

Review of fares for rural and regional buses from January 2010

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

Transport — Report
December 2009



Independent Pricing and Regulatory Tribunal

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The Tribunal members for this review are:

Mr James Cox, Acting Chairman and Chief Executive Officer

Ms Sibylle Krieger, Part Time Member

Inquiries regarding this document should be directed to a staff member:

Dion Jackomas (02) 9290 8442

Ineke Ogilvy (02) 9290 8473

Independent Pricing and Regulatory Tribunal of New South Wales

PO Box Q290, QVB Post Office NSW 1230

Level 8, 1 Market Street, Sydney NSW 2000

T (02) 9290 8400 F (02) 9290 2061

www.ipart.nsw.gov.au

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1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is responsible for determining maximum fares for rural and regional buses in NSW. We have now completed our review of maximum fares for these services to apply from January 2010.

NSW Transport and Infrastructure (NSWTI) recently completed its bus reform program, aimed at improving the contracting, funding and planning approach to delivering rural and regional bus services. This is the first fare review since the change in contractual arrangements for these services. It is also the first year in which we have determined maximum fares for these services.¹

Based on the review, we have determined maximum bus fares that can be charged for regular bus passenger services in rural and regional areas of NSW. The determination commences on 3 January 2010.

1.1 Overview of IPART's finding and determination

We determined that maximum fares for rural and regional bus services should rise by 1.2% in January 2010. This increase is designed to compensate operators for the change in the cost of providing bus services over the past year.

The increase will be applied to each master (unrounded) fare and then the resulting fare will be rounded to the nearest 10 cents. Because of rounding, individual fares will change by slightly more or less than 1.2%. The new maximum fares that will apply are set out in Appendix C.

¹ Prior to this year, we made recommendations to the Government under a reference from the Premier, under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*.

1.2 Overview of review process

We started this year's fare review in August by releasing a fact sheet that outlined the review process and provided an indicative fare increase based on the most up to date data that was available. We also advertised the review and sought public submissions on the fact sheet. We received 2 submissions for the review, which we considered carefully in coming to our decision. These submissions were from:

- ▼ Shadow Minister for Transport (Gladys Berejiklian)
- ▼ BusNSW (representing rural and regional bus operators).

The BusNSW submission asked us to reconsider incorporating costs associated with recent changes to the rural and regional bus service contracts that in its view were not adequately dealt with last year. In response to this request, we engaged Indec Consulting to undertake a detailed review of the issues raised in BusNSW's submission and make a recommendation to us following consultation with BusNSW and NSWTI, the contract administrator. Indec's report on this matter is available from our website (www.ipart.nsw.gov.au).

On 11 November we held a public hearing. In addition to BusNSW and NSWTI we received comments from New South Wales Council of Social Service (NCOSS) and Action for Public Transport.

We considered all the submissions and information we received, as well as the comments made at the public hearing. In particular, we examined information provided by BusNSW in relation to cost increases. We then made our own assessment of the change in operators' costs measured by the Bus Industry Cost Index (BICI) to determine an appropriate fare increase for rural and regional bus services.

1.3 Structure of the report

The following chapters explain our review and determination in more detail:

- ▼ Chapter 2 outlines the context for the review, including our role, the matters we considered, the role of the BICI, and the new bus contract arrangements for rural and regional areas
- ▼ Chapter 3 summarises the fare changes under our determination and explains how we reached these decisions, including our analysis of the increases in the general costs of providing rural and regional bus services (as measured by the BICI) and the cost increases associated with the new contracting regime submitted by BusNSW
- ▼ Chapter 4 discusses the impact of our determination on passengers, bus operators, the Government and the environment.

2 Context for the review

This is the first year in which IPART has determined maximum fares for rural and regional bus services in NSW. In the past, our role in regulating these services was limited to making recommendations to the Minister for Transport for changes to the maximum fares bus operators charge for regular passenger services. After considering our recommendations, the Director General of NSWTI (formerly the Ministry of Transport) made the final decision on these fares.²

While we now determine maximum fares rather than making recommendations, the process we used to calculate the fare change is similar to our approach in previous years. We took into account the matters listed in the Passenger Transport Act, which are broadly similar to those matters we considered in previous years. We also considered the industry-specific cost index known as the Bus Industry Cost Index (BICI) to guide our decision making on the required fare change, as we have done in previous years. As Chapter 1 discussed, the Government has recently made changes to its contractual arrangements with rural and regional bus operators. In response to BusNSW's concerns that we did not adequately incorporate these costs into fares last year, we also reconsidered this issue.

Next year we intend to undertake a broader review in order to ensure that our approach adequately reflects the cost structure faced by the industry now that the new contracts are in place.

The sections below outline the matters we considered in line with our legislative obligations and explain the BICI and the new bus contract arrangements.

2.1 Matters IPART considered

As noted above, we now determine maximum fares for rural and regional bus services under section 28J of the Passenger Transport Act. As a result, the matters we must consider when reviewing fares for these services are now different. Section 28J of the Passenger Transport Act requires us to consider a number of matters before making our determination on maximum fares (see Appendix B for a list of the full requirements). These matters relate to the following issues:

- ▼ the cost of providing the services

² This decision is delegated to the Director General by the Minister for Transport.

- ▼ the protection of 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
- ▼ standards of quality, reliability and safety of the services concerned
- ▼ contractual arrangements prevailing in the industry
- ▼ other relevant matters.

We considered each of these matters in making our determination.

2.2 The Bus Industry Cost Index

This year we again used an industry-specific cost index called the Bus Industry Cost Index (BICI) to calculate the change in rural and regional bus operators' costs over the past 12 months. The BICI includes a basket of bus operators' cost items – such as bus capital costs, wages and salaries, fuel, insurance, repairs & maintenance and other costs.

Each item in the basket has a weighting based on the proportion of an average operator's total costs that it represents. Each year, the individual cost items are inflated to reflect changes in the cost of that item in the past year. Each cost item is inflated by a relevant data series or index. For example, the labour cost item is inflated by the annual change in the Wage Price Index published by the Australian Bureau of Statistics. Through the combination of cost weightings and inflators, the cost index aims to measure the change in costs experienced by the industry as a whole, from year to year.

In recent years, we have revised the weightings and inflators in the BICI to ensure they reflect the costs of providing rural and regional bus services, and where possible ensure that the cost items are inflated by data that is independent, verifiable and transparent. This year, we used the inflators we decided on last year except for 1 cost item. (See Chapter 3.)

As noted above, we intend to undertake a broader review next year, which will involve re-weighting the cost index to ensure that it reflects the cost structure of the industry now that the new contracting arrangements are in place.

Box 2.1 provides an example of how the cost index works.

Box 2.1 How the cost index works – a simplified example

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

The table below shows a very simple example where a cost index indicates that an average operator's total costs have increased by 10%. In this example, labour costs represent 60% of an average operator's costs, and so have a weighting of 60. In this example, labour costs increased by 8.3% in the previous 12 months, so we would multiply 60 by 8.3%. The answer – 5% – represents the contribution of the increase in labour costs made to the operator's total increase in costs. This is done for each cost item and then the contributions are summed to arrive at the total increase in operators costs.

Simplified example of a cost index calculation

Cost Item	Weighting (%)	Change	Contribution to index
Labour costs	60	8.3%	5%
Bus purchase and repairs	30	5.0%	2%
Fuel costs	10	30.0%	3%
Overall change in costs	100		10%

Note: Totals may not add due to rounding.

2.3 Rural and regional bus contract arrangements

In 2004, the Government commenced a program of reform to improve its approach to contracting, funding and planning the delivery of bus services across NSW. It began by putting in place new contracting arrangements in the Sydney metropolitan area, then in outer metropolitan areas (including Newcastle, Wollongong, the Hunter region and Blue Mountains). In June 2008, NSW Transport and Infrastructure (NSWTI) began entering into new contracting arrangements with bus operators in rural and regional areas. It has now completed the roll-out of new bus service contracts across the State.

There are 2 types of new contract in rural and regional areas:

- ▼ *Rural & Regional Bus Service Contract – Contract A*, which is for the provision of school bus services that do not charge fares (previously referred to as non-commercial services), and
- ▼ *Rural & Regional Bus Service Contract – Contract B*, which is for the provision of regular passenger services to fare-paying passengers (previously referred to as commercial services).

We have no role in assessing changes to funding arrangements under Contract A. Our fare determination relates only to services provided under Contract B. Operators cannot charge more than the maximum fare, but are free to charge less than the maximum.

There are 80 contracts and 77 operators on Contract B.³ The size of operators varies widely – from 1 bus to 350 buses. However, relatively few of these operators run less than 3 or more than 100 buses.⁴ These operators provide regular passenger bus services in country towns specified within their service contract.

BusNSW noted that there are 45 country towns in NSW with a population greater than 7,500, which is the level set by the Government to qualify for route services within the town boundary (that is, for a bus service provided under Contract B). In addition to route services within the town, the contracts also provide for village to town and town to town services. Journeys over 40km can be provided by non-contracted bus/coach operators who are not subject to regulated maximum fares.⁵

Rural and regional bus operators retain all the fare revenue they collect (unlike metropolitan and outer metropolitan operators). In addition, they receive other payments negotiated between NSWTI and the bus operators. These payments include:

- ▼ Payments under the School Student Transport Scheme (SSTS). These are payments made for school students who travel on regular passenger services but do not pay a fare. They are governed by the contract and are unrelated to the fares we determine. These payments make up the bulk of revenue received by rural and regional operators (around 85% on average).⁶
- ▼ ‘Top up’ payments for half fare concession passengers. For all passengers who purchase a half fare ticket, NSWTI pays a ‘top up’ payment. These payments are designed to compensate operators for the loss of revenue resulting from them offering half fares in line with government policy. The value of these payments is affected by the increase to the maximum fares.
- ▼ Compensation for revenue lost as a result of the introduction of the Regional Excursion Daily (RED) ticket.⁷ The contract recognises that there may be a loss in fare revenue when eligible passengers start using the RED instead of other tickets.

³ Information provided to IPART by NSWTI, October 2009.

⁴ IPART, *Review of fares for rural and regional bus services for 2009 – Report and Recommendations*, December 2008, chapter 2.

⁵ BusNSW submission, October 2009.

⁶ Ministry of Transport (now NSWTI) submission to 2008 fare review, August 2008, p 39.

⁷ The RED ticket is similar to the Pensioner Excursion Ticket (PET), which is available on metropolitan and outer metropolitan buses.

3 Fare changes

As Chapter 2 discussed, the fares rural and regional bus operators collect from fare-paying passengers only make up a small proportion of their total revenue. Most of these operators' costs are funded by the Government, through payments made to compensate operators for providing services for free or concession fares, in line with government policy. Nevertheless, it is still important that fare-paying passengers continue to pay an appropriate share of the cost of providing bus services in rural and regional NSW.

We decided on the required change in maximum fares for rural and regional buses after considering a range of factors, including:

- ▼ the change in the ordinary costs of providing bus services
- ▼ additional costs associated with the new contract regime
- ▼ service standards for rural and regional buses
- ▼ promotion of efficiency in the supply of services and customer protection.

In examining these issues, we considered the views raised in submissions, in particular, BusNSW's submission asking us to reconsider additional costs associated with the new contract regime. We engaged Indec Consulting to consider BusNSW's submission in detail. We also undertook our own analysis of the change in the BICI over 2008/09 and of the cost increases associated with implementing the new contracts. The section below provides an overview of our findings and the fare increase we determined. The subsequent sections explain our analysis and findings on these issues in more detail.

We also considered the impact on passengers, bus operators, the Government and the environment. Chapter 4 sets out our considerations on these issues.

3.1 Overview of IPART's findings and increase to maximum fares

We decided that fares should increase by the change in the costs of providing rural and regional bus services, 1.2%. This includes increases in the ordinary cost of providing bus services of 0.8%, as measured by the BICI, and an additional 0.4% as a result of additional wage costs associated with obligations under the new service contracts.

We applied this increase to all maximum fares, and then rounded them to the nearest 10 cents (as set out in Appendix C).⁸ The master fares (unrounded fares) are set out in Appendix D.

3.2 Increases in the ordinary cost of providing bus services

We calculated the change in the ordinary costs of operating rural and regional bus services using the Bus Industry Cost Index (BICI), and the inflators and values discussed in Appendix E. These calculations indicate that the ordinary costs of operating rural and regional bus services have risen by 0.8% over the past year. While insurance costs rose significantly, this increase was off-set by reductions in bus capital costs, workers compensation premiums and fuel costs, which kept increases below the change in the Consumer Price Index (CPI).⁹

Table 3.1 IPART's findings on increases in the ordinary costs of providing bus services, as measured by the BICI

Cost item	Index weighting	Inflator	Inflator value	Total change
	%		%	%
Capital costs - bus	19.0	Lease payment ^a	-6.3	-1.2
Salaries and wages	41.7	WPI – all industries	3.8	1.6
Superannuation	3.5	NWPI - superannuation	3.2	0.1
Payroll tax	2.1	NWPI – payroll tax	1.1	0.0
Workers compensation	1.6	NWPI -workers compensation	-2.4	0.0
Insurance costs	1.7	CPI – insurance services	11.4	0.2
Fuel	11.5	FUELtrac data	-3.7	-0.4
Bus maintenance	4.5	CPI – repair and servicing	2.5	0.1
All other costs	14.4	CPI	3.1	0.4
Total	100.0			0.8

^a Lease payment inflator is calculated using a loan repayment for the cost of a bus based on quotes provided by NSWTI and an interest rate equal to the 5-year Bank Bill Swap Reference Rate.

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

In calculating the BICI this year, we used a different inflator for bus capital costs than we have in previous years. All of the other inflators we used were the same as in previous years. Consistent with our decision last year, we made no adjustment for productivity gains. Each of these issues is discussed in detail in Appendix E.

⁸ Concession fares are equal to half of the equivalent adult fare, rounded down to the nearest 10 cents.

⁹ The annual change in the CPI (Sydney) using the average of 4 quarters to June 2009 divided by the average of 4 quarters to June 2008 was 3.1%.

3.3 Additional cost increases associated with the new contract regime

Last year BusNSW sought an increase in fares to compensate operators for extra costs associated with the new contract regime that were not picked up by the change in the BICI. After reviewing the information provided, we allowed an additional fare increase of 2.9% to account for these costs. Specifically, this included:

- ▼ An extra 2.1% as a result of the requirement to provide a one-off 7% increase to bus drivers – this was calculated as a 7% increase applied to 61% of the total average wage bill of operators (the amount that relates specifically to driver wages).
- ▼ An extra 0.8% as a result of additional obligations imposed by the Bus Operator Accreditation System (BOAS) – we allowed total costs for this item of \$815 per bus, which equates to a 1.7% rise in people-related costs.
- ▼ No additional allowance for costs associated with the increased penetration of air conditioned buses – BusNSW had sought additional costs associated with extra maintenance costs and higher fuel usage from the requirement that all new buses purchased must be air-conditioned.

In its submission to this year's review, BusNSW sought reconsideration of these issues. In response to this request we engaged Indec Consulting to undertake a more in-depth review of these costs, and asked Indec to consult extensively with BusNSW and NSWTI in formulating its recommendations.

We found that an additional increase to maximum fares of 0.4% above the general cost increase is warranted. The sections below discuss our findings on these issues in more detail.

3.3.1 Cost increase for non-driver staff associated with driver wage parity

With the introduction of the new rural and regional contracts, operators were obliged to provide a one-off wage increase to bus drivers of 7% (in addition to the general rate of increase) to ensure wage parity between rural and regional bus drivers and those in metropolitan and outer metropolitan areas. Last year, we allowed an increase based on applying the one-off driver wage parity obligation to bus driver labour only and applied the increase to the 61% of wage costs that are bus driver related.

BusNSW submits that administration staff, cleaners and mechanics also carry out driving duties, and as a result, should also receive the driver wage parity increase.¹⁰

Having considered the arguments put forward by BusNSW, Indec recommended that 73% of wage costs should have the one-off driver wage parity increase applied

¹⁰ BusNSW submission, October 2009.

to them.¹¹ While Indec found that different operators have applied the wage parity increase differently, depending on their circumstances, Indec considers that on average, the wage parity increase should be extended to some non-driver labour costs. Specifically, Indec recommended that operators should be compensated for extending the wage parity increase to all non-administration staff (that is, to mechanics, cleaners and re-fuellers, in addition to bus drivers). This recommendation represents an additional one-off 7% increase to 12% of wages.

While BusNSW's submission centred on the existence of Award provisions that cover mixed function employees,¹² Indec found that in many cases operators pay above the Award requirements. Indec's view is that operators with a multi-skilled workforce, particularly smaller operators, would find it difficult in practice to apply a different wage increase to different staff members and in many cases have extended the driver parity increase to at least some other members of staff.¹³

We have accepted Indec's expert view that an additional 12% of labour costs should receive the wage parity increase. We calculated the required additional increase based on the 2009 base year weightings for wages, super and payroll tax and a one-off increase of 7% – see Table 3.2. This calculation results in an additional fare increase of 0.4%.

Table 3.2 Recommended adjustment for additional wage parity costs

Labour cost	Weighting ^a	Inflator value ^b	Increase required
Wages	5.0%	7.0%	0.35%
Superannuation	0.4%	7.0%	0.03%
Payroll tax	0.2%	7.0%	0.02%
Total			0.40%

^a The weighting was calculated as 12% of the base year weighting for each labour cost.

^b Inflator value applied is the 7% driver parity increase – last year the increase was applied differently, based on the formula $(1+WPI/NWPI)*7\%$ as NSWTI applied this multiplicative approach to the indexation of SSTS payments.

Source: IPART 2009 BICI weighting (see Appendix E).

3.3.2 Cost increase associated with Bus Operator Accreditation Scheme

The conditions bus operators are required to meet to be accredited changed with the introduction of the Bus Operator Accreditation System (BOAS). Among other things, the BOAS requires operators to implement a detailed and formal Safety Management System. This requires the operator to closely monitor and document a range of

¹¹ Indec Consulting, *Review of Selected Activities and Costs of Rural and Regional Commercial Bus Services*, December 2009, p ii.

¹² BusNSW noted that there is a legal obligation to extend the driver wage increase to non-drivers in some circumstances. Indec agrees that this Award provision means that drivers who take on non-driving activities are entitled to be paid for these activities at the higher (driver) rate.

¹³ Indec Consulting, *Review of Selected Activities and Costs of Rural and Regional Commercial Bus Services*, December 2009, p 6.

safety-related standards including without limitation bus hazards and related control measures, driver fatigue, driver health monitoring and incident management.¹⁴

Last year, BusNSW sought an additional increase in maximum fares to enable operators to recover \$2,000 per bus per year for costs associated with complying with the new BOAS obligations. We asked Indec Consulting to undertake a desktop review of these obligations last year based on the information that had been provided to us. As a result of this review, Indec found that the additional costs imposed on operators would be around \$815 per year. Compensation for the relevant proportion of this cost (that is, the proportion to be allocated to non-SSTS passengers) was included in maximum fares last year.¹⁵

BusNSW asked for reconsideration of this issue this year. Indec reviewed further information provided by BusNSW and NSWTI regarding the obligations imposed by the BOAS and the costs associated with it. However, based on the available evidence, Indec stands by its 2008 recommendation that the costs of BOAS are around \$815 per bus per year.¹⁶

We accepted Indec's expert view that based on the available evidence, operators have been sufficiently compensated for reasonable increases associated with BOAS and that no additional fare change is required to account for these costs.

3.3.3 Cost increases associated with air-conditioned buses

The new rural and regional bus contracts include provisions relating to air conditioning of buses. There is no obligation to retro fit the existing fleet but all new buses purchased during the term of the contract must have air conditioning.

Last year, BusNSW sought an increase in fares to recover additional costs associated with running air-conditioning systems in buses. In particular, to compensate operators for higher fuel and maintenance costs. In making this submission, BusNSW estimated that approximately 30% of rural and regional buses were air-conditioned at the commencement of the contract, and expected this to increase by 5% each year until all buses are air-conditioned.

We did not increase maximum fares to compensate for these costs because we felt that there was insufficient evidence to justify any adjustment to fares. In this year's submission, BusNSW asked us to reconsider our decision, particularly in relation to additional maintenance costs associated with air-conditioning.¹⁷

¹⁴ Indec Consulting, *Review of Selected Activities and Costs of Rural and Regional Commercial Bus Services*, December 2009, p 7.

¹⁵ IPART, *Review of fares for rural and regional bus services for 2009 – Report and Recommendations*, December 2008.

¹⁶ Indec Consulting, *Review of Selected Activities and Costs of Rural and Regional Commercial Bus Services*, December 2009, p 13.

¹⁷ BusNSW submission, October 2009.

After considering the available information, Indec concluded that as the air conditioning requirement has been in place only since January of this year, the additional costs associated with maintaining buses purchased under the new obligation that would have been incurred by operators prior to 30 June, would be insignificant. However, Indec notes that this may be an issue that requires further consideration in future years as a greater proportion of the fleet is replaced.

Indec advised us that it was not possible to determine the level of future costs associated with this obligation. Indec also advised that to do this in future more comprehensive information on each of the following will need to be obtained:

- ▼ actual additional maintenance costs associated with air-conditioning (which depends heavily on factors like how often the air conditioning is used)¹⁸
- ▼ the proportion of the existing fleet that is air-conditioned (there appears to be conflicting information on this issue)
- ▼ the average replacement schedule for the fleet over the coming years (over which operators have some discretion)¹⁹.

Indec notes that many of these items should become available once operators commence reporting under the new contracts.

We accept Indec's advice and reasoning for not including these costs this year. We also acknowledge that this issue will more than likely be raised again in the future. We intend to reconsider this issue in detail as part of next year's review and to establish an annual adjustment that can be applied to fares in the future, if the additional costs associated with this obligation suggest it is warranted. In our view, the items specified by Indec (above) demonstrate the minimum level of information that must be provided before we will consider including such an adjustment.

3.4 Service standards

The service standards required of rural and regional bus operators are determined by the service contracts. We have no role in setting these standards; however, we would like to publish information on how well operators are meeting their obligations so that this information is available to passengers.

The new contracts provide for comprehensive reporting of service standard information (we set out the reporting requirements in the new contracts in detail in last year's report²⁰). Operators are required to regularly report information on their performance in areas such as reliability, patronage, performance against specified KPIs, complaints, complaint handling processes and service disruptions. We requested this information from NSWTI for consideration in the review. However,

¹⁸ There is no minimum obligation to operate the air conditioning.

¹⁹ There is no schedule on which operators are required to purchase new buses.

²⁰ IPART, *Review of fares for rural and regional bus services for 2009 – Report and Recommendations*, December 2008, Appendix B.

as the contracts are only new, NSWTI has advised that this information is not yet available:

As the first monthly reports were received in July 2009, sufficient data has not been collated nor analysis conducted to be provided to IPART during its current determination. More comprehensive KPI data will be able to be provided, if required, for the review in 2010.²¹

In addition to the reported information, NSWTI is to work with the industry to develop additional benchmarks against which operational performance of the services will be measured. We expect that in future years we will have access to the reported data for each operator, NSWTI's analysis of this data and the performance benchmarks that have been agreed.

3.5 Efficiency in the supply of services and customer protection

By setting maximum fares based on the increase in costs faced by the industry, we consider that the determination will protect consumers from abuses of monopoly power in terms of pricing and pricing policies. In addition, measuring these costs using the BICI, which is based on independent and, wherever possible, publicly available inflators ensures that passengers are not asked to pay for inefficient cost increases.

²¹ Information provided to IPART by NSWTI, October 2009.

4 Expected impact of fare changes

We calculated the increase in maximum fares for rural and regional buses based on the cost increases outlined in Chapter 3. In reaching this decision, we considered the impacts of increasing fares in line with costs on passengers, operators, the Government and the environment. We are satisfied that these impacts will be minimal.

In examining these issues, we considered the views raised in submissions, in particular, the submission we received from the Shadow Minister for Transport, regarding the impact of fare increases on passengers who rely on these services. The sections below provide an overview of our consideration of these matters.

4.1 Impact on passengers

The increase in maximum fares under our determination is less than the change in the Consumer Price Index. After rounding, some maximum fares will not change this year. However, for other adult fares the determination will mean an increase to maximum fares of between 10 cents and 40 cents on a single ticket.

We agree with the Shadow Minister for Transport that there is a subset of rural and regional people who are likely to have few travel options.²² These people are likely to be vulnerable to any significant price increase for bus travel. This group primarily includes low-income individuals and families without access to alternative modes of transport. The available information suggests that a sector of the rural and regional community has a low level of disposable income and few if any transport alternatives. We also note that fares in rural and regional areas tend to be higher than fares in metropolitan areas.

However, we also note that for many of the more disadvantaged passengers, the impact of fare increases will be mitigated to some extent by the concession arrangements that are in place. The NSW Government's bus reform program includes the extension and restructure of concession fares for rural and regional bus passengers, including the introduction of the Regional Excursion Daily (equivalent to the Pensioner Excursion Ticket available in metropolitan and outer metropolitan areas). We consider that this will go some way to mitigating the impact of any fare

²² Shadow Minister for Transport's submission, 6 October 2009.

rises for a number of low income people living in rural and regional NSW such as pensioners.

4.1.1 Incomes in rural and regional areas

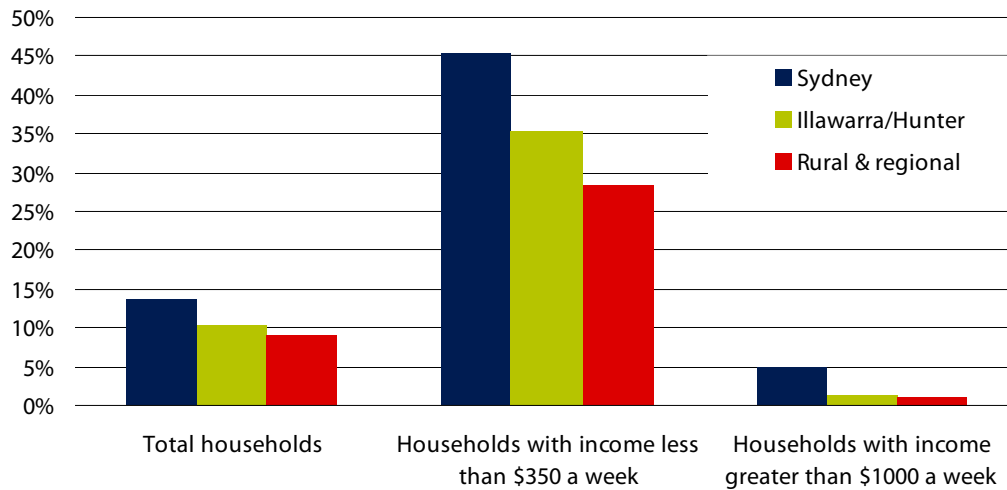
Incomes across rural and regional areas are significantly lower than those in Sydney. In 2008, the personal median income of rural and regional NSW was at least \$100 a week less than Sydney and up to \$200 a week less for some regions. Median household incomes are at least \$300 a week less than those in Sydney and up to \$600 a week less for some regions. 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 was still significantly less than in Sydney.²³

4.1.2 Access to alternative modes of transport

Access to a private motor vehicle or taxi is 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 such as accessing places of work, local shopping centres or commercial facilities.

Census data indicates 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 4.1). This is lower than the proportion of low income households in Sydney and the Illawarra/Hunter who don't have access to a motor vehicle. But it is significantly higher than the average for rural and regional households, which is just under 10%. We expect that a large proportion of this group are pensioners and as such, would have access to the new Regional Excursion Daily concession ticket (see Chapter 2).

²³ IPART, *Review of fares for rural and regional bus services for 2009 – Report and Recommendations*, December 2008, chapter 4.

Figure 4.1 Households without access to a motor vehicle (%)

Data source: ABS, 2006 census.

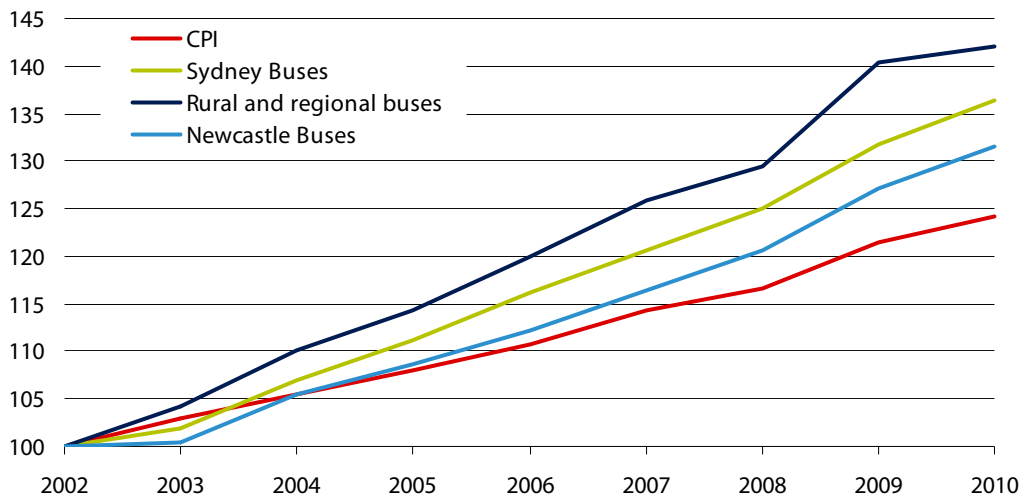
4.1.3 Relativity between rural and regional fares and metropolitan fares

The change in maximum fares for rural and regional bus services in 2010 is below the increase that has been determined for metropolitan and outer metropolitan buses,²⁴ and below the annual change in the Consumer Price Index (CPI).²⁵

However, historically maximum fares in rural and regional areas have risen faster than bus fares in Sydney, and faster than the growth in the CPI. Figure 4.2 shows that over the past 8 years, including the fare changes determined for 2010, maximum bus fares in rural and regional areas (shown on the figure as 'BICI') have grown at a faster rate than maximum fares in Sydney and Newcastle and faster than the rate of growth in the CPI.

²⁴ IPART, *Review of fares for metropolitan and outer metropolitan bus services from January 2010 – Final Report and Determination*, December 2009.

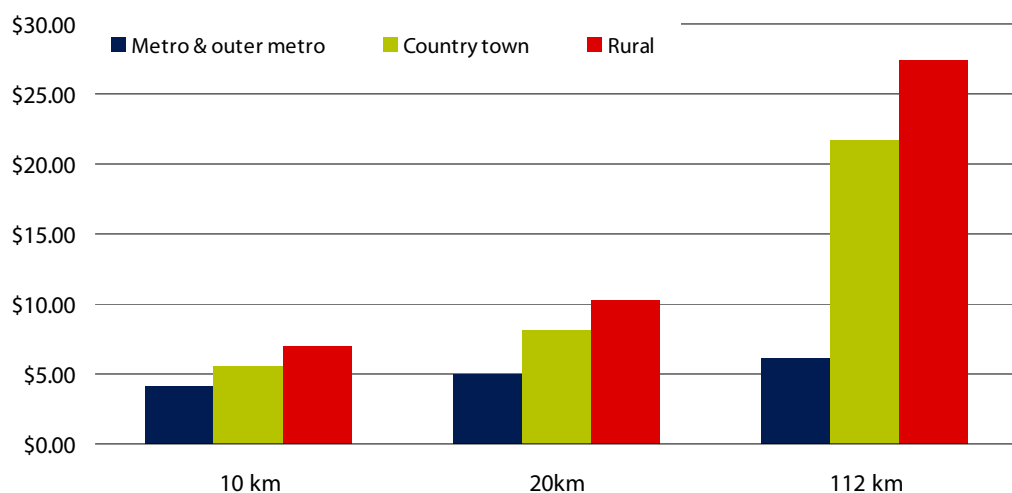
²⁵ The annual change in the CPI (Sydney) using the average of 4 quarters to June 2009 divided by the average of 4 quarters to June 2008 was 3.1%.

Figure 4.2 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 calendar years except for 2010, where CPI is year to September 2009, as this is the latest data available.

Data source: ABS Sydney CPI, IPART reports.

Maximum fares in rural and regional areas tend to be higher than fares in metropolitan and outer metropolitan areas, particularly for longer distance trips. For example, in country towns, the current maximum fare for 10 km of travel is 33% higher than the equivalent metropolitan and outer metropolitan fares. For 20 km of travel, it is 62% higher. In rural areas, the current maximum fare for 10 km is 67% higher than in metropolitan and outer metropolitan areas, and for 20 km of travel it is 106% higher. These differences are illustrated in Figure 4.3.

Figure 4.3 Maximum bus fares across NSW (2009)

Data source: 2009 fares.

One of the reasons for the differences is the different fare structures in these areas – in metropolitan and outer metropolitan areas, fares are capped at 16 sections (25 km), whereas in regional and rural areas fares increase for every section of travel up to 70 sections (112 km).

As this is the first year in which we have determined fares for rural and regional services, we have not been able to examine the reasonableness or application of the existing fare scales in any detail. At the public hearing, NCOSS and Action for Public Transport both asked us to bring rural and regional fare scales more into line with those in metropolitan and outer metropolitan regions.²⁶ This is an issue we intend to consider in next year's review.

BusNSW has advised that most bus operators in rural and regional areas charge less than the maximum fares we set for longer distances, and in reality the bus fare schedules are more likely to be used by government in setting bus contract payments such as the half fare concession payment, rather than by fare-paying passengers.²⁷ However, we have no control over the actual fares charged by operators once the maximum fare scale is set and must consider the potential for operators to set their fares at the maximum.

4.2 Impact on bus operators

We have allowed increases in maximum fares based on our view of the increase in costs faced by bus operators over the past year. As a result, we consider that our determination will not adversely affect the industry's level of financial viability.

4.3 Impact on government

The bulk of government-funded payments to rural and regional bus operators are provided through the School Student Transport Scheme (SSTS). These payments were negotiated directly between the Government and the industry and are no longer affected by changes to maximum fares (see Chapter 2). An increase in maximum fares will increase the amount paid to operators for passengers travelling on half-fare concession tickets. However, we do not consider that our determination will have a significant impact on the amount of funding required for rural and regional bus services, as the change in maximum fares is small.

²⁶ IPART, Public Hearing Transcript, 11 November 2009, pp 33-34.

²⁷ BusNSW (formerly the Bus and Coach Association) fare proposal, August 2008, p 4.

4.4 Impact on the environment

In our view, the potential for pricing policies, such as the structure and level of bus fares in rural and regional areas, to help 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 only around 15% of revenue to rural and regional bus operators. Of the remaining passengers who do pay fares, many are not charged the maximum amount (either because they are entitled to a concession fare, or because they receive a discount at the discretion of the bus operator).

There is no doubt that the level and structure of fares faced by passengers is 1 of the factors that influences the use of bus services. 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 -0.38.²⁸ This suggests that a 1% increase in fares would reduce patronage by only 0.38%, other things being equal.²⁹

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

As demand for buses is fairly inelastic, we consider that the small fare increases in our determination are unlikely to have a significant impact on the level of bus use even for the small proportion of passengers who are charged the maximum fare. As a result, we consider that our determination is unlikely to lead to a significant change (either positive or negative) in the use of buses and hence, is unlikely to have a significant impact on the environment.

²⁸ IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, October 1996.

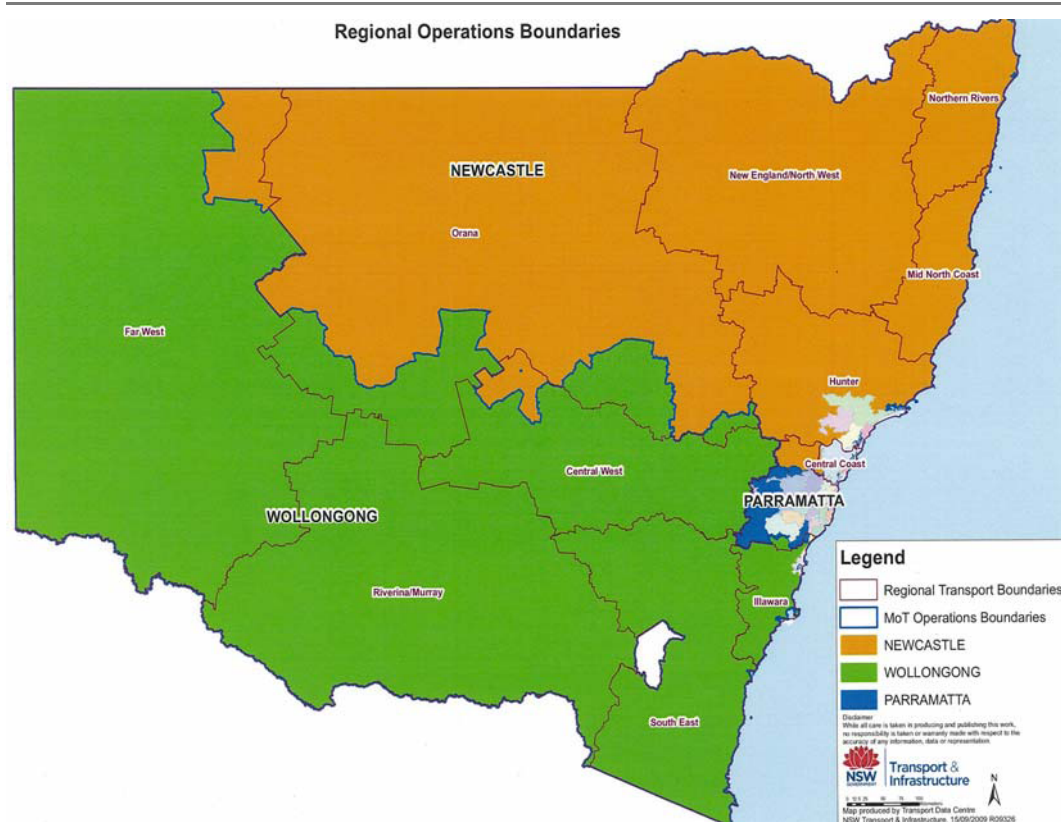
²⁹ The price elasticity of demand indicates how sensitive bus users are to a change in the fare. It measures the percentage change in patronage as a result of a 1% change in the fare.



Appendices

A Map of rural and regional bus areas

Figure A.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 NSWTI that is responsible for administering rural and regional bus contracts in that area.

Data source: NSWTI.

B Legislative requirements

B.1 Requirements of the Passenger Transport Act

Section 28J of the Passenger Transport Act states that:

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

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

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

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

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

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

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

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

Table B.1 IPART’s consideration of Section 28J Passenger Transport Act matters

Clause 5	Report Chapter
a) cost of providing the service	Chapter 3
b) protection of consumers from abuse of monopoly power	Chapters 3 & 4
c) need for greater efficiency so as to reduce costs	Chapter 3
d) need to maintain ecologically sustainable development	Chapter 4
e) social impact of the determination	Chapter 4
f) standards of quality, reliability and safety of the services	Chapter 3
g) contractual arrangements prevailing in the industry	Chapters 2 & 3

C Fares that will apply from 3 January 2010

Table C.1 Adult country town fares

Section	Adult 2009	Adult 2010	Change \$	Change %
1	\$2.00	\$2.10	\$0.10	5.0%
2	\$3.00	\$3.00	\$0.00	0.0%
3	\$3.80	\$3.80	\$0.00	0.0%
4	\$4.40	\$4.50	\$0.10	2.3%
5	\$5.00	\$5.00	\$0.00	0.0%
6	\$5.60	\$5.60	\$0.00	0.0%
7	\$6.00	\$6.10	\$0.10	1.7%
8	\$6.50	\$6.60	\$0.10	1.5%
9	\$7.00	\$7.00	\$0.00	0.0%
10	\$7.40	\$7.50	\$0.10	1.4%
11	\$7.70	\$7.80	\$0.10	1.3%
12	\$8.10	\$8.20	\$0.10	1.2%
13	\$8.50	\$8.60	\$0.10	1.2%
14	\$8.90	\$9.00	\$0.10	1.1%
15	\$9.20	\$9.30	\$0.10	1.1%
16	\$9.50	\$9.60	\$0.10	1.1%
17	\$9.90	\$10.00	\$0.10	1.0%
18	\$10.20	\$10.30	\$0.10	1.0%
19	\$10.50	\$10.60	\$0.10	1.0%
20	\$10.80	\$10.90	\$0.10	0.9%
21	\$11.10	\$11.20	\$0.10	0.9%
22	\$11.40	\$11.60	\$0.20	1.8%
23	\$11.70	\$11.80	\$0.10	0.9%
24	\$12.00	\$12.10	\$0.10	0.8%
25	\$12.20	\$12.40	\$0.20	1.6%
26	\$12.50	\$12.60	\$0.10	0.8%
27	\$12.80	\$12.90	\$0.10	0.8%
28	\$13.00	\$13.20	\$0.20	1.5%
29	\$13.30	\$13.40	\$0.10	0.8%
30	\$13.50	\$13.70	\$0.20	1.5%
31	\$13.80	\$13.90	\$0.10	0.7%

C Fares that will apply from 3 January 2010

Section	Adult 2009	Adult 2010	Change \$	Change %
32	\$14.00	\$14.20	\$0.20	1.4%
33	\$14.30	\$14.40	\$0.10	0.7%
34	\$14.50	\$14.70	\$0.20	1.4%
35	\$14.70	\$14.90	\$0.20	1.4%
36	\$15.00	\$15.20	\$0.20	1.3%
37	\$15.20	\$15.40	\$0.20	1.3%
38	\$15.40	\$15.60	\$0.20	1.3%
39	\$15.70	\$15.80	\$0.10	0.6%
40	\$15.90	\$16.10	\$0.20	1.3%
41	\$16.10	\$16.30	\$0.20	1.2%
42	\$16.30	\$16.50	\$0.20	1.2%
43	\$16.50	\$16.70	\$0.20	1.2%
44	\$16.70	\$16.90	\$0.20	1.2%
45	\$16.90	\$17.10	\$0.20	1.2%
46	\$17.20	\$17.40	\$0.20	1.2%
47	\$17.40	\$17.60	\$0.20	1.1%
48	\$17.60	\$17.80	\$0.20	1.1%
49	\$17.80	\$18.00	\$0.20	1.1%
50	\$18.00	\$18.20	\$0.20	1.1%
51	\$18.20	\$18.40	\$0.20	1.1%
52	\$18.30	\$18.60	\$0.30	1.6%
53	\$18.60	\$18.80	\$0.20	1.1%
54	\$18.80	\$19.00	\$0.20	1.1%
55	\$18.90	\$19.10	\$0.20	1.1%
56	\$19.10	\$19.40	\$0.30	1.6%
57	\$19.30	\$19.50	\$0.20	1.0%
58	\$19.50	\$19.80	\$0.30	1.5%
59	\$19.70	\$19.90	\$0.20	1.0%
60	\$19.90	\$20.10	\$0.20	1.0%
61	\$20.10	\$20.30	\$0.20	1.0%
62	\$20.30	\$20.50	\$0.20	1.0%
63	\$20.40	\$20.70	\$0.30	1.5%
64	\$20.60	\$20.80	\$0.20	1.0%
65	\$20.80	\$21.10	\$0.30	1.4%
66	\$21.00	\$21.20	\$0.20	1.0%
67	\$21.10	\$21.40	\$0.30	1.4%
68	\$21.30	\$21.50	\$0.20	0.9%
69	\$21.50	\$21.70	\$0.20	0.9%
70	\$21.70	\$21.90	\$0.20	0.9%

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

Table C.2 Adult rural fares

Section	Adult	Adult	Change	Change
	2009	2010	\$	%
1	\$2.60	\$2.60	\$0.00	0.0%
2	\$3.80	\$3.80	\$0.00	0.0%
3	\$4.70	\$4.80	\$0.10	2.1%
4	\$5.60	\$5.70	\$0.10	1.8%
5	\$6.30	\$6.40	\$0.10	1.6%
6	\$7.00	\$7.10	\$0.10	1.4%
7	\$7.60	\$7.70	\$0.10	1.3%
8	\$8.20	\$8.30	\$0.10	1.2%
9	\$8.80	\$8.90	\$0.10	1.1%
10	\$9.30	\$9.40	\$0.10	1.1%
11	\$9.80	\$9.90	\$0.10	1.0%
12	\$10.30	\$10.40	\$0.10	1.0%
13	\$10.80	\$10.90	\$0.10	0.9%
14	\$11.20	\$11.30	\$0.10	0.9%
15	\$11.70	\$11.80	\$0.10	0.9%
16	\$12.10	\$12.20	\$0.10	0.8%
17	\$12.50	\$12.60	\$0.10	0.8%
18	\$12.90	\$13.00	\$0.10	0.8%
19	\$13.30	\$13.50	\$0.20	1.5%
20	\$13.70	\$13.80	\$0.10	0.7%
21	\$14.10	\$14.20	\$0.10	0.7%
22	\$14.40	\$14.60	\$0.20	1.4%
23	\$14.80	\$15.00	\$0.20	1.4%
24	\$15.10	\$15.30	\$0.20	1.3%
25	\$15.50	\$15.70	\$0.20	1.3%
26	\$15.80	\$16.00	\$0.20	1.3%
27	\$16.20	\$16.40	\$0.20	1.2%
28	\$16.50	\$16.70	\$0.20	1.2%
29	\$16.80	\$17.00	\$0.20	1.2%
30	\$17.10	\$17.30	\$0.20	1.2%
31	\$17.40	\$17.60	\$0.20	1.1%
32	\$17.80	\$18.00	\$0.20	1.1%
33	\$18.00	\$18.30	\$0.30	1.7%
34	\$18.30	\$18.60	\$0.30	1.6%
35	\$18.70	\$18.90	\$0.20	1.1%
36	\$19.00	\$19.20	\$0.20	1.1%
37	\$19.30	\$19.50	\$0.20	1.0%
38	\$19.60	\$19.80	\$0.20	1.0%

C Fares that will apply from 3 January 2010

Section	Adult	Adult	Change	Change
	2009	2010	\$	%
39	\$19.80	\$20.10	\$0.30	1.5%
40	\$20.10	\$20.30	\$0.20	1.0%
41	\$20.40	\$20.60	\$0.20	1.0%
42	\$20.60	\$20.90	\$0.30	1.5%
43	\$20.90	\$21.20	\$0.30	1.4%
44	\$21.20	\$21.50	\$0.30	1.4%
45	\$21.50	\$21.70	\$0.20	0.9%
46	\$21.70	\$22.00	\$0.30	1.4%
47	\$22.00	\$22.20	\$0.20	0.9%
48	\$22.20	\$22.50	\$0.30	1.4%
49	\$22.50	\$22.80	\$0.30	1.3%
50	\$22.70	\$23.00	\$0.30	1.3%
51	\$23.00	\$23.30	\$0.30	1.3%
52	\$23.30	\$23.50	\$0.20	0.9%
53	\$23.50	\$23.80	\$0.30	1.3%
54	\$23.70	\$24.00	\$0.30	1.3%
55	\$24.00	\$24.30	\$0.30	1.3%
56	\$24.20	\$24.50	\$0.30	1.2%
57	\$24.50	\$24.80	\$0.30	1.2%
58	\$24.70	\$25.00	\$0.30	1.2%
59	\$24.90	\$25.20	\$0.30	1.2%
60	\$25.20	\$25.50	\$0.30	1.2%
61	\$25.40	\$25.70	\$0.30	1.2%
62	\$25.60	\$25.90	\$0.30	1.2%
63	\$25.80	\$26.10	\$0.30	1.2%
64	\$26.10	\$26.40	\$0.30	1.1%
65	\$26.30	\$26.60	\$0.30	1.1%
66	\$26.50	\$26.90	\$0.40	1.5%
67	\$26.80	\$27.10	\$0.30	1.1%
68	\$27.00	\$27.30	\$0.30	1.1%
69	\$27.20	\$27.50	\$0.30	1.1%
70	\$27.40	\$27.70	\$0.30	1.1%

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

Table C.3 Concession country town fares

Section	Concession		Change	
	2009	2010	\$	%
1	\$1.00	\$1.00	\$0.00	0.0%
2	\$1.50	\$1.50	\$0.00	0.0%
3	\$1.90	\$1.90	\$0.00	0.0%
4	\$2.20	\$2.20	\$0.00	0.0%
5	\$2.50	\$2.50	\$0.00	0.0%
6	\$2.80	\$2.80	\$0.00	0.0%
7	\$3.00	\$3.00	\$0.00	0.0%
8	\$3.30	\$3.30	\$0.00	0.0%
9	\$3.50	\$3.50	\$0.00	0.0%
10	\$3.70	\$3.70	\$0.00	0.0%
11	\$3.90	\$3.90	\$0.00	0.0%
12	\$4.10	\$4.10	\$0.00	0.0%
13	\$4.20	\$4.30	\$0.10	2.4%
14	\$4.40	\$4.50	\$0.10	2.3%
15	\$4.60	\$4.60	\$0.00	0.0%
16	\$4.70	\$4.80	\$0.10	2.1%
17	\$4.90	\$5.00	\$0.10	2.0%
18	\$5.10	\$5.10	\$0.00	0.0%
19	\$5.20	\$5.30	\$0.10	1.9%
20	\$5.40	\$5.40	\$0.00	0.0%
21	\$5.50	\$5.60	\$0.10	1.8%
22	\$5.70	\$5.80	\$0.10	1.8%
23	\$5.80	\$5.90	\$0.10	1.7%
24	\$6.00	\$6.00	\$0.00	0.0%
25	\$6.10	\$6.20	\$0.10	1.6%
26	\$6.20	\$6.30	\$0.10	1.6%
27	\$6.40	\$6.40	\$0.00	0.0%
28	\$6.50	\$6.60	\$0.10	1.5%
29	\$6.60	\$6.70	\$0.10	1.5%
30	\$6.80	\$6.80	\$0.00	0.0%
31	\$6.90	\$6.90	\$0.00	0.0%
32	\$7.00	\$7.10	\$0.10	1.4%
33	\$7.10	\$7.20	\$0.10	1.4%
34	\$7.30	\$7.30	\$0.00	0.0%
35	\$7.40	\$7.40	\$0.00	0.0%
36	\$7.50	\$7.60	\$0.10	1.3%
37	\$7.60	\$7.70	\$0.10	1.3%
38	\$7.70	\$7.80	\$0.10	1.3%

C Fares that will apply from 3 January 2010

Section	Concession	Concession	Change	Change
	2009	2010	\$	%
39	\$7.80	\$7.90	\$0.10	1.3%
40	\$7.90	\$8.00	\$0.10	1.3%
41	\$8.00	\$8.10	\$0.10	1.3%
42	\$8.20	\$8.20	\$0.00	0.0%
43	\$8.30	\$8.30	\$0.00	0.0%
44	\$8.40	\$8.40	\$0.00	0.0%
45	\$8.50	\$8.50	\$0.00	0.0%
46	\$8.60	\$8.70	\$0.10	1.2%
47	\$8.70	\$8.80	\$0.10	1.1%
48	\$8.80	\$8.90	\$0.10	1.1%
49	\$8.90	\$9.00	\$0.10	1.1%
50	\$9.00	\$9.10	\$0.10	1.1%
51	\$9.10	\$9.20	\$0.10	1.1%
52	\$9.20	\$9.30	\$0.10	1.1%
53	\$9.30	\$9.40	\$0.10	1.1%
54	\$9.40	\$9.50	\$0.10	1.1%
55	\$9.50	\$9.50	\$0.00	0.0%
56	\$9.60	\$9.70	\$0.10	1.0%
57	\$9.70	\$9.70	\$0.00	0.0%
58	\$9.80	\$9.90	\$0.10	1.0%
59	\$9.80	\$9.90	\$0.10	1.0%
60	\$10.00	\$10.00	\$0.00	0.0%
61	\$10.00	\$10.10	\$0.10	1.0%
62	\$10.10	\$10.20	\$0.10	1.0%
63	\$10.20	\$10.30	\$0.10	1.0%
64	\$10.30	\$10.40	\$0.10	1.0%
65	\$10.40	\$10.50	\$0.10	1.0%
66	\$10.50	\$10.60	\$0.10	1.0%
67	\$10.60	\$10.70	\$0.10	0.9%
68	\$10.60	\$10.70	\$0.10	0.9%
69	\$10.70	\$10.80	\$0.10	0.9%
70	\$10.80	\$10.90	\$0.10	0.9%

Note: Concession fares are equal to half the equivalent adult fare, rounded down to the nearest 10 cents.

Table C.4 Concession rural fares

Section	Concession	Concession	Change	Change
	2009	2010	\$	%
1	\$1.30	\$1.30	\$0.00	0.0%
2	\$1.90	\$1.90	\$0.00	0.0%
3	\$2.40	\$2.40	\$0.00	0.0%
4	\$2.80	\$2.80	\$0.00	0.0%
5	\$3.20	\$3.20	\$0.00	0.0%
6	\$3.50	\$3.50	\$0.00	0.0%
7	\$3.80	\$3.80	\$0.00	0.0%
8	\$4.10	\$4.10	\$0.00	0.0%
9	\$4.40	\$4.40	\$0.00	0.0%
10	\$4.70	\$4.70	\$0.00	0.0%
11	\$4.90	\$4.90	\$0.00	0.0%
12	\$5.20	\$5.20	\$0.00	0.0%
13	\$5.40	\$5.40	\$0.00	0.0%
14	\$5.60	\$5.60	\$0.00	0.0%
15	\$5.80	\$5.90	\$0.10	1.7%
16	\$6.00	\$6.10	\$0.10	1.7%
17	\$6.30	\$6.30	\$0.00	0.0%
18	\$6.40	\$6.50	\$0.10	1.6%
19	\$6.70	\$6.70	\$0.00	0.0%
20	\$6.80	\$6.90	\$0.10	1.5%
21	\$7.00	\$7.10	\$0.10	1.4%
22	\$7.20	\$7.30	\$0.10	1.4%
23	\$7.40	\$7.50	\$0.10	1.4%
24	\$7.60	\$7.60	\$0.00	0.0%
25	\$7.70	\$7.80	\$0.10	1.3%
26	\$7.90	\$8.00	\$0.10	1.3%
27	\$8.10	\$8.20	\$0.10	1.2%
28	\$8.20	\$8.30	\$0.10	1.2%
29	\$8.40	\$8.50	\$0.10	1.2%
30	\$8.60	\$8.60	\$0.00	0.0%
31	\$8.70	\$8.80	\$0.10	1.1%
32	\$8.90	\$9.00	\$0.10	1.1%
33	\$9.00	\$9.10	\$0.10	1.1%
34	\$9.20	\$9.30	\$0.10	1.1%
35	\$9.30	\$9.40	\$0.10	1.1%
36	\$9.50	\$9.60	\$0.10	1.1%
37	\$9.60	\$9.70	\$0.10	1.0%
38	\$9.80	\$9.90	\$0.10	1.0%

C Fares that will apply from 3 January 2010

Section	Concession	Concession	Change	Change
	2009	2010	\$	%
39	\$9.90	\$10.00	\$0.10	1.0%
40	\$10.00	\$10.10	\$0.10	1.0%
41	\$10.20	\$10.30	\$0.10	1.0%
42	\$10.30	\$10.40	\$0.10	1.0%
43	\$10.50	\$10.60	\$0.10	1.0%
44	\$10.60	\$10.70	\$0.10	0.9%
45	\$10.70	\$10.80	\$0.10	0.9%
46	\$10.90	\$11.00	\$0.10	0.9%
47	\$11.00	\$11.10	\$0.10	0.9%
48	\$11.10	\$11.20	\$0.10	0.9%
49	\$11.30	\$11.40	\$0.10	0.9%
50	\$11.40	\$11.50	\$0.10	0.9%
51	\$11.50	\$11.60	\$0.10	0.9%
52	\$11.60	\$11.70	\$0.10	0.9%
53	\$11.70	\$11.90	\$0.20	1.7%
54	\$11.90	\$12.00	\$0.10	0.8%
55	\$12.00	\$12.10	\$0.10	0.8%
56	\$12.10	\$12.20	\$0.10	0.8%
57	\$12.20	\$12.40	\$0.20	1.6%
58	\$12.30	\$12.50	\$0.20	1.6%
59	\$12.40	\$12.60	\$0.20	1.6%
60	\$12.60	\$12.70	\$0.10	0.8%
61	\$12.70	\$12.80	\$0.10	0.8%
62	\$12.80	\$12.90	\$0.10	0.8%
63	\$12.90	\$13.00	\$0.10	0.8%
64	\$13.00	\$13.20	\$0.20	1.5%
65	\$13.10	\$13.30	\$0.20	1.5%
66	\$13.30	\$13.40	\$0.10	0.8%
67	\$13.40	\$13.50	\$0.10	0.7%
68	\$13.50	\$13.60	\$0.10	0.7%
69	\$13.60	\$13.70	\$0.10	0.7%
70	\$13.70	\$13.80	\$0.10	0.7%

Note: Concession fares are equal to half the equivalent adult fare, rounded down to the nearest 10 cents.

D Master Fare schedules

Table D.1 Adult master (unrounded) fares

Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2009	2010	Change	2009	2010	Change
1	\$2.03	\$2.05	1.2%	\$2.59	\$2.62	1.2%
2	\$3.01	\$3.05	1.2%	\$3.80	\$3.85	1.2%
3	\$3.76	\$3.80	1.2%	\$4.74	\$4.80	1.2%
4	\$4.41	\$4.46	1.2%	\$5.59	\$5.66	1.2%
5	\$4.99	\$5.05	1.2%	\$6.33	\$6.41	1.2%
6	\$5.56	\$5.63	1.2%	\$7.01	\$7.09	1.2%
7	\$6.03	\$6.10	1.2%	\$7.62	\$7.71	1.2%
8	\$6.51	\$6.59	1.2%	\$8.22	\$8.32	1.2%
9	\$6.96	\$7.04	1.2%	\$8.81	\$8.91	1.2%
10	\$7.37	\$7.46	1.2%	\$9.30	\$9.41	1.2%
11	\$7.74	\$7.83	1.2%	\$9.78	\$9.90	1.2%
12	\$8.15	\$8.25	1.2%	\$10.30	\$10.42	1.2%
13	\$8.49	\$8.59	1.2%	\$10.76	\$10.89	1.2%
14	\$8.88	\$8.99	1.2%	\$11.21	\$11.34	1.2%
15	\$9.22	\$9.33	1.2%	\$11.67	\$11.81	1.2%
16	\$9.50	\$9.61	1.2%	\$12.09	\$12.23	1.2%
17	\$9.86	\$9.98	1.2%	\$12.50	\$12.65	1.2%
18	\$10.20	\$10.32	1.2%	\$12.89	\$13.04	1.2%
19	\$10.47	\$10.59	1.2%	\$13.30	\$13.46	1.2%
20	\$10.81	\$10.94	1.2%	\$13.67	\$13.83	1.2%
21	\$11.09	\$11.22	1.2%	\$14.07	\$14.24	1.2%
22	\$11.42	\$11.56	1.2%	\$14.43	\$14.60	1.2%
23	\$11.69	\$11.83	1.2%	\$14.80	\$14.98	1.2%
24	\$11.95	\$12.09	1.2%	\$15.14	\$15.32	1.2%
25	\$12.25	\$12.40	1.2%	\$15.47	\$15.65	1.2%
26	\$12.49	\$12.64	1.2%	\$15.84	\$16.03	1.2%
27	\$12.78	\$12.93	1.2%	\$16.20	\$16.39	1.2%
28	\$13.01	\$13.16	1.2%	\$16.48	\$16.68	1.2%
29	\$13.25	\$13.41	1.2%	\$16.80	\$17.00	1.2%
30	\$13.53	\$13.69	1.2%	\$17.12	\$17.32	1.2%

Sections	Country Town Master Fare schedule			Rural Master Fare schedule		
	2009	2010	Change	2009	2010	Change
31	\$13.76	\$13.92	1.2%	\$17.43	\$17.64	1.2%
32	\$14.04	\$14.21	1.2%	\$17.75	\$17.96	1.2%
33	\$14.28	\$14.45	1.2%	\$18.05	\$18.26	1.2%
34	\$14.51	\$14.68	1.2%	\$18.34	\$18.56	1.2%
35	\$14.73	\$14.91	1.2%	\$18.68	\$18.90	1.2%
36	\$14.99	\$15.17	1.2%	\$18.97	\$19.20	1.2%
37	\$15.17	\$15.35	1.2%	\$19.26	\$19.49	1.2%
38	\$15.43	\$15.61	1.2%	\$19.56	\$19.79	1.2%
39	\$15.66	\$15.85	1.2%	\$19.82	\$20.06	1.2%
40	\$15.89	\$16.08	1.2%	\$20.08	\$20.32	1.2%
41	\$16.08	\$16.27	1.2%	\$20.40	\$20.64	1.2%
42	\$16.31	\$16.50	1.2%	\$20.65	\$20.90	1.2%
43	\$16.52	\$16.72	1.2%	\$20.93	\$21.18	1.2%
44	\$16.73	\$16.93	1.2%	\$21.20	\$21.45	1.2%
45	\$16.91	\$17.11	1.2%	\$21.46	\$21.71	1.2%
46	\$17.16	\$17.36	1.2%	\$21.71	\$21.97	1.2%
47	\$17.35	\$17.56	1.2%	\$21.97	\$22.23	1.2%
48	\$17.56	\$17.77	1.2%	\$22.22	\$22.48	1.2%
49	\$17.78	\$17.99	1.2%	\$22.51	\$22.78	1.2%
50	\$17.97	\$18.18	1.2%	\$22.74	\$23.01	1.2%
51	\$18.18	\$18.40	1.2%	\$23.04	\$23.31	1.2%
52	\$18.34	\$18.56	1.2%	\$23.27	\$23.55	1.2%
53	\$18.57	\$18.79	1.2%	\$23.50	\$23.78	1.2%
54	\$18.75	\$18.97	1.2%	\$23.74	\$24.02	1.2%
55	\$18.91	\$19.13	1.2%	\$23.97	\$24.25	1.2%
56	\$19.13	\$19.36	1.2%	\$24.22	\$24.51	1.2%
57	\$19.30	\$19.53	1.2%	\$24.47	\$24.76	1.2%
58	\$19.52	\$19.75	1.2%	\$24.68	\$24.97	1.2%
59	\$19.66	\$19.89	1.2%	\$24.90	\$25.20	1.2%
60	\$19.91	\$20.15	1.2%	\$25.19	\$25.49	1.2%
61	\$20.05	\$20.29	1.2%	\$25.39	\$25.69	1.2%
62	\$20.26	\$20.50	1.2%	\$25.62	\$25.92	1.2%
63	\$20.43	\$20.67	1.2%	\$25.84	\$26.15	1.2%
64	\$20.56	\$20.80	1.2%	\$26.08	\$26.39	1.2%
65	\$20.83	\$21.08	1.2%	\$26.30	\$26.61	1.2%
66	\$20.98	\$21.23	1.2%	\$26.55	\$26.87	1.2%
67	\$21.13	\$21.38	1.2%	\$26.76	\$27.08	1.2%
68	\$21.29	\$21.54	1.2%	\$26.96	\$27.28	1.2%
69	\$21.45	\$21.70	1.2%	\$27.18	\$27.50	1.2%
70	\$21.68	\$21.94	1.2%	\$27.42	\$27.75	1.2%

E Calculation of the Bus Industry Cost Index

As Chapter 2 explained, each year the individual items in the Bus Industry Cost Index (BICI) are inflated to reflect the changes in the cost of those items over the past year. Each cost item is inflated by a relevant data series or index, such as the Wage Price Index published by the Australian Bureau of Statistics. The results are then added together to calculate the annual change in the cost index.

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

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

With the exception of bus capital costs, we decided to inflate each of the cost items by the same inflators as was used last year. The inflators have been given significant consideration in the last 2 years and stakeholders did not put forward any new information or alternative inflators for any of the other cost items this year.

The section below provides an overview of the inflators for each cost item and the value of these inflators over the review period (1 July 2008 to 30 June 2009). The subsequent sections discuss the BICI calculation, each cost item's inflator and its value in more detail.

E.1 Annual increase in costs measured by the BICI

To analyse the increases in the ordinary costs of providing rural and regional bus services, we calculated the increase in costs for each cost item in the BICI (measured by its 'inflator'), then multiplied each inflator by the relevant weighting for that item and summed the increases calculated (see Box 2.1 for a simplified example of the BICI calculation). Using this method, we found that ordinary costs increased by 0.8% over the year to 30 June 2009.

E.2 Overview of the inflators and their value

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

E.2.1 Capital costs - bus

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

For the past 2 years we have used the 5-year Bank Bill Swap Reference Rate as the rate of interest in this calculation. Consistent with this decision, we again applied the 5-year Bank Bill Swap Reference Rate in this year's review.

In previous years, we have accepted estimates of bus capital costs provided by BusNSW, based on quotes for a basic bus body and chassis. Over the past 2 years, we have sought to improve the independence and transparency of this information. Last year we indicated that we would seek data from NSWTI (formerly the Ministry of Transport) and assess its suitability for use in the rural and regional bus review.

For this year's review, we obtained 2 sets of data on bus purchases prices from NSWTI.

NSWTI provided a set of quotes for rural and regional buses that it intends to use to escalate the capital cost component of the Contract B rural and regional bus service contracts. NSWTI considers that the average of these quotes is indicative of the change in costs for rural and regional operators because they are based on consistent specifications that are directly relevant to the services being provided under rural and regional bus service contract B. NSWTI advised that the quotes it provided to us have been reviewed and endorsed by an independent expert. The quotes obtained by NSWTI are set out in Table E.1.

Table E.1 Quotes for rural and regional buses obtained by NSWTI (ex GST)

	2007/08	2008/09
Quote 1	\$455,738	\$433,950
Quote 2	\$437,125	\$449,230
Quote 3	\$441,500	\$428,250
Average	\$444,788	\$437,143

Source: NSWTI.

NSWTI also provided a list of prices of all buses purchased under the metropolitan and outer metropolitan bus service contracts. Under these contracts (which are structured quite differently from the rural and regional contracts), operators must obtain NSWTI's approval for all new buses purchased. NSWTI advised that this information is commercially sensitive and therefore cannot be published. NSWTI does not recommend the use of this data as a measure of capital costs for rural and regional buses because the specifications appear to vary within each region as well as across different regions, and these have a significant impact on bus prices.

We decided to use the quotes obtained by NSWTI for rural and regional buses as the basis for the bus capital cost in the inflator calculation. In our view, this data best meets our criteria because it is:

- ▼ directly relevant to services provided by rural and regional buses (Contract B)
- ▼ independently gathered rather than provided by the industry
- ▼ a good measure of the actual change in costs over time because the specifications are consistent
- ▼ consistent with data used by NSWTI to measure the change in the same cost item for escalating the rural and regional bus contract payments
- ▼ based on data that can be published.

In the public hearing, BusNSW noted the importance of ensuring that data is compared on a like basis from 1 year to the next.³⁰ In our view, the use of quotes obtained by NSWTI is the best method of ensuring this. Using data that is directly relevant to the buses being used to provide Contract B services also addresses concerns raised by BusNSW that data collected under other types of contracts may need to be adjusted in future years to take into account unusual circumstances that don't apply to rural and regional buses.³¹

Using the method described above, we found there was a 6.3% decrease in the monthly lease payment for buses (Table E.2). When multiplied by the weighting for this cost item, the increase in this cost resulted in a 1.2% reduction in the total costs of providing bus services.

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

	2007/08	2008/09	Change
Average cost of a bus ^a	\$444,788	\$437,143	-1.7%
Interest rate ^b	7.25%	5.28%	-27.2%
Lease cost ^c	\$8,861	\$8,296	-6.3%

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

^b 5-year BBSW.

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

³⁰ IPART, Public Hearing Transcript, 11 November 2009, p 32.

³¹ BusNSW, email to IPART, 20 November 2009.

NSWTI has advised that it will obtain a comparable set of quotes in future years for use in escalating the capital cost component of the rural and regional bus contracts. As such, we propose to continue to use this information to calculate the inflator for bus capital costs in future years.

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

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

- ▼ wages and salaries using the change in the Wage Price Index (WPI) in NSW for all industries published by the ABS³²
- ▼ superannuation, payroll tax and workers compensation using the change in the relevant Non-Wage Price Index (NWPI)³³.

As WPI is released quarterly, we calculated the annual change using the average index value over the 4 quarters to June 2009 divided by the average index value over the 4 quarters to June 2008. For the NWPI measures, for which only annual figures are available, we divided the annual figure for 2009 by the annual figure for 2008 to obtain the percentage change.

We found that there was a:

- ▼ 3.8% increase in salaries and wages costs
- ▼ 3.2% increase in superannuation costs
- ▼ 1.1% increase in payroll tax costs
- ▼ 2.4% reduction in workers compensation costs.

After weighting, these increases in people-related costs added 1.67% to the total costs of providing bus services.

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

Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (for example, labour, capital, raw materials). Growth in productivity reflects the achievement of greater outputs for a given level of input.

³² Total hourly rates of pay excluding bonuses; NSW; All industries; Private and Public; All occupations.

³³ Financial Year Indexes; NSW; All industries; Private and Public; Payroll tax, Superannuation and Workers' Compensation - released by the ABS in September.

This can be achieved through reduced costs, but also through increased levels of value-adding, such as increased performance or improved service quality.

In recent years, we have indicated that we would like more data, particularly data on passenger kilometres, to allow industry-specific productivity adjustments to be made in future.³⁴ Last year we noted that some of this information should become available in future as a result of the reporting requirements under the new contracting arrangements. However, as the contracts have not been in place for very long, it is not currently available.³⁵

This year we still did not have sufficient information to calculate bus industry specific productivity adjustments specifically for rural and regional bus operators for this year's review. In addition, the ABS has not released any new economy wide productivity information that we could use to update our decision. Taking into account the fact that many of the bus operators are small businesses, and their short-term productivity is closely linked to patronage, we decided not to make a productivity adjustment this year. We will reconsider the issue of productivity as part of our next review.

E.2.3 Bus insurance costs

We use the insurance services sub-group of the CPI as the inflator for this cost item. As for the other ABS measures for which quarterly data is available, we measured the annual change in the insurance services sub-group (Sydney CPI, all industries) using the average of 4 quarters to June 2009 divided by the average of 4 quarters to June 2008. The resulting annual change in this inflator was 11.4%. After weighting, this resulted in a 0.2% increase in the total costs of providing bus services.

E.2.4 Fuel

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

We used annual averages of FUELtrac diesel price data across the full year, for both years to determine the cost increase. To be as cost reflective as possible, the fuel price data used applies to rural and regional areas, specifically, we used data for 35 country towns in NSW. Using this approach, fuel costs fell by 3.7%. After weighting, this cost reduced the total cost of providing bus services by 0.4%.

³⁴ Eg, IPART, *Review of fares for rural and regional buses and private ferries from 2 January 2008*, p 23.

³⁵ NSWTI, Letter to IPART, 26 October 2009.

E.2.5 Bus repairs and maintenance costs

We use the motor vehicle repairs and maintenance category of the CPI as the inflator for the repairs and maintenance cost item of the BICI. As for the other ABS measures for which quarterly data is available, we measured the annual change in the Motor Vehicle Repair and Servicing sub-group (Sydney) using the average of 4 quarters to June 2009 divided by the average of 4 quarters to June 2008. The resulting annual change in this inflator was 2.5%. After weighting, this resulted in a 0.1% increase in the total costs of providing bus services.

E.2.6 Other costs

We use the change in the CPI as the inflator for the 'other' cost item of the BICI. As for the other ABS measures for which quarterly data is available, we measured the annual change in the CPI (Sydney) using the average of 4 quarters to June 2009 divided by the average of 4 quarters to June 2008. The resulting annual change in this inflator was 3.1%. After weighting, this resulted in a 0.4% increase in the total cost of providing bus services.

E.3 Weightings for next year's review

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

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

Table E.3 BICI weightings for the 2010 review

Cost item	2008 weighting %	2008 inflator value %	2009 weighting %
Capital costs – bus	18.97	-6.26	17.57
Salaries and wages ^a	41.68	4.63	43.08
Superannuation ^a	3.52	4.04	3.62
Payroll tax ^a	2.07	1.95	2.09
Workers compensation	1.63	-2.44	1.57
Insurance	1.69	11.39	1.85
Fuel	11.48	-3.71	10.93
Bus repair and maintenance	4.51	2.52	4.57
All other costs	14.44	3.09	14.71
Total	100.00		100.00

^a The inflators for these items include the extended application of the 7% wage parity increase.

Note: Columns may not add due to rounding.

