

# RURAL AND REGIONAL BUS FARES

## 2010 fare review

October 2010

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is responsible for determining maximum fares for rural and regional buses in NSW. We are currently in the process of reviewing maximum fares that can be charged from January 2011 for these regular bus services.

### **IPART's preliminary findings**

IPART's final determination of maximum fares will factor in the change in the ordinary costs of providing bus services in rural and regional NSW over the past year. Preliminary estimates using the Bus Industry Cost Index (BICI) suggest a 2.4% increase in the costs of providing these regular bus services. This estimate updates that from the information paper released in August to include changes in capital costs of buses.

The final determination will also consider the fare difference between country town and rural bus services. Currently, rural bus fares are approximately 25% higher than for the same distance journey on a country town route.

Our preliminary view is that there may be scope to merge the rural fare schedule into the current country town fare schedule (adjusted for the 2.4% increase in costs), reducing maximum fares for rural services by around 19%. Before deciding this issue we would like to better understand the views of stakeholders about whether there are good reasons for the price differential and the impacts of such a change.

Our final determination of maximum fares will take into account the factors we are required to consider according to the Passenger Transport Act and the comments provided in all submissions and at the public forum (see appendix A for the details of the Passenger Transport Act requirements and our review process).

We are holding a public hearing on Monday 25 October 2010 at 2pm in our offices. At the public hearing we are particularly interested in receiving comments on whether the rural fare schedule should be merged into the country town fare schedule and advantages and disadvantages of options for doing this.

## Increases in the ordinary cost of providing bus services

The BICI measures the change in the ordinary cost of providing rural and regional bus services. According to the BICI, costs have risen by 2.4% over the past year (Table 1). However, the inflators for workers' compensation, superannuation and payroll tax are estimates only and will be updated before IPART finalises its decision. Further, at this stage no adjustment has been made to the wage price index (WPI) to reflect changes in productivity. As a result, IPART's final calculation of the BICI could differ from the figures shown below.

The main drivers of the BICI were the increase in capital costs of buses and the interest rate applied to these costs, as well as increases in wages. The majority of the increase in capital costs is from increases in the quotes provided to Transport NSW for new buses. Part of this increase reflects the removal of a tariff concession (of 5%) on bus chassis and a reversal of the decrease in capital costs from the previous year. However, the increase in capital costs over the past 2 years remains surprising given that there have been minimal changes to bus specifications and the appreciation of the Australian dollar should have made imports of bus components cheaper (for example the Australian dollar depreciated by 18% in 2009/10 against the US dollar or 14% against a bundle of trading partners).<sup>1</sup>

Somewhat offsetting the increase in costs attributable to capital costs and wages was a substantial fall in regional fuel prices. In total, the BICI suggests that bus costs rose around the same level as the Consumer Price Index for Sydney (CPI).<sup>2</sup>

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<sup>1</sup> A higher Australian dollar should translate into lower prices for imported products.

<sup>2</sup> The annual change in the CPI for Sydney using the average of 4 quarters to June 2010 divided by the average of 4 quarters to June 2009 was 2.3%.

**Table 1 IPART’s findings on increases in the ordinary costs of providing bus services, as measured by the BICI**

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

<sup>a</sup> WPI is the Wage Price Index published by the Australian Bureau of Statistics. Current estimates are based on data from June 2009 – June 2010. NWPI is the Non-wage Price Index also published by the Australian Bureau of Statistics. At this stage no productivity adjustment has been applied to these figures.

<sup>b</sup> The inflators for Workers Compensation, Superannuation and Payroll Tax are not yet available. Estimates based on WPI data from June 2009-June 2010 are used in this table.

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

**Source:** Index weights are sourced from IPART, Review of fares for rural and regional buses from January 2010, December 2009, p 8.

## Fare structure

Country town services are routes within the boundaries of country town contract region, which are typically for towns of more than 7500 people, while rural routes are all other routes. There are several exceptions to this, with some routes between country towns (Coffs Harbour and Sawtell and North Nowra and Bomaderry) limited to charging the country town fare.

Fares for rural bus services are currently around 25% higher than fares for the same distance journeys undertaken on country town bus services. IPART considers that this cost difference is substantial and requires consideration under the matters identified in the Passenger Transport Act.

## Overview of IPART's findings on country town and rural fares

The most relevant matters in considering the difference between country town and rural fares are the costs of providing the services, the contractual arrangements in the industry and the social impacts of the determination. In particular, IPART has sought to examine:

- ▼ whether bus operators that serve rural routes are able to remain financially viable under alternative fare arrangements
- ▼ whether higher fares are necessary for rural bus routes because costs of providing these services are higher
- ▼ whether current contracts between bus operators and Transport NSW are able to reflect changes in fare structure without leading to significant administrative costs for bus operators and Transport NSW, and
- ▼ whether affordability of services in rural areas is lower than affordability in country town areas.

IPART's preliminary view is that fare structures should be combined into a single fare schedule. Our preferred option at this stage is that the combined fare schedule would be the current country town fare schedule adjusted upwards by 2.4% (to reflect the increase in the cost of providing services arising from the BICI). In coming to this view, IPART has considered the data available on costs, revenues and use of bus services from contract reporting to Transport NSW. This is currently the best source of evidence about the industry. However, contract reporting is at an early stage and there are issues related to data quality for a number of operators.

There are a number of other options that could be pursued for this review, including the status quo arrangements. We will consider the comments made by stakeholders at the public forum and submissions on these options before making our final decision. We are particularly interested in evidence about differences in costs, financial viability, additional administration costs and how a single fare scale would be managed within the current contractual arrangements for rural and regional buses.

## Profitability of bus operators

Data provided to Transport NSW by bus operators suggests that bus operators in aggregate are highly profitable, with a profit margin across all reporting operators of 34% and a return on equity of 36% (Table 2).<sup>3</sup> The high profitability of bus operators suggests that customers or taxpayers may be bearing a higher burden than justified by the provision of bus services, particularly given legislative barriers to competition for bus services of distances shorter than 40 kilometres.

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<sup>3</sup> Profit margin is calculated as earnings before tax as a share of expenses. It should reflect a risk adjusted return on the capital used to provide bus services. The return on equity is calculated as operating income after tax as a share of total equity.

The data provided by bus operators is the first data return under new contractual arrangements. As such, a number of operators may have mis-reported and included revenues and expenditures of activities outside the scope of the bus contracts in their data returns. In this case high profitability could reflect high profitability in other activities or in activities covered by the bus contracts.

Analysis of financial performance can be conducted according to the fare scale that operators use. This gives 3 possible fare scale categories for bus operators – those that operate only country town services, those that operate only rural services and those that operate both. Based on the data provided by bus operators, the average operator servicing only rural routes is more profitable than operators in other fare categories, with an average profit margin of 40%.

**Table 2 Profitability of bus operators by fare scale 2008/09**

	Country town only	Country town and rural	Rural only	All operators
Number of operators used	13	31	17	61
Average profit margin	34%	31%	40%	34%
Return on equity	.	.	.	36%
Sector contract payments as a share of expenses	97%	101%	87%	99%
Sector contract payments as a share of revenues	71%	77%	49%	74%

**Note:** Profit margin is defined as earnings before tax as a share of expenses.

**Source:** Data provided to Transport NSW by bus operators.

For rural bus operators, contract payments are a smaller share of revenue and a smaller share of expenses. This partly reflects that a higher proportion of rural travellers are full fare paying passengers, as well as a higher level of fares. Even given these differences, this share of revenue from contract payments is lower than would be expected, which likely reflects the inclusion of expenses and revenues for charter services or other business activities.

The main part of bus operators' revenues is from contract payments. In total, contract payments to operators under B service contracts were \$182 million in 2008/09 and \$176 million in 2009/10.<sup>4</sup> Since January 2010, contract payment information has been split into payments for SSTS and payments for concession passengers. Payments for concession passengers made up 5.5% of the total contract payments to bus operators in the 6 months from January to June 2010. Contract payments for SSTS therefore make up the majority of revenue that operators receive for operating Contract B services and the vast majority of contract payments.

<sup>4</sup> Information provided by Transport NSW September 2010.

## Costs and utilisation of services

The costs of providing bus services in rural regions may be higher or lower than country towns depending on factors such as the quality of service offered, fuel, depot and other input costs and wages. In some instances, such as bus driver wages, bus operators are required to pay similar rates, reducing the scope for differences.

Information is available on the expenditure of bus operators and the kilometres that they travel. Based on this, costs per kilometre of bus travel are higher for operators that only cover rural routes at \$6.20 per kilometre. Across all operators costs are about \$5.00 per kilometre travelled.

Again, caution should be used in interpreting cost per kilometre figures as a number of operators have included information in their revenue and expenditure figures related to their entire business rather than just contracted services. This seems most evident for rural only operators.

Utilisation of services also differs across the types of operator. Rural only bus operators have lower utilisation of buses by non-SSTS passengers than other bus operators. However, a higher share of their non-SSTS passengers pay the full adult fare, making utilisation of services by adult fare paying passengers similar for rural only and other operators, at slightly less than 1 passenger per trip.

## Impacts of changes in fare structure on contractual arrangements

Bus operators have contracts in place with Transport NSW specifying their payments for a period of 7 years. The contracts commenced from 2008.

Changes in fare structure, including changes in the difference between country town and rural fares, could impact on these contractual arrangements. In particular, indexation arrangements for the half fare concession payments made to bus operators to reflect their carriage of passengers at a concessional rate are indexed to changes in the maximum allowable fares. There is potential ambiguity as to how half fare concession payments would be calculated if there is a change in the fare structure.

Transport NSW has indicated that it is possible for a single fare scale to accommodate all rural and regional bus services within the current contracting arrangements.

## Affordability of bus services

Fare levels for metropolitan and outer metropolitan bus services are significantly lower than fares for rural and regional bus services.

However, average incomes in Sydney are significantly higher than those across rural and regional areas. In 2007/08, the average wage and salary income of rural and regional NSW was over \$300 a week less than Sydney. After taking into account rent and mortgage repayments, the median weekly household disposable income in rural and regional NSW is likely to be significantly less than in Sydney.<sup>5</sup>

Fares for rural bus services are currently about 25% higher than fares for the same distance journeys undertaken on country town. Average incomes are generally lower in rural versus country town regions. ABS data indicates that out of the 10 NSW Local Government Areas that recorded the lowest average wage and salary income in 2007/08, a total of 8 had populations of less than 7500.<sup>6</sup> This suggests that people residing in rural areas may have a lowered capacity to pay the higher maximum fares for rural bus services.

## Options for fare structure reform

There are a number of options available to IPART concerning the fare structure of regional and rural bus services. These include:

- ▼ maintaining the status quo by preserving the separate fare schedules for country town and rural bus services
- ▼ moving all operators onto the country town fare schedule (the current schedule would be increased by 2.4% reflecting the increase in the costs of providing services of 2.4% arising from the BICI) so that the same fare is charged for the same distanced travelled
- ▼ moving all shorter distance journeys onto an adjusted country town fare schedule, while maintaining higher fares for longer journeys (such as those greater than 10 sections), or
- ▼ creating a new fare schedule in between the existing schedules.


Of these options, IPART's preliminary view is that all fares could be moved to the current country town fare schedule adjusted upward by 2.4% (to reflect the increase in the ordinary costs of providing services from the BICI). This preliminary view reflects concerns about affordability of rural fares, as set out by the Combined Pensioners and Superannuants Association of NSW<sup>7</sup> and the evidence that aggregate profitability of bus operators is high. Our final decision may differ from this

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<sup>5</sup> ABS, Census 2006.

<sup>6</sup> ABS 2010, 6524.0, Estimates of Personal Income for Small Areas, Time Series, 2003-04 to 2007-08.

<sup>7</sup> Submission to IPART, 1 October 2010.



reflecting information and comments provided by stakeholders in the public forum and through their submissions.

Under our preliminary preferred option, maximum rural fares would fall by about 19%.

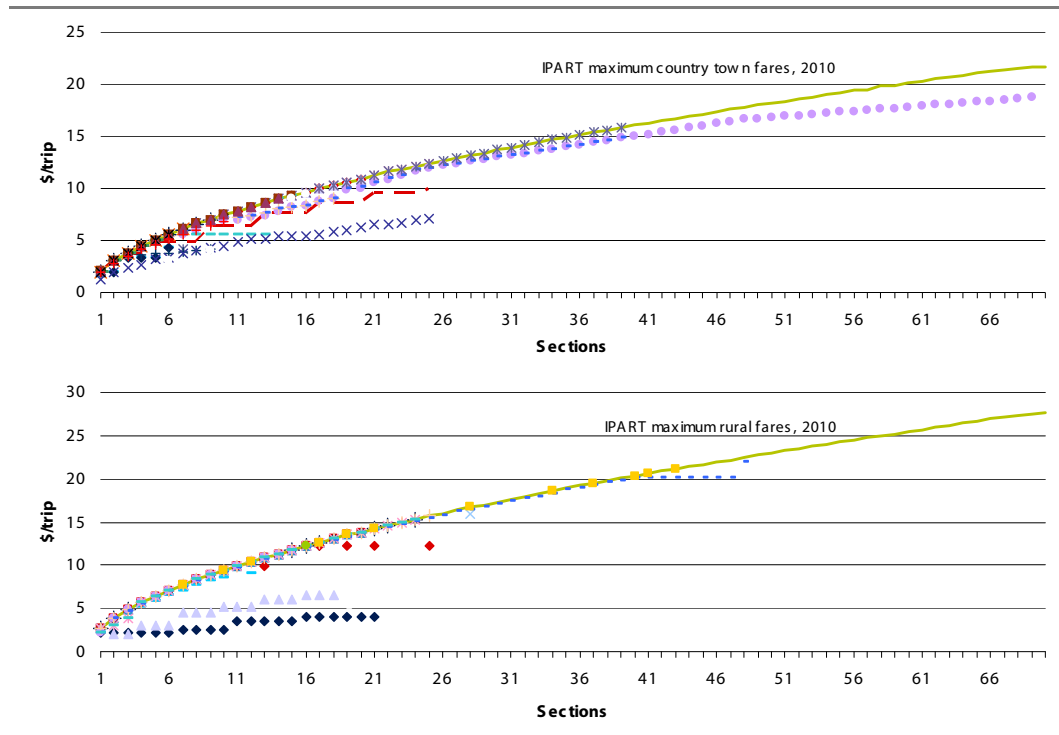
An alternative that would have smaller impacts on rural operators would be to allow these operators to charge above the current country town fares for longer distance routes. For example, fares for routes over a certain number of sections would remain at the current rural fare level, or somewhere between the current rural fare level and the country town level. This level could be set so that country town services were unaffected – the longest country town route is that between Sawtell and Coffs Harbour which is 16 kilometres.

In considering the impacts on operators and customers it is important to note that IPART determines maximum fares only – bus operators can, and many do, charge fares below the maximum fares determined (Figure 1, where the lines are the current maximum fares and the symbols are the actual fares charged). Few operators have routes or charge for routes at the longer end of the fare spectrum.

If necessary, impacts on operators could be managed through a staged process. One method of doing this would be to allow no change in rural fares for a period of time, while continuing to allow increases in the ordinary cost of providing services for country town services.



**Figure 1 Bus fares charged by operators by distance for country town and rural**



Note: Calculated for 45 operators based on fares charged in 2010.  
Data source: Fare information available on the web sites of bus operators.

### Fares under each option

The implications of alternative fare options are set out below. Table 3 shows the implications for rural fares. All options would lead to country town fares rising by the increase in the cost of providing services (2.4%) then rounded to the nearest 10 cents as shown in Table 4.

- ▼ Moving rural operators onto the country town fare schedule would result in fare reductions of about 19% for rural routes and increases of 2.4% for country town routes. Fares for shorter distance rural routes would fall by \$0.50 (for 1 section) to \$1.80 (for 10 sections) per journey, while the fare for the longest distance route would fall by \$5.20 per journey.
- ▼ Moving rural operators onto the country town fare schedule for distances 10 sections and less would result in fare reductions of about 19% for rural routes of 10 sections or less. Fares for longer journeys would rise by \$0.20 to \$0.70 per journey.
- ▼ Maintaining the status quo (allowing an increase due to the change in the costs of providing services) would lead to fare increases of about 2.4% on average. Actual fare changes, after rounding range from no change to an increase of \$0.70 per journey.

**Table 3 Adult rural fares**

Section	Current 2010 \$	Option — country town fare schedule		Option — country town up to 10 sections		Option — status quo (increase by BICI)	
		Level 2011 \$	Change 2011 \$	Level \$	Change \$	Level 2011 \$	Change \$
1	2.60	2.10	-0.50	2.10	-0.50	2.70	0.10
2	3.80	3.01	-0.70	3.10	-0.70	3.90	0.10
3	4.80	3.90	-0.90	3.90	-0.90	4.90	0.10
4	5.70	4.60	-1.10	4.60	-1.10	5.80	0.10
5	6.40	5.20	-1.20	5.20	-1.20	6.60	0.20
6	7.10	5.80	-1.30	5.80	-1.30	7.30	0.20
7	7.70	6.20	-1.50	6.20	-1.50	7.90	0.20
8	8.30	6.80	-1.50	6.80	-1.50	8.50	0.20
9	8.90	7.20	-1.70	7.20	-1.70	9.10	0.20
10	9.40	7.60	-1.80	7.60	-1.80	9.60	0.20
20	13.80	11.20	-2.60	14.20	0.40	14.20	0.40
30	17.30	14.00	-3.30	17.70	0.40	17.70	0.40
40	20.30	16.50	-3.80	20.80	0.50	20.80	0.50
50	23.00	18.60	-4.40	23.60	0.60	23.60	0.60
60	25.50	20.60	-4.90	26.10	0.60	26.10	0.60
70	27.70	22.50	-5.30	28.40	0.60	28.40	0.70

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

Changes in country town fares would range from no change to \$0.70 per journey.

**Table 4 Adult country town fares**

<b>Section</b>	<b>Current 2010 \$</b>	<b>2011 \$</b>	<b>Change \$</b>	<b>Change %</b>
1	2.10	2.10	0.00	0.0%
2	3.00	3.10	0.10	3.3%
3	3.80	3.90	0.10	2.6%
4	4.50	4.60	0.10	2.2%
5	5.00	5.20	0.20	4.0%
6	5.60	5.80	0.20	3.6%
7	6.10	6.20	0.10	1.6%
8	6.60	6.80	0.20	3.0%
9	7.00	7.20	0.20	2.9%
10	7.50	7.60	0.10	1.3%
20	10.90	11.20	0.30	2.8%
30	13.70	14.00	0.30	2.2%
40	16.10	16.50	0.40	2.5%
50	18.20	18.60	0.40	2.2%
60	20.10	20.60	0.50	2.5%
70	21.90	22.50	0.60	2.7%

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

### How to make a submission

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.


#### Submissions are due by 15 November 2010.

Submissions received after the deadline will not be accepted unless an extension has been granted prior to the due date.

We would prefer to receive submissions by email <[ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)>.

You can also send comments by fax to (02) 9290 2061, or by mail to:

**2010 Review of rural and regional bus fares**  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office NSW 1230



Our normal practice is to make submissions publicly available on our website <[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)>. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning a member of the bus review team on (02) 9290 8400.

If you would like further information on making a submission, IPART's submission policy is available on our website. You can also sign up to our email notification service to receive updates regarding transport related matters, including information on events and documents related to this review.

## Appendix A

### Factors IPART must consider when making the determination

IPART's determination of maximum fares for rural and regional bus services is conducted under section 28J of the *Passenger Transport Act 1990*, which requires the Tribunal to consider the following matters:

- ▼ the cost of providing the services concerned
- ▼ the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- ▼ the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- ▼ the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all of the feasible options to protect the environment
- ▼ the social impact of the determination
- ▼ 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
- ▼ contractual arrangements prevailing in the industry
- ▼ such other matters as the Tribunal considers relevant.

### The review process

IPART has previously released an information paper and sought submissions on matters relevant for the review of fares for rural and regional bus services. This information paper provides an update of our views, particularly on options to create a single fare structure for rural and regional bus services.

A public hearing for this review will be held on 25 October 2010. IPART will publish its final report and fare determination in December 2010 and fare changes will take effect from January 2011. The report and determination will be available from the IPART website and mailed to people who make a submission to the review or request a copy.