Report on fares for private buses and ferries

From 31 August 2003

Report to the NSW Minister for Transport Services

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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1 SUMMARY OF RECOMMENDATIONS

The Tribunal has conducted its 2003 review of prices for NSW private buses and private ferries.

As part of the review process, the Tribunal undertook extensive public consultation, published an Issues Paper in April 2003, invited submissions and held a public workshop on 26 June 2003. It also engaged consultants to provide expert analysis and advice on the alternatives to the Bus Industry Cost Index (BICI) and its components and weights.

1.1 Recommendation on fare levels

The Tribunal recommends for buses that:

- the maximum private bus fares under commercial contracts be permitted to rise by **5.62** per cent
- the revenue required under non-commercial contracts be permitted to rise by between **0.98** per cent and **3.02** per cent, depending on the bus category involved.

And for ferries that:

- the maximum private ferry fares be increased to remove anomalies in the composition of fares between operators, considering recent cost increases and operator financial viability. The Tribunal recommends that maximum fares rise by between 8.0 per cent and 36.4 per cent. In absolute terms the rises range from **40 cents** to **$1.20** a journey.

1.2 Impact of recommendations on customers, the environment and operators

Customers
The overall impact on customers as a whole is likely to be small because urban transport fares comprise under 1 per cent of the average Australian household's spending.

For individual users of public transport, the proportion would be higher. The income range for private bus users is very wide since they are used extensively for both commuting and non-commuting purposes. Data on incomes of private ferry users are unavailable.

The environment
The impact on the environment from the pricing recommendations, as far as pollution and congestion goes, is likely to be minimal given that the state's bus and ferry fleets are tiny compared to the NSW stock of passenger motor vehicles of over three million.

Operators
In both cases, the fares recommended should prevent any deterioration in profitability that might be generated by lower profit margins.

The financial impact of the pricing recommendations on the private bus industry will be neutral for commercial contracts because the rises are in line with the rise in costs of operating a private bus. The financial impact on non-commercial operators is likely to be slightly adverse because the rises recommended in required revenue do not fully match the inflation rate.

The rise in private ferry fares will go some way to restoring the financial viability of an industry that has been experiencing difficulty for some time.

1.3 Recommendation on the Bus Industry Cost Index (BICI)

The Tribunal undertook its own review of the Bus Industry Cost Index model and sought an independent assessment by consultants Booz Allen Hamilton. Both the Tribunal and the consultant found the approach reasonable and preferable to such alternatives as:

- CPI-related fare-setting across all operators or
- individual operator fare-setting that generated reasonable market returns for efficient operators providing specified levels of service.

Alternatives like these were aired in the Tribunal's Issues paper of April 2003 and were not supported by industry associations. The consultant's report suggested improvements to the BICI which the Tribunal will discuss with the BCA after the current review has concluded. The question of tolls as a cost item and the emergence of express private bus commuter services to the city and their cost structure will also be discussed.

1.4 Recommendation on non-commercial contracts

This year the BCA introduced the ITS (Institute of Transport Studies) model. It replaces the so-called PricewaterhouseCoopers (PwC) model for determining required revenue.

The Tribunal examined the ITS model in some detail and has amended it in consultation with the BCA and ITS. The Tribunal has concluded that the amended model is a robust extension of the PwC work, worthy of more detailed analysis, and is likely to be a sound basis for future required revenue calculations. The Tribunal has estimated revenue requirements for 2003/04 by increasing the previous level of payments by the percentage increase indicated by the amended ITS model.

1.5 Recommendation on private ferry fare regulation

As in previous reviews, the Tribunal questioned the need for fare regulation of private ferries.

Private ferry operators have been granted exclusive rights to particular routes or regions, but the diminishing number of operators suggests a rigorous regulatory regime for fares may not be required. This is especially true for operators competing with Sydney Ferries in Sydney Harbour. Most regional private ferry operators face competition from land transport, water taxis and commuter dinghies. Use of their services is also often of a discretionary nature, such as trips by holidaymakers and other tourists.

The Tribunal recommends that the private ferry contracting system be reviewed with a view to removing fare regulation. Where a ferry operator is an essential and dominant part of the transport infrastructure, price monitoring may be the most appropriate form of government oversight.

Other aspects of regulation, such as safety and accreditation of operators, would remain unchanged.

2 INTRODUCTION AND REVIEW PROCESS

In November 2002, the then Minister for Transport requested that the Tribunal investigate and report on prices for taxis, private buses and private ferries regulated under the *Passenger Transport Act 1990* on an annual basis, up to and including the 2007/08 financial year.

In conducting these investigations the Tribunal is required to consider submissions from key stakeholders and the general community. The Tribunal's role was similar to last year, but this year there was a greater level of public consultation because of the private bus and ferry workshop held on 26 June 2003.

2.1 Structure of report

This report explains the Tribunal's recommendations in detail, including why it reached its decisions and what those decisions mean for private bus and ferry operators and their customers. It is structured as follows:

- Chapter 3 provides an overview of the submissions.
- Chapter 4 presents and assesses the bus industry cost index (BICI) for commercial contracts item by item and considers Tribunal amendments to it, including a consideration of financial viability and fare changes.
- Chapter 5 presents and assesses the non-commercial model submitted by the BCA and considers Tribunal amendments to it and the required revenue recommendations that flow from it.
- Chapter 6 presents and assesses the ferry cost index presented by the CVA and considers Tribunal amendments to it, including a consideration of the anomalies in current ferry fares, and recommended fare changes.
- Chapter 7 discusses service quality issues.
- Chapter 8 considers social, environmental and other issues, including alternative approaches to the present bus industry cost index and non-commercial model.

The Tribunal members who undertook the review were Dr Thomas Parry (Chairman), Mr James Cox (Full-time Member), and Ms Cristina Cifuentes (Member).

2.2 The Tribunal's review process

The Tribunal has made its price recommendations for NSW private bus and ferry fares in accordance with section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act, 1992* (the IPART Act).

The Tribunal's review included its own investigation and public consultation.
The Tribunal:

- released an issues paper in April 2003 which included the terms of reference for the review – see Appendices 1 and 2
- invited the Bus and Coach Association of NSW (BCA) and the Charter Vessel Association of NSW (CVA) to provide submissions before 30 May 2003 detailing their pricing proposals and other issues raised in the issues paper

- invited other interested parties to respond to the above submissions by mid-June. This was later extended to late June in view of the delayed submission of the State Transit Authority. Twenty two written responses were received. Appendix 3 lists the respondents; most are available at www.ipart.nsw.gov.au
- held a public workshop on 26 June 2003 and invited some of the parties who submitted written responses to present their submissions. Appendix 3 lists the workshop attendees and their affiliations
- engaged Booz Allen Hamilton (Australia) to review of fare setting approaches for private bus services, survey interstate fare adjustment mechanisms and to assess the BICI with suggestions for improvements

In addition, the Tribunal explicitly considered all the matters outlined in the terms of reference from the Premier and the then Minister for Transport who also asked the Tribunal to:

1. identify and broadly assess alternative approaches to the BICI as a basis for commercial bus fare changes, and
2. identify and broadly assess alternative approaches to the non-commercial model as a basis for non-commercial bus payment changes, taking into account any relevant contractual issues.

The Tribunal's consideration of all the above matters is discussed throughout the report. Appendices 1 and 2 indicate where each matter has been discussed in this report.

3 SUBMISSIONS FROM INDUSTRY AND GENERAL PUBLIC

3.1 Bus and Coach Association (BCA)

On 30 May 2003, the Bus and Coach Association (BCA) formally lodged its submission for a fare increase for commercial contracts and for updated revenue requirements for non commercial contracts.

3.1.1 Commercial contracts – Bus Industry Cost Index

The Bus Industry Cost Index (BICI) for 2003 is shown in Table 3.1. The increase in the BICI submitted by the BCA is 5.59 per cent.

Table 3.1 Private bus operating costs – BCA

Individual Item Costs	Base Weights 1 July 02	Costs 1 July 02	Costs 30 June 03	Percentage Change	Contribution to total rise
Capital costs					
Mercedes chassis		$192,206	$234,500		
Custom coach body		$170,500	$181,500		
Bond rate		6.32%	5.65%		
Monthly lease paym't	**15.84%**	$7,066	$7,975	12.86%	**2.04**
People costs					
Award rate of pay	42.06%	$626.26	$646.60	3.25%	
Superannuation	3.73%	$56.36	$58.19	3.25%	
Payroll tax	2.30%	$40.96	$42.29	3.25%	
Workers comp.	2.52%	$37.68	$38.66	2.59%	
Total	**50.61%**				**1.63**
Bus ins/rego					
Greenslips	1.75%	$2,145.30	$2,684.50	25.13%	
Compre per $1000	1.27%	$12.23	$13.83	13.09%	
Registrations	0.69%	$859.00	$882.00	2.68%	
Total	**3.71%**				**0.63**
Bus lubricants	**10.37%**	$0.8900	$0.9194	3.30%	**0.34**
Repairs/maint					
Major service	4.18%	$1,105.50	$1,200.00	8.55%	
Tyres	1.09%	$658.15	$677.60	2.96%	
Total	**5.27%**				**0.39**
All other costs (CPI)	**14.20%**	134.04	139.29	3.91%	**0.56**
Total	**100.00%**				**5.59%**
ANTS Adjustment for 2003/2004					0.75%
Total Claim for fare increase 2003/2004					**6.34%**
ANTS Adjustment for 2001/2002					0.75%
ANTS Adjustment for 2002/2003					0.75%
Adjustment factor if fare increase from 1 September 2003 (i.e. 12/10)					120%
TOTAL FARE INCREASE IF ALL ADJUSTMENTS INCLUDED					**9.41%**

The BCA also requested a number of one-off adjustments, resulting in a total proposed fare increase of 9.41 per cent. The basis of these adjustments is summarised below.

ANTS/GST Adjustments

The BCA requested adjustments "to correct the fare rise calculations used to convert pre-GST costs to GST/ANTS adjusted opening costs from July 2001" (BCA submission p 4). The BCA submitted that there had been a shortfall in each year since July 2001 and requested an additional 0.75 per cent on fares for each of these years to recover lost revenue.

The BCA also requested that the Tribunal calculate a compounding factor in addition to the above adjustments, to take into account the revenue lost to operators over that period. This factor was not included in the requested 9.41 per cent.

Delayed Implementation Adjustment

The BCA requested that the fare increase be inflated by a factor of 12/10 to take into account a delay of 2 months from the 1 July implementation date of the previous year. The 12/10 adjustment factor would recover the 2 months' lost additional revenue from cash fares. In the BCA's view, this would be in line with revenue from SSTS and half-fare reimbursements which the BCA had requested the Ministry of Transport (MoT) backdate to 1 July.

3.1.2 Non-commercial contracts

Non-commercial contracts fall into four bus categories. The revenue required for each bus to cover costs and earn a return on investment is calculated from underlying assumptions on distance travelled, hours taken and number of school days.

The revenue requirements for buses that travel 100 kilometres and four hours per day and receive a fuel rebate are shown in Table 3.2. These have been determined by the model developed by the Institute of Transport Studies (ITS) for the BCA.

Table 3.2 Revenue requirements – non commercial contracts ($)

Items in Non-Commercial model	Cat. 1 $	Cat. 2 $	Cat. 3 $	Cat. 4 $
COSTS				
Bus related costs	15,959	17,691	23,451	27,415
Driver related costs per hour	18,491	18,491	18,491	18,491
Driver related costs per day	2,071	2,071	2,071	2,071
Fuel related costs	2,889	3,392	3,440	4,397
Other distance related costs	2,648	3,650	4,963	4,866
	42,057	**45,296**	**52,415**	**57,240**
REQUIRED RETURN				
ACC* including risk free interest	4,591	10,414	15,280	18,428
Risk premium	1,244	3,319	8,714	10,963
Spare bus allowance	584	1,373	2,399	2,939
	6,419	**15,106**	**26,393**	**32,330**
NET REVENUE REQUIRED PER BUS	**48,476**	**60,401**	**78,808**	**89,570**
GST	4,848	6,040	7,881	8,957
TOTAL REVENUE REQUIRED PER BUS	**53,324**	**66,441**	**86,689**	**98,527**

Note: * ACC refers to Annualised Capital Cost. Cat. 1 is a 'Category 1' or 7-11 seater bus, Cat. 2 a 'Category 2' or 12-25 seater bus, Cat. 3 a 'Category 3' or 26-41 seater bus, Cat. 4 a 'Category 4' or 42 or more seater (full size bus).

3.1.3 Other Issues in the BCA submission

Financial Viability

The Ministry of Transport (MoT) commissioned Indec Consulting to review:

1. the financial viability of bus operators
2. key performance indicators and
3. efficiency measures.

The review would encompass both private and Government owned operators, and interstate comparators, but it was not available to the BCA in time for its written submission. The BCA "Believes the review will show private operators to be highly efficient, confirming there is no room for cost savings" (BCA submission p 6).

Quality of Service

The BCA asserted that the private bus industry "operates to a very high level of service quality" (BCA submission p 27). It stated that contracted service standards are met, and cited examples of innovative marketing and service initiatives (eg, cross regional services).

However, little data on actual performance are available. The BCA previously commissioned the Institute of Transport Studies to develop a Service Quality Index (SQI), which identified 13 attributes for service quality. It was intended that this SQI be measured every two years, but "TCA [now MoT] did not support the regular use of this Service Quality Index and hence it has not been repeated" (BCA submission p 29).

The Tribunal understands from the MoT that the Performance Assessment Regime has not been implemented.

The BCA raised several concerns about the monitoring of operator performance by the MoT.

> Private bus operators continue to meet their contractual requirements and believe TCA has not met its commitment to data collection, performance assessment and effective audit and compliance (BCA submission p 18).
>
> Monitoring and enforcing performance standards is the responsibility of TCA (the Contractor). It is apparent to the industry that TCA is well behind on its audit program and apparently has failed to capture and adequately report on operators' performance (BCA submission p 27).

While little information is provided on non-commercial services, the BCA stated, "Recent PwC audits (commissioned by Government) of Non-Commercial Contracts reported that an extremely high level of services operate reliably and on time" (BCA submission p 21).

Concession Fares

The BCA desires "A change in half-fare concession reimbursement from 50 per cent to 75 per cent of an equivalent full-fare. This would allow operators to reduce nominated concession fares from 50 per cent to 25 per cent" (BCA submission p 7). This would be a move towards the low fares enjoyed by pensioners and seniors on STA services, but would not enable multiple trips. The issue is outside the Tribunal's terms of reference.

Parity with Government bus services

The BCA requested equity for fares, concession reimbursements and contract conditions with private and Government bus services. The BCA "Recommends that a single fare policy and contract and funding structure apply across Metropolitan Sydney as part of a new Sydney Bus Plan" (BCA submission p 8). The issue is likely to be addressed in the Ministerial inquiries being conducted by Dr Parry and Mr Unsworth.

3.2 Submission by the CVA

The Charter Vessel Association (CVA) represents the (now) six private ferry operators in NSW. These are Church Point Ferry Service, Clarence River Ferry Service, Cronulla and National Park Ferry Cruises, Dangar Island Ferry Service, Matilda Cruises and Palm Beach Ferry Service. Hegarty's Ferries ceased operation for the second time this year in early May, and Brisbane Waters Ferries ceased operation in 2002, reportedly due to continuing losses.

In the past, fare increases have been awarded in line with demonstrated costs rises measured by an industry cost index. The CVA contended that this is inadequate; a more substantial increase was needed to address the industry's unprofitably. The CVA requested a **30.25** per cent fare increase, comprising 19.5 per cent to improve financial viability and 10.75 per cent to compensate for increased costs.

3.2.1 Cost Increases

The ferry cost increases submitted by the CVA are presented in Table 3.3. They will be assessed in detail in Chapter 6.

Table 3.3 Private Ferry Operator Cost Index as submitted by CVA

Costs	Operator Cost Increases (%):				
	1	2	3	4	Total
Labour	3.36	20.00	-1.97	3.00	**6.10**
Fuel	12.67	33.00	6.08	13.80	**16.39**
Repairs and Maintenance	32.69	51.00	35.52	13.80	**33.25**
Insurance	30.22	17.00	8.47	11.00	**16.67**
Depreciation	0.00	35.02	-14.29	15.00	**8.93**
Interest	27.78	33.00	28.79	7.40	**24.24**
Licensing Fees	10.63	-55.00		8.00	**-9.09**
Berthing/Mooring Fees			-41.73	6.00	**-8.93**
Advertising	-100.00	-13.00	-6.67	14.30	**-26.34**
Motor Vehicle Expenses	-28.73	-8.00	-40.84		**-19.39**
Other	-8.03	22.23	-21.18	12.00	**1.25**
Total	**8.97**	**43.53**	**0.35**	**8.00**	**10.75**
Return on Assets	**-10.3%**	**10.2%**	**-6.8%**	**-10.8%**	**-4.4%**

4 TRIBUNAL ASSESSMENT OF THE BUS INDUSTRY COST INDEX

The BCA has used the BICI to support its request for private bus fare increases. The Tribunal's approach to the cost index has been to consider whether the change in the cost of each item has been:

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

The Tribunal has not conducted a detailed examination of all the cost items. It has made its own enquiries on many of them but has relied primarily on written quotes given to the Bus and Coach Association for such items as insurance and bus capital costs.

4.1.1 Rounding

In its calculation of the BICI, the BCA used a formula to round the 'contribution to total rise' of each component. The Tribunal's preferred approach is to round the final cost increase calculated by the BICI rather than to round at intermediate stages. As such, the Tribunal amended this calculation. This results in a rise in the BCA's original BICI of 5.58 per cent (rather than 5.59 per cent).

4.1.2 Bus capital costs

Bus capital costs rose 12.86 per cent over the past 12 months, despite a reduction in the lease interest rate assumed in the BICI. This is due to a 22 per cent increase in the cost of a Mercedes chassis. Discussions with the Ministry of Transport, the BCA and bus suppliers suggest that this is the result of regulatory requirements (specifically related to the Disability Discrimination Act - DDA) under which every new bus purchased must have a low floor.

For the purposes of the BICI, bus capital costs are calculated as a monthly lease payment. This assumes a 5-year lease at the government bond rate. The bus cost comprises a Mercedes chassis with a custom coach body. The BCA has provided quotes from its suppliers stating the current cost of each of these components. The Tribunal has contacted the suppliers to verify that these prices are current as at 30 June 2003, and that they do not include air conditioning or other features above that present on a 'standard' bus.

Tribunal assessment

The BCA has used a bond rate of 5.65 per cent to calculate the monthly lease payment on buses. This was the average 10 year bond rate over the period of 1 April 2002 to 31 March 2003. The average bond rate 1 April 2002 to 30 June 2003 was 5.42 per cent. Adjusting for the lower average bond rate reduces the rise in the BICI to 5.53 per cent.

4.1.3 People costs

People costs have increased by 3.2 per cent since July 2002. This is consistent with the increase in the award rate of pay for private bus drivers. Non-wage costs included in this category – superannuation, workers' compensation and payroll tax - have also risen in proportion to the increase in award wages.

Over 80 per cent of the value of the people costs item consists of wages. The cost item is the largest in the BICI, with a weighting of more than 50 per cent. Increases in it are driven by increases in the award wage rate.

Tribunal assessment

The Tribunal has verified that the wage rates submitted by the BCA are current as at 30 June 2003. Superannuation, payroll tax and workers compensation have all been included in the BICI at the statutory rates as at 30 June 2003 which come into effect from 1 July 2003.

4.1.4 Bus insurance and registration

This cost category rose 5.1 per cent to June 2003, driven by a 13.1 per cent increase in the cost of comprehensive insurance.

Registration costs rose 2.7 per cent. The cost of greenslips rose 25.13 per cent on the June 2002 premiums, effective 1 July 2003. The Tribunal has had lengthy discussions with both Zurich and Busguard (a broker that onsells greenslips to the bus industry). Zurich confirmed that the big leap in new premiums would become effective from 1 July.

At the 26 June workshop, the BCA argued that the 25 per cent increase in premiums ought to be included in the current fare review because:

1. it is a *known* cost impost, and
2. the cost items Wages, Superannuation and Workers' Compensation were all included in the then-current BICI despite the fact that they do not come into force until after the end of the last quarter to which the BICI relates.

Comprehensive insurance costs as included in the BICI are calculated as the increase in total premiums paid per thousand dollars of asset value. This information has been provided by AEI Insurance Brokers, as in previous years. The data provided by the BCA was dated 27 May 2003. However, discussions with AEI confirm that premiums have not risen before 30 June 2003 and therefore the current figures stand.

Tribunal assessment

Greenslip costs as included in the BICI have increased by 25.1 per cent from a June 2002 base. However, premiums were reduced from October 2002 by 3.28 per cent. The supporting BCA documentation shows that greenslip premiums do not rise until 1 July.

In previous reviews the Tribunal's position on greenslips has been to only include increases in premiums that occur prior to the 30 June cut off (unlike wages, superannuation and workers' compensation).

One reason for this is that the latter three commence from 1 July for all operators but higher greenslip insurance costs are only paid progressively as vehicle registration falls due.

The Tribunal does not wish to depart from this treatment, and as such the rise in greenslip premiums scheduled from 1 July 2003 has not been included in the cost index. Applying the insurance rates that prevailed in 2002/03 reduces the rise in the BICI by 0.48 percentage points, to 5.05 per cent.

4.1.5 Bus lubricants

Fuel costs have increased 3.3 per cent in the BICI. The BCA provided daily diesel prices as part of its submission, and averaged these over 1 April 2002 to 31 March 2003. The Tribunal is satisfied that the price data, sourced from Mobil, are accurate.

Tribunal assessment

Fuel costs as recorded in the BICI are derived from the daily average price of diesel from 1 April 2002 to 31 March 2003. Fuel prices fell in the June quarter. Adjusting for this by using the rise in the average fuel price since 1 April 2002 reduces the BICI rise to 4.92 per cent.

4.1.6 Bus repairs and maintenance

Repairs and maintenance costs have risen 7.4 per cent on average, comprising an 8.55 per cent rise in the cost of a Mercedes major service and a 3 per cent rise in the cost of tyres.

Tribunal assessment

The Tribunal verified that the quotes provided by the BCA are correct. Suppliers say that no further rise in the items occurred prior to 30 June 2003.

4.1.7 All other costs

The index includes a category for other miscellaneous cost items which are inflated by the CPI. These unidentified items are collectively weighted at 14.20 per cent of the index.

Tribunal assessment

The BCA has used a figure of 3.9 per cent for the CPI rise, which is the rise in the ANTS-adjusted CPI through the year to March quarter 2003.[1] The Tribunal has updated the CPI for June quarter data. The average rise since March quarter 2002 converted by the ANTS adjustment is 3.55 per cent. This adjustment decreases the BICI rise to 4.87 per cent.

4.1.8 Summary of Tribunal's proposed amendments

Table 4.1 summarises the impact of the amendments to the BICI.

Table 4.1 Summary of Tribunal's proposed amendments to the BICI

	Total increase required (%)
BCA Submission	**5.59**
Round at final numbers stage	5.58
Adjust bond rate for June quarter data	5.53
Remove 2003/04 rise in greenslip premiums	5.05
Adjust fuel prices to include June quarter data	4.92
Adjust CPI for June quarter data	4.87
Tribunal's amended BICI	**4.87**

1 Econtech provided the Tribunal with an ANTS CPI adjuster to be applied each quarter until June 2004 in a paper commissioned by the Tribunal entitled, *Estimating the New Tax System Effect on the Consumer Price Index,* 19 February 2001.

The Tribunal's amended cost index is shown in Table 4.2.

Table 4.2 Amended Bus Industry Cost Index

Individual Item Costs	Base Weights 1 July 02	Costs 1 July 02	30 June 03	Percentage Change	Contribution to total rise
Capital costs					
Mercedes chassis		$192,206	$234,500		
Custom coach body		$170,500	$181,500		
Bond rate		6.32%	5.53%		
Monthly lease paym't	**15.84%**	$7,066	$7,952	12.53%	**1.99**
People costs					
Award rate of pay	42.06%	$626.26	$646.60	3.25%	
Superannuation	3.73%	$56.36	$58.19	3.25%	
Payroll tax	2.30%	$40.96	$42.29	3.25%	
Workers comp.	2.52%	$37.68	$38.66	2.59%	
Total	**50.61%**				**1.63**
Bus ins/rego					
Greenslips	1.75%	$2,145.30	$2,092.50	-2.46%	
Compre per $1000	1.27%	$12.23	$13.83	13.09%	
Registrations	0.69%	$859.00	$882.00	2.68%	
Total	**3.71%**				**0.14**
Bus lubricants	**10.37%**	$0.8900	$0.9088	2.11%	**0.22**
Repairs/maint					
Major service	4.18%	$1,105.50	$1,200.00	8.55%	
Tyres	1.09%	$658.15	$677.60	2.96%	
Total	**5.27%**				**0.39**
All other costs (CPI)	**14.20%**	134.04	138.79	3.55%	**0.50**
Total	**100.00%**				**4.87%**

4.1.9 ANTS/GST adjustment

The BCA requested a number of adjustments "to correct the fare rise calculations used to convert pre-GST costs to GST/ANTS adjusted opening costs from July 2001" (BCA submission p 4). The BCA submitted that there has been a shortfall in each of the years since July 2001, and thus requested an adjustment of 0.75 per cent on fares for *each* year to recover that lost revenue.

The BCA has also requested the Tribunal calculate a compounding factor in addition to the above adjustments, to take into account the time value of the revenue lost to operators over that period.

Tribunal assessment

Correspondence on the BCA's requested ANTS adjustment between the Tribunal, BCA and the Ministry of Transport shows that the matter was settled in February 2003, with the Tribunal recommending a one off adjustment of 0.75 per cent to fares. Given that date, the Tribunal can see no justification either for backdated adjustments to fares for previous financial years or a related compounding factor, the BCA's considerable loss of revenue in 2001/02 and 2002/03 notwithstanding.

The Tribunal concludes that only one increment of 0.75 per cent is required to lift the level of the BICI index to the level that it would have been at had the 0.75 per cent increment been granted two years ago. The extra 0.75 per cent increases the recommended fare increase to 5.62 per cent.

4.1.10 Delayed Implementation Adjustment

The BCA asked the Tribunal to multiply the fare increase it would otherwise have received by 12/10 to compensate bus operators for the revenue they lost in July and August because the fare increase is to take place on 31 August, not 1 July. The Tribunal has decided not to grant this adjustment because the Tribunal has allowed for 15 months of cost increases (from March quarter 2002 to June quarter 2003) in updating the BICI. Moreover, the timing adjustment is complex and hard to understand.

4.1.11 Financial Viability Study

The BCA asked the Tribunal to consider the findings of the Indec Consulting report into financial viability. The BCA expected it to confirm that private bus operators are not making sufficient returns.

Tribunal assessment

The Tribunal has critically examined the Indec Consulting report (not detailed here). It defines financial viability in terms of "an acceptable annual rate of return on assets" (Indec Consulting Report p i) but then fails to provide evidence on rates of return. Rather, it is limited to various reported and adjusted measures of earnings. It expresses them as a percentage of revenue (a gross margin concept), despite collecting capital cost and balance sheet data.

The fact that 7 of the 19 operators have negative reported earnings before tax creates a *prima facie* case for saying that some operators are in poor financial straits. Indec Consulting concludes that "3-4 face significant financial viability problems" (p 33) but also notes the poor quality of the data collection and concludes "Upon analysis of data provided it became clear that many statistics needed further clarification" (p 32).

The Tribunal is reluctant to rely on Indec's findings at this stage, and recognises that private bus financial viability may well be considered as part of the inquiry being conducted by Mr Unsworth. As such the Tribunal does not consider it appropriate to recommend a top-up across-the-board on private bus fares for financial viability at this time.

4.2 Tribunal recommendation on private bus fares

The Tribunal recommends that private bus fares for commercial contracts rise by 4.87 per cent on 31 August 2003 plus a 0.75 per cent adjustment for the introduction of A New Tax System.

The total fare increase recommended is therefore **5.62** per cent.

4.3 Alternatives to the Bus Industry Cost Index

The Tribunal undertook its own review of the Bus Industry Cost Index model and invited an independent assessment by consultants Booz Allen Hamilton (Australia).

Both the Tribunal and the consultant find the approach reasonable, and preferable to such alternatives as CPI-related fare-setting across all operators or individual operator fare-setting that generated reasonable market returns for efficient operators providing specified levels of service.

Alternatives like these were aired in the Tribunal's Issues paper of April 2003 and found no support from the industry associations. The consultant's report suggested several improvements to the BICI which the Tribunal recommends be taken up in discussions with the BCA after the current review has concluded. For example:

> The cost components used in the current BICI model are … generally very similar to the components used in the comparable interstate models designed for similar purposes. We see no compelling reason to change the BICI components at this stage, although suggest they be reconsidered in any 'major structural review' of the model.[2]

Refinements to, rather than replacement of, the BICI will be discussed with the BCA in the lead-up to the next private bus fares review process.

4.3.1 Treatment of new cost items

In recent years, higher costs of buses caused by disability access requirements or tighter emission standards have been a source of cost escalation within the bus capital costs section of the relevant indices. To date, the Tribunal has dealt with these mounting costs on a case – by-case basis within the confines of the cost index approach (in this review, the prime example is the adjustment to the new bus capital cost in the BICI in section 4.1.2).

One drawback with a cost index approach is that new items are not easily introduced in such a framework. The issue was discussed briefly in the April Issues Paper (p.23-24).

The difficulty arises because any new item must be introduced in two stages. The first stage requires an assessment of how much impact the new cost is having on unit costs, especially costs per trip. That impact can then be offset by a one-off adjustment to fares.

The second stage is to splice the new item into the index (often removing an old item in the process) so that changes in the cost can be captured in subsequent years' fare setting. This would involve a re-weighting of other items in the cost index.

As an example of an emerging cost item, one operator of an express bus service into Sydney has pointed out the mounting cost of road tolls. This and related issues will be discussed with the BCA prior to next year's review.

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2 Booz Allen Hamilton (Australia), *Fare-setting Approaches for Private Bus Services,* July 2003, p 18; posted on the Tribunal's website in July.

5 TRIBUNAL ASSESSMENT OF NON-COMMERCIAL MODEL

5.1 Background

Payments to private operators who provide non-commercial services are not based on a fare schedule. Payments are made in relation to 'revenue required' to provide a bus for specified service. At least from the mid-1990s, required revenue was calculated in a framework known as 'the PwC model'. This model calculated the revenue required for each of four bus types ('categories'). The model appropriate to the bus type was applied to the actual circumstances of the service provided by each operator, bus by bus. The model considered the average number of school days, total hours taken providing the service and the kilometres travelled. The model was adjusted annually to account for cost changes.

This year the BCA commissioned the Institute of Transport Studies (ITS) to review and update the PwC model. The BCA conducted a survey of its operators to determine the 2002 costs incurred, and the ITS reworked the model, using bus replacement cost rather than historical depreciation as the centrepiece of the bus capital costs calculations.

5.2 Assessment of the non-commercial model

5.2.1 Components of 'Required Revenue'

Table 5.1 presents the 2003 revenue requirements for each bus type as calculated by the ITS. The total revenue requirement is the sum of the cost items plus required return on capital and required return of capital (captured with the three items listed under Required Return).

Table 5.1 Revenue required under the non-commercial model

Items in Non-Commercial model	Cat. 1 $	Cat. 2 $	Cat. 3 $	Cat. 4 $
COSTS				
Bus-related costs	15,959	17,691	23,451	27,415
Driver-related costs per hour	18,491	18,491	18,491	18,491
Driver-related costs per day	2,071	2,071	2,071	2,071
Fuel-related costs	2,889	3,392	3,440	4,397
Other distance-related costs	2,648	3,650	4,963	4,866
	42,057	**45,296**	**52,415**	**57,240**
REQUIRED RETURN				
ACC* including risk free interest	4,591	10,414	15,280	18,428
Risk premium	1,244	3,319	8,714	10,963
Spare bus allowance	584	1,373	2,399	2,939
	6,419	**15,106**	**26,393**	**32,330**
NET REVENUE REQUIRED PER BUS	**48,476**	**60,401**	**78,808**	**89,570**
GST	4,848	6,040	7,881	8,957
TOTAL REVENUE REQUIRED PER BUS	**$53,324**	**$66,441**	**$86,689**	**$98,527**

Notes: * ACC refers to Annualised Capital Cost. For category classifications, see the footnote to Table 3.2.

5.2.2 Increases in 'Required Revenue'

Compared to 2001 and 2002 revenue requirements for each bus category have jumped considerably (Table 5.2).

Table 5.2 Revenue Requirements

Year	2001	2002	2003
Model	*PwC*	*PwC*	*ITS*
Category 1	$48,764	$50,598	$53,324
Category 2	$56,243	$58,766	$66,441
Category 3	$68,248	$71,328	$86,689
Category 4	$80,461	$84,119	$98,527

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

Required revenue increased by between 3.8 and 4.6 per cent from 2001 to 2002, compared to between 5.4 and 21.5 per cent proposed from 2002 to 2003. This considerable increase in the 2003 calculations is mostly attributable to the switch to the ITS model.

5.2.3 Replacement of the PwC model with the ITS model

In its submission, the BCA stated:

> The Association has undertaken a review/survey of the costs of meeting the contracted requirements under so called non-commercial contracts and has included in this submission an application to increase rates based on this review/survey.[3]

The workings of the ITS framework can be illustrated by using a Category 4 (or full size) bus as an example. The two columns headed '2002' in Table 5.3 present the 2002 outcomes of the PwC and ITS models.

It is obvious that several cost categories have been redefined in the move to the new model, and the return of and on capital items have also been substantially reworked.

The increase in the revenue requirement between 2002 and 2003 that is due to movements in individual items is only 1.4 per cent (from $97,122 to $98,527).

The switch to the new model is the big change because that switch is responsible for a 15.5 per cent increase in required revenue (from $84,119 in 2002 under the PwC model to $97,122 in 2002 under the ITS model).

This conclusion applies in a similar fashion to Category 1, 2 and 3 buses, where the increase in individual items amounts to at most 3.2 per cent, and the change in model contributes the remainder of the increase in required revenue.

[3] BCA submission, p 6.

Table 5.3 Comparison of PwC and ITS models using Category 4 buses

PwC Model cost classifications	**2001**	**2002**	***2002***	***2003***	*ITS Model cost classifications*
COSTS					***COSTS***
Depreciation	$6,200	$6,691			*Depreciation*
Depreciation (spare bus allow)	$620	$669			*Depreciation (spare bus allow)*
Bus related costs	$17,691	$18,209	*$26,490*	*$27,415*	*Bus related costs*
Driver related costs per hour	$16,934	$17,791	*$17,790*	*$18,491*	*Driver related costs per hour*
Driver related costs per day	$1,896	$1,908	*$2,071*	*$2,071*	*Driver related costs per day*
Fuel related costs	$3,753	$3,423	*$3,935*	*$4,397*	*Fuel related costs*
Other distance related costs	$6,907	$7,109	*$4,726*	*$4,866*	*Other distance related costs*
	$54,001	$55,801	*$55,012*	*$57,240*	
REQUIRED RETURN					***REQUIRED RETURN***
Return on Investment	$17,405	$18,791			
Return on Investment on Spares(10%)	$1,741	$1,879			
			$19,020	*$18,428*	*ACC including risk free interest*
			$11,236	*$10,963*	*Risk Premium*
			$3,026	*$2,939*	*spare bus allow, ACC & risk on spares*
	$19,146	$20,670	*$33,282*	*$32,330*	
NET REVENUE REQUIRED PER BUS	$73,146	$76,471	*$88,293*	*$89,570*	
GST APPLICABLE	$7,315	$7,647	*$8,829*	*$8,957*	
TOTAL REVENUE REQUIRED PER BUS	$80,461	$84,119	*$97,122*	*$98,527*	
Capital cost of bus	$192,727	$229,701	*$238,100*	*$238,100*	

[ACC refers to the Annualised Capital Cost of a bus]

5.2.4 Tribunal assessment of the ITS model

The Tribunal investigated the very big differences in the PwC and ITS models between bus-related costs (around an $8,000 difference) and capital costs (around a $12,000 difference).

Closer inspection of the survey data and a reworking of the bus capital costs in conjunction with the ITS and BCA resulted in two major changes:

1. Bus-related costs were reduced significantly as depot costs were averaged over all buses in each category.
2. A nominal pre-tax WACC of 11.6 per cent in the annual cost of capital (ACC) calculation was used by ITS. This change meant that the ACC increased significantly but that was more than offset by removing the extra risk premium which is no longer needed now that the ACC reflected a WACC rather than a risk-free rate of interest.

These amendments to the ITS model became the basis for Option 1 considered by the Tribunal in relation to recommending required revenues under non-commercial contracts.

5.3 Options for Non-Commercial revenue payments

5.3.1 Summary of Options

The Tribunal considered three options.

Option 1 proposed the two amendments to the ITS model explained above. The advantage of this option is that it uses updated cost information, sourced from a recent operator survey and can be used going forward based on ongoing research of the ITS with the BCA.

However, it is not clear to the Tribunal after consultation with the Ministry of Transport, that this option can be applied to the bulk of the non-commercial contracts that still refer, in Schedule Two of their contracts, to "the PWU Parameters".

Option 2 involved applying the overall increase determined by the amended ITS model described above to the payments made to operators in the 2002/03 financial year. These payments, call them the 'base case', were based on the revenue requirements calculated by the 2002 PwC model.

The advantage of this option is that it is a mechanism for providing some increase in required revenue based on the available payments model for 2003 without requiring the Tribunal to determine the validity or otherwise of that model *in toto* to contracts which invoke the PWU parameters.

Under this option, the percentage increase in revenue requirements will reflect the average percentage increase in costs incurred and return required by the operators between 2002 and 2003. To the extent that an operator's financial set-up differed from the 'base case', the revenue would not match the costs incurred and return required.

Many operators may well differ from the 'base case' because the PwC model used cost data which was generated in 1991 which was then indexed up to 2002 by changes in the CPI.

Option 3 ignores the ITS model entirely on the grounds that it represents too wide a variant from the PwC model and thus requires further review by the Tribunal and by the MoT. In this case, the option for calculating the change in revenue required might involve indexing by the CPI or the Bus Industry Cost Index used for commercial contracts.

This approach is simple in principle, but it is wasteful because it ignores the latest cost evidence derived from the 2002 survey of non-commercial contract operators and the Tribunal did not consider it further.

The revenue requirements that result from each option are outlined below.

5.3.2 Option 1: Tribunal's amended ITS model

As a result of workshop discussions and subsequent meetings between the Tribunal, the BCA and ITS, a number of amendments have been made to the original ITS model.

Depot Costs

In averaging depot costs, the staff at ITS included only the responses from operators who reported depot costs and put to one side a large proportion of operators who did not record depot costs on the survey forms.

ITS assumed these operators had depots but did not report their costs. The Tribunal argued that the operators would be one-bus operators who had no depot. Either way, the data did not address the issue and therefore ITS was not at liberty to make an assumption which inflated the average relative to an average across all operators.

The Tribunal averaged depot costs across all operators, reducing average depot costs per operator significantly. Depot costs in the Tribunal's 'Amended ITS model', abbreviated to Am ITS in all the tables that follow, are shown in Table 5.4.

Table 5.4 Depot costs per operator and per operator who reported depot costs

	Depot Costs	
	ITS	**Am ITS**
Category 1	$686	$163
Category 2	$1,377	$303
Category 3	$4,876	$748
Category 4	$6,547	$835

Bus Capital Costs

At the workshop, concerns were raised about the substitution of a replacement-cost-based Annualised Cost of Capital (ACC) in the ITS model which generated large capital costs towards the end of the life of a bus (unlike the PwC depreciation-based approach).

Subsequent to the workshop, ITS submitted a revised version of its ACC calculation which smoothed out the vintage profile of bus replacement costs. This change removed the peculiar 'J curve' effect from the ACC numbers which occurred towards the end of the useful life of a bus.

At the Tribunal's request, ITS also substituted a weighted average cost of capital (WACC) in place of its risk-free rate and recalculated the ACC. Consistent with its approach in other industries, the Tribunal considers the revised ACC to be an appropriate measure of the return on, and of, capital.[4] However, as these returns are now captured *within* the ACC payment, the additional 'risk premium' item in the ITS model becomes redundant. Table 5.5 shows how the change affects bus capital costs for category 4 buses.

Table 5.5 Bus capital costs in the different model versions

	PwC 2002	ITS 2003	Am ITS 2003
Depreciation	$6,691	-	-
Return on Investment	$18,791	-	-
ACC	-	$18,428	$22,817
Risk premium	-	$10,963	$0
Total	**$25,482**	**$29,391**	**$22,817**

CPI

The Tribunal has updated the Sydney CPI for June quarter data, turning the 3.91 per cent rise into 3.55 per cent (same as the BICI). This had little effect on required revenue because the ITS model was updated mostly from the survey results rather than by the inflation rate.

Comparison of Tribunal's amended ITS model to PwC model

Table 5.6 presents the required revenue for each bus category under the 2002 PwC model and the model considered under this option; called the 'Amended ITS model', abbreviated to Am ITS in the tables that follow.

Table 5.6 Required revenue under PWC 2002 and Amended ITS

	PwC 2002	Am ITS 2002	Am ITS 2003
Category 1	$50,598	$49,553	$51,049
Category 2	$58,766	$60,195	$61,505
Category 3	$71,328	$75,280	$76,262
Category 4	$84,119	$83,160	$83,974

Under the amended ITS 2002 model, the required revenue is comparable to that under the PwC 2002 model for bus categories 1, 2 and 4. The 5.5 per cent jump in revenue required for Category 3 buses occurs because the ITS is using a more expensive bus than the PwC model is depreciating. Why has a more expensive bus been phased in? The BCA has indicated that former Category 3 buses (seating up to 42 people) are no longer available, and that operators must purchase modified Category 4 buses (seating up to 57 people). ITS has included the cost of the more expensive bus for the past seven years because this is how long Category 3

4 Given the purchase price of each vintage of bus and their economic life, the NPV of the stream of revised ACC payments is equivalent to the NPV of the sum of the stream of payments derived by conventional straight line depreciation and return on investment considerations.

buses have been unavailable. The Tribunal has received documentary evidence from the BCA to support these claims, but further evidence from bus suppliers is likely to be requested for the next review.

Concerning the changes in 2003, the increase in revenue requirements under the Amended ITS model is shown in the last column of Table 5.7. It represents both the change in costs within the Amended ITS model and the effect of switching from the PwC model.

Table 5.7 Percentage change in revenue requirements

	Change in model *PwC 2002 to Am ITS 2002*	**Cost movements** *Am ITS 2002 to Am ITS 2003*	**Overall changes** *PwC 2002 to Am ITS 2003*
Category 1	-2.07%	3.02%	**0.89%**
Category 2	2.43%	2.18%	**4.66%**
Category 3	5.54%	1.30%	**6.92%**
Category 4	-1.14%	0.98%	**-0.17%**

5.3.3 Option 2: Rise in amended ITS model 2003 applied to 2002 PwC base

Option 2 applied the cost movements from 2002 to 2003 as measured by the Amended ITS model to the revenue requirements determined by the 2002 PwC model. The result is a modest increase in revenue requirements across each bus category; middle column of Table 5.7, translated into actual dollars in Table 5.8.

Table 5.8 Required revenue applying changes in Amended ITS Model

	PwC 2002	**Increment Am ITS 2003**
Category 1	$50,598	$52,126
Category 2	$58,766	$60,045
Category 3	$71,328	$72,258
Category 4	$84,119	$84,942

5.3.4 Option 3: General index rise applied to 2002 PwC base

Table 5.9 below presents the 2002 PwC revenue requirements for each category bus, and then gives the potential 2003 revenue requirements when increased by either CPI (illustrated here as 3 per cent) or the rise in the BICI (illustrated here as 5 per cent).

Table 5.9 Required revenue comparison

	PwC 2002	**PwC 2002 + 3%**	**PwC 2002 +5%**
Category 1	$50,598	$52,116	$53,128
Category 2	$58,766	$60,529	$61,704
Category 3	$71,328	$73,468	$74,894
Category 4	$84,119	$86,643	$88,325

Under this option the revenue requirement for each operator would increase by the same percentage, regardless of bus category or underlying cost movements.

5.3.5 Comparison of outcomes under different options

Table 5.10 summarises revenues required under each option. The percentage changes use PwC 2002 as the base.

Table 5.10 Comparison of options

	PwC 2002	Option 1 Am ITS 2003		Option 2 Increment Am ITS 2003		Option 3 PwC 2002 +3%	Option 3 PwC 2002+5%
Cat 1	$50,598	$51,049	0.89%	$52,126	3.02%	$52,116	$53,128
Cat 2	$58,766	$61,505	4.66%	$60,045	2.18%	$60,529	$61,704
Cat 3	$71,328	$76,262	6.92%	$72,258	1.30%	$73,468	$74,894
Cat 4	$84,119	$83,974	-0.17%	$84,942	0.98%	$86,643	$88,325

5.4 Tribunal recommendation on revenue required

The Tribunal's concern over the standing of the ITS model under existing contractual arrangements (as discussed in section 5.3.1) has led it to recommend that the required revenue for 2003/04 be increased in line with Option 2:

- **Category 1** buses, 3.02 per cent
- **Category 2** buses, 2.18 per cent
- **Category 3** buses, 1.30 per cent
- **Category 4** buses, 0.98 per cent.

5.5 Alternatives to the Non-Commercial Bus Contracts Model

The ITS model is a major upgrade on the PwC model, both in terms of the currency of its data (a 2002 survey of operators) and in its use of replacement cost instead of depreciation.

Assessments and conclusions
Although the Tribunal has amended the model and not relied on its absolute revenue requirement numbers for this review, the model itself looks to be a robust extension of previous work, worthy of detailed consideration, contractual arrangements permitting.

The Tribunal's tentative conclusion is that the amended ITS model is likely to be a sound basis for future required revenue calculations, contractual arrangements permitting.

Effects of secured and unsecured loans
One issue to explore is the use of an unsecured loan rate in the weighted average cost of capital calculation rather than a secured loan rate. The secured loan rate may not be a reasonable measure of business risk because it is secured over operators' homes and directors' guarantees.

An unsecured loan rate (likely to be several percentage points higher) would not affect the change in the Amended ITS model between 2002 and 2003 because the unsecured rate would enter the WACC in both years, but it would boost the absolute revenue requirement, which might be a crucial issue if absolute revenue requirements in the ITS model were to become the basis for calculating non-commercial payments.

6 TRIBUNAL ASSESSMENT OF FERRY FARES

The Tribunal is required to recommend the setting of maximum fares for 10 private ferry runs in and around Sydney provided by six ferry operators.

The Charter Vessel Association (CVA) submitted a set of cost changes as reported by four of its members. The CVA has also submitted a set of weights upon which the Tribunal calculated a cost index and the change in that index for 2002/03.

Tribunal decisions
Given the declining number of ferry operators and their plea for fare increases that address financial viability as well as cost offsets, and the current anomalies within the private ferry fare structure, the Tribunal has decided to increase fares considerably while ironing out some of the inconsistencies in the fare schedule.

The result of this decision is to lift ferry fares on three runs by more than 20 per cent, on four runs by 20 per cent, and on the remaining three runs by between 8 per cent and 10 per cent. In absolute terms, the rises range from 40 cents to $1.20 for a single full fare ticket.

6.1 Private ferry financial viability

In its submission, the CVA claimed financial viability as the "issue of greatest importance":

> It is clear from the information provided…the private ferry industry is losing money. This serious situation needs to be addressed in this review. The time has come.[5]

The CVA presented a number of arguments to support the case, as summarised below.

1. Negative return on assets
The CVA calculated the average return on assets across the industry as –4.42 per cent, with returns to individual operators as low as –10 per cent. From this, the CVA inferred that a 19.5 per cent fare increase was required to increase returns to 15 per cent which is considered an appropriate level of return by the industry.

In addition to the poor quality data from the CVA, the Tribunal also obtained confidential, audited accounts of one ferry operator which documented to the Tribunal's satisfaction an unbroken series of losses and negative rates of return on capital.

2. Operators closing down
In 2002, Brisbane Waters Ferries ceased operation as the service was losing money. In January 2003, Sydney Harbour operator Hegarty's Ferries, at the time owned by Captain Cook Cruises, also ceased operating. The business was re-opened by new owners in February 2003 but again ceased operating in early May. The following is an excerpt from the statement made by Hegarty's announcing the service's closure.

> The viability of the new service was dependent upon gaining access to the tourism market from Darling Harbour. Unfortunately we have been unsuccessful in gaining permission to run the service into Cockle Bay Wharf. Without this adjunct to the commuter service it is not economically viable to continue in business.

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5 CVA submission, p 3.

> We greatly appreciate your patronage, and are sincerely sorry that we are unable to continue a ferry service that began in 1908. (Managing Director, Hegarty's Ferry Co.)

3. STA comparison

> It does not seem surprising to the industry that it is not making profits at the fares offered by the government. Fuel, wages, repairs and maintenance, advertising and promotion, etcetera are not all that different from those costs experienced by Sydney Ferries and they, Sydney Ferries, recover, through fares, only about 70 percent of their costs. Why should private operators be able to perform profitably at similar or lower fares?[6]

In fact, in 2002/03 Sydney Ferries recovered only 51.1 per cent of its operating costs from its passengers including the government top-up for 'free and concessional' travellers.

6.2 Private ferry cost increases

The ferry cost increases submitted by the CVA are presented in Table 6.1.

Table 6.1 Private ferry operator cost increases as submitted by CVA

Costs	Operator Cost Increases (%):				
	1	2	3	4	Total
Labour	3.36	20.00	-1.97	3.00	**6.10**
Fuel	12.67	33.00	6.08	13.80	**16.39**
Repairs and Maintenance	32.69	51.00	35.52	13.80	**33.25**
Insurance	30.22	17.00	8.47	11.00	**16.67**
Depreciation	0.00	35.02	-14.29	15.00	**8.93**
Interest	27.78	33.00	28.79	7.40	**24.24**
Licensing Fees	10.63	-55.00		8.00	**-9.09**
Berthing/Mooring Fees			-41.73	6.00	**-8.93**
Advertising	-100.00	-13.00	-6.67	14.30	**-26.34**
Motor Vehicle Expenses	-28.73	-8.00	-40.84		**-19.39**
Other	-8.03	22.23	-21.18	12.00	**1.25**
Total	**8.97**	**43.53**	**0.35**	**8.00**	**10.75**

Of the six private ferry operators currently operating, four submitted information for the cost index. The 'Total' line in this table, because it is an unweighted average of the movement in costs faced by each operator, is not a useful summary measure. As such, this line has been ignored for analysis purposes.

6 CVA submission, p 3.

6.2.1 Comparison with Sydney Ferries cost increases

However, the CVA did provide a set of cost weightings for each operator. A simple average of these weightings was taken to determine the weightings used in the private ferry cost index, along with the average of the increases for each cost item submitted by the operators.

The outcome of this calculation is to increase the cost index by 10.49 per cent (Table 6.2).

For comparison purposes, an index of Sydney Ferry costs was derived from information supplied by STA. This is presented as the right hand side of Table 6.2. For consistency with the private ferry index, the 'Sydney Ferries' cost index also uses 2002/03 costs as the weights.

Table 6.2 Private ferry and Sydney Ferries cost movements from 2001/02 to 2002/03

Costs	Private Ferries			Sydney Ferries		
	Weighting	Increase	Index	Weighting	Increase	Index
Labour	45.2%	6.1%	2.76%	46.6%	7.8%	3.62%
Fuel	12.1%	16.4%	1.98%	4.2%	5.7%	0.24%
Repairs and maintenance	12.0%	33.3%	4.00%	20.3%	9.4%	1.90%
Insurance	5.5%	16.7%	0.92%	1.3%	4.7%	0.06%
Depreciation	8.4%	8.9%	0.75%	9.3%	19.8%	1.84%
Interest	4.2%	24.2%	1.02%	3.4%	116.3%	3.93%
Licensing fees	0.9%	-9.1%	-0.08%	0.0%	0.0%	0.00%
Berthing/mooring fees	2.4%	-8.9%	-0.21%	0.0%	0.0%	0.00%
Advertising	1.9%	-26.3%	-0.50%	0.0%	0.0%	0.00%
Motor vehicle expenses	1.2%	-19.4%	-0.22%	0.0%	0.0%	0.00%
Other	6.3%	1.3%	0.08%	14.8%	-7.8%	-1.15%
TOTAL	100.0%		**10.49%**	100.0%		**10.45%**

Sources: CVA submission, Sydney Ferries cost index derived from information supplied by STA.

The Tribunal notes that the overall movement in Sydney Ferries' costs as measured by the cost index shown above is very similar to the average movement in private ferry operator costs.

6.3 Tribunal assessment of ferry cost index

Several of the items in the CVA index appear to suffer from mixing together price and quantity changes. The Tribunal has no way of disentangling price from quantity changes without much greater detail from the operators. Therefore, where the cost item changes by an amount that seems implausible and the Tribunal has evidence to the contrary, it has recommended a different percentage change in the item than that proposed by the CVA. This comment applies most obviously to labour costs.

6.3.1 Labour

Labour costs are the single largest cost component of both private and government-owned ferries. According to the CVA cost index, private ferry labour costs rose 6.1 per cent (simple average) in 2002/03. According to the Tribunal's calculation of Sydney Ferries labour costs, they rose 7.8 per cent in 2002/03.

Tribunal assessment

The Tribunal suspects that the 20 per cent increase in labour costs experienced by Palm Beach Ferries relates to the take up of the Brisbane Waters runs, and hence additional staff. Increased manning levels are also likely to have impacted STA's labour costs, given the recommendations from the Waterways report.

A more appropriate measure of *unit* labour cost movements would be the change in the relevant Award wage. This is the approach taken by the Tribunal in previous reviews.

The Marine Charter Vessels Award allows for 5 classes of employees. Wage increases for these categories were between 2.95 and 3.84 per cent over the past year, with increases for masters and engineers on smaller vessels at around 3.4 per cent. The Tribunal has therefore chosen to use 3.4 per cent as the increase in labour costs in the private ferry cost index. As a result, the rise in the index is reduced to 9.27 per cent.

6.3.2 Fuel

Fuel costs have increased by 16.39 per cent according to the private ferry operators, although the individual increases were 6.1, 12.7, 13.8 and 33 per cent.

Tribunal assessment

The 33 per cent increase looks to be an obvious outlier and is excluded, thus reducing the simple average rise in the cost item to 10.85 per cent. Although not directly comparable, such a rise is still well above the 5.31 per cent rise in automotive fuel in the CPI in the year to March quarter 2003 compared to its average level in the year to March quarter 2002.

Most fuel prices decreased considerably in the June quarter 2003. For example, the automotive fuel component of the CPI fell 9.6 per cent. However, it was still 6.45 per cent higher on average in 2002/03 than in 2001/02. A rise of 6.45 per cent in automotive fuel prices seems to broadly support the amended 10.85 per cent rise for fuel for ferry operators.

6.3.3 Repairs and maintenance

The CVA submits that repairs and maintenance costs have increased by 33.25 per cent on average, with all four operators experiencing significant increases. Individual increases were 13.8, 32.7, 35.5 and 51 per cent.

Tribunal assessment

It has not been possible for the Tribunal to verify this cost item. Large increases for some of the individual operators should be expected from time to time because of the lumpy nature of ferry maintenance, which involves the boat being out of service for some time while substantial repairs are performed.

The CVA has suggested that major periodic maintenance has been deferred for some time by operators because of the squeeze on profitability, but could no longer be put off on the grounds of safety.

The Tribunal can find no suitable price or cost index in the public domain that would act as a reasonable substitute for ferry repair and maintenance costs.

The Tribunal notes that Matilda, which is a considerably larger operator, has the lowest increase in repairs and maintenance costs, and this appears to support the logic that the large increases are due at least in part to the lumpy nature of the expense rather than to a cost increase as such. However, Matilda still reports an increase of 13.8 per cent. By comparison, Sydney Ferries' repairs and maintenance costs increased by 9.35 per cent in 2002/03, but this came on top of a 66.2 per cent increase in 2001/02.

The Tribunal therefore accepts the increase submitted by the CVA as reasonable this year.

6.3.4 Remaining cost items

The Tribunal accepts the approach taken by the CVA on the remaining items in the cost index. It is also apparent from the decline in a number of them that operators are cutting costs wherever possible. For example, advertising costs have fallen 26.3 per cent, all three of the smaller operators have cut their advertising.

Matilda is the only operator to increase its advertising bill, perhaps reflecting the fact that it is a subsidiary of a listed company - Amalgamated Holdings, owner of the Rydges hotel group, among others.

Other discretionary costs have also been cut. Motor vehicle expenses have fallen 19.4 per cent with cuts from all three of the smaller operators. Matilda has no motor vehicle expenses. The CVA drew the Tribunal's attention to this issue in its submission, stating:

> It should be noted that, because of the lack of profitability in the industry, operators have been containing costs, in many cases, resulting in no increases or, in fact, decreases. Operator 3, for example, has contained an overall cost increase by reducing costs in every case where this was possible.[7]

The operator referred to is Cronulla which cut costs in 5 of the 11 categories (Table 6.1).

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[7] CVA submission, p 23.

6.4 Tribunal's amended cost index

The amended index in Table 6.3 reflects changing the labour cost increase to that suggested by the Award and updating fuel for the June quarter. The cost index, which supports a fare increase of 8.60 per cent, does not take the financial viability of the operators into account.

Table 6.3 Tribunal's amended private ferry cost index

Costs	Weighting %	Private Ferries Increase %	Index %
Labour	45.2	3.4	1.54
Fuel	12.1	10.9	1.31
Repairs and maintenance	12.0	33.3	4.00
Insurance	5.5	16.7	0.92
Depreciation	8.4	8.9	0.75
Interest	4.2	24.2	1.02
Licensing fees	0.9	-9.1	-0.08
Berthing/mooring fees	2.4	-8.9	-0.21
Advertising	1.9	-26.3	-0.50
Motor vehicle expenses	1.2	-19.4	-0.22
Other	6.3	1.3	0.08
Total	**100.00%**		**8.60%**

6.5 Fare structure

The current 'maximum' fares for each operator are shown in Table 6.4 below.

Table 6.4 Private ferry fare schedule 2002/03

Operator	Route	Fare
Cronulla and National Park Ferries	Cronulla – Bundeena	$3.30
Dangar Island Ferry Service	Brooklyn – Dangar Island	$3.60
Matilda Cruises	Circular Quay – Darling Harbour	$4.50
	Circular Quay – Lane Cove	$4.50
	Homebush – Darling Harbour	$5.60
Palm Beach Ferry Service	Palm Beach – Mackerel Beach	$4.50
	Woy Woy – Empire Bay	$5.00
	Palm Beach – Ettalong	$7.30
Clarence River Ferries	Iluka – Yamba	$4.20
Church Point Ferry Service	Scotland Island – Morning Bay	$4.50

Source: Ministry of Transport.

The CVA has raised a number of concerns with the current fare structure. These are considered below.

6.5.1 Inequity of fares within private ferry industry

The CVA is concerned that two of the operators have fares set in the $3.00 to $4.00 range, while the remainder have fares ranging from $4.50 to $7.30. CVA states:

> The average for the first two is only just over 75 percent of the $4.50 fare. It is not possible that the two operators could have operating costs only 75 percent of the others, given the degree of regulation on staff numbers and wages and the need to purchase other supplies in the same market place. This anomaly should be changed this time around. (CVA submission, p 9).

The CVA submits that these operators are deferring maintenance in order to remain viable. The Tribunal notes that the fares of two operators, Cronulla and Dangar Island, are considerably below the fares of the remaining private operators, and also significantly less than the minimum fare offered by Sydney Ferries (Table 6.5).

Table 6.5 Sydney Ferries fares from 1 July 2002

Operator	Route	Fare
State Transit Authority	Inner Harbour Zone 1	$4.30
	Inner Harbour Zone 2	$4.50
	Circular Quay – Manly	$5.40
	Circular Quay – Rydalmere	$5.40
	Circular Quay – Parramatta	$6.40
	Manly JetCat	$6.70

6.5.2 Comparison with Sydney Ferries fares

Whilst acknowledging that the majority of private ferry fares "…have moved close to those of Sydney Ferries in recent years" (p 9), the CVA notes that "Matilda's longer distance services are priced at $0.90 or 17 percent less than those of Sydney Ferries" (CVA submission, p 9). CVA argues that "Private operators, from their total revenue, must recover both operating costs and the cost of capital as well as making enough profit to justify continuing in the business." The CVA asserted that these requirements are unlike Sydney Ferries which does not even recover operating costs, let alone capital costs or a return on equity.

There is some concern among private ferry operators that a 'catch up' in fare increases is required to compensate for the discrepancy in rises awarded to private and public operators prior to the Tribunal's involvement. For example, Sydney Ferries fares rose 50.7 per cent from 1996, compared to 33.7 per cent for private operators. The issue was recognised by the Tribunal its 2001 report on private ferry fares:

> On balance, the Tribunal is inclined to recommend a fare increase towards the higher end of the range suggested by the cost index. This reflects cost increases experienced over the last 12 months, but also recognizes that some 'catch up' on earlier cost increases may be warranted. To this end, the Tribunal recommends that private ferry fares increase by 6.7 per cent. This is significantly higher than the 0.95 per cent figure implied by the cost index when reasonable adjustments are made to the private ferry information presented, and higher than the recent increase granted to Sydney Ferries by the Tribunal. (IPART, *Report on Private Ferry Fares 2001*, p 27.)

Table 6.6 presents the historical fare increases awarded to Sydney Ferries and Church Point as background.

Table 6.6 Ferry fare rises since 1996

	Church Point			Sydney Ferries	
Date	Increase	Cumulative	Date	Increase	Cumulative
Jul 96	3.30 %	3.30 %	Jul 96	5.30 %	5.30 %
Jun 97	2.00 %	5.37 %	Jun 97	4.20 %	9.72 %
Aug 98	2.25 %	7.74 %	Jul 98	3.30 %	13.34%
Nov 99	2.00 %	9.89 %	Aug 99	14.30 %	29.55 %
Jul 00	8.60 %	19.34 %	Jul 00	8.60 %	40.69 %
Nov 01	6.70 %	27.34 %	Jul 01	5.00 %	47.73 %
Jul 02	5.00 %	33.70 %	Jul 02	2.00 %	50.68 %

6.6 Ironing out fare anomalies

The Tribunal has endeavoured to iron out a number of the anomalies that exist in the current private ferry fare structure. All the recommended fares and their percentage rises for 2003/04 are in Table 6.7.

Tribunal recommendations

Consequently, the Tribunal recommends the fares for Cronulla and Dangar Island be increased to the minimum fare offered by Sydney Ferries, which will be the Inner Zone 1 fare which rises to $4.50 from 31 August 2003.

The Tribunal recommends that the fares for Clarence River Ferries, Church Point Ferries, Matilda Cruises' Circular Quay to Darling Harbour and Circular Quay to Lane Cove routes, and Palm Beach Ferry Service's Palm Beach to Mackerel Beach and Woy Woy to Empire Bay routes be set to $5.40.

The remaining routes, Matilda's Homebush-Darling Harbour and Palm Beach Ferry Service's Palm Beach-Ettalong, are increased broadly in line with the rise in the Tribunal's amended private ferry cost index.

Table 6.7 Tribunal's recommended fares for 2003/04

Operator	Route	Fare	Increase
Cronulla and National Park Ferries	Cronulla – Bundeena	$4.50	36.4 %
Dangar Island Ferry Service	Brooklyn – Dangar Island	$4.50	25.0 %
Matilda Cruises	Circular Quay – Darling Harbour	$5.40	20.0 %
	Circular Quay – Lane Cove	$5.40	20.0 %
	Homebush – Darling Harbour	$6.10	8.9 %
Palm Beach Ferry Service	Palm Beach – Mackerel Beach	$5.40	20.0 %
	Woy Woy – Empire Bay	$5.40	8.0 %
	Palm Beach – Ettalong	$8.00	9.6 %
Clarence River Ferries	Iluka – Yamba	$5.40	28.6 %
Church Point Ferry Service	Scotland Island – Morning Bay	$5.40	20.0 %

7 BUS AND FERRY SERVICE QUALITY

The terms of reference for this review state that the Tribunal should consider "standards of quality, reliability and safety of the services concerned".

In its April 2003 Issues Paper the Tribunal set out the standards under commercial service contracts for private buses and ferries, and invited comments on: the quality of service offered and the adequacy of the current performance and reporting standards.

Given the lack of performance data, it has not been possible for the Tribunal to assess the level of services provided by either private bus or private ferry operators.

7.1 Adequacy of current service standards

Few submissions addressed the quality of service provided by private bus and ferry operators.

However, a number made comment on the adequacy of the current performance standards and especially the monitoring and enforcement of these standards. For example:

> [The Ministry of Transport] has no mechanism or procedures to actively monitor the performance of the private bus industry. STA buses and taxis performance is reported each year in the department's annual report. The private bus industry is ignored.[8]

> If the regulatory authority, whoever that is in these changing times, could display more authority and less acquiescence in monitoring the regulations, then the customer would be better protected against declining service standards.[9]

Given the lack of performance monitoring and the absence of any data on service quality, it has not been possible for the Tribunal to assess the level of bus and ferry services. Western Sydney Community Forum suggested a centralised complaints system and published results: "WSCF would welcome the development of a central public transport complaints/feedback system where issues would be published and commented on as part of the IPART fare determination process."[10]

7.2 Movezone

The Tribunal received a number of submissions expressing concern over the introduction of 'Movezone' bus services in the Penrith area. The Commuter Council states,

> Transport NSW has recently bypassed route minimum service levels to allow Westbus to link three routes in the Penrith area into one roving bus after 7pm. One bus every hour now replaces previously three separate hourly services for each route and is called move zone. This approval results in massive cost savings to Westbus...Lower fares have not flowed from these major cost savings to Westbus.[11]

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8 Commuter Council submission, p 2.

9 Action for Public Transport submission, p 8.

10 Western Sydney Community Forum submission, p 4.

11 Commuter Council submission, p 2.

Tribunal concerns

The Tribunal is concerned that this agreement was made between Westbus and the Ministry of Transport with little public consultation. The MoT has advised the Tribunal that the Movezone arrangement is to be reviewed in December 2003.

7.3 Non-commercial contracts

The non-commercial contracts relate mainly to contracting bus services to transport students to school, where a timetabled service does not exist. Most, if not all, of these contracts are associated with non-metropolitan areas.

Little data is available on the quality of service provided by operators on non-commercial contracts. The PricewaterhouseCoopers SSTS Bus Contract Review conducted for the Ministry of Transport in 2001 found that "in 44.7 per cent of the non-commercial contracts there were variations between the contracted time and the actual time taken to deliver students to or from school".[12] Variations in contracted distances and distances travelled were also observed by PricewaterhouseCoopers.

7.4 Performance Assessment Regime

The Tribunal noted in its April Issues Paper that the Performance Assessment Regime requirements had not yet been implemented. The Ministry of Transport is currently investigating alternative options for contracting bus services. This process will take service levels into consideration.

As far as the Tribunal is aware, no date has been established for the completion and implementation of the bus and ferry reform program.

7.5 Service quality and private ferries

The commercial contracts under which private ferries operate specify the Minimum Service Levels (MSLs) that must be provided by the ferry operator. These MSLs cover the frequency at which services must be provided and the routes that must be serviced.

The Ministry of Transport has been unable to provide the Tribunal with any performance data on private ferries, and the extent to which compliance with the MSLs specified in the contracts is monitored is unclear.

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12 PricewaterhouseCoopers SSTS Bus Contract Review 2001, p 3.

8 IMPACT ON CUSTOMERS, ENVIRONMENT AND GOVERNMENT FUNDING

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

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

A rise on private bus fares of 5.62 per cent for the 10 months of 2002/03 is the annual equivalent of a rise of about 4.68 per cent compared to a rise in the general price level of 2.84 per cent in 2002/03. The rise in private bus fares is similar to the rise in fares for government buses and CityRail and suggests relative price changes between modes of public transport (and taxis, fares up 4.73 per cent) will be small.

The rises in private ferry fares will have a bigger impact on customers but financial viability has become a paramount issue in this present review.

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

Government funding
As a result of the Tribunal's recommended fare increases, government funding of private operators for SSTS and half fare reimbursements will increase by approximately $20 million in 2003/04.

8.1 Impact on private bus and ferry customers

8.1.1 Income profile of private bus users

Table 8.1 presents an income profile of users of different forms of transport in Sydney. Clearly, users of private buses have the lowest average personal and household incomes of all public transport users, and the lowest median household income. Income levels are substantially below those of STA bus users.

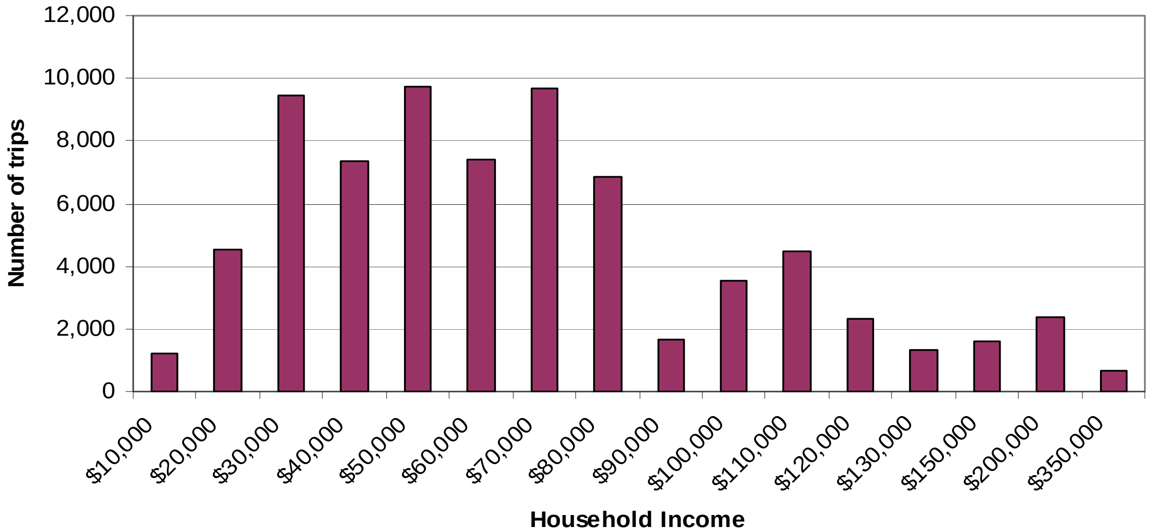
Table 8.1 Income profile of Sydney public transport users

Mode	Number Of Trips	Average Personal Income	Average Household Income	Median Household Income
Priv bus Sydney	74,253	$29,171	$64,161	$56,160
STA buses	256,772	$43,471	$82,766	$64,116
STA ferries	27,183	$59,425	$95,332	$71,864
CityRail	490,167	$43,371	$78,356	$63,492
Taxis	117,152	$54,694	$103,119	$81,068

Source for this table and all figures: TDC, Household Travel Survey 2001 Full fare paying passengers, average weekday.

The household income distribution of Sydney private bus users is shown in Figure 8.1.

Figure 8.1 Household income of private bus users in Sydney



Although the majority of private bus trips (92 per cent according to the TDC) are taken using single or return tickets, the household travel survey does give some indication of the profile of purchasers of different ticket types. The household income of purchasers of single/return tickets compared to periodical tickets is shown in Table 8.2 below.

Table 8.2 Household income by ticket type

	Household Income	
	Median	Average
Single/return/daily ticket	$53,456	$58,616
Periodical	$106,756	$128,172

Source: TDC, Household Travel Survey 2001 Full fare paying passengers, average weekday.

The majority of periodical tickets issued are for express commuter services to and from the city. The difference in household incomes presented in Table 8.2 suggests that this segment of the market is substantially different from the traditional private bus market which provides local route services.

8.2 Environmental Issues

The terms of reference for this review require the Tribunal to consider environmental factors.

Public transport provides an alternative to using private motor vehicles. The benefits of public transport include reduced congestion and pollution. The extent to which these benefits can be realised will depend on factors such as the relative cost of public versus private transport options and the propensity for private vehicle users to switch to public transport. This, in turn, will be influenced by accessibility, service quality and frequency of public transport.

Determinants of public transport use

The Tribunal has considered environmental issues and the influence of fares on use of public transport. The majority of available evidence suggests that price has only a small influence on the decision to use public transport. Other issues such as service quality, timeliness, frequency, convenience and accessibility are likely to be more important determinants of public transport demand.

During the 2001/02 Determination of Public Transport Fares, the Tribunal commissioned an independent study by the Centre for International Economics (CIE) on subsidies and the social costs and benefits of public transport.[13]

The study indicated that changes in public transport fare levels are unlikely to have a major impact on patronage levels, and that a range of factors are considered by the traveller when determining travel mode. The study states: [14]

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

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

The CIE study considered the issue of appropriate pricing of alternate transport modes. It notes that the external costs of car use include congestion, noise and air pollution, and accidents. However, it is possible to take a broader view, and produce correspondingly larger estimates of external costs of road use.

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

14 Op cit, pp 38 and 43.

Fares may not be a major consideration

The Tribunal has considered environmental factors, and believes that the modest increase in fares, especially modest in relative terms, will not have a significant effect on the use of private bus and ferry services.

8.3 Government funding for private operators

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

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

Total payments under these two arrangements to private operators were $361.1m in 2001/02.[15] SSTS payments were the bulk: $331.4m, of which $112.6m was paid under non-commercial contracts, implying $218.8m was paid under commercial contracts.[16] The rest was pensioner half-fare concession payments of $29.7m to private bus and ferry operators.

Due to the different funding mechanisms operated under commercial and non commercial SSTS contracts, each of these contracts needs to be considered separately.

Operators of commercial contracts, if the recommended fare increases are accepted and actually charged, would receive 5.62 per cent in extra revenue from full-fare paying passengers and any other passengers who provide revenue to the operators that is linked to full fares.

Non-commercial contract operators would receive an increase in revenue of between 0.98 and 3.02 per cent depending on the category of vehicle.

To the extent that SSTS payments rise in step with the full-fare recommendations of the Tribunal, they should increase on a full-year basis by approximately $19.5m (calculated by inflating the known SSTS payments to private buses in 2001/02 of $331.4m by a 4.18 per cent fare increase for 2002/03 and by the recommended 5.62 per cent increase for 2003/04). Half-fare concession reimbursements will increase by approximately $2.0 million. To the extent that the increase for 2003/04 applies to 10 months and not 12 months, the impact on government funding will be lessened.

15 Ministry of Transport, Annual Report, 2002, p 75.

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

APPENDIX 1 TERMS OF REFERENCE: PRIVATE BUSES

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

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

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

In conducting this investigation, the Tribunal should consider:

i. the cost of providing the services concerned;

ii. relativities with the Government owned bus services, including in terms of service, efficiency, cost and ticketing products;

iii. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;

iv. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;

v. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;

vi. the need to maintain ecologically sustainable development;

vii. the social impact of the recommendations;

viii. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards as notified to the Tribunal by the Minister for Transport); and

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

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

In addition, in his letter to the Chairman of the Tribunal dated 4 November 2002, the then Minister for transport also requested that the Tribunal also:

1. identify and broadly assess alternative approaches to the Cost Index Model submitted by the BCA as a basis for commercial bus operator fare changes, and

2. identify and broadly assess alternative approaches to the non-commercial model submitted by the BCA as a basis for non-commercial bus operator payment changes, taking into account any relevant contractual issues.

The following table indicates where each of the terms of reference and the Minister's additional requests have been addressed in this report.

Table A1.1 Consideration of the terms of reference and Minister's requests

Terms of Reference	Report reference
i. cost of providing the service	Sections 4, 5
ii. relativities with Government-owned buses	Issues Paper
iii. protection of consumers from abuse of monopoly power	Sections 7, 8
iv. need for greater efficiency in supply of services	Sections 4, 5
v. impact of pricing on borrowing and capital requirements	Section 4, 5
vi. ecologically sustainable development	Section 8.2
vii. social impact of recommendations	Section 8.1
viii. standards of quality, reliability and safety	Section 7
ix. effect on level of Government funding	Section 8.3
1. assessment of the cost index as a basis for setting fares	Section 4.3
2. assessment of non-commercial model as a basis for setting payments	Section 5.5

APPENDIX 2 TERMS OF REFERENCE: PRIVATE FERRIES

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

1. Fares for regular services regulated under the *Passenger Transport Act 1990*.
2. Level of remuneration received from the Government for school student services delivered under commercial contracts.

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

In conducting this investigation, the Tribunal should consider:

i. the cost of providing the services concerned;

ii. relativities with the Government owned ferry services, including in terms of service, efficiency, cost and ticketing products;

iii. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;

iv. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;

v. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;

vi. the need to maintain ecologically sustainable development;

vii. the social impact of the recommendations;

viii. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards as notified to the Tribunal by the Minister for Transport); and

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

In conducting the investigation the Tribunal will invite submissions from the private ferry operators, the relevant unions and other stakeholder groups, including user groups."

The following table indicates where each of the terms of reference has been addressed in this report.

Table A2.1 Consideration of the terms of reference

Terms of Reference	Report reference
i. cost of providing the service	Section 6.2, 6.3
ii. relativities with Government-owned ferries	Section 6.2, 6.5
iii. protection of consumers from abuse of monopoly power	Sections 7, 8
iv. need for greater efficiency in supply of services	Section 6
v. impact of pricing on borrowing and capital requirements	Section 6
vi. ecologically sustainable development	Section 8.2
vii. social impact of recommendations	Section 8.1
viii. standards of quality, reliability and safety	Section 7.5
ix. effect on level of Government funding	Section 8.3

APPENDIX 3 WRITTEN SUBMISSIONS AND WORKSHOP PARTICIPANTS

The following provided written submissions to the review:

Action for Public Transport
Blue Mountains Commuter & Transport Users Association
Bus and Coach Association
Campbelltown Campus Students' Association
Charter Vessel Association
Commuter Council
Harris Park Transport Company
Matilda Cruises
Northern Rivers Public Transport Development Project
NSW Committee on Ageing
NSW Public Transport Advisory Council
NSW Retired Teachers Association
Penrith City Council
Public Interest Advocacy Centre
Public Service Association of NSW
Shoalhaven Public Transport Working Party
Transport Workers Union
Western Sydney Community Forum

Mr David Caldwell
Mr Graham Hoskin
Mr Noel O'Donnell
Mr Eric Russell
Mr Joseph Vnuk
Messrs White, Dixon and Thomson

The following people attended the Private Bus and Ferry Workshop held at the Tribunal's offices on 26 June 2003.

Representatives of IPART:
Mr James Cox, Chairman
Dr Thomas Parry, Chairman of IPART
Ms Cristina Cifuentes, Part-time Member
Dr Dennis Mahoney, Program Manager, Transport

Roundtable participants:
Mr Darryl Mellish, BCA NSW
Mr Frank D'Apuzzo, BCA and Managing Director, Buslines Group
Professor David Hensher, Institute of Transport Studies, University of Sydney
Mr David Cribb, Charter Vessel Association
Mr Steve Skarott, Matilda Cruises
Mr John Lee, Director-General, Ministry of Transport
Mr Alex Sanchez, Public Transport Advisory Council
Mr James Wellsmore, Public Interest Advisory Council

Audience comments from:
Mr Allan Miles, Action for Public Transport
Ms Nadine Thorburn, Harris Park Transport Pty Ltd
Mr Steve Rowe, BCA and Busways
Mr Graham Pointer, Institute of Transport Studies, University of Sydney

Other attendees:
Mr George Tisse, BCA and General Manager, Busways
Mr Peter Threlkeld, BCA and Westway
Mr Tim Reardon, Ministry of Transport
Mr George Pund, Ministry of Transport
Ms Sheridan Rapmund, IPART
Mr Colin Reid, IPART
Mr Eric Groom, IPART