 2010*.

4.2 Maximum fares for country town services will increase in line with costs

Data from Transport for NSW indicates that average revenues reported by bus operators for their contract operations were 23% higher than their expenses in 2009/10 (Table 4.1). Based on the shares in the BICI, we consider that if all buses were owned and no depreciation was included in expenses, revenues 21% higher than expenses would provide an appropriate return.²²

²² This is the share of the cost index related to bus assets as a share of other costs.

We received 2 submissions suggesting that we should focus on social outcomes when determining fare changes. The Council of Social Service of New South Wales (NCOSS) considers that the available data on profitability suggests that there is scope to make a fare determination that does not pass on all of the increase in costs.²³ NCOSS and the Northern Rivers Social Development Council (NRSDC) submitted that we should prioritise social and environmental impacts, reflecting uncertainty about financial data.²⁴ They also suggested that we consider harmonising rural and regional bus fares with metropolitan levels in order to achieve greater social equity.

While on average, the data we received continues to suggest that returns are above the level we would expect, there is significant uncertainty surrounding operator profitability. In our view there is insufficient information to demonstrate that fares should not be allowed to increase in line with the costs of operating bus services. As a result, we have decided to increase country town fares by the increase in the cost of operating rural and regional bus services as measured by the BICI.

In addition, there is substantial variation in the profitability reported. Some operators do report low returns, including negative earnings before tax. Changing fares could impact on all operators, including those whose returns are already low. It is not clear to what extent poor financial performance as indicated by the data is a result of reporting issues rather than actual poor performance.

Table 4.1 Summary of reported profitability (contract only)

	2008/09	2009/10
Ratio of revenues to expenses	1.30	1.23
Ratio of government payments to contract revenue	0.82	0.89
Best performing contracts — EBT as a share of revenue	-	55%
Poorest performing contracts — EBT as a share of revenue	-66%	-23%

Source: Transport for NSW; IPART, *Review of fares for rural and regional buses from January 2011*, December 2010.

The financial information reported under the contracts has changed significantly from what was reported the previous year. Bus financial data reported to Transport for NSW is subject to limited checking. Both Transport for NSW and BusNSW have submitted that the data is not of high quality. In our view, the changes from 2008/09 to 2009/10 almost certainly relate to data issues and not to real changes in bus performance.

²³ NCOSS submission, 30 September 2011, p 2.

²⁴ NCOSS submission, 30 September 2011, p 2 and Northern Rivers Social Development Council submission, 28 September 2011, p 3.

Other relevant issues for assessing aggregate returns include:

- ▼ it is unclear to what extent expenses reported by bus operators include lease payments for buses/depots or whether these are owned and should earn a return on capital
- ▼ it is unclear whether all operators are including depreciation in expenses
- ▼ some bus businesses include costs and revenues for their other non-bus related businesses in figures provided to Transport for NSW
- ▼ allocating joint costs (such as corporate overheads) between bus and non-bus businesses requires assumptions, and
- ▼ allocating joint costs (such as bus capital expenditures or lease payments) between charter and contract services requires assumptions.

We note that Transport for NSW and BusNSW are currently working together to improve the accuracy and consistency of reporting and we hope this will provide us with better quality data in the future. In the meantime, we have decided to continue to increase country town fares in line with the increase in the cost of operating bus services, as measured by the BICI.

4.3 Maximum fares for rural routes will be equal to those for country town routes

Last year, we decided that there was insufficient evidence for higher fares on rural routes than those applying on country town routes. We decided that fares for rural routes should be reduced in stages, with the aim of achieving a single maximum fare scale for country town and rural services. We indicated that we would reconsider this issue this year when a second set of data reported under the service contracts would be available. Having reviewed this information, we have decided to move to a single fare scale for all rural and regional bus services from January 2012.

We have focused on the profitability of bus operators and the impact of fare reductions on their profitability rather than on differences in costs or use of services in making our decision on this issue. This is because, within the current contractual arrangements, we cannot meaningfully derive an appropriate share of costs that should be provided by fare-paying passengers.

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

2009/10 financial data indicates that rural only operators have lower revenue to expenses than other operators on average (Table 4.2). Country town only operators have the same average revenue to expenses as operators that service country town and rural routes. This is different from data reported last year, when rural operators had the highest revenue to expenses ratio of the 3 categories. In our view, these differences are more likely to be related to reporting than to result from actual changes in profitability.

As noted above, even where average profitability appears to be high, there are still implications arising from the substantial variation in profitability. Changing fares could impact on all operators, including those whose returns are already low. Some operators do report low returns, including negative earnings before tax (Table 4.3) and again these indicators are significantly different between the 2 years of data. It is not clear to what extent poor financial performance as indicated by the data is a result of reporting issues rather than actual poor performance.

Table 4.2 Profitability of rural and regional bus operators (contract only)

Item	Country town only	Country town and rural	Rural only
Ratio of revenues to expenses			
2009/10	1.24	1.24	1.15
2008/09	1.36	1.26	1.53
Ratio of government payments to contract revenue			
2009/10	0.88	0.89	0.81
2008/09	0.74	0.86	0.61

Source: NSW Department of Transport; IPART, *Review of fares for rural and regional buses from January 2011*, December 2010.

Table 4.3 Variations in reported profitability (contract only)

Item	Country town only	Country town and rural	Rural only
Best performing contracts — EBT as a share of revenue			
2009/10	40%	45%	55%
Poorest performing contracts — EBT as a share of revenue			
2009/10	-18%	-17%	-23%
2008/09	-66%	-26%	-3%

Note: EBT is earnings before tax.

Source: Transport for NSW data.

In our view, the differences in reported data between 2008/09 and 2009/10 do not provide a persuasive case for maintaining a separate, higher rural fare scale. As noted above, bus financial data reported to Transport for NSW is subject to limited checking. Both Transport for NSW and BusNSW have submitted that the data is not of high quality.²⁵ In our view, many of the differences between 2008/09 and 2009/10 are likely to be a result of data issues and not a result of changes in bus performance.

²⁵ BusNSW submission, 3 October 2011, p 2.

4.3.2 Impact of the rural fare reduction on operator revenue

We do not know the financial viability of each operator or bus route and as a result, it is not possible for us to determine the impact of moving to a single fare scale on every operator. However, we were able to estimate the impact of the rural fare reduction on operator revenue, which has allowed us to draw some conclusions on the likely impact on service levels. We found that:

- ▼ Fewer than 10 operators receive more than 10% of their revenue from fares.
- ▼ Of the 10 operators most reliant on fare revenues, 5 provide both country town and rural services, 4 provide only rural services and 1 provides only country town services.
- ▼ Of the 9 operators that receive significant fare revenue and provide rural services, we only identified 1 that was charging more than the current maximum fares for country town services, and the estimated reduction in revenue for that operator was expected to be small (less than 1%).

A major concern for stakeholders is to ensure that services are not impacted by reducing rural fares to the level of country town fares. At the public hearing, BusNSW indicated that one operator reduced their services as a result of our fare determination beginning in January 2011. However, we have not been able to confirm this with the operator in question. The website for this operator suggests that with the exception of the first section, all its fares are below current maximum fares.

Given our estimate of the impact on operator revenue, and the fact that most operators with significant numbers of fare paying passengers are currently charging at or below the country town fare scale, we do not expect there to be a reduction in rural services as a result of our determination.

5 Expected impact of the 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 Findings on expected impacts of fare changes

IPART finding

- 4 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 in master fares is fairly small and is below 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 8% 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. The information reported by operators that service rural routes suggests that the 8% reduction in maximum fares for these services will have a minor impact on most of them.

For the NSW Government, the impact of the determination 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 maximum fares for rural services is likely to reduce 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 below the change in the over the past year CPI (3%). If operators choose to increase their fares by the maximum allowable, fares will increase between 10 cents and 60 cents per journey depending on the distance travelled.

Maximum fares for rural bus services decrease by around 8% (again depending on rounding). After rounding, maximum fares will fall by between 20 cents and \$2 per journey depending on the distance travelled.

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.

5.2.1 Affordability

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.

NRSDC considers that local bus services are currently unaffordable for people on low incomes.²⁶ High bus fares ranked as the second highest priority issue in the transport section of the 2010 Northern Rivers social priorities survey, which NRSDC says indicates that high fares are a barrier to people using bus services.²⁷ NCOSS also submits that in many areas bus fares are prohibitive and can prevent disadvantaged people from accessing basic services.²⁸

²⁶ Northern Rivers Social Development Council submission, 28 September 2011, p 3.

²⁷ Northern Rivers Social Development Council submission, 28 September 2011, p 3

²⁸ NCOSS submission, 30 September 2011, p 2.

ABS data support the view 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.

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 to have less capacity to pay higher fares than those in country towns. The reduction in rural fares under our determination should have a small positive social impact.

5.2.2 Availability of alternatives

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).

NRSDC submits that rural and regional areas experience higher levels of socio-economic disadvantage and that many people need to travel long distances for a range of essential services but have fewer transport options.³² NCOSS submits that bus services are often the only viable public transport option.³³

ABS data supports these views, indicating 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 5.1). This is lower than the proportion of low-income 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%.

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

³⁰ ABS, Census 2006.

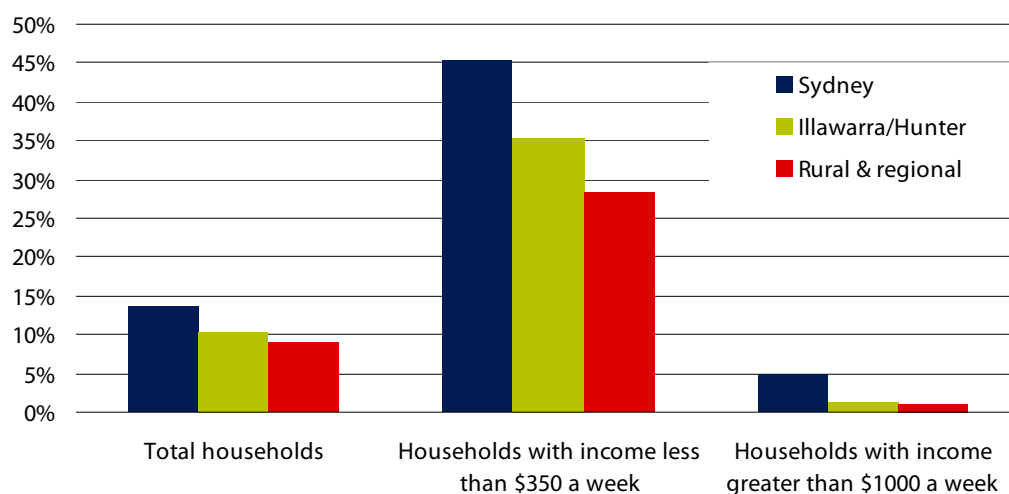
³¹ ABS 2010, 6524.0, *Estimates of Personal Income for Small Areas, Time Series, 2003-04 to 2007-08*.

³² Northern Rivers Social Development Council submission, 28 September 2011, p 3.

³³ NCOSS submission, 30 September 2011, p 1-2.

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

Figure 5.1 Households without access to a motor vehicle (%)

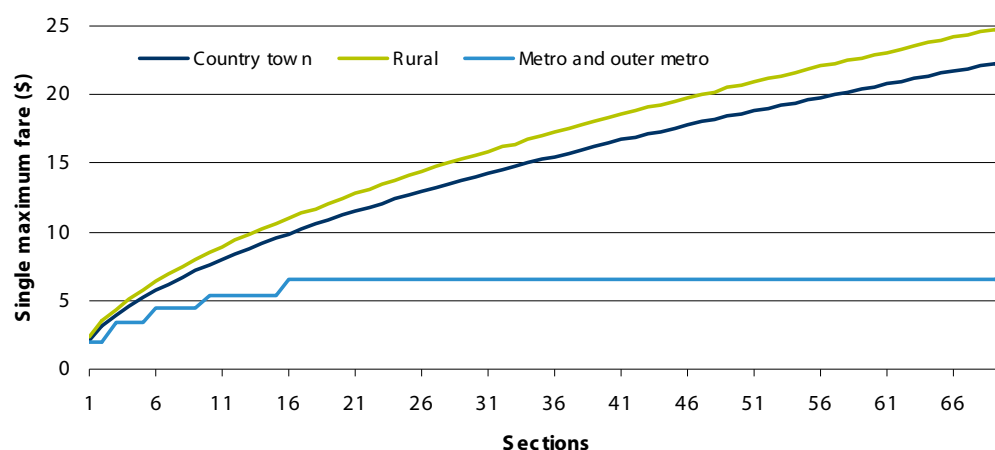


Data source: ABS, 2006 census.

5.2.3 Relativities with fares in metropolitan areas

Maximum fares for bus travel are highest for rural areas, then country town areas and lowest in metropolitan areas. Current differences are set out in Figure 5.2.

Figure 5.2 Maximum bus fares across NSW (2011)



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

Data source: IPART, *Review of fares for rural and regional buses from January 2011*, December 2010, www.131500.com.au.

One of the reasons for the higher maximum fares in rural and regional areas, particularly for longer trips, is the different fare structure that applies. In metropolitan and outer metropolitan areas, fares increase every 2 sections travelled up to 6 sections (about 10 km) then remain flat. Maximum fares for rural and regional fares increase for every section of travel up to 70 sections (112 km). However, operators can charge below the maximum and in many cases offer travel under a fare scale with fewer section fares.

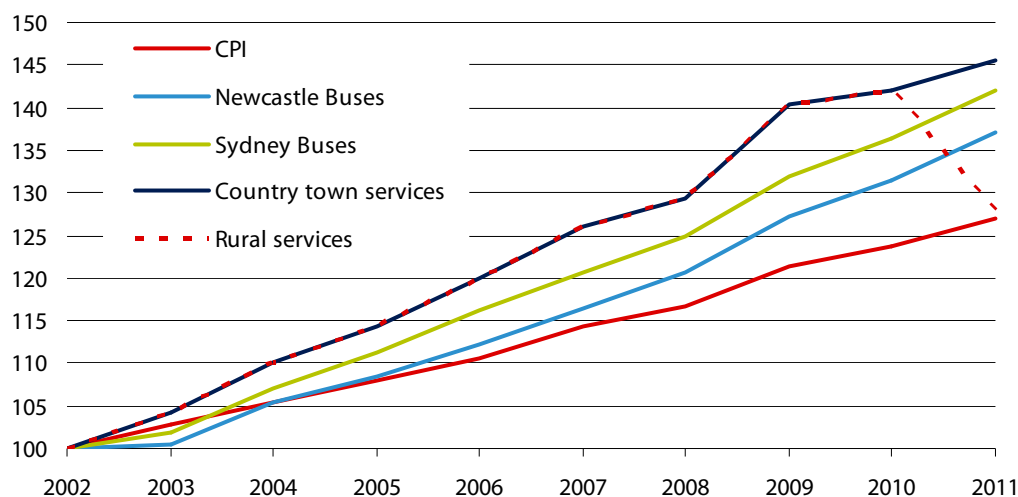
Fare scales for country town and rural routes have the same structure but (currently have) higher maximum fares for rural services. In many cases, country town and rural routes are run by the same operators. As a result of our decision to move to a single maximum fare scale for all rural and regional bus services, maximum fares for country town and rural routes will be equal from January 2012.

NRSDC notes that the higher fares in rural and regional areas affect many residents that have no choice but to use bus services for travel to employment or training.³⁴ NCOSS submits that bus services are often the only viable public transport option and that passengers face higher fares and have less access to concessions and discounts for frequent travel.³⁵

In addition to being higher, we found that on average, maximum fares for country town bus routes have grown at a faster rate than maximum fares in Sydney and Newcastle (Figure 5.3). Fares for rural routes tracked those in country town routes until last year, when they were reduced by around 10%.

³⁴ Northern Rivers Social Development Council submission, 28 September 2011, p 5.

³⁵ NCOSS submission, 30 September 2011, p 1-2.

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

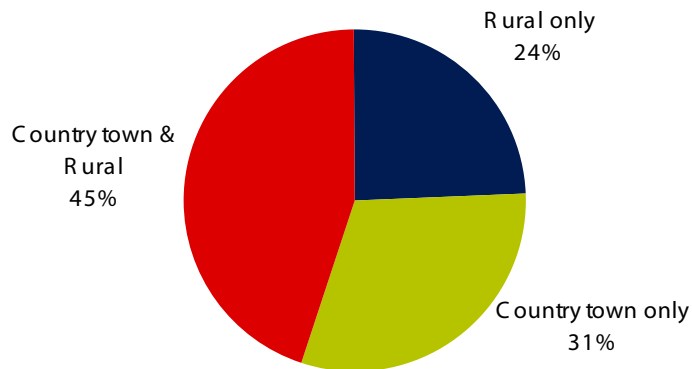
Note: Fare increases in 2002 and 2003 each cover more than a single calendar year due to the timing of the fare reviews. CPI used is for the previous calendar year. For example the CPI for 2010 is the average of CPI for the 4 quarters in 2009. For the CPI for 2010, this is year to September 2009, as 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.

5.3 Impact on bus operators

There are approximately 80 operators that provide rural and regional bus services across NSW. Each of these operators holds a contract and receives monthly contract payments from the Government. In addition, operators are entitled to retain any fares collected from fare paying passengers. They also receive payments from the Government for any concession tickets sold so that the fare they receive is equal to the full adult fare. In most cases, contract and concession payments are the predominant source of revenue.

Operators may provide only country town, only rural or a mixture of country town and rural services (Figure 5.4). Around a third of operators provide no rural services. Operators will be affected differently as a result of our recommendation to harmonise the 2 maximum fare scales by reducing rural fares.

Figure 5.4 Fares scales applying to contracts

Data source: Information reported to TNSW under rural and regional contracts.

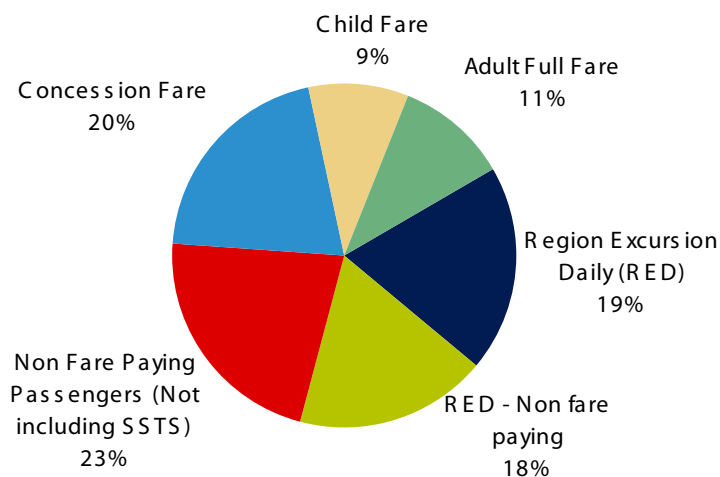
We expect that our determination will have minimal impact on operators that service country town routes only, as the increase in maximum fares for services on these routes is equivalent to the estimated increase in the costs of providing bus services in rural and regional areas.

For operators serving rural routes, we have undertaken a more detailed analysis of the impact at an operator level based on the data available to us. In doing so we note that the majority of operators receive most of their revenue directly from contract payments. As noted in Chapter 4, we estimate that only 5 operators receive more than 10% of their revenue from fares and of those operators, the majority currently charge fares below the maximum set for country town routes.

5.4 Impact on the NSW Government

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

However, 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. Excluding SSTS trips, almost 90% of passengers travel on some type of concession for which the Government will pay operators a 'top up' fare (Figure 5.5).

Figure 5.5 Boardings by ticket type – 2010/11

Note: Data is for the 11 months from July 2010 to May 2011.

Data source: TNSW, data provided by operators under rural and regional bus contract reporting.

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. Specifically, NRSDC asked us to consider the role of fares in influencing public transport patronage and to consider the impact of reducing bus fares on shifting transport use away from private vehicles.³⁶ It notes that a very small proportion of people in the Richmond-Tweed area travel to work by bus (568 people from a total of 86,340 according to 2006 Census data) and that this is unlikely to change until fares become more affordable.³⁷ NCOSS also submitted that higher fares discourage people from using buses in preference to (less environmentally friendly) cars.³⁸

³⁶ Northern Rivers Social Development Council submission, 28 September 2011, p 3.

³⁷ Northern Rivers Social Development Council submission, 28 September 2011, p 4.

³⁸ NCOSS submission, 30 September 2011, p 2.

There is no doubt that the level and structure of fares faced by passengers influence the use of bus services versus alternative modes of transport. As such, our 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 -0.38.³⁹ That is, a 1% increase in fares would reduce patronage by only 0.38%, other things being equal.⁴⁰

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).

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 8% 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.

³⁹ IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, October 1996.

⁴⁰ 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 do not set these measures; however, we have decided 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 to us by Transport for NSW for our 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.

While this is a good start, we are not convinced that there is a lot of value in these as a measure of passenger experience as there is no process for verifying the information provided by bus operators to Transport for NSW.

Taken at face value, the service standard information collected by Transport for NSW suggests that service standards were high on average in 2010/11 and represent an improvement on those reported for 2009/10. For example, on average few trips were incomplete or cancelled and few were early or late (Table 6.1).

Table 6.1 Service measures – 2009/10 compared with 2010/11

	2010 review	2011 review
Share of trips incomplete	0.3%	0.0%
Share of trips cancelled	0.0%	0.0%
Share of trips early	0.0%	0.1%
Share of trips late	0.7%	0.6%
Bus full	0.1%	0.0%
Wheelchair accessible trips	33.0%	43.3%
Wheelchair accessible trips incomplete or cancelled	1.3%	0.9%

Note: Data for 2009/10 is for 12 months. Data for 2010/11 is for 11 months (July to May).

Source: Transport for NSW, Data reported by operators under Contract B rural and regional bus contracts.

When considered for individual routes the service outcomes are highly variable. The worst-performing route in each category typically had very poor performance. For example, one operator reported 15.7% of trips on a particular route were early, one reported 8.1% of trips were late and one reported that in 9.7% of trips were incomplete (Table 6.2). While the overall proportion of trips that were accessible for passengers with wheelchairs rose to 43%, there are still some routes with no wheelchair accessible services.

We do not know whether or not these figures provide an accurate picture of service standards as the data is not verified or audited.

Table 6.2 Service measures – share of trips for worst performers

	2009/10 Worst performing operator	2010/11 Worst performing route
Share of trips incomplete	30.4%	9.7%
Share of trips cancelled	0.3%	1.1%
Share of trips early	1.1%	15.7%
Share of trips late	31.2%	8.1%
Bus full	40.8% ^b	0.2%
Accessible incomplete or cancelled ^a	16.4% ^b	56.4%

^a This has been calculated as a proportion of wheelchair accessible routes.

^b We identified a number of errors in data for 2010/11 – specifically, affecting bus full on route and timetabled wheelchair accessible for a handful of operators. The proportions of these changed considerably when these errors were corrected. While we now have more confidence in the data for 2010/11, it is possible that the 2009/10 data for these items suffer from similar problems.

Note: Data for 2009/10 is for 12 months. Data for 2010/11 is for 11 months (July to May). Route by route analysis was not possible on the information provided for last year's review so we are unable to make direct comparisons.

Source: Transport for NSW, Data reported by operators under Contract B rural and regional bus contracts.

Across approximately 78,000 timetabled trips per month there was an average of 1,628 customer contacts. This compares with a monthly average of around 1,000 last year (for around 60,000 timetabled trips per month). Almost a third of all contacts originate from a single bus company that reported over 5,000 customer contacts in the 'other' category. In our view, this is likely to result from a reporting error and as a result, is not indicative of service outcomes. We have summarised the customer feedback for selected categories, which we consider provide some indication of customer satisfaction (Table 6.3). We have done this on a monthly basis for comparison with last year.⁴¹

The proportions of feedback in each category of feedback are fairly consistent with those reported last year.

Table 6.3 Feedback – contacts per month (selected categories)

	2010	2011	% change
Bus did not run to timetable ^a	28	35	27%
Safety concerns ^b	12	14	15%
Comfort ^c	11	16	43%
Staff/driver rude or unhelpful	19	26	36%
Ticket dispute	5	3	-45%
Compliments	39	54	40%

^a Early, late, missed stop, failed to operate or ran wrong route.

^b Dangerous driving, felt unsafe.

^c Bus dirty, no seats, shelter inadequate or not provided, bus overcrowded and bus noisy/unruly.

Note: Data for 2009/10 is for 12 months. Data for 2010/11 is for 11 months (July to May). Data does not correct for change in kilometres or number of timetabled trips as we are not confident that the significant increase in 2010/11 compared with 2009/10 is correct.

Source: Transport for NSW, Data reported by operators under Contract B rural and regional bus contracts.

⁴¹ Note that timetabled trips and monthly service kilometres were significantly higher this year than those reported for 2009/10. We have not adjusted data to take into account these differences.



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 Maximum fares to apply from 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 8%, 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 January 2012, and compare them to the (rounded fares) that applied in 2011. Table B.3 provides the new (unrounded) master fare schedules for 2012 – these will be used to calculate fares in our next review.

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 2012, compared to those that applied in 2011

Section	Adult 2011	Adult 2012	Change	Change	Conc'n 2011	Conc'n 2012	Change	Change
1	\$2.10	\$2.20	\$0.10	5%	\$1.00	\$1.10	\$0.10	10%
2	\$3.10	\$3.20	\$0.10	3%	\$1.50	\$1.60	\$0.10	7%
3	\$3.90	\$4.00	\$0.10	3%	\$1.90	\$2.00	\$0.10	5%
4	\$4.60	\$4.70	\$0.10	2%	\$2.30	\$2.30	\$0.00	0%
5	\$5.20	\$5.30	\$0.10	2%	\$2.60	\$2.60	\$0.00	0%
6	\$5.80	\$5.90	\$0.10	2%	\$2.90	\$2.90	\$0.00	0%
7	\$6.20	\$6.40	\$0.20	3%	\$3.10	\$3.20	\$0.10	3%
8	\$6.70	\$6.90	\$0.20	3%	\$3.30	\$3.40	\$0.10	3%
9	\$7.20	\$7.40	\$0.20	3%	\$3.60	\$3.70	\$0.10	3%
10	\$7.60	\$7.80	\$0.20	3%	\$3.80	\$3.90	\$0.10	3%
11	\$8.00	\$8.20	\$0.20	2%	\$4.00	\$4.10	\$0.10	2%
12	\$8.40	\$8.70	\$0.30	4%	\$4.20	\$4.30	\$0.10	2%
13	\$8.80	\$9.00	\$0.20	2%	\$4.40	\$4.50	\$0.10	2%
14	\$9.20	\$9.40	\$0.20	2%	\$4.60	\$4.70	\$0.10	2%
15	\$9.60	\$9.80	\$0.20	2%	\$4.80	\$4.90	\$0.10	2%
16	\$9.80	\$10.10	\$0.30	3%	\$4.90	\$5.00	\$0.10	2%
17	\$10.20	\$10.50	\$0.30	3%	\$5.10	\$5.20	\$0.10	2%
18	\$10.60	\$10.80	\$0.20	2%	\$5.30	\$5.40	\$0.10	2%
19	\$10.80	\$11.10	\$0.30	3%	\$5.40	\$5.50	\$0.10	2%
20	\$11.20	\$11.50	\$0.30	3%	\$5.60	\$5.70	\$0.10	2%
21	\$11.50	\$11.80	\$0.30	3%	\$5.70	\$5.90	\$0.20	4%
22	\$11.80	\$12.10	\$0.30	3%	\$5.90	\$6.00	\$0.10	2%
23	\$12.10	\$12.40	\$0.30	2%	\$6.00	\$6.20	\$0.20	3%
24	\$12.40	\$12.70	\$0.30	2%	\$6.20	\$6.30	\$0.10	2%
25	\$12.70	\$13.00	\$0.30	2%	\$6.30	\$6.50	\$0.20	3%
26	\$12.90	\$13.30	\$0.40	3%	\$6.40	\$6.60	\$0.20	3%
27	\$13.20	\$13.60	\$0.40	3%	\$6.60	\$6.80	\$0.20	3%
28	\$13.50	\$13.80	\$0.30	2%	\$6.70	\$6.90	\$0.20	3%
29	\$13.70	\$14.10	\$0.40	3%	\$6.80	\$7.00	\$0.20	3%
30	\$14.00	\$14.40	\$0.40	3%	\$7.00	\$7.20	\$0.20	3%
31	\$14.30	\$14.60	\$0.30	2%	\$7.10	\$7.30	\$0.20	3%
32	\$14.50	\$14.90	\$0.40	3%	\$7.20	\$7.40	\$0.20	3%
33	\$14.80	\$15.20	\$0.40	3%	\$7.40	\$7.60	\$0.20	3%
34	\$15.00	\$15.40	\$0.40	3%	\$7.50	\$7.70	\$0.20	3%
35	\$15.30	\$15.60	\$0.30	2%	\$7.60	\$7.80	\$0.20	3%
36	\$15.50	\$15.90	\$0.40	3%	\$7.70	\$7.90	\$0.20	3%
37	\$15.70	\$16.10	\$0.40	3%	\$7.80	\$8.00	\$0.20	3%
38	\$16.00	\$16.40	\$0.40	2%	\$8.00	\$8.20	\$0.20	2%

B Maximum fares to apply from January 2011

Section	Adult 2011	Adult 2012	Change	Change	Conc'n 2011	Conc'n 2012	Change	Change
39	\$16.20	\$16.60	\$0.40	2%	\$8.10	\$8.30	\$0.20	2%
40	\$16.50	\$16.90	\$0.40	2%	\$8.20	\$8.40	\$0.20	2%
41	\$16.70	\$17.10	\$0.40	2%	\$8.30	\$8.50	\$0.20	2%
42	\$16.90	\$17.30	\$0.40	2%	\$8.40	\$8.60	\$0.20	2%
43	\$17.10	\$17.50	\$0.40	2%	\$8.50	\$8.70	\$0.20	2%
44	\$17.30	\$17.80	\$0.50	3%	\$8.60	\$8.90	\$0.30	3%
45	\$17.50	\$18.00	\$0.50	3%	\$8.70	\$9.00	\$0.30	3%
46	\$17.80	\$18.20	\$0.40	2%	\$8.90	\$9.10	\$0.20	2%
47	\$18.00	\$18.40	\$0.40	2%	\$9.00	\$9.20	\$0.20	2%
48	\$18.20	\$18.60	\$0.40	2%	\$9.10	\$9.30	\$0.20	2%
49	\$18.40	\$18.90	\$0.50	3%	\$9.20	\$9.40	\$0.20	2%
50	\$18.60	\$19.10	\$0.50	3%	\$9.30	\$9.50	\$0.20	2%
51	\$18.80	\$19.30	\$0.50	3%	\$9.40	\$9.60	\$0.20	2%
52	\$19.00	\$19.50	\$0.50	3%	\$9.50	\$9.70	\$0.20	2%
53	\$19.20	\$19.70	\$0.50	3%	\$9.60	\$9.80	\$0.20	2%
54	\$19.40	\$19.90	\$0.50	3%	\$9.70	\$9.90	\$0.20	2%
55	\$19.60	\$20.10	\$0.50	3%	\$9.80	\$10.00	\$0.20	2%
56	\$19.80	\$20.30	\$0.50	3%	\$9.90	\$10.10	\$0.20	2%
57	\$20.00	\$20.50	\$0.50	3%	\$10.00	\$10.20	\$0.20	2%
58	\$20.20	\$20.70	\$0.50	2%	\$10.10	\$10.30	\$0.20	2%
59	\$20.40	\$20.90	\$0.50	2%	\$10.20	\$10.40	\$0.20	2%
60	\$20.60	\$21.10	\$0.50	2%	\$10.30	\$10.50	\$0.20	2%
61	\$20.80	\$21.30	\$0.50	2%	\$10.40	\$10.60	\$0.20	2%
62	\$21.00	\$21.50	\$0.50	2%	\$10.50	\$10.70	\$0.20	2%
63	\$21.20	\$21.70	\$0.50	2%	\$10.60	\$10.80	\$0.20	2%
64	\$21.30	\$21.80	\$0.50	2%	\$10.60	\$10.90	\$0.30	3%
65	\$21.60	\$22.10	\$0.50	2%	\$10.80	\$11.00	\$0.20	2%
66	\$21.70	\$22.30	\$0.60	3%	\$10.80	\$11.10	\$0.30	3%
67	\$21.90	\$22.40	\$0.50	2%	\$10.90	\$11.20	\$0.30	3%
68	\$22.10	\$22.60	\$0.50	2%	\$11.00	\$11.30	\$0.30	3%
69	\$22.20	\$22.80	\$0.60	3%	\$11.10	\$11.40	\$0.30	3%
70	\$22.50	\$23.00	\$0.50	2%	\$11.20	\$11.50	\$0.30	3%

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

Table B.2 Maximum rural fares to apply in 2012, compared to those that applied in 2011

Section	Adult 2011	Adult 2012	Change	Change	Conc'n 2011	Conc'n 2012	Change	Change
1	\$2.40	\$2.20	-\$0.20	-8%	\$1.20	\$1.10	-\$0.10	-8%
2	\$3.50	\$3.20	-\$0.30	-9%	\$1.70	\$1.60	-\$0.10	-6%
3	\$4.30	\$4.00	-\$0.30	-7%	\$2.10	\$2.00	-\$0.10	-5%
4	\$5.10	\$4.70	-\$0.40	-8%	\$2.50	\$2.30	-\$0.20	-8%
5	\$5.80	\$5.30	-\$0.50	-9%	\$2.90	\$2.60	-\$0.30	-10%
6	\$6.40	\$5.90	-\$0.50	-8%	\$3.20	\$2.90	-\$0.30	-9%
7	\$6.90	\$6.40	-\$0.50	-7%	\$3.40	\$3.20	-\$0.20	-6%
8	\$7.50	\$6.90	-\$0.60	-8%	\$3.70	\$3.40	-\$0.30	-8%
9	\$8.00	\$7.40	-\$0.60	-8%	\$4.00	\$3.70	-\$0.30	-8%
10	\$8.50	\$7.80	-\$0.70	-8%	\$4.20	\$3.90	-\$0.30	-7%
11	\$8.90	\$8.20	-\$0.70	-8%	\$4.40	\$4.10	-\$0.30	-7%
12	\$9.40	\$8.70	-\$0.70	-7%	\$4.70	\$4.30	-\$0.40	-9%
13	\$9.80	\$9.00	-\$0.80	-8%	\$4.90	\$4.50	-\$0.40	-8%
14	\$10.20	\$9.40	-\$0.80	-8%	\$5.10	\$4.70	-\$0.40	-8%
15	\$10.60	\$9.80	-\$0.80	-8%	\$5.30	\$4.90	-\$0.40	-8%
16	\$11.00	\$10.10	-\$0.90	-8%	\$5.50	\$5.00	-\$0.50	-9%
17	\$11.40	\$10.50	-\$0.90	-8%	\$5.70	\$5.20	-\$0.50	-9%
18	\$11.70	\$10.80	-\$0.90	-8%	\$5.80	\$5.40	-\$0.40	-7%
19	\$12.10	\$11.10	-\$1.00	-8%	\$6.00	\$5.50	-\$0.50	-8%
20	\$12.40	\$11.50	-\$0.90	-7%	\$6.20	\$5.70	-\$0.50	-8%
21	\$12.80	\$11.80	-\$1.00	-8%	\$6.40	\$5.90	-\$0.50	-8%
22	\$13.10	\$12.10	-\$1.00	-8%	\$6.50	\$6.00	-\$0.50	-8%
23	\$13.50	\$12.40	-\$1.10	-8%	\$6.70	\$6.20	-\$0.50	-7%
24	\$13.80	\$12.70	-\$1.10	-8%	\$6.90	\$6.30	-\$0.60	-9%
25	\$14.10	\$13.00	-\$1.10	-8%	\$7.00	\$6.50	-\$0.50	-7%
26	\$14.40	\$13.30	-\$1.10	-8%	\$7.20	\$6.60	-\$0.60	-8%
27	\$14.80	\$13.60	-\$1.20	-8%	\$7.40	\$6.80	-\$0.60	-8%
28	\$15.00	\$13.80	-\$1.20	-8%	\$7.50	\$6.90	-\$0.60	-8%
29	\$15.30	\$14.10	-\$1.20	-8%	\$7.60	\$7.00	-\$0.60	-8%
30	\$15.60	\$14.40	-\$1.20	-8%	\$7.80	\$7.20	-\$0.60	-8%
31	\$15.90	\$14.60	-\$1.30	-8%	\$7.90	\$7.30	-\$0.60	-8%
32	\$16.20	\$14.90	-\$1.30	-8%	\$8.10	\$7.40	-\$0.70	-9%
33	\$16.40	\$15.20	-\$1.20	-7%	\$8.20	\$7.60	-\$0.60	-7%
34	\$16.70	\$15.40	-\$1.30	-8%	\$8.30	\$7.70	-\$0.60	-7%
35	\$17.00	\$15.60	-\$1.40	-8%	\$8.50	\$7.80	-\$0.70	-8%
36	\$17.30	\$15.90	-\$1.40	-8%	\$8.60	\$7.90	-\$0.70	-8%
37	\$17.50	\$16.10	-\$1.40	-8%	\$8.70	\$8.00	-\$0.70	-8%
38	\$17.80	\$16.40	-\$1.40	-8%	\$8.90	\$8.20	-\$0.70	-8%

B Maximum fares to apply from January 2011

Section	Adult 2011	Adult 2012	Change	Change	Conc'n 2011	Conc'n 2012	Change	Change
39	\$18.00	\$16.60	-\$1.40	-8%	\$9.00	\$8.30	-\$0.70	-8%
40	\$18.30	\$16.90	-\$1.40	-8%	\$9.10	\$8.40	-\$0.70	-8%
41	\$18.60	\$17.10	-\$1.50	-8%	\$9.30	\$8.50	-\$0.80	-9%
42	\$18.80	\$17.30	-\$1.50	-8%	\$9.40	\$8.60	-\$0.80	-9%
43	\$19.10	\$17.50	-\$1.60	-8%	\$9.50	\$8.70	-\$0.80	-8%
44	\$19.30	\$17.80	-\$1.50	-8%	\$9.60	\$8.90	-\$0.70	-7%
45	\$19.50	\$18.00	-\$1.50	-8%	\$9.70	\$9.00	-\$0.70	-7%
46	\$19.80	\$18.20	-\$1.60	-8%	\$9.90	\$9.10	-\$0.80	-8%
47	\$20.00	\$18.40	-\$1.60	-8%	\$10.00	\$9.20	-\$0.80	-8%
48	\$20.20	\$18.60	-\$1.60	-8%	\$10.10	\$9.30	-\$0.80	-8%
49	\$20.50	\$18.90	-\$1.60	-8%	\$10.20	\$9.40	-\$0.80	-8%
50	\$20.70	\$19.10	-\$1.60	-8%	\$10.30	\$9.50	-\$0.80	-8%
51	\$21.00	\$19.30	-\$1.70	-8%	\$10.50	\$9.60	-\$0.90	-9%
52	\$21.20	\$19.50	-\$1.70	-8%	\$10.60	\$9.70	-\$0.90	-8%
53	\$21.40	\$19.70	-\$1.70	-8%	\$10.70	\$9.80	-\$0.90	-8%
54	\$21.60	\$19.90	-\$1.70	-8%	\$10.80	\$9.90	-\$0.90	-8%
55	\$21.80	\$20.10	-\$1.70	-8%	\$10.90	\$10.00	-\$0.90	-8%
56	\$22.10	\$20.30	-\$1.80	-8%	\$11.00	\$10.10	-\$0.90	-8%
57	\$22.30	\$20.50	-\$1.80	-8%	\$11.10	\$10.20	-\$0.90	-8%
58	\$22.50	\$20.70	-\$1.80	-8%	\$11.20	\$10.30	-\$0.90	-8%
59	\$22.70	\$20.90	-\$1.80	-8%	\$11.30	\$10.40	-\$0.90	-8%
60	\$22.90	\$21.10	-\$1.80	-8%	\$11.40	\$10.50	-\$0.90	-8%
61	\$23.10	\$21.30	-\$1.80	-8%	\$11.50	\$10.60	-\$0.90	-8%
62	\$23.30	\$21.50	-\$1.80	-8%	\$11.60	\$10.70	-\$0.90	-8%
63	\$23.50	\$21.70	-\$1.80	-8%	\$11.70	\$10.80	-\$0.90	-8%
64	\$23.80	\$21.80	-\$2.00	-8%	\$11.90	\$10.90	-\$1.00	-8%
65	\$24.00	\$22.10	-\$1.90	-8%	\$12.00	\$11.00	-\$1.00	-8%
66	\$24.20	\$22.30	-\$1.90	-8%	\$12.10	\$11.10	-\$1.00	-8%
67	\$24.40	\$22.40	-\$2.00	-8%	\$12.20	\$11.20	-\$1.00	-8%
68	\$24.60	\$22.60	-\$2.00	-8%	\$12.30	\$11.30	-\$1.00	-8%
69	\$24.80	\$22.80	-\$2.00	-8%	\$12.40	\$11.40	-\$1.00	-8%
70	\$25.00	\$23.00	-\$2.00	-8%	\$12.50	\$11.50	-\$1.00	-8%

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

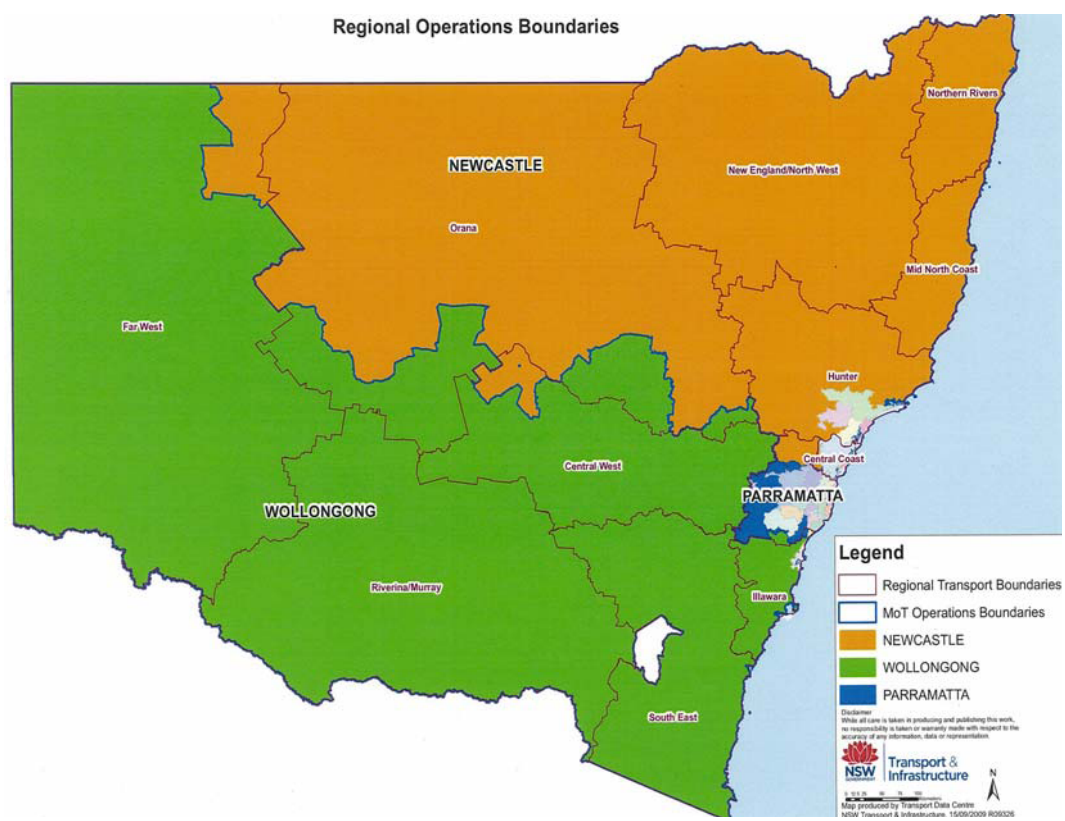
Table B.3 Adult master (unrounded) fares

Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2011	2012	Change (\$)	2011	2012	Change (\$)
1	\$2.10	\$2.16	\$0.06	\$2.36	\$2.16	-\$0.20
2	\$3.12	\$3.20	\$0.08	\$3.46	\$3.20	-\$0.26
3	\$3.90	\$3.99	\$0.09	\$4.32	\$3.99	-\$0.33
4	\$4.57	\$4.68	\$0.11	\$5.09	\$4.68	-\$0.41
5	\$5.17	\$5.30	\$0.13	\$5.76	\$5.30	-\$0.46
6	\$5.76	\$5.90	\$0.14	\$6.38	\$5.90	-\$0.48
7	\$6.25	\$6.40	\$0.15	\$6.94	\$6.40	-\$0.54
8	\$6.75	\$6.91	\$0.16	\$7.49	\$6.91	-\$0.58
9	\$7.21	\$7.39	\$0.18	\$8.02	\$7.39	-\$0.63
10	\$7.64	\$7.82	\$0.18	\$8.47	\$7.82	-\$0.65
11	\$8.02	\$8.22	\$0.20	\$8.91	\$8.22	-\$0.69
12	\$8.45	\$8.65	\$0.20	\$9.38	\$8.65	-\$0.73
13	\$8.80	\$9.01	\$0.21	\$9.80	\$9.01	-\$0.79
14	\$9.20	\$9.43	\$0.23	\$10.21	\$9.43	-\$0.78
15	\$9.55	\$9.79	\$0.24	\$10.63	\$9.79	-\$0.84
16	\$9.84	\$10.09	\$0.25	\$11.01	\$10.09	-\$0.92
17	\$10.22	\$10.47	\$0.25	\$11.38	\$10.47	-\$0.91
18	\$10.57	\$10.83	\$0.26	\$11.74	\$10.83	-\$0.91
19	\$10.85	\$11.11	\$0.26	\$12.11	\$11.11	-\$1.00
20	\$11.20	\$11.48	\$0.28	\$12.45	\$11.48	-\$0.97
21	\$11.49	\$11.77	\$0.28	\$12.81	\$11.77	-\$1.04
22	\$11.83	\$12.12	\$0.29	\$13.14	\$12.12	-\$1.02
23	\$12.11	\$12.41	\$0.30	\$13.48	\$12.41	-\$1.07
24	\$12.38	\$12.69	\$0.31	\$13.79	\$12.69	-\$1.10
25	\$12.69	\$13.00	\$0.31	\$14.09	\$13.00	-\$1.09
26	\$12.94	\$13.26	\$0.32	\$14.43	\$13.26	-\$1.17
27	\$13.24	\$13.57	\$0.33	\$14.75	\$13.57	-\$1.18
28	\$13.48	\$13.81	\$0.33	\$15.01	\$13.81	-\$1.20
29	\$13.73	\$14.07	\$0.34	\$15.30	\$14.07	-\$1.23
30	\$14.02	\$14.36	\$0.34	\$15.59	\$14.36	-\$1.23
31	\$14.26	\$14.61	\$0.35	\$15.87	\$14.61	-\$1.26
32	\$14.55	\$14.90	\$0.35	\$16.16	\$14.90	-\$1.26
33	\$14.80	\$15.16	\$0.36	\$16.44	\$15.16	-\$1.28
34	\$15.04	\$15.40	\$0.36	\$16.70	\$15.40	-\$1.30
35	\$15.26	\$15.64	\$0.38	\$17.01	\$15.64	-\$1.37
36	\$15.53	\$15.91	\$0.38	\$17.28	\$15.91	-\$1.37
37	\$15.72	\$16.10	\$0.38	\$17.54	\$16.10	-\$1.44
38	\$15.99	\$16.38	\$0.39	\$17.81	\$16.38	-\$1.43

Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2011	2012	Change (\$)	2011	2012	Change (\$)
39	\$16.23	\$16.62	\$0.39	\$18.05	\$16.62	-\$1.43
40	\$16.47	\$16.87	\$0.40	\$18.29	\$16.87	-\$1.42
41	\$16.66	\$17.07	\$0.41	\$18.58	\$17.07	-\$1.51
42	\$16.90	\$17.31	\$0.41	\$18.81	\$17.31	-\$1.50
43	\$17.12	\$17.54	\$0.42	\$19.06	\$17.54	-\$1.52
44	\$17.34	\$17.76	\$0.42	\$19.31	\$17.76	-\$1.55
45	\$17.52	\$17.95	\$0.43	\$19.54	\$17.95	-\$1.59
46	\$17.78	\$18.22	\$0.44	\$19.77	\$18.22	-\$1.55
47	\$17.98	\$18.42	\$0.44	\$20.01	\$18.42	-\$1.59
48	\$18.20	\$18.64	\$0.44	\$20.24	\$18.64	-\$1.60
49	\$18.42	\$18.88	\$0.46	\$20.50	\$18.88	-\$1.62
50	\$18.62	\$19.08	\$0.46	\$20.71	\$19.08	-\$1.63
51	\$18.84	\$19.30	\$0.46	\$20.98	\$19.30	-\$1.68
52	\$19.00	\$19.47	\$0.47	\$21.19	\$19.47	-\$1.72
53	\$19.24	\$19.71	\$0.47	\$21.40	\$19.71	-\$1.69
54	\$19.43	\$19.90	\$0.47	\$21.62	\$19.90	-\$1.72
55	\$19.59	\$20.07	\$0.48	\$21.83	\$20.07	-\$1.76
56	\$19.82	\$20.31	\$0.49	\$22.06	\$20.31	-\$1.75
57	\$20.00	\$20.49	\$0.49	\$22.28	\$20.49	-\$1.79
58	\$20.23	\$20.72	\$0.49	\$22.48	\$20.72	-\$1.76
59	\$20.37	\$20.87	\$0.50	\$22.68	\$20.87	-\$1.81
60	\$20.63	\$21.14	\$0.51	\$22.94	\$21.14	-\$1.80
61	\$20.78	\$21.29	\$0.51	\$23.12	\$21.29	-\$1.83
62	\$20.99	\$21.51	\$0.52	\$23.33	\$21.51	-\$1.82
63	\$21.17	\$21.69	\$0.52	\$23.53	\$21.69	-\$1.84
64	\$21.30	\$21.83	\$0.53	\$23.75	\$21.83	-\$1.92
65	\$21.58	\$22.11	\$0.53	\$23.95	\$22.11	-\$1.84
66	\$21.74	\$22.27	\$0.53	\$24.18	\$22.27	-\$1.91
67	\$21.90	\$22.43	\$0.53	\$24.37	\$22.43	-\$1.94
68	\$22.06	\$22.60	\$0.54	\$24.55	\$22.60	-\$1.95
69	\$22.23	\$22.77	\$0.54	\$24.75	\$22.77	-\$1.98
70	\$22.47	\$23.02	\$0.55	\$24.97	\$23.02	-\$1.95

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 for NSW that is responsible for administering rural and regional bus contracts in that area.

Data source: Transport for NSW.

D Calculation of the bus industry cost index (BICI)

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.

We decided to inflate each of the cost items by the same inflators as was used last year, updated for changes in their value. The inflators have been given significant consideration in the last 2 years and have not been the focus of our 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 2010 to 30 June 2011). 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 2.1 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 2011.

D.2 Overview of the inflators and their value

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 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 last year's review this was not available and as a result we used 5-year Government bond yields, which are made publically available by the Reserve Bank of Australia. We have used this rate again this year.

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 for 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 for 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. The quotes obtained by Transport for NSW for this year are set out in Table D.1 together with those provided by Transport for NSW for last year's review.

Table D.1 Quotes for rural and regional buses obtained by Transport for NSW

	2009/10	2010/11
Quote 1	\$458,173	\$441,450
Quote 2	\$464,920	\$443,839
Quote 3	\$489,860	\$474,905
Average	\$470,984	\$453,398

Note: Quotes exclude GST.

Source: Transport for NSW.

Transport for 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.

Despite our concerns with the current approach, we decided to use these quotes as the basis for the bus capital cost in the inflator calculation again this year. Despite the limitations with this data set out in chapter 3, it remains the best source of data at present. Using these inputs and the method described above, we found there was a 4.1% reduction in the monthly lease payment for buses (Table D.2). After weighting, the reduction in bus capital costs reduced the BICI by 0.8%.

Table D.2 Components of the change in bus capital costs

	2009/10	2010/11	Change
Average cost of a bus ^a	\$470,984	\$453,398	-3.7%
Interest rate ^b	5.24%	5.08%	-3.1%
Lease cost ^c	\$8,940	\$8,572	-4.1%

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

^b 5-year Government bond yields.

^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 inflated the various labour cost categories using the following methods:

- ▼ For wages and salaries, the change in the Wage Price Index (WPI) in NSW for all industries published by the ABS⁴², adjusted for gains in productivity.
- ▼ For superannuation, payroll tax and workers compensation, the change in the relevant Non-Wage Price Index (NWPI)⁴³, adjusted for gains in productivity for superannuation and payroll tax.

As WPI is released quarterly, we calculated the annual change using the average index value over the 4 quarters to June 2011 divided by the average index value over the 4 quarters to June 2010. The NWPI measures are annual figures. For these measures we divide the annual figure for 2011 by the annual figure for 2010 to obtain the percentage change.

⁴² Total hourly rates of pay excluding bonuses; NSW; All industries; Private and Public; All occupations.

⁴³ 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 3.8% increase in salaries and wages costs, which was reduced to 3.4% after being adjusted for productivity. After weighting, this increase added 1.5% to the total costs of providing bus services.
- ▼ There was a 3.8% increase in superannuation costs, which was reduced to 3.5% after being adjusted for productivity. After weighting, this increase added 0.1% to the total costs of providing bus services.
- ▼ There was a 0.3% decrease in payroll tax costs, which reduced further to 0.6% after being adjusted for productivity. After weighting, this item reduced the cost of providing bus services by 0.01%.
- ▼ There was a 0.9% increase in workers compensation costs. After weighting, this increase added 0.01% to the total costs of providing bus services.

As noted above, we adjusted most of the labour cost inflators for expected gains in productivity⁴⁴ over the coming year because unlike the CPI (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 applied a 0.3% productivity adjustment. Our considerations on the 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 2011 divided by the average of 4 quarters to June 2010. The resulting annual change in this inflator was 2.3%. After weighting, this resulted in no change to 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, we compare the average daily price for the 12 months to 30 June 2011 with the average daily price for the previous 12 months.

⁴⁴ 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.

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 rose by 11.9%. After weighting, this increased the total cost of providing bus services by 1.1%.

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 2011 divided by the average of 4 quarters to June 2010. The resulting annual change in this inflator was 0.3%. After weighting, this resulted in no change to 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 2011 divided by the average of 4 quarters to June 2010. The resulting annual change in this inflator was 3%. After weighting, this resulted in a 0.4% increase in the total cost of providing bus services.