

Rural and regional bus fares from January 2013

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

Transport — Final Report
December 2012



Independent Pricing and Regulatory Tribunal

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1 Summary

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

We have completed our 2012 review of the maximum bus fares that these operators can charge, and have determined new fares to apply from 1 January 2013. The purpose of this report is to explain our fare determination and the analysis that supports it.

1.1 Overview of our determination

Under the determination, maximum fares for rural and regional bus services would increase by 3.3% (before rounding) on 1 January 2013. 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 updated Bus Industry Cost Index (BICI).

Our decisions for fare setting arrangements are as follows.

- ▼ We will move to a 5-year fare determination while retaining annual changes in fares based on indexing prices to publicly available inflators using the Bus Industry Cost Index.
- ▼ We may commence a new fare review and make a new determination on maximum fares in response to material changes in efficient costs outside the control of the operator which are not captured by contract payments or through the Bus Industry Cost Index. We will also consider a new determination if there are major changes to the contracting arrangements.
- ▼ We will continue to use existing weights from the current Bus Industry Cost Index.
- ▼ We will use existing inflators for all cost items except for the lease cost of buses and non-wage labour cost inflators. We will inflate all labour cost items by the wage price index. We will inflate lease cost of buses by applying a CPI increase to the purchase cost of buses and amortising this over 12 years using the Reserve Bank of Australia's Business Indicator rates (see Table 4.4 for existing and proposed cost inflators).

- ▼ We will apply a productivity adjustment to total costs of 0.3% for each of the next 5 years, which equates to the average annual gross output productivity in market sector industries between 1995 and 2010.
- ▼ For fare changes from 2015 an adjustment will be made to the BICI to accommodate the impact of changes in the compulsory superannuation rate that progressively increases from 9% to 12%.
- ▼ We will continue to determine fares for each section travelled. However, our maximum fares now extend from 70 sections (as determined by IPART in the past) to 220 sections (equivalent to 350 kilometres of travel) as operators provide services up to this distance. Our draft report proposed capping fares for these journeys at the 70 section fare.

Appendix B provides a full list of new fares from January 2013 arising out of our decisions and determination.

1.2 Expected impacts of our determination

In 2013, for journeys of 70 sections or less, we expect that our determination will:

- ▼ Increase maximum fares for the journeys used by most passengers by 10 cents to 30 cents for a single journey. The maximum fares for travelling one section will not change. We note that many operators charge below the maximum fares and under their contracts can increase fares up to the maximum determined by IPART.
- ▼ Increase costs to the NSW Government from the Half Fare Concession Payment by around \$300,000 per year (the cost of the half fare concession was \$8.8m in 2010/11).
- ▼ Have negligible impacts on the environment as we do not expect it to reduce the use of bus services.

In 2013, for journeys over 70 sections, we expect that our determination will lead to increases in the maximum fare of between 90 cents and \$1.80 per journey, depending on the length of the journey.

Where actual fares are below the maximum fare, increases may vary.

For the remainder of the determination, fares will be updated annually according to the following process:

- ▼ the cost change will be estimated using the BICI, which applies an inflator to each cost item and adds these together to give an overall (productivity-adjusted) cost change (see Appendix D for an explanation of how the BICI is calculated)
- ▼ this will be applied to the 'master' or unrounded fare schedule to give unrounded fares, and

- ▼ these will then be rounded to the nearest 10 cents and published by the 30th of November each year, for fare changes to commence the following January.

1.3 Improving the bus contracts

Current bus contracts were approved by Transport for NSW (TfNSW) in (or after) April 2008 and are for a 7-year term with provisions for extension of up to 12 months. Under the existing contracts there is a wide range of reported profitability between operators. With the Government's uniform fare policy this variability can only be addressed by improving the contracting arrangements.

While the contracts provide operators with an exclusive right to provide bus services for journeys below 40 kilometres, other bus companies are able to offer competing services for journeys greater than this. Operators providing services under contract have access to Government subsidies for concessions, whereas those providing competing services (not under contract with Government) do not.

In response to our draft report, 2 operators made submissions that they are currently charging fares for contracted bus services up to 220 sections (around 350kms). We question whether routes of this length should be regarded as monopoly public transport services, even where some passengers on these routes travel shorter distances. Both operators submit that their services are more akin to long distance coach services. While they provide for town to town travel over shorter distances, they appear to be primarily used for long distance travel – over 70 sections - and to cater for pre-booked journeys. We consider that services of this nature should not be captured by the operation of rural and regional bus service contract B and should not be subject to a regulated maximum fare.

We recommend that:

- ▼ Any future contracts for rural and regional bus services should be competitively tendered.
- ▼ Bus service contracts for routes less than 40 kilometres that have a significant number of fare paying passengers should be made non-exclusive.
- ▼ TfNSW takes a more active role in contract administration. In particular, TfNSW should review reporting requirements to ensure that only necessary information (including information that would assist in future Government tendering) is collected and monitors all information provided to ensure that it is complete and accurate.
- ▼ TfNSW considers whether it is necessary for journeys over 70 sections to be covered by rural and regional bus service contract B.

1.4 Structure of this report

The following chapters explain how and why we reached our final decisions 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 considers relevant factors to determine the appropriate length a multi-year regulatory period. It also discusses potential processes for change within the period
- ▼ Chapter 4 discusses methods to update current weightings and inflators applied to BICI cost categories as well as an appropriate productivity adjustment
- ▼ Chapter 5 discusses the structure of regulated fares
- ▼ Chapter 6 discusses our analysis of the impact of our determination on passengers, bus operators, the Government and the environment
- ▼ Chapter 7 provides information on rural and regional bus operators' service performance in 2011/12
- ▼ Appendix A sets out the requirements of the *Passenger Transport Act 1990*
- ▼ Appendix B sets out new fares to apply from January 2013 and the master (unrounded) fare schedules
- ▼ Appendix C sets out the regions relevant for this determination
- ▼ Appendix D sets out a simplified example of the Bus Industry Cost Index, and
- ▼ Appendix E sets out an assessment of cost weights from publicly available data and suppliers.

2 Context, scope and approach for this review

In rural and regional areas of NSW, regular passenger bus services are provided on behalf of the NSW Government by privately owned bus operators. Each operator has a contract with the Government, administered by TfNSW. 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, and
- ▼ Rural & Regional Bus Service Contract – Contract B, which is for the provision of regular passenger services to fare-paying passengers. However, operators on this contract may also provide dedicated school services, and carry school students on regular passenger services (without charging them fares).

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

IPART has no role in relation to Contract A, so our fare determination has no impact on the funding arrangements for services provided under Contract A. We also have no role in relation to the discount applied to pensioner or student concession fares provided under Contract B, as this decision is made by the Government. In addition, we have no role in relation to the price or availability of Regional Excursion Daily (RED) tickets, as these decisions are negotiated between bus operators and TfNSW.

The sections below provide more information on the context and scope of our 2012 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. Box 2.1 outlines our consultation process for this review.

Box 2.1 Outline of the review process

This review includes 2 rounds of public consultation as well as our own analysis. We released an Issues Paper in August 2012, which outlined our review process and issues being considered — including establishing a multi-year regulatory period, updating the weightings and inflators used within the BICI and simplifying the current regulated fare structure.

We sought initial public submissions in response to the Issues Paper. We received 4 submissions — from BusNSW, the Combined Pensioners & Superannuants Association (CPSA), the Council of Social Service of NSW (NCOSS) and an individual submission from Yass Councillor Geoff Frost.

We released a draft report on 11 October 2012, which provided a draft fare increase based on the estimated cost of providing rural and regional bus services and suggested parameters surrounding a multi-year fare review. It also outlined expected impacts of the indicative fare increase on various stakeholders.

A public hearing was held in Sydney on 17 October 2012, to provide stakeholders with another opportunity to contribute to the review. Public submissions were sought on the draft report. We received 5 submissions — from Murrays Australia, Premier Motor Service, The Northern Rivers Social Development Council (NRSDC), Priors Bus Service and an individual submission from Rick Banyard.

In making our final report and fare determination we have considered all submissions and comments made at the public hearing.

Fare changes will take effect from January 2013.

2.1 Where do rural and regional bus services operate?

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

Currently, 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 119 buses. The median size is 9 buses, and relatively few operate less than 3 buses or more than 40 buses. Of these operators:

- ▼ 17% 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).
- ▼ 29% service rural routes only.
- ▼ The remaining 54% of operators service both rural and country town routes.

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

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

As noted above, each of the operators providing rural and regional bus services under Contract B has its own contract with TfNSW. 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. Bus operators are only allowed to provide services on routes shorter than 40 kilometres if they are authorised by the NSW Government.

The funding arrangements include retaining all of the revenue the operator collects from fare-paying passengers. They also include receiving specified contract payments from the NSW Government, which are negotiated between TfNSW and the bus industry. For most operators, the contract payments are much greater than the fare revenue they collect. Contract payments typically comprise more than 90% of the annual revenue operators generate from contracted services.¹

¹ See *Rural and regional bus fares from January 2012 – Final Report*, December 2011.

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 \$167 million in 2009/10 and \$181 million in 2010/11. The payments for the SSTS were much larger than those for concession fares (Table 2.1).

Table 2.1 TfNSW total contract payments, 2010/11

	Contract payments \$000	Contract payments %
Extraordinary payment	-493	-0.3
SSTS payment and reconciliation	171,406	94.8
Half Fare Concession payment and conversion payment	8,788	4.9
Additional Patronage payment	1,107	0.6
Others (Force Majeure & Service Change)	34	0.0
Total	180,841	100.0

Note: Figures have been rounded.

Source: TfNSW.

Our fare determination impacts on the maximum fares that can be charged to full fare paying passengers. It also impacts on the payments made by the NSW Government to bus operators for concessions through the Half Fare Concession payment.

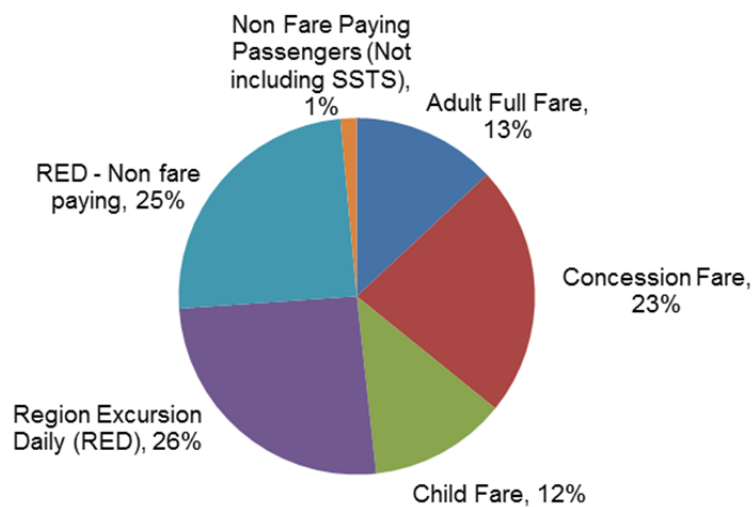
2.3 How are regular bus services used?

The main users of bus services provided under Contract B are school students and concession passengers. Exact information on school student usage is not known, but based on the assumptions the Government has previously used in determining contract payments under Contract B, journeys by SSTS passengers are more than 9 times the number of journeys by other passengers.

Of the journeys made by non-SSTS passengers, 13% are made 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).

When all rural and regional bus operators are taken into account, the average number of non-SSTS passengers per timetabled bus trip is 4.7 passengers.

Figure 2.1 Bus use by non-SSTS passengers



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

Data source: TfNSW and IPART calculations.

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

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

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

- ▼ standards of quality, reliability and safety of the services concerned.

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

2.5 What approach did we use to make our determination?

In regulating prices for transport services we typically use 2 approaches:

- ▼ A building block approach, which estimates the full efficient cost of providing services, the cost that should be borne by users and taxpayers where taxpayers contribution is equal to the value of external benefits these services generate for the community. The efficient costs to be paid for by users is then divided by the expected number of users to give a price per service (ie, a fare).
- ▼ A cost index approach, which increases existing fares by the estimated change in the cost of providing services.

For rural and regional buses we have historically used the cost index approach. In a number of other areas, such as metropolitan buses, rail and Sydney Ferries, we use a building block approach.

For this review we have continued to use a cost index approach. This reflects our view that this is the most appropriate form of regulation given the number of full paying passengers, the Government's uniform fare policy, the availability of information and contracting arrangements for providing bus services.

Our analytical approach involved 6 main steps:

- ▼ considering the length of the regulatory period over which fares should change by the BICI (chapter 3)
- ▼ considering the need for reopeners to the regulatory determination and the types of events that would lead to IPART undertaking a new review and determination (chapter 3)
- ▼ considering the weights and inflators to apply for the BICI that could be applied annually (chapter 4)
- ▼ considering the number of fare sections (chapter 5)
- ▼ considering the impacts of the decision on bus operators, passengers and the NSW Government (chapter 6), and
- ▼ considering the service standards achieved by rural and regional bus operators (chapter 7).

2.6 Improving the bus contracting arrangements

Current contracts were approved by TfNSW in April 2008 (and after) and are subject to 7-year terms with provisions for extension of up to 12 months. These contracts were not entered into using a competitive tendering process.

The Government's uniform fare policy that applies to all regional and rural bus services and the current Government subsidy arrangements² (for SSTS and concessions) under the contracts means that there is a wide variation in profitability between operators. For example, operators in areas with higher patronage will likely receive farebox revenue and contract payments higher than their costs, while operators in areas with lower passenger may receive farebox revenue and contract payments less than or around their full costs.

Information provided by TfNSW for 2010/11 suggests that this is the case, with the profit margin (earnings before tax divided by expenses) ranging from minus 52% to 86% (excluding outliers). This range reflects both reporting issues and real differences between operators.

As such, we are concerned that existing fare levels and contracting arrangements may lead to some operators recovering more than the full costs of providing bus services. Further, the legislative requirement that operators of regular bus services of less than 40 kilometres enter into contracts with the NSW Government also restricts the ability of alternative operators to compete in areas of higher demand and to push prices down. As noted in the submission by Yass Councillor Geoff Frost, this may lead to monopoly power and higher prices or higher profits than would be efficient in some areas.

At the public hearing, BusNSW suggested that TfNSW can ensure value for money contracts using industry benchmarks.³ Priors Bus Service submitted that even raising the issue of competitive tendering would discourage existing operators from expanding services and lead them to 'look for areas where they can trim costs in case the scenario eventuates'.⁴

BusNSW also indicated that competitive tendering and/or allowing competing operators to provide services on commercial routes leaving contracted operators to provide routes that are not commercially attractive would lead to uncertainty and financing problems for operators.⁵ Priors Bus Service noted that such services already have competition from community transport, courtesy buses, charter operators and maxi taxis.⁶

² Subsidy arrangements differ for rural and country town routes.

³ BusNSW, *Transcript from IPART public hearing 17 October 2012*, p 18.

⁴ Priors Bus Service submission, November 2012, p 4.

⁵ BusNSW, *Transcript from IPART public hearing 17 October 2012*, p 18.

⁶ Priors Bus Service submission, November 2012, p 5.

However, with the Government's uniform fare policy we remain of the view that variations in profitability reported by operators can only be addressed by improving the contracting arrangements. We recommend that when contracts are up for review (in 2016) they be competitively tendered. This would minimise the costs to the NSW Government and taxpayers of providing bus services in rural and regional areas. We note the NSW Government's Tendering Guidelines 2011 which suggests:

Seeking open tenders is a sound way of gaining assurance of best value for money, particularly in the absence of accurate market price knowledge or clear knowledge of available competent tenderers. It increases competition and gives all potential tenderers the chance to compete for Government business.

The Guidelines suggest that tenders for goods and services (where no existing State Contract exists) with a value greater than \$30,000 should seek 3 quotes, while tenders for goods and services with a value greater than \$250,000 should be subject to an open tender.⁷

We note that existing contract B arrangements with rural and regional bus operators would reach these thresholds. Competitive tendering was recently introduced by TfNSW for private bus operators for existing metropolitan bus contracts in Sydney. TfNSW noted that 'The experience of other States in Australia has shown introducing competitive tendering generates not only improvements in services for customers, but also savings for taxpayers'.⁸

We also recommend that bus service contracts for routes less than 40 kilometres that have a significant number of fare paying passengers should be made non-exclusive.

Recommendation

- 1 Any future contracts for rural and regional bus services should be competitively tendered.
- 2 Bus service contracts for routes less than 40 kilometres that have a significant number of fare paying passengers should be made non-exclusive.

The current contracts require that operators provide a substantial amount of information to TfNSW about their financial performance, patronage, services provided and service standards. We use some of this information in our assessment of maximum fares. The information collected by TfNSW does not appear to be subject to any quality assurance. We have previously expressed concerns about the quality of data collected and provided to us. There does not appear to have been much progress on actions to improve the quality of data collected from bus operators.

⁷ NSW Government Procurement Guidelines, *Tendering Guidelines*, December 2011, p16

⁸ Transport for NSW Media Release: *New bus contracts to drive improvements for customers*, 1 May 2012.

Collecting information from bus operators is only valuable to the extent that it is consistent across operators, is accurate and is of relevance to decisions made by IPART and TfNSW. Of most importance is the usefulness of information to assist in future competitive tendering. Information that is not consistent and accurate, or is not used (or going to be used) in decisions by either IPART or TfNSW, should not be collected from bus operators.

Recommendation

- 3 TfNSW should take a more active role in contract administration. In particular, TfNSW should review reporting requirements to ensure that only necessary information (including information that would assist in future Government tendering) is collected and monitor all information provided to ensure that it is complete and accurate.

3 Establishing a multi-year regulatory period

Maximum fares for rural and regional buses have previously been reviewed annually and adjustments made using a Bus Industry Cost Index (BICI). This has allowed specific cost changes to be included and for the rural fare schedule to be reduced so that the same fares apply to both country town and rural routes.

In this review we are seeking to extend the regulatory period, largely to reduce administrative costs. This chapter sets out our decisions on the length of the regulatory period and options to undertake a review and determination earlier than this period if necessary.

3.1 Length of the regulatory period

IPART finding

- 1 We will issue a 5-year fare determination while retaining annual changes in fares based on indexing prices to publicly available inflators using the Bus Industry Cost Index.

Maximum fares for rural and regional buses have previously been reviewed annually. For many other industries and regulated businesses we use a longer period to encourage efficiency gains and to reduce the administrative burden on all stakeholders.

Undertaking an annual review is appropriate where there is a need to consult with industry and other stakeholders about changes to costs and fares on a regular basis and where changes are being made to fare structures. For example, we have made changes to the relative fares of country town and rural fares in our past 2 determinations. Now that these changes have been made, we consider

that a longer regulatory period can be put in place to reduce compliance and administrative costs incurred by all stakeholders including industry and IPART.

For other industries we have typically chosen regulatory periods of 3 to 5 years. Public submissions by NCOSS,⁹ the CPSA¹⁰ and NRSDC¹¹ suggested that they had no objections to a multi-year fare determination. BusNSW supports moving to a 5-year determination period with annual adjustment and an agreed mechanism to review the determination if certain events occur.¹²

We consider that the regulatory period for rural and regional buses should be at the longer end of regulatory periods (of around 5 years) because:

- ▼ Prices will be indexed to a cost index rather than a broader index such as CPI. Hence, prices should better reflect changes in the costs of inputs for rural and regional buses and should require less frequent review.
- ▼ We have the option to commence a new fare review and make a new determination earlier than the specified period at any time under the *Passenger Transport Act 1990*.
- ▼ 5 to 6 years is the length of time that the ABS uses to reweight the consumer price index.¹³ We have previously suggested that a period of around 5 years is appropriate for reweighting the rural and regional bus cost index and the taxi cost index.¹⁴

For these reasons our decision is to set the regulatory period of 5 years. This period is a maximum period as we can commence a new fare review and make a new determination earlier than this if required. We may choose to undertake a review earlier if competitive tendering is to be used to renew contracts, as discussed in the next section.

Within this 5-year period, fares will be updated annually according to the following process:

- ▼ the cost change will be estimated using the BICI, which applies an inflator to each cost item and adds these together to give an overall (productivity-adjusted) cost change (see Appendix D for an explanation of how the BICI is calculated)
- ▼ this will be applied to the 'master' or unrounded fare schedule to give unrounded fares, and
- ▼ these will then be rounded to the nearest 10 cents and published by the 30th of November each year, for fare changes to commence the following January.

⁹ Council of Social Service of NSW submission, August 2012, p 3.

¹⁰ Combined Pensioners and Superannuants Association, September 2012, p 3.

¹¹ Northern Rivers Social Development Council submission, November 2012, p 1.

¹² BusNSW, *Transcript from IPART public hearing 17 October 2012*, p 17.

¹³ ABS 2011, 6461.0 - Consumer Price Index: Concepts, Sources and Methods, Chapter 11.

¹⁴ IPART, *Review of Taxi Fares in NSW - Final Report*, 2012, p 4; Indec Consulting, *Relative weightings in the Bus Industry Cost Index*, October 2007, p 1.

3.2 Approach to unforeseen events with a multi-year determination

IPART finding

- 2 We may commence a new fare review and make a new determination on maximum fares in response to material changes in efficient costs outside the control of the operator which are not captured by contract payments or through the Bus Industry Cost Index. We will also consider a new determination if there are major changes to the contracting arrangements.

Regulators, including ourselves, have often allowed for changes to prices within a regulatory period if specific events occur or for a review to be 're-opened' prior to the end of the regulatory period. This would be considered appropriate where a change occurs that would:

- ▼ materially affect the financial viability of rural and regional bus operators
- ▼ be beyond the control of bus operators
- ▼ not have been contemplated at the time the determination was made and operators will not be compensated for the event via their contract payments or via the BICI, and
- ▼ lead to benefits that outweigh the detriment to the bus operator's customers from replacing the determination.¹⁵

BusNSW has suggested that the set of events that might trigger such a process would include changes to Government fare or concession policies, rural and regional contracts, the SSTS scheme, ticketing systems or accreditation requirements. Both BusNSW and NCOSS supported unforeseen or exogenous events likely to impact on the cost of providing services triggering a new price review process. NCOSS also supported an active role for IPART in monitoring the operating environment.

At the public hearing, BusNSW requested examples of what would trigger a review.¹⁶ Guidance on the types and magnitude of changes for which we would likely consider undertaking a new fare review and determination include changes to the contracting arrangements and a material change in efficient costs (not accounted for in the BICI). Another example would be if the Government required operators to install seatbelts or alter wheelchair accessibility provisions and these changes significantly increased costs.

For rural and regional buses, we can commence a new fare review and make a new a determination on maximum fares at any time at our discretion. We therefore consider that there is no need to include specific mechanisms to re-open the price determination.

¹⁵ These are consistent with the principles suggested by the Australian Energy Regulator, *Pass-throughs and revenue-cap re-openers: Position Paper*, December 2005.

¹⁶ BusNSW, *Transcript from IPART public hearing 17 October 2012*, p 17.

3.2.1 Changes to the contracting arrangements

Current contracts were approved by TfNSW in April 2008 (and after) and are subject to 7-year terms with provisions for extension of up to 12 months. A 5-year regulatory period (ending in December 2017) would extend beyond the contract period allowing for a one year extension (April 2016).

If, as we have recommended, contracts were to be competitively tendered then we consider that it would be appropriate to provide tenderers with fares that they could charge fare paying passengers prior to bidding. This would mean undertaking a review and determination earlier than the 5-year period.

In any contracting reform being considered by Government we support providing incentives to the operators to increase patronage and bus utilisation by the operator receiving the fare box.

3.2.2 Material changes in efficient costs

We may commence a new price review and make a new determination on maximum fares in response to material changes in efficient costs outside the control of the operator which are not captured by contract payments or through the Bus Industry Cost Index.

As farebox revenues are typically a small portion of rural and regional bus operators' revenues, we propose that a material change would be 5% of total costs of providing the bus contract services (beyond the cost changes covered by the BICI). This is for guidance only and would not be binding.

4 Resetting the cost index — BICI weightings and inflators

Our final decision is to update fares annually over the regulatory period using the Bus Industry Cost Index (BICI). The BICI is a cost index that seeks to approximately track the costs of providing bus services. It does this through:

- ▼ estimating a cost structure for providing bus services — for example the share of costs related to labour, fuel and other items
- ▼ identifying an inflator relevant to each cost category — for example, the inflator for labour costs is the wage price index from the Australian Bureau of Statistics
- ▼ applying a productivity adjustment so that the cost index allows for improvements in how services can be provided, and
- ▼ adding the cost changes for each item together and subtracting the productivity adjustment to give an overall cost change to apply to fares.

To be used to annually update fares for the next 5 years, the BICI should be able to be calculated from publicly available or independent data. The following sections go through our final decisions on each component of the BICI and the resulting fare for 2013.

4.1 Updating cost weights

IPART finding

3 We will continue to use existing weights from the current Bus Industry Cost Index.

The weights currently used in the BICI are derived from a 2007 industry survey conducted by Indec Consulting,¹⁷ with subsequent inflation of each cost item according to the inflators used in the BICI. In general, weights updated annually through indexation would be expected to diverge from actual cost weights over time because inflators are not aligned exactly with costs and the inputs used by the industry may change because of changes in relative prices or technology. For this reason cost indices or price indices (such as the Consumer Price Index) are periodically reweighted.

We have considered 3 options for reweighting costs.

- ▼ Using existing BICI weightings.
- ▼ Using 2010/11 Contract B reporting data provided to TfNSW by bus operators, adjusted where necessary to match the cost categories of the current BICI model.
- ▼ Building a cost model based on industry quotes and independently sourced secondary data benchmarks.

Our decision is to use existing weights. We consider that existing weights are preferable because they are supported by industry¹⁸ and their use is administratively simple. Other options are not preferred because:

- ▼ Contract data on costs does not conceptually align with economic costs and is subject to concerns about quality. In particular, costs related to leasing of buses are unlikely to correctly capture costs. Further, the cost categories from the contract data do not align with current cost items in the BICI.

¹⁷ Indec Consulting, *Relative weightings in the Bus Industry Cost Index (BICI)*, prepared for IPART, October 2007.

¹⁸ BusNSW submission.

- ▼ The construction of a cost model from industry estimates requires the use of data that may not be better than that from the inflation of cost weights in 2007 and data that may not be directly relevant for rural and regional bus services in NSW. Undertaking a survey of operators to improve on this model is unlikely to obtain improved information without considerable resources – the impact of fare setting for rural and regional buses does not justify this level of cost.

The price changes in January 2013 under the 3 options are relatively similar.

The estimated weight from each option is shown in Table 4.1. The options are discussed in greater detail below.

Table 4.1 BICI weightings under alternative options

Cost item	Current BICI 2012	Contract B reporting, adjusted where necessary ^a	Cost model
	%	%	%
Salaries and Wages	43.4	35.6	44.6
Workers Compensation	1.6	1.4	1.6
Superannuation	3.7	3.2	4.0
Payroll Tax	2.1	1.8	0.5
Bus fuel and lubricants	9.3	11.0	7.4
Bus repair & maintenance	4.6	7.0	8.2
Insurance	2.0	3.0	5.3
Bus lease costs	18.8	14.0	13.7
Other	14.7	23.0	14.7
Total	100.0	100.0	100.0

^a Contract B has been adjusted to align with current cost categories. This includes disaggregating bus related costs into Bus repair and maintenance and Insurance components, disaggregating other labour cost into administration labour and non-wage components and aggregating administration and other costs into the other category.

Note: Totals may not add due to rounding.

Source: IPART.

Existing BICI weights

In general, weights updated annually through indexation would be expected to diverge from actual cost weights over time because inflators are not aligned exactly with costs and the inputs used by the industry may change because of changes in relative prices or technology. For this reason cost and price indices are periodically reweighted.

As discussed below, we have considered options for reweighting and do not consider these to provide any greater level of accuracy than existing weights.

BusNSW supports the use of the current weightings in light of 'problems with financial data under rural and regional contract reporting'. It has also indicated that these weights align well with operators with which they have been tested.

For these reasons, our decision is to use existing BICI weights.

Contract reporting data

We have considered reweighting the cost index based on contract reporting data supplied to TfNSW by bus operators. Operators are required to provide a summary of costs for the operation of their bus contracts. The relative weight of each reported cost for 2010/11 is provided in Table 4.2. Given that this data was sourced directly from operators it could provide a current estimate of operator cost structures. However, we are concerned about the reliability of the data and ambiguity regarding the coverage of each cost category. In particular, it is likely that driver costs are under-estimated for some owner-drivers and that bus lease costs are not always capturing full costs because of buses are often owned not leased. The cost categories reported also need some disaggregation to align with the cost categories in the current BICI.

Table 4.2 provides weightings based on the sum of costs for all Contract B operators. However, a large degree of variation exists within the shares of reported costs for each operator (Table 4.3) and there are also operators not reporting in each category.¹⁹ For example, 8% of operators reported no cost associated with leasing of buses.

The variation between operators is likely to reflect data issues and real variability related to the characteristics of each operator and service. Variability is large – for example while the average share of driver costs was 35%, this ranged from 24% to 47% for the lowest and highest 10% of operators respectively.

¹⁹ TfNSW provided disaggregated cost share data for 72 operators.

Table 4.2 Contract reporting, average share of operator expenses

Cost item	Amount 2010/11 (\$ million)	Share of total 2010/11 expenses (%)
Driver costs	83.3	32
Other labour costs	26.3	10
Fuel	28.1	11
Bus related costs (registration, insurance, tyres, repairs and maintenance)	25.8	10
Lease costs (vehicles, computers, other bus related capital items)	34.7	14
Admin expenses (accountancy/legal fees, non-bus insurance, signs, utilities)	45.7	18
Other	12.9	5
Total expenses (as reported)	256.8	100

Source: TfNSW 2012.

Table 4.3 Contract reporting, variation in operator expense shares 2010/11

Cost item	Share of operators reporting (%)	Average (%)	10 th percentile (%)	90 th percentile (%)
Driver costs	96	35	24	47
Other labour costs	86	8	1	17
Fuel	100	11	7	15
Bus related costs	100	13	6	24
Lease costs	92	19	1	35
Admin expenses	100	13	4	28
Other	74	6	0	21

Source: TfNSW 2012.

Cost model of current rural and regional bus industry

A third option we considered is to use an operator cost model (a typical bus operator) to reweight the index. This provides greater transparency than other options but is subject to constraints around the data available to build and verify the model.

We have attempted to verify the current operating costs faced by the rural and regional bus industry via primary data collection methods. We sought independent quotes for some cost items including insurance and workers compensation. In addition, independent secondary data was sourced for current cost items including fuel, labour, bus purchase and maintenance and repair.

Costs were based on an average bus which travels 23,400 kilometres per year as per the contract data.²⁰

These weightings are broadly consistent with BICI and contract reporting data (see Table 4.1). The amounts and sources used are shown in Appendix E.

4.2 Updating cost inflators

Each cost item in the BICI has a relevant 'inflator' which provides an estimate of how the cost item has changed over time. To be able to be applied annually within a 5-year regulatory period, these inflators should be publicly available. Most of the existing inflators have these characteristics (Table 4.4). There are changes required to inflators of non-wage labour costs, as the ABS has discontinued this series, and capital costs, as this relies on information provided by industry to TfNSW each year. These changes are discussed in more detail below.

IPART finding

- 4 We will use existing inflators for all cost items except for the lease cost of buses and non-wage labour price inflators. We will inflate non-wage labour items by the wage price index. We will inflate lease cost of buses by applying a CPI increase to the purchase cost of buses and amortising this over 12 years using the Reserve Bank of Australia's Business Indicator rates (see Table 4.4 for existing and proposed cost inflators).
- 5 For fare changes from 2015 onwards, an adjustment will be made to fares to accommodate the impact of increases to the compulsory superannuation rate (superannuation guarantee) that will progressively occur from 2014.

²⁰ Based on total annual kilometres for all Contract B operators from 1 April 2011 to 31 March 2012 of 31,473,606 and a total fleet size of 1,345.

Table 4.4 Cost item inflators, the previous determination and the inflator to apply from January 2013

BICI cost item	Previous inflator	Inflator from January 2013
Salaries and wages	ABS, Wage Price Index	ABS, Wage Price Index
Non-wage labour costs	ABS, Non-wage Price Index: <ul style="list-style-type: none"> ▼ superannuation costs inflated by NWPI – Superannuation ▼ payroll tax costs inflated by NWPI - Payroll tax; and ▼ workers compensation costs inflated by NWPI - Workers compensation 	ABS, Wage Price Index ^a
Fuel	FUELtrac, Annual change in regional NSW diesel prices	FUELtrac, Annual change in regional NSW diesel prices
Repairs and maintenance	ABS, Annual change in motor vehicle repair and servicing component of the CPI	ABS, Annual change in motor vehicle repair and servicing component of the CPI
Insurance	ABS, Annual change in the insurance services component of the CPI	ABS, Annual change in the insurance component of the CPI
Bus capital	Bus purchase costs — average of 3 industry provided quotes RBA 5-year Australian Government Bonds, capital market yield amortised over 5 years	ABS, Annual change in the CPI RBA lending to business rate — amortised over 12 years
Other	ABS, Annual change in the CPI	ABS, Annual change in the CPI

^a An adjustment will be made to fares from 2015 to reflect increases in the compulsory superannuation guarantee rate that will not be captured by changes in the Wage Price Index.

Source: IPART. All inflators are measured as the average of 4 quarters to June for the current year divided by the average of 4 quarters to June for the previous year.

Non-wage labour costs

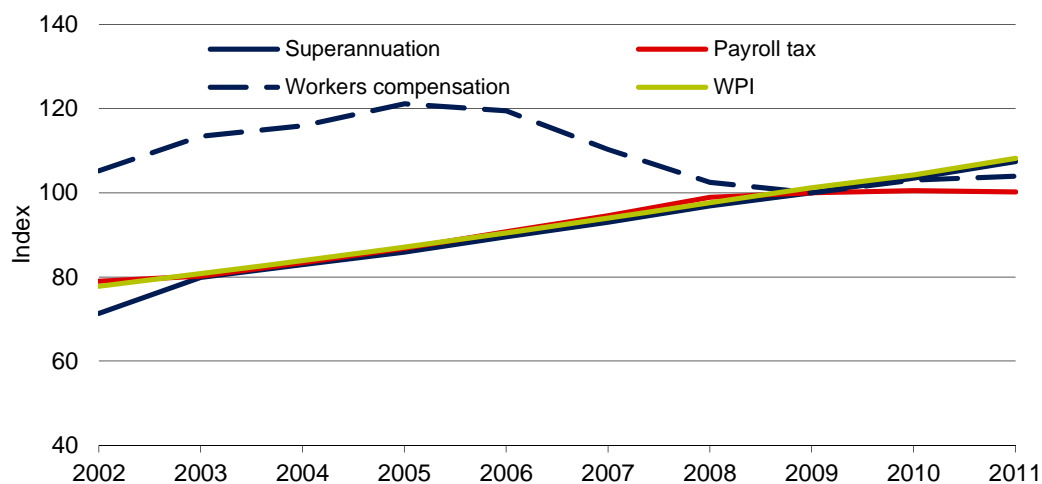
The ABS has discontinued its collection of non-wage labour costs due to changes in its budget. Options for inflating these cost items include:

- ▼ using changes in official rates, such as payroll tax rates and superannuation rates, applied on top of the change in wages, or
- ▼ inflating these items by the wage price index.

Superannuation (see next section) and payroll costs moved closely with the wage price index from June 2002 to June 2009 (Figure 4.1). Workers compensation costs decreased over this period.

Given the objective of keeping arrangements simple and the relatively low weights of these items in the cost index (7.3% in total using current BICI weights)²¹, our decision is to use the wage price index to inflate all items. For simplicity we have combined the weights for wage and non-wage costs together.

Figure 4.1 Wage and non-wage price inflators



Data source: ABS 2011, Labour Price Index Australia, September 2011, Catalogue No. 6345.0.

At the public hearing, BusNSW raised the impact of the *Superannuation Guarantee (Administration) Amendment Act 2012* which includes increases to the compulsory superannuation guarantee charge. Table 4.5 outlines the increases in the superannuation rate from 9% to 12% in seven annual steps. IPART accepts that this will materially affect the wage bill of rural and regional bus operators and should be explicitly accounted for in the BICI.

Table 4.5 Compulsory superannuation rate

Year	Rate (%)
Current rate	9.00
2013/14	9.25
2014/15	9.50
2015/16	10.00
2016/17	10.50
2017/18	11.00
2018/19	11.50
2019/20	12.00

Source: Australian Taxation Office.

²¹ Note Table 4.1 indicates a combined weighting of 7.4% – the deviation is due to rounding.

We consider that as they are regulatory changes, and will result in additional costs to businesses, they should be taken into account in the determination. We have added a pre-determined adjustment each year from 2015 based on the weighting for superannuation costs in year 1 (3.7%) and the following formula:

$$\text{Super guarantee (SG) adjustment} = (\text{SG rate for relevant financial year} \div \text{SG rate for the previous financial year} - 1) * \text{Initial superannuation cost weighting}$$

The amounts resulting from this approach are set out in Table 4.6.

Table 4.6 Superannuation guarantee adjustment

January fare change	Relevant financial year	SG rate (%)	Adjustment in determination (%)
2013	2011/12	9.0	0
2014	2012/13	9.0	0
2015	2013/14	9.25	0.10
2016	2014/15	9.5	0.10
2017	2015/16	10	0.19

The weight of superannuation in the cost index will vary over time as a result of differences in inflators for the various cost items. Allowing for this would not have a material impact on the allowed fare increases, as the adjustments are small. However, it would add significant complexity to the determination. For these reasons we have calculated the adjustments using a weighting of 3.7% in every year.

The adjustment is added on top of the calculated BICI and will flow directly through to maximum fares. The amount calculated is not subject to the productivity adjustment, as it simply reflects a regulatory change. However, we continue to recommend that superannuation costs are inflated by the wage price index, along with other labour costs, and have the productivity adjustment applied at that stage.

Bus capital costs

Bus capital costs have previously been estimated through measuring bus purchase costs from an average of 3 quotes provided by bus manufacturers.²² These costs are then amortised over 5 years using a publicly available interest rate to estimate the change in lease costs borne by bus operators. This is the currently the only cost component of the BICI that does not utilize data which is independent, verifiable and transparent.

²² Quotes are separated into the bus body and chassis. There is often only a single quote for the bus body.

Bus purchase costs allowed in the bus cost index have increased by 2.7% on average from 2002 to 2012. This is almost entirely driven by increases in the quotes of bus bodies, which form about half of the cost of a bus (the other half being bus chassis). This rate of increase is considerably higher than that of comparative motor vehicle price indices. The motor vehicles component of the CPI posted an average decline of 1.1% over 2002 to 2012 and the road vehicles component of the import price index declined by 1.6% on average over the same period.²³

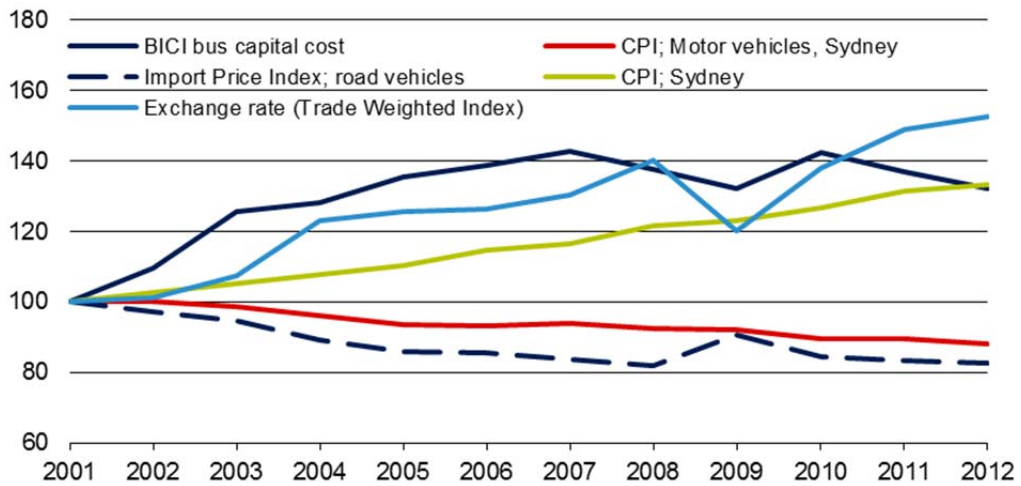
Price declines in relevant price indices for motor vehicle are partly attributable to an appreciating Australian dollar. The Reserve Bank of Australia notes that the effect of exchange rate changes on consumer prices is relatively strong for manufactured consumer goods such as road vehicles, which are either imported or exposed to import competition. The RBA suggests that 'a 10% appreciation of the exchange rate lowers retail prices by around 2% to 3%, over around 2½ years'.²⁴ The co-movement between import prices and the exchange rate is seen in Figure 4.2.

There are no specific measures of bus purchase costs from independent sources. BusNSW suggested that the aggregate CPI be used to determine the movement in bus purchase costs until the Outer/Metro bus tender panel prices are able to provide a more appropriate industry benchmark. However, once operational the Outer/Metro bus tender panel will not provide prices on buses that are representative of those utilised in rural and regional NSW. Further, this data is not able to be automatically indexed but will be reliant on an inter-agency data request and cooperation from industry.

²³ The CPI cannot be disaggregated further due to ABS confidentiality requirements.

²⁴ RBA 2011, *The Exchange Rate and Consumer Prices*, September Quarter Bulletin, p10.

Figure 4.2 Growth in BICI bus capital costs and comparative inflators

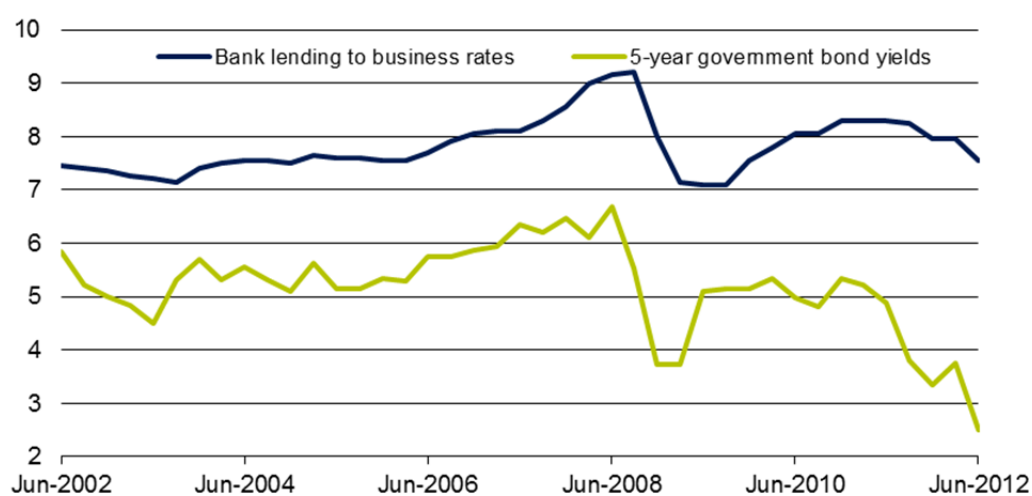


Data source: IPART reviews and spreadsheets, ABS 2012, Consumer Price Index, Australia, Cat. No. 6401.0, ABS 2012, International Trade Price Indexes, Australia, Cat. No. 6457.0, RBA 2012, Exchange Rates, Table F11.

For the coming determination period, IPART’s decision is to use aggregate Sydney CPI to inflate bus purchase costs on an annual basis. On average, the increase in CPI has been close to the increase in bus purchase costs from 2001 to 2011 (Figure 4.2). We will review the outputs of the Outer/Metro bus tender panel at the time of the next rural and regional bus review.

Previously, we amortised bus purchase costs over a 5-year period using 5-year Australian Government bond yields as the rate of interest to estimate the annual change in the cost of making loan repayments on a bus.²⁵ However, in last year's review, we suggested that bank lending to business rates published by the Reserve Bank of Australia²⁶ may better reflect the actual lending costs faced by bus operators. Over the 10 years to June 2012, this rate has been approximately 2.6% higher than 5-year Government bonds and relatively less volatile (Figure 4.3). BusNSW supports the use of bank lending to business rates published by the RBA.

Figure 4.3 Alternative interest rates



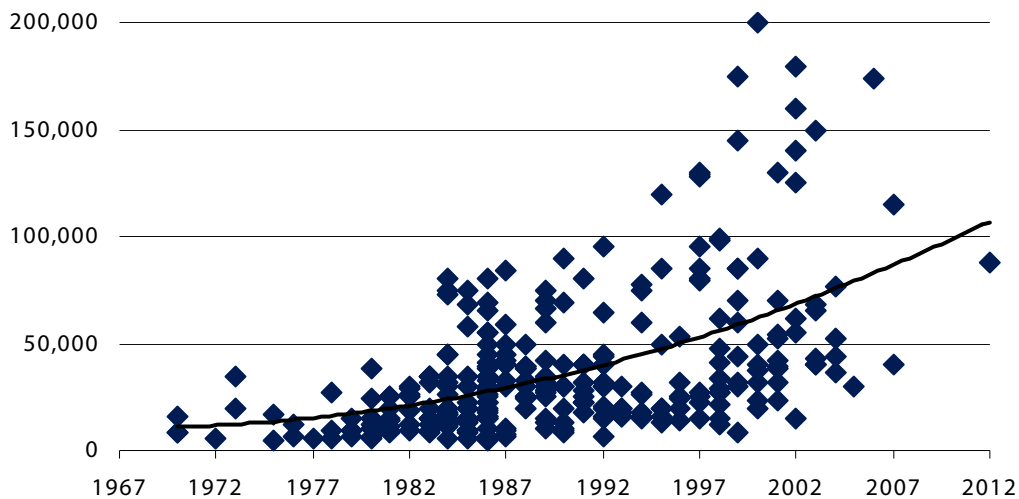
Data source: RBA 2012, Capital market yields — Government Bonds, Table F2 and RBA 2012, Bank lending to business rates, Table D 8.

Further, while previously bus purchase costs have been amortised over a 5-year period, Contract B specifies that the average age of an operator's fleet of buses should not exceed 12 years. Data on the sale price of second-hand buses also suggests a relatively long economic life for buses, with buses retaining value even after 20 years (Figure 4.4). Our decision is based on adopting a conservative (ie, relatively low) economic life of 12 years for amortising the cost of buses.

²⁵ RBA, Capital market yields, Government bonds, Australian Government, 5 years, Table F2, growth in average daily rate for the year to 30 June of current year from average daily rate for year to 30 June of previous year.

²⁶ Weighted-average interest rates on credit outstanding on total loans less than \$2 million.

Figure 4.4 Sales value of second-hand buses, by year made



Data source: Bus Sales Online, available at <http://www.bussalesonline.com.au/buybus.asp?tab=sold&sort=1>

4.3 Setting an appropriate productivity adjustment

IPART finding

- 6 We will apply a productivity adjustment to total costs of 0.3% for each of the next 5 years, which equates to the average annual gross output productivity in market sector industries between 1995 and 2010.

We have recently decided on a consistent approach to measuring the scope for productivity improvements in regulated industries when using a cost index.

- ▼ Establish an appropriate long term measure of economy-wide productivity to apply to the whole cost index.
- ▼ Determine an adjustment, where necessary, based on a consistent and transparent set of qualitative factors. This allows us to deviate from an economy-wide productivity measure to take into account industry specific factors.²⁷

The productivity adjustment is to be applied to the total cost index rather than just the component related to labour.

BusNSW submitted that applying an economy wide productivity adjustment was not appropriate where 'risk and productivity factors are part of the Government contract model' and issues such as road congestion negatively impact on productivity. However, we do not believe these factors should preclude an

²⁷ IPART, *Review of Taxi Fares in NSW: Maximum fares from July 2012 - Final Report and Recommendations*, 2012, p 38.

economy-wide productivity adjustment in line with our stated consistent approach.

As discussed in the Issues Paper, market sector multi-factor productivity (MFP) calculates economy-wide productivity changes. Gross output MFP takes into account capital, labour and the intermediate goods (services, energy and materials) used in production and is likely to be the most comprehensive measure of changes in technical efficiency in all factors of production. Adopting a long term average of economy-wide productivity measures will smooth out short term cyclical effects on productivity. Between 1995 and 2010, the average gross output productivity in market sector industries was 0.3%.

Our decision is to apply the value of 0.3% to each annual fare update until a new determination is in place.

4.4 Estimated change in the cost of operating bus services for 2013

The change in the costs of operating rural and regional bus services over the past 12 months was 3.3% (including a productivity adjustment of 0.3%), as measured by the BICI as shown in Table 4.7.

Table 4.7 Cost item inflators, 2013

BICI cost item	Weight	Inflator	Inflator value	Contrib. to change
	%		%	%
Wage and non-wage labour costs	50.7	Wage Price Index	3.6	1.8
Bus fuel and lubricants	9.3	FUELtrac, regional NSW diesel prices	10.5	1.0
Bus repair & maintenance	4.6	CPI – Maintenance and repair of motor vehicles; Sydney	3.5	0.2
Insurance	2.0	CPI – Insurance; Sydney	6.4	0.1
Capital costs - Bus	18.8	CPI – All groups; Sydney, RBA bank lending to business rates and 12 year amortisation	0.8	0.2
Other costs	14.7	CPI – All groups; Sydney	2.4	0.4
Total	100.0	Total		3.6
		Productivity adjusted total		3.3
		Superannuation guarantee adjustment		0.0
Total change 2013				3.3

Note: Figures have been rounded, and as a result columns may not add. Each inflator is measured as the average of 4 quarters to June 2012 divided by the average of 4 quarters to June 2011.

Source: Index weights are sourced from IPART, Review of fares for rural and regional buses from January 2011, December 2011.

As Table 4.7 indicates, the main drivers of the increase in the ordinary cost of providing bus services are the cost of salaries and wages and the cost of fuel. Our decision on the change in the ordinary cost of providing bus services in 2013 reflects the:

- ▼ use the existing weightings in the BICI
- ▼ use of existing inflators for all cost items except for the lease cost of buses and non-wage labour price inflators:
 - inflating non-wage labour items by the wage price index, and
 - inflating lease cost of buses based on increasing the purchase cost of buses by CPI and amortising this over 12 years using the Reserve Bank of Australia's Business Indicator rates.
- ▼ adjustment of total costs for expected productivity gains of 0.3%.

The increase in fares for 2013 is higher than the change in the Consumer Price Index, which was 2.45% over the year to June 2012.²⁸

The changes to maximum fares would have been marginally higher using weights from contract data or a cost model at 3.5% and 3.4% respectively (including a productivity adjustment of 0.3%).

The weights that would apply to each cost item, under our final decision, for 2014 are set out in Table 4.8.

Table 4.8 Cost item weights, 2014

BICI cost item	Weight for 2014
Wage and non-wage labour costs	50.7%
Bus fuel and lubricants	9.9%
Bus repair & maintenance	4.6%
Insurance	2.0%
Capital costs - Bus	18.3%
Other costs	14.5%
Total	100.0%

Source: IPART.

²⁸ ABS 2012, Consumer Price Index, Australia: All groups; Sydney Cat. No. 6401.0. Growth in sum of index numbers for the 4 quarters to June 2012 from the sum of index numbers for the 4 quarters to June 2011.

5 Maximum fare schedule

The fare schedule for rural and regional bus services is relatively complicated compared to fare schedules in metropolitan areas. This chapter sets out our considerations as to whether there are advantages to simplifying the current maximum fare schedule.

5.1 Maximum fare schedule

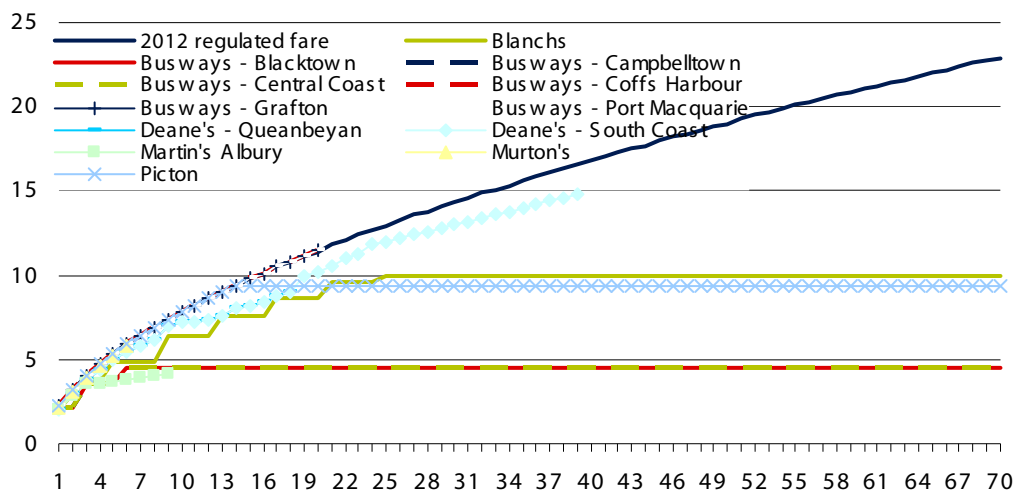
IPART finding

- 7 We will continue to determine individual maximum fares by section travelled up to 70 sections (equivalent to 112 kilometres of travel).
- 8 We will also determine maximum fares for journeys between 70 and 220 sections (equivalent to around 350 kilometres of travel) as operators that hold contracts provide such journeys.

5.1.1 Fares for journeys up to 70 sections

The current regulated fare schedule includes a separate fare for each of 70 sections (up to 112 kilometres of travel) on rural and regional bus services. In practice, bus operators generally adopt simpler fares by charging in distance bands or capping fares at less than 70 sections (Figure 5.1).

Figure 5.1 Fare schedules of selected operators by distance



Note: Calculated for 12 operators based on fares advertised in 2012.

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

The way fares could be simplified impacts differently on operators and customers. This is reflected in submissions. NCOSS supported grouping bands at the minimum of the fares for that band (ie, the fare for 20-29 sections would equal to the current fare for 20 sections). This would have benefits for bus passengers. CPISA also supported simplifying the current regulated maximum fares so long as it results in fairer outcomes for bus passengers. However, BusNSW supported grouping bands at the mid-point of the fares for the band (ie, the fare for 20-29 sections would equal the current fare for 25 sections). This would likely have positive impacts for bus operators, as they are more likely to be constrained by the current maximum fares at lower bands.

We consider that a reduction in the number of fare bands for regulated maximum fares would have no discernible benefit other than simplicity. Operators can, at their discretion, choose to provide a simpler fare schedule than the maximum allowed. In practice, most operators do this. The more the regulated fare schedule is simplified the less scope for operators to choose their own fare bands.

5.1.2 Fares for journeys over 70 sections

BusNSW also requested that fares for over 70 sections be determined by IPART given that some operators provide services which travel in excess of 112 kilometres. In our draft determination we suggested that for these services, currently our maximum fare for 70 sections should apply. In order to clarify this, our draft decision was to relabel the 70 sections to 70+ sections.

However, submissions received from Premier Motor Service²⁹ and Murrays Australia³⁰ suggested that these operators currently provide contracted services over distances significantly longer than 70 sections - up to 220 sections (or around 350 kilometres). Both operators currently charge more than the IPART maximum for 70 sections for contracted routes that are in excess of 112kms. This is a legacy of previously negotiated contracts.

In our view, routes over 70 sections should not be included as part of rural and regional bus service contracts and these routes should be de-regulated. However, they are currently included and as a result, we are required to set maximum fares for journeys over 70 sections that are provided under these contracts.

²⁹ Premier Motor Service submission, November 2012, p 1.

³⁰ Murrays Australia submission, November 2012, p 1.

Premier Motor Service³¹ and Murrays Australia³² submitted that currently operated longer distance routes incur additional variable costs and higher operating expenses than those routes capped at 112kms. For example, Premiers charge fares up to 220 sections for contract services between Nowra and Eden. The fare charged by Premiers for travelling 220 sections is currently \$56. Both operators have indicated that if the fares were capped at 70 sections this may lead to the service not being offered or cause them financial difficulties. This view was supported by Priors Bus Service.³³

We acknowledge that there may be additional variable costs associated with these longer distance routes. However, we do not have sufficient information to determine a new fare schedule for travelling 71 sections to 220 sections (which is over 300kms) based on costs.

We consider that the most appropriate approach is to set the maximum fare for these services for 2013 at the level currently charged by these operators indexed by the BICI as this provides for fares to increase in line with our estimate of changes in the cost of providing bus services.

We also considered whether it was necessary to implement limits on how quickly Murray's could increase its individual fares - Murrays has not increased its above 70 section fares for several years. While passengers travelling long distances on these routes are likely to be infrequent travellers, information provided by both operators suggests that significant numbers of passengers use these services. We consider that the threat of competition for long distance services provides an effective limit on fares for these services. This is particularly the case for the Canberra-Narooma route, where competing providers are already in the market. As a result, we have not applied any additional price limits.

We also recommend that TfNSW reviews the operation of the rural and regional bus contracts and ensures that non-exclusive longer distance services are not provided under Contract B. This may have implications for some passengers who are currently receiving concession fares and for government funding of concessions. However, the submission we received from Priors Bus Service demonstrates the commercial impact of such contracts.³⁴ Providing concessional fares and associated funding for contracted operators but not their competitors has the potential to prevent efficient operators from providing alternative services, as they cannot compete with Government subsidised fares.

³¹ Premier Motor Service submission, November 2012, p 2.

³² Murrays Australia submission, November 2012, pp 2-3.

³³ Priors Bus Service Submission, November 2012, p 3.

³⁴ Priors Bus Service Submission, November 2012, p 3.

Recommendation

- 9 TfNSW considers whether it is necessary for journeys longer than 70 sections to be covered by rural and regional bus service Contract B.

5.2 Additional constraints on fares and the contracting environment

One submission (from G. Frost) noted that the current contracting and fare setting arrangements could lead to abuse of monopoly power and higher fares than necessary to cover the costs of providing services.

As discussed in Chapter 2, we see that improvements in the contracting arrangements are likely to be more effective than fare setting in ensuring that operators are not recovering more than the full cost of providing services. Alternative solutions that are within the scope of fare setting include:

- ▼ Applying a price change limit in addition to maximum fares, which would impact on fares that were less than the current maximum. For example, any individual fare would be constrained to increase by less than the BICI + 5%. Such a constraint would be consistent with our responsibility to consider the social impacts of its determination. It would be difficult to identify whether this would change the viability of the individual routes.
- ▼ Applying rules which require bus operators to provide passengers with sufficient notice regarding the quantum and timing of price increases.
- ▼ Restricting how many times an operator can change fares in any one year.

These restrictions are second-best solutions to failures evident in the contracting system. We do not see value in pursuing these additional constraints on the regulation of bus fares because of costs associated with monitoring and enforcement and our inability to discern whether changes proposed by operators are required to maintain services.

6 Expected impact of proposed fare changes

Under our decision maximum fares increase by 3.3% in 2013 (depending on the effect of rounding). This chapter considers the impacts of the fare changes on passengers, bus operators, the Government and the environment of this final determination, as required under Section 28J of the *Passenger Transport Act 1990*.

6.1 Impact on passengers

The change in maximum fares under our final determination for 2013 is higher than the change in the CPI (2.5%) over the year to June 2012.³⁵

For journeys 70 sections or less, after rounding, maximum fares for single journeys increase by up to 80 cents but for most passengers the fare change is between 10 and 30 cents. The fare for a single section journey does not change.

For journeys greater than 70 sections, maximum fares may increase by up to \$1.80 per journey. Where actual fares are below the maximum fare, increases may vary.

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, and
- ▼ changes in and the relativity of maximum fares in rural, regional and metropolitan NSW.

However, we note that the actual impact on passengers will depend on the fares charged by bus operators, which can be and often are below the maximum fares set by IPART.

6.1.1 Affordability of bus services

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

ABS 2011 Census data indicates that incomes across rural and regional areas are significantly lower than those in Sydney. Median weekly household incomes outside the greater Sydney area were over \$480 a week less than those in Sydney. In some Local Government Areas (LGAs), the difference in median income compared to the greater Sydney area was minimal, but in other LGAs the median weekly household income was up to \$760 a week less than the greater Sydney area median. 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 significantly less than in Sydney.

These findings suggest 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.

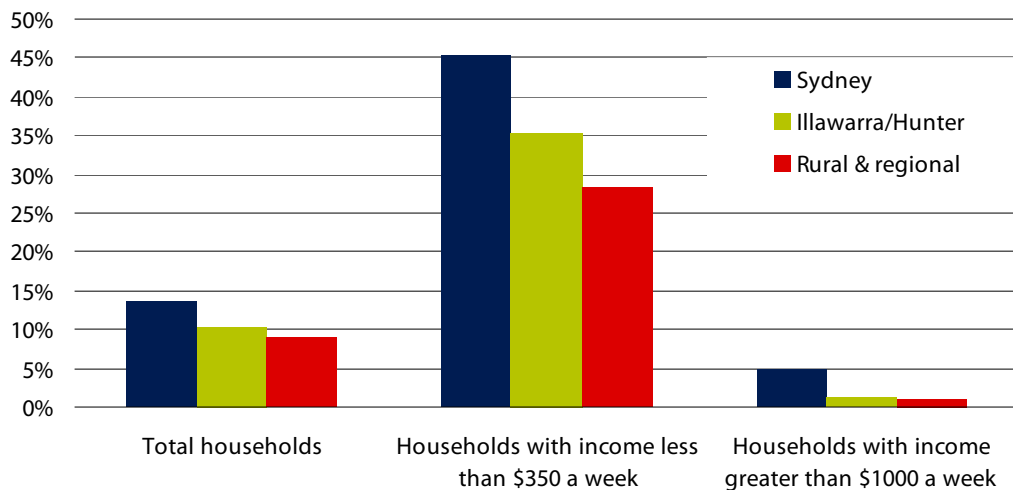
³⁵ ABS 2012, Consumer Price Index, Australia, Cat. No. 6401.0, All groups CPI; Sydney.

6.1.2 Access to alternative modes of transport

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

ABS data indicate that almost 30% of low-income households in rural and regional NSW (those with a household income of less than \$350 a week) do not have access to a motor vehicle (Figure 6.1). 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%.

Figure 6.1 Households without access to a motor vehicle (%)



Source: ABS, 2006 census.

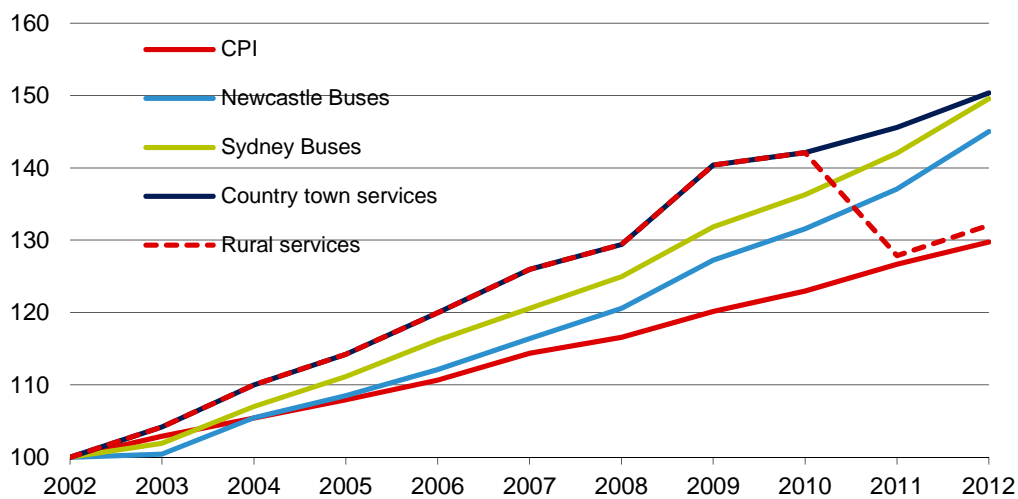
6.1.3 Changes in rural and regional fares and metropolitan fares

We considered how maximum fares had changed in rural and regional areas versus metropolitan areas to consider whether bus services were becoming more or less affordable in rural and regional areas. We compared the rate at which these maximum fares have grown and to the rate of change in the CPI over the 9 years to 2011. Then we did the same comparisons for the 10 years to 2012, to identify the impact of our proposed fare increase on this relativity.

We found that over the 9 years to 2011, maximum fares in country towns grew at a faster rate than maximum fares in Sydney and Newcastle (3.8% each year compared to 3.6% and 3.2% respectively). They also grew considerably faster than the rate of change in the CPI for Sydney (2.4%). However, the average annual growth rate for rural services fell below these benchmarks (2.5%) over the same period reflecting a price decline in the last 2 years' determinations to harmonise country town and rural fare schedules.

Our final determination on rural and regional fares reduces the difference in the growth rates between metropolitan and rural bus fares. In particular, country town fares will have risen 50% between 2002 and 2012 and rural fares 32%, while Newcastle and Sydney fares will have risen 45% and 50% respectively, and the change in the CPI for Sydney will be around 30% (see Figure 6.2).

Figure 6.2 Index of changes in bus fares since 2002 compared with the CPI

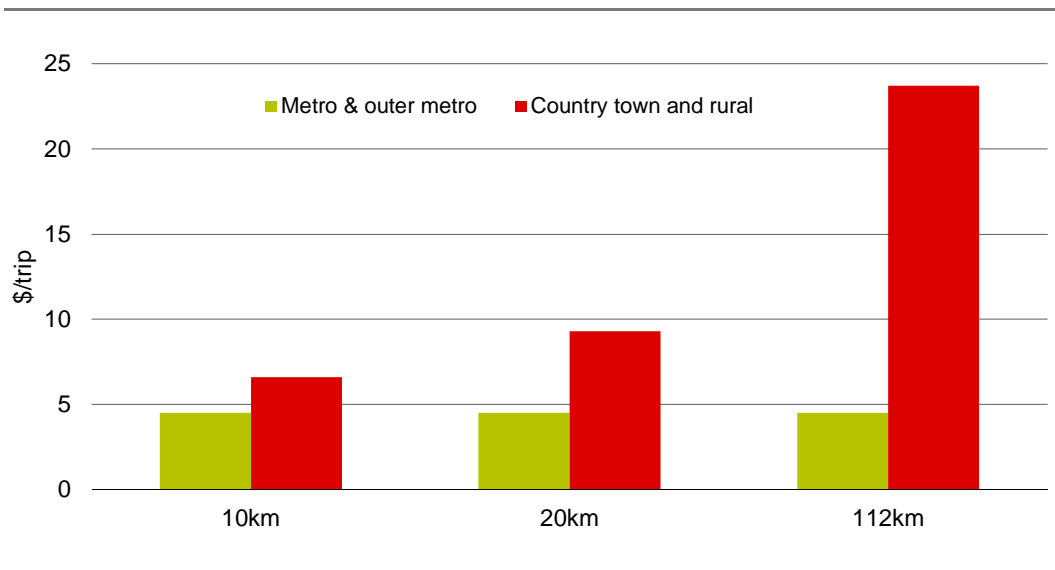


Note: Fare increases in 2002 and 2003 each cover more than a single calendar year due to the timing of the fare reviews. CPI used is for the relevant financial year. The MyZone changes introduced by the Government mean that fares for longer distance Sydney bus services have not risen by as much as shown in the figure.

Data source: ABS Sydney CPI, IPART reports.

We also compared our decision on maximum fares in 2013 for rural and regional areas to those in metropolitan and outer metropolitan areas, particularly for longer distance trips. As Figure 6.3 shows, proposed fares for rural and country town services would remain higher than metropolitan and outer metropolitan fares.

Figure 6.3 Maximum bus fares across NSW (2012)



Note: Fares for metropolitan and outer metropolitan areas for 2012 are based on IPART's determination in 2009.

Data source: IPART reports.

One of the reasons for the higher maximum fares in rural and country town areas is the different fare structures that apply. In metropolitan and outer metropolitan areas, fares increase for every section travelled up to 6 sections (about 10 km), then remain flat. In contrast, country town and rural fares increase for every section of travel up to 70 sections (112 km).³⁶

6.2 Impact on bus operators

We expect that our final determination will have minimal impact on bus operators, 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.

6.3 Impact on the NSW Government

The bulk of Government-funded payments to rural and regional bus operators are provided through the SSTs. These payments were negotiated directly between the Government and the industry and are not affected by changes to maximum fares.

³⁶ Fares increase over 70 sections for 4 routes – between Canberra and Narooma, Canberra and Wollongong, Nowra and Eden and Tweed Heads and Lismore.

An increase in maximum fares for country town and rural services will increase the amount paid to operators for passengers travelling on half-fare concession tickets on these services. We estimate that our final decision will increase the cost to the NSW Government by less than \$300,000 per year through these contract payments.

As discussed in Chapter 2, TfNSW may be paying more for services in some contract areas than necessary to provide services. This is expected to be of a much greater magnitude than the cost increases that would arise from our final decision on fares.

6.4 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.

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).

The level of fares faced by passengers is one of the factors that influences the use of bus services versus alternative modes of transport. As such, IPART's decision may have some environmental impacts related to greenhouse gas emissions and air pollution. However, previous analysis has found that bus patronage is relatively insensitive to changes in fares. In particular, this analysis estimated that the price elasticity of demand for bus travel was around -0.38.³⁷ That is, a 1% increase in fares would reduce patronage by only 0.38%, other things being equal.

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.

³⁷ IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, October 1996.

As demand for buses is fairly inelastic, we consider that the small fare increases for country town and rural services proposed in our final 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. To the extent that marginally lower usage is accommodated on the same services, there would be negative environmental impact from increased car use and hence increased greenhouse gas emissions.

7 Service performance

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

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

Performance reporting by bus operators covers:

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

Taken at face value, the service standard information collected by TfNSW suggests that service standards were high on average in 2011/12. For example, on average few trips were incomplete or cancelled and few are early or late (Table 7.1). Whether or not these figures provide an accurate picture of service standards is not known as the data is not verified or audited.

Table 7.1 Service measures, 2011 and 2012

Service measure	2010/11 ^b %	2011/12 %
Share of trips incomplete	0.0%	0.0%
Share of trips cancelled	0.0%	0.0%
Share of trips early	0.0%	0.0%
Share of trips late	0.3%	0.3%
Bus full	0.1%	0.0%
Wheelchair accessible trips	22.0%	22.9%
Wheelchair accessible trips incomplete or cancelled ^a	1.3%	0.5%

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

b Data for 2010/11 differs from that reported in Rural and regional bus fares from January 2012, Transport — Final Report, December 2011 given adjustments made by TfNSW regarding school passenger data.

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

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 15.6% of trips on a particular route were incomplete, one reported 4.9% of trips were late and one reported that in 5.4% of trips were early (Table 7.2). In addition, there were a number of operators that offered no timetabled wheelchair accessible trips. The overall proportion of trips that were accessible for passengers with wheelchairs was 23%.

Table 7.2 Service measures — share of trips for worst performers

Service measure	2011/12 Worst performing operator %
Share of trips incomplete	15.6
Share of trips cancelled	0.8
Share of trips early	5.4
Share of trips late	4.9
Bus full	0.1
Wheelchair accessible trips	0.0
Wheelchair accessible trips incomplete or cancelled ^a	7.7

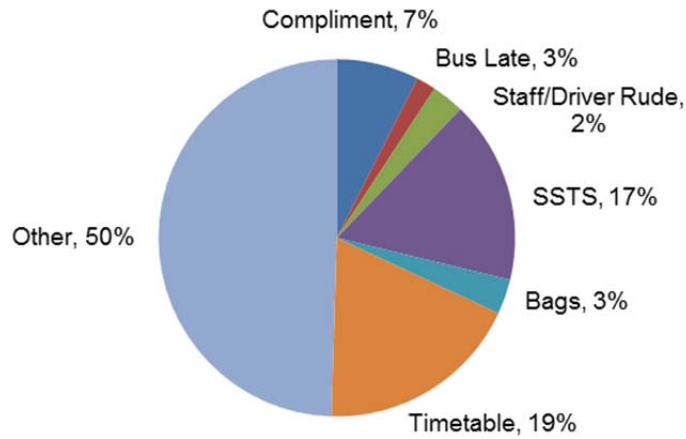
a This has been calculated as a proportion of wheelchair accessible routes.

Note: Data for 2011/12 are for June 2011 to June 2012.

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

Across 79,300 bus trips each month there was an average of around 800 customer contacts for feedback. This compares with a monthly average of around 1,600 in 2010/11 (for around 78,700 timetabled trips per month). Of the customer feedback provided, most is in categories that do not allow ready consideration of whether the feedback is positive or negative (or neither). For example, around 43% of reported customer feedback is allocated to the other category (Figure 7.1).

Figure 7.1 Customer Feedback



Note: The 'Other' category includes the following customer feedback categories: staff/driver unhelpful, dangerous driving, felt unsafe, ticket dispute, bus early, missed stop, failed to operate, overcrowded, running wrong route, bus dirty, no seats available, noisy/unruly, bus shelter inadequate, shelter no seating, shelter not provided and other.

Data source: IPART analysis based on information provided by TfNSW.

We have summarised the customer feedback for selected categories, which we consider provide some indication of customer satisfaction (Table 7.3). We have done this on a monthly basis for comparison with previous years.³⁸

The proportions of feedback in each category of feedback are fairly consistent with those reported in previous years.

Table 7.3 Feedback – contacts per month (selected categories)

	2010/11 %	2011/12 %
Bus did not run to timetable ^a	2	5
Safety concerns ^b	1	2
Comfort ^c	1	1
Staff/driver rude or unhelpful	2	3
Ticket dispute	0	1
Compliments	3	7

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 2011/12 are for 12 months. Data for 2010/11 is for 11 months (July to May). Data for 2010/11 differs from that reported in Rural and regional bus fares from January 2012, Transport — Final Report, December 2011 given adjustments made by TfNSW.

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

³⁸ Note that timetabled trips and monthly service kilometres were slightly higher this year than those reported for 2010/11. We have not adjusted data to take into account these differences.



Appendices

A Legislative Requirements

A.1 Requirements of the Passenger Transport Act 1990

Section 28J of the *Passenger Transport Act 1990* 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.

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	Chapter 4
b) protection of consumers from abuse of monopoly power	Chapter 2
c) need for greater efficiency so as to reduce costs	Chapter 4
d) need to maintain ecologically sustainable development	Chapter 6
e) social impact of the determination	Chapter 6
f) standards of quality, reliability and safety of the services	Chapter 7
g) contractual arrangements prevailing in the industry	Chapter 2

A.2 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,
- a) 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,
 - b) conservation of biological diversity and ecological integrity – namely, that conservation of biological diversity and ecological integrity should be a fundamental consideration,
 - c) 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.

B Proposed maximum fares to apply from January 2013

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

- ▼ Increased the (unrounded) adult fares on the country town and rural master fare schedule by 3.3%, in line with final decision on the change in costs of providing bus services (including a productivity adjustment of 0.3%).
- ▼ Rounded each fare on both these schedules to the nearest 10 cents.

Table B.1 below provides the final (rounded) fares to apply from January 2013, and compares them to the (rounded fares) that applied in 2012. These fares include GST.

Table B.1 Maximum rural fares to apply in 2013, compared to those that applied in 2012 (inc GST)

Section	Adult 2012 \$	Adult 2013 \$	Change \$	Change %	Master fare 2012 \$	Master fare 2013 \$
1	2.20	2.20	0.00	0.0%	2.16	2.23
2	3.20	3.30	0.10	3.1%	3.20	3.30
3	4.00	4.10	0.10	2.5%	3.99	4.12
4	4.70	4.80	0.10	2.1%	4.68	4.84
5	5.30	5.50	0.20	3.8%	5.30	5.47
6	5.90	6.10	0.20	3.4%	5.90	6.10
7	6.40	6.60	0.20	3.1%	6.40	6.61
8	6.90	7.10	0.20	2.9%	6.91	7.14
9	7.40	7.60	0.20	2.7%	7.39	7.63
10	7.80	8.10	0.30	3.8%	7.82	8.08
11	8.20	8.50	0.30	3.7%	8.22	8.49
12	8.70	8.90	0.20	2.3%	8.65	8.94
13	9.00	9.30	0.30	3.3%	9.01	9.31
14	9.40	9.70	0.30	3.2%	9.43	9.74
15	9.80	10.10	0.30	3.1%	9.79	10.11
16	10.10	10.40	0.30	3.0%	10.09	10.42
17	10.50	10.80	0.30	2.9%	10.47	10.81
18	10.80	11.20	0.40	3.7%	10.83	11.18
19	11.10	11.50	0.40	3.6%	11.11	11.48
20	11.50	11.90	0.40	3.5%	11.48	11.85
21	11.80	12.20	0.40	3.4%	11.77	12.16
22	12.10	12.50	0.40	3.3%	12.12	12.52
23	12.40	12.80	0.40	3.2%	12.41	12.82
24	12.70	13.10	0.40	3.1%	12.69	13.10
25	13.00	13.40	0.40	3.1%	13.00	13.43
26	13.30	13.70	0.40	3.0%	13.26	13.69
27	13.60	14.00	0.40	2.9%	13.57	14.01
28	13.80	14.30	0.50	3.6%	13.81	14.26
29	14.10	14.50	0.40	2.8%	14.07	14.53
30	14.40	14.80	0.40	2.8%	14.36	14.83
31	14.60	15.10	0.50	3.4%	14.61	15.09
32	14.90	15.40	0.50	3.4%	14.90	15.39
33	15.20	15.70	0.50	3.3%	15.16	15.66
34	15.40	15.90	0.50	3.2%	15.40	15.91
35	15.60	16.20	0.60	3.8%	15.64	16.15
36	15.90	16.40	0.50	3.1%	15.91	16.44
37	16.10	16.60	0.50	3.1%	16.10	16.63
38	16.40	16.90	0.50	3.0%	16.38	16.92
39	16.60	17.20	0.60	3.6%	16.62	17.17

Section	Adult 2012 \$	Adult 2013 \$	Change \$	Change %	Master fare 2012 \$	Master fare 2013 \$
40	16.90	17.40	0.50	3.0%	16.87	17.42
41	17.10	17.60	0.50	2.9%	17.07	17.63
42	17.30	17.90	0.60	3.5%	17.31	17.88
43	17.50	18.10	0.60	3.4%	17.54	18.11
44	17.80	18.30	0.50	2.8%	17.76	18.34
45	18.00	18.50	0.50	2.8%	17.95	18.54
46	18.20	18.80	0.60	3.3%	18.22	18.81
47	18.40	19.00	0.60	3.3%	18.42	19.02
48	18.60	19.30	0.70	3.8%	18.64	19.25
49	18.90	19.50	0.60	3.2%	18.88	19.49
50	19.10	19.70	0.60	3.1%	19.08	19.70
51	19.30	19.90	0.60	3.1%	19.30	19.93
52	19.50	20.10	0.60	3.1%	19.47	20.11
53	19.70	20.40	0.70	3.6%	19.71	20.36
54	19.90	20.60	0.70	3.5%	19.90	20.56
55	20.10	20.70	0.60	3.0%	20.07	20.73
56	20.30	21.00	0.70	3.4%	20.31	20.97
57	20.50	21.20	0.70	3.4%	20.49	21.16
58	20.70	21.40	0.70	3.4%	20.72	21.40
59	20.90	21.60	0.70	3.3%	20.87	21.56
60	21.10	21.80	0.70	3.3%	21.14	21.83
61	21.30	22.00	0.70	3.3%	21.29	21.98
62	21.50	22.20	0.70	3.3%	21.51	22.21
63	21.70	22.40	0.70	3.2%	21.69	22.40
64	21.80	22.50	0.70	3.2%	21.83	22.54
65	22.10	22.80	0.70	3.2%	22.11	22.84
66	22.30	23.00	0.70	3.1%	22.27	23.00
67	22.40	23.20	0.80	3.6%	22.43	23.17
68	22.60	23.30	0.70	3.1%	22.60	23.34
69	22.80	23.50	0.70	3.1%	22.77	23.52
70	23.00	23.80	0.80	3.5%	23.02	23.77
71	28.00	28.90	0.90	3.2%		28.92
72	28.00	28.90	0.90	3.2%		28.92
73	28.00	28.90	0.90	3.2%		28.92
74	28.00	28.90	0.90	3.2%		28.92
75	28.00	28.90	0.90	3.2%		28.92
76	28.00	28.90	0.90	3.2%		28.92
77	28.00	28.90	0.90	3.2%		28.92
78	28.00	28.90	0.90	3.2%		28.92
79	28.00	28.90	0.90	3.2%		28.92
80	28.00	28.90	0.90	3.2%		28.92
81	29.00	30.00	1.00	3.4%		29.96

Section	Adult 2012 \$	Adult 2013 \$	Change \$	Change %	Master fare 2012 \$	Master fare 2013 \$
82	30.00	31.00	1.00	3.3%		30.99
83	30.00	31.00	1.00	3.3%		30.99
84	30.00	31.00	1.00	3.3%		30.99
85	30.00	31.00	1.00	3.3%		30.99
86	32.00	33.10	1.10	3.4%		33.06
87	32.00	33.10	1.10	3.4%		33.06
88	32.00	33.10	1.10	3.4%		33.06
89	32.00	33.10	1.10	3.4%		33.06
90	32.00	33.10	1.10	3.4%		33.06
91	35.00	36.20	1.20	3.4%		36.16
92	35.00	36.20	1.20	3.4%		36.16
93	35.00	36.20	1.20	3.4%		36.16
94	35.00	36.20	1.20	3.4%		36.16
95	35.00	36.20	1.20	3.4%		36.16
96	38.00	39.30	1.30	3.4%		39.25
97	38.00	39.30	1.30	3.4%		39.25
98	38.00	39.30	1.30	3.4%		39.25
99	38.00	39.30	1.30	3.4%		39.25
100	38.00	39.30	1.30	3.4%		39.25
101	38.00	39.30	1.30	3.4%		39.25
102	38.00	39.30	1.30	3.4%		39.25
103	40.00	41.30	1.30	3.3%		41.32
104	40.00	41.30	1.30	3.3%		41.32
105	40.00	41.30	1.30	3.3%		41.32
106	40.00	41.30	1.30	3.3%		41.32
107	40.00	41.30	1.30	3.3%		41.32
108	42.00	43.40	1.40	3.3%		43.39
109	42.00	43.40	1.40	3.3%		43.39
110	42.00	43.40	1.40	3.3%		43.39
111	42.00	43.40	1.40	3.3%		43.39
112	42.00	43.40	1.40	3.3%		43.39
113	42.00	43.40	1.40	3.3%		43.39
114	44.00	45.50	1.50	3.4%		45.45
115	44.00	45.50	1.50	3.4%		45.45
116	44.00	45.50	1.50	3.4%		45.45
117	44.00	45.50	1.50	3.4%		45.45
118	44.00	45.50	1.50	3.4%		45.45
119	44.00	45.50	1.50	3.4%		45.45
120	44.00	45.50	1.50	3.4%		45.45
121	44.00	45.50	1.50	3.4%		45.45
122	44.00	45.50	1.50	3.4%		45.45
123	44.00	45.50	1.50	3.4%		45.45
124	44.00	45.50	1.50	3.4%		45.45
125	45.00	46.50	1.50	3.3%		46.49
126	45.00	46.50	1.50	3.3%		46.49
127	45.00	46.50	1.50	3.3%		46.49
128	45.00	46.50	1.50	3.3%		46.49

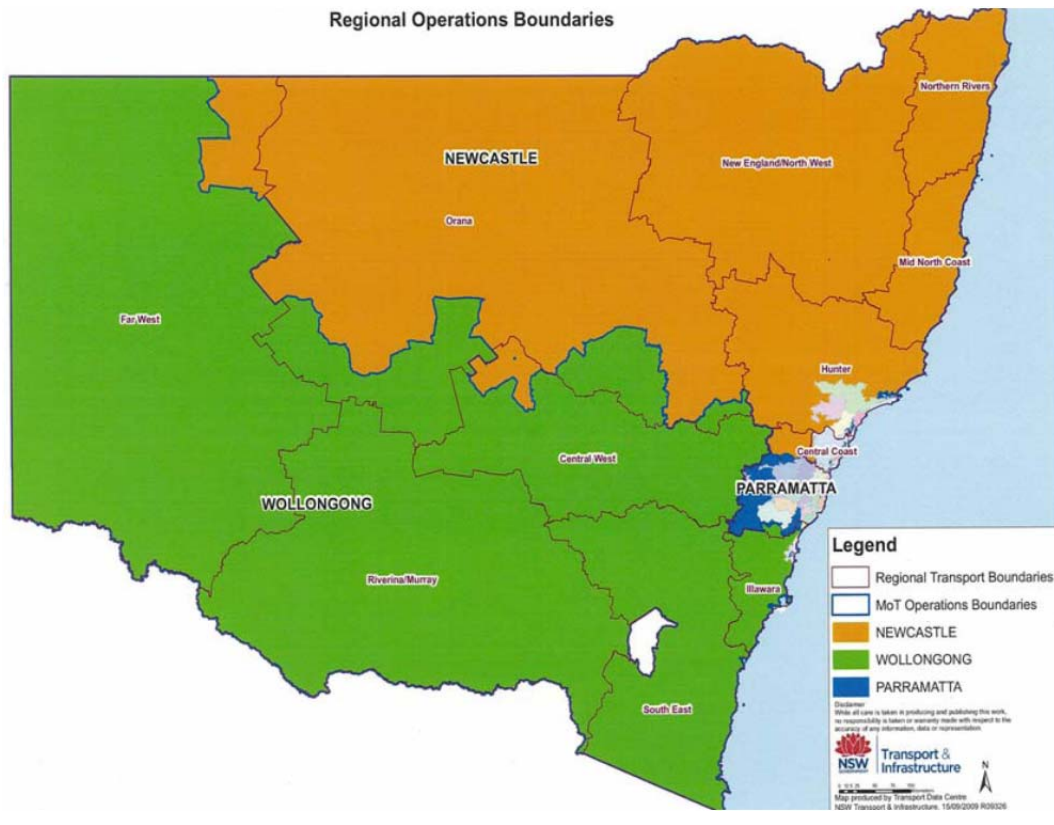
Section	Adult 2012 \$	Adult 2013 \$	Change \$	Change %	Master fare 2012 \$	Master fare 2013 \$
129	45.00	46.50	1.50	3.3%		46.49
130	45.00	46.50	1.50	3.3%		46.49
131	45.00	46.50	1.50	3.3%		46.49
132	45.00	46.50	1.50	3.3%		46.49
133	45.00	46.50	1.50	3.3%		46.49
134	45.00	46.50	1.50	3.3%		46.49
135	45.00	46.50	1.50	3.3%		46.49
136	45.00	46.50	1.50	3.3%		46.49
137	45.00	46.50	1.50	3.3%		46.49
138	45.00	46.50	1.50	3.3%		46.49
139	45.00	46.50	1.50	3.3%		46.49
140	45.00	46.50	1.50	3.3%		46.49
141	45.00	46.50	1.50	3.3%		46.49
142	45.00	46.50	1.50	3.3%		46.49
143	45.00	46.50	1.50	3.3%		46.49
144	45.00	46.50	1.50	3.3%		46.49
145	45.00	46.50	1.50	3.3%		46.49
146	45.00	46.50	1.50	3.3%		46.49
147	45.00	46.50	1.50	3.3%		46.49
148	45.00	46.50	1.50	3.3%		46.49
149	45.00	46.50	1.50	3.3%		46.49
150	46.00	47.50	1.50	3.3%		47.52
151	46.00	47.50	1.50	3.3%		47.52
152	46.00	47.50	1.50	3.3%		47.52
153	46.00	47.50	1.50	3.3%		47.52
154	46.00	47.50	1.50	3.3%		47.52
155	46.00	47.50	1.50	3.3%		47.52
156	46.00	47.50	1.50	3.3%		47.52
157	46.00	47.50	1.50	3.3%		47.52
158	46.00	47.50	1.50	3.3%		47.52
159	46.00	47.50	1.50	3.3%		47.52
160	46.00	47.50	1.50	3.3%		47.52
161	46.00	47.50	1.50	3.3%		47.52
162	46.00	47.50	1.50	3.3%		47.52
163	46.00	47.50	1.50	3.3%		47.52
164	46.00	47.50	1.50	3.3%		47.52
165	46.00	47.50	1.50	3.3%		47.52
166	46.00	47.50	1.50	3.3%		47.52
167	46.00	47.50	1.50	3.3%		47.52
168	46.00	47.50	1.50	3.3%		47.52
169	48.00	49.60	1.60	3.3%		49.58
170	49.00	50.60	1.60	3.3%		50.62
171	49.00	50.60	1.60	3.3%		50.62
172	49.00	50.60	1.60	3.3%		50.62
173	49.00	50.60	1.60	3.3%		50.62
174	49.00	50.60	1.60	3.3%		50.62
175	49.00	50.60	1.60	3.3%		50.62

Section	Adult 2012 \$	Adult 2013 \$	Change \$	Change %	Master fare 2012 \$	Master fare 2013 \$
176	49.00	50.60	1.60	3.3%		50.62
177	49.00	50.60	1.60	3.3%		50.62
178	49.00	50.60	1.60	3.3%		50.62
179	49.00	50.60	1.60	3.3%		50.62
180	49.00	50.60	1.60	3.3%		50.62
181	49.00	50.60	1.60	3.3%		50.62
182	49.00	50.60	1.60	3.3%		50.62
183	49.00	50.60	1.60	3.3%		50.62
184	49.00	50.60	1.60	3.3%		50.62
185	49.00	50.60	1.60	3.3%		50.62
186	49.00	50.60	1.60	3.3%		50.62
187	49.00	50.60	1.60	3.3%		50.62
188	49.00	50.60	1.60	3.3%		50.62
189	49.00	50.60	1.60	3.3%		50.62
190	49.00	50.60	1.60	3.3%		50.62
191	49.00	50.60	1.60	3.3%		50.62
192	49.00	50.60	1.60	3.3%		50.62
193	49.00	50.60	1.60	3.3%		50.62
194	49.00	50.60	1.60	3.3%		50.62
195	49.00	50.60	1.60	3.3%		50.62
196	49.00	50.60	1.60	3.3%		50.62
197	49.00	50.60	1.60	3.3%		50.62
198	50.00	51.70	1.70	3.4%		51.65
199	50.00	51.70	1.70	3.4%		51.65
200	50.00	51.70	1.70	3.4%		51.65
201	50.00	51.70	1.70	3.4%		51.65
202	50.00	51.70	1.70	3.4%		51.65
203	50.00	51.70	1.70	3.4%		51.65
204	50.00	51.70	1.70	3.4%		51.65
205	50.00	51.70	1.70	3.4%		51.65
206	50.00	51.70	1.70	3.4%		51.65
207	50.00	51.70	1.70	3.4%		51.65
208	50.00	51.70	1.70	3.4%		51.65
209	50.00	51.70	1.70	3.4%		51.65
210	52.00	53.70	1.70	3.3%		53.72
211	52.00	53.70	1.70	3.3%		53.72
212	52.00	53.70	1.70	3.3%		53.72
213	52.00	53.70	1.70	3.3%		53.72
214	52.00	53.70	1.70	3.3%		53.72
215	52.00	53.70	1.70	3.3%		53.72
216	52.00	53.70	1.70	3.3%		53.72
217	52.00	53.70	1.70	3.3%		53.72
218	52.00	53.70	1.70	3.3%		53.72
219	52.00	53.70	1.70	3.3%		53.72
220	56.00	57.80	1.80	3.2%		57.85

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

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

Data source: Transport NSW.

D How the BICI works

In 2007, IPART reviewed the BICI in detail and fixed its components for 5 years. This year's review focuses on updating the weightings and inflators determined previously.

The BICI is intended to measure, in percentage terms, how much the overall cost of providing bus services has changed in the 12 months since IPART's last review. The BICI consists of a basket of bus cost items – such as fuel, labour and insurance costs. These items are weighted according to the proportion of the overall cost of providing bus services they represent. Under IPART's final determination the BICI weights determined in 2007 will continue to be used. These were based on the results of an industry survey of costs conducted by Indec consulting. IPART recommends that those weights, adjusted each year for changes in the relative costs of the cost items, would apply for the length of the 2012 determination.

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

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

Table D.1 Illustrative example of how the change in the BICI is calculated

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

A productivity adjustment is then made to the total change in costs.

E Alternative cost model based on independent estimates of a typical bus operator

A third option we considered is to use an operator cost model (a typical bus operator) to reweight the index. This provides greater transparency than other options but is subject to constraints around the data available to build and verify the model.

Table E.1 Independent verification of bus operator cost structure

Cost item	Amount per bus (\$ per annum)	Methodology
Fuel	7,506	FUELtrac provides data on retail (pump) diesel prices in NSW. For FY2012 average prices (excluding Sydney, Newcastle and Wollongong regions) were 123.8 cents per litre. ³⁹ To determine the average fuel bill of rural and regional bus operators, fuel costs were multiplied by the average kilometres travelled per bus and average fuel consumption estimates. These estimates were sourced from the Tasmanian Department of Infrastructure Energy and Resources Bus Cost Model (large buses) and were equivalent to 32.9 litres per 100 kilometres. ⁴⁰
Driver labour	27,875	Normal rates of casual pay for Sydney and Newcastle Buses ⁴¹ were adjusted for rural and regional areas using the ratio of average wage and salary income for 2009 in Sydney versus the remainder of NSW. ⁴² The average annual wages bill for bus drivers was calculated by multiplying this adjusted rate of pay by the average annual hours of operation per bus. ⁴³ It was assumed that buses travel at a rate of 18.3 kilometres per hour as indicated in the 2010/11 Household Travel Survey summary data. ⁴⁴ This also aligns with the speeds from a small selection of timetables for rural and regional bus services.
Other labour	17,320	Additional non-driver wages and salary costs were estimated by using the 2007 BICI estimate of the relative non-driver labour costs to driver labour costs. The 2007 BICI survey administration wages and salary costs accounted for approximately 27% of total people costs while mechanics, cleaners and re-fuellers accounted for around 12% of total people costs.

³⁹ Excise duty of 15.043 cents per litre and GST of 10% were deducted from this average price.

⁴⁰ These estimates are similar to the US Bureau of Transport Statistics estimates of 32.8 litres per 100 kilometres. US Bureau of Transport Statistics Research and Innovative Technology Administration, *National Transportation Statistics*, Table 4-15 - Bus Fuel Consumption and Travel, April 2012.

⁴¹ Previously driver wages have been determined consistent with Australian Industrial Registry Consolidation award registered as AN120607 - Transport Industry – *Motor Bus Drivers and Conductors (State) Award*. However, this award was terminated on 29 July 2011 in accordance with the *Fair Work (Transitional Provisions and Consequential Amendments Act) 2009*. See PR512465 available at <http://www.fwa.gov.au/alldocuments/PR512465.htm>

⁴² ABS 2011, National Regional Profile, November, Canberra.

⁴³ The Sydney & Newcastle Buses - Normal Rates of Pay for casuals was adjusted to take account of a 2.5% pay increase to apply from 1 January 2013 and to include 5 weeks paid annual leave and 8 days sick leave a year. However, no overtime or weekend loading was incorporated into the calculations. This reflects the relatively low average annual hours expected for each bus.

⁴⁴ This average speed of bus travel was crosschecked against several timetabled routes of Contract B operators. While route 305 of the Forster Bus Service travelled at approximately 17.1km/h, Surfside Buses route 601 travelled at a comparatively fast rate of 27.6 km/h. This likely represents the relatively low urban density of this route.

Cost item	Amount per bus (\$ per annum)	Methodology
Payroll tax	507	Payroll tax of 5.45% is imposed on an employer's liable NSW wages minus any threshold entitlement, which was set at \$689 000 for the FY2013. The payroll tax costs are based on labour costs per bus as estimated above (plus associated superannuation costs) and an average operator fleet size of 19 buses. ⁴⁵
Workers Compensation	1,700	The WorkCover Authority of NSW estimated the workers compensation premium for a bus operator with an annual wages bill of \$43,466. This is based on WorkCover Industry Classification code 612200 (Short Distance Bus Transport).
Superannuat.	4,068	State Transit suggests that Sydney and Newcastle bus drivers receive 9% superannuation.
Maintenance & repair	8,345	The Tasmanian Bus Cost Model suggests that maintenance costs for passenger buses were 35.7 cents per kilometre for 'large' buses. These maintenance estimates were inflated from June 2007 to June 2012 by CPI. ⁴⁶ The estimates incorporate variable operating costs such as oil, tyres, maintenance, parts replacement and sealing and body care. The data was supplied by an independent consultant. ⁴⁷
Lease costs	13,862	Bus Sales online provides a price database of buses and coaches that have recently been sold. It suggests the average capital cost of a second hand bus which was produced since 2006 is \$106 118 (average sale price of 10 buses with an average of 20 seats). This purchase price was inflated by the annual change in CPI. The average RBA bank lending to business interest rate averaged 8.1% over the year to March 2012. This interest rate was used to amortization bus purchase costs over a 12 year period. ⁴⁸
Insurance	5,335	Businsure NSW provided quotes for comprehensive insurance costs per bus based on real figures for a large number of real rural and regional clients. Estimates take into consideration claims costs and all underwriting factors associated with a rural & regional bus operator. An average of each bus category estimate was assumed (\$4745). Actual costs were as follows: Category 1: \$1,858, Category 2: \$3,132, Category 3: \$6,942, Category 4: \$7,048 (all costs are GST exclusive). ⁴⁹

⁴⁵ NSW Office of State Revenue, Taxes and Duties, Payroll Tax, available at <http://www.osr.nsw.gov.au/taxes/payroll/general/rates/>

⁴⁶ ABS 2012, Consumer Price Index, Australia, Cat. No. 6401.0.

⁴⁷ We note these maintenance and repair estimates are substantially higher than for private fixed operating costs for motor vehicles.⁴⁷ The NRMA suggests maintenance costs for its People Mover category (with 59 vehicles in its class) equate to only 6.2 cents per kilometre. These estimates are made using manufacturers' recommended service schedules and retail prices and include a range of replacement parts. For instance, tyres and brake components required for average city driving conditions. NRMA Motoring and Services, *Private Whole of Life Fixed Vehicle Operating Costs*, March 2012.

⁴⁸ Previously bus purchase costs have been amortised over a 5-year period. However, Contract B specifies the average age of an operator's fleet of buses used to perform the Services should not exceed 12 years. We believe an amortisation period of 12 years more appropriately reflects the economic life of a rural and regional passenger bus.

⁴⁹ These insurance costs are broadly consistent with estimates provided by Armbro insurance brokers who suggested the minimum premium for motor insurance on buses in NSW would be approximately \$1,200. The premium rates would be in the vicinity of 5% of the vehicle sum insured [value] plus GST and 9% Stamp Duty. However this rate would depend upon the claims history of the particular bus operator.

Cost item	Amount per bus (\$ per annum)	Methodology
Other	N/A	<p>NRMA provided a quote for CTP insurance for a bus garaged in Albury.⁵⁰ The quoted bus is more than 5 years old and cannot be driven by a driver less than 25 years.</p> <p>The 2007 Indec industry survey identified depot rent and property related rates and taxes, management fees and non-bus capital as accounting for 61% of the 'Other' category. The weight for this category was held constant to the existing 2012 weighting of 14.7% in the absence of independent verification of current operator costs.</p>

Sources: As in footnotes to table.

⁵⁰ NRMA has the largest market share of the 7 licensed insurers in NSW. See Motor Accidents Authority, *Annual Report 2010-2011*, p 17.

