

Review of non-metropolitan fares for private buses in NSW

From 3 January 2006



**Report to the
NSW Minister for Transport**

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL
of New South Wales**

IPART

Review of Non-metropolitan Fares for Private Buses in NSW

From 3 January 2006

**Report to the
NSW Minister for Transport**

05/33

December 2005

This work is copyright. The *Copyright Act 1968* permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included. **ISBN 1 920987 57 6**

The Tribunal members for this review are:

**Dr Michael Keating AC, Chairman
Mr James Cox, CEO and Full Time Member
Ms Cristina Cifuentes, Part Time Member**

Inquiries regarding this review should be directed to:

***Dennis Mahoney ☎ (02) 9290 8494
Sheridan Rapmund ☎ (02) 9290 8430***

Independent Pricing and Regulatory Tribunal of New South Wales

Level 2, 44 Market Street, Sydney NSW 2000

☎ 02 9290 8400 Fax 02 9290 2061

www.ipart.nsw.gov.au

All correspondence to: PO Box Q290, QVB Post Office NSW 1230

TABLE OF CONTENTS

1	SUMMARY OF RECOMMENDATIONS	1
	1.1 Summary of findings and recommendations	1
	1.2 Structure of report	1
2	INTRODUCTION AND REVIEW PROCESS	3
	2.1 Tribunal's review process	3
3	CONSIDERATIONS ON FARES FOR SERVICES PROVIDED UNDER COMMERCIAL CONTRACTS	5
	3.1 Change in operators' input costs	5
	3.2 Productivity adjustment	7
	3.3 Service Quality	7
	3.4 Matters raised in the Premier's Letter	8
	3.5 Tribunal's recommendation on maximum fares	8
4	CONSIDERATIONS ON REVENUE PAYMENTS UNDER NON-COMMERCIAL CONTRACTS	9
	4.1 Tribunal's assessment	9
	4.2 Tribunal recommendation on revenue required	10
5	IMPLICATIONS FOR BUS OPERATORS, THEIR PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING	13
	5.1 Implications for private bus operators	13
	5.2 Implications for passengers	13
	5.3 Environment	13
	5.4 Government funding	13
	APPENDIX 1 TERMS OF REFERENCE	15
	APPENDIX 2 PREMIER'S LETTER	17
	APPENDIX 3 LIST OF SUBMISSIONS AND HEARING PARTICIPANTS	19
	APPENDIX 4 COMPARISON OF PUBLIC AND PRIVATE BUS OPERATORS COSTS	21
	APPENDIX 5 ABBREVIATIONS USED IN THIS REPORT	23

1 SUMMARY OF RECOMMENDATIONS

The Independent Pricing and Regulatory Tribunal (the Tribunal) has conducted its 2005 review of NSW private bus services provided outside the Sydney metropolitan area (non-metropolitan services). Based on this review, it has recommended the percentage by which maximum fares for services provided under commercial contracts may be increased. It has also recommended the amount by which revenue payments to operators providing services under non-commercial contracts may be increased.

1.1 Summary of findings and recommendations

The Tribunal recommends that:

- Maximum fares for non-metropolitan private bus services provided under existing commercial contracts should be permitted to rise by 5.02 per cent in line with the increase in the productivity-adjusted Bus Industry Cost Index (BICI).
- Revenue payments related to non-metropolitan private bus services provided under non-commercial contracts should be increased by between 4.45 per cent and 5.65 per cent, depending on the bus category involved and the revenue requirement determined by the PwC 2005 model.

In formulating its recommendation on fares, the Tribunal reviewed the BICI, and verified to the extent possible the consistency and representativeness of the cost items in this index. It also amended some of these items based on the latest available data, and adjusted the rise in the 'people costs' item to account for productivity growth. It then recommended a maximum fare increase equivalent to the increase in private bus operators' productivity adjusted costs over the 2004/05 financial year.

To calculate the recommended revenue payments for operators on non-commercial contracts, the Tribunal reviewed the 2005 PricewaterhouseCoopers (PwC) model supplied by the Bus and Coach Association (BCA). It examined the movements in various cost items in the model and recommended increases in revenue payments for each of the four bus categories required consistent with the model, effective from 1 July 2005.

The Tribunal notes that the Ministry of Transport (MoT) will be undertaking a review of the PwC model as part of its bus reform process within the next 12 months. (Last year, the Tribunal recommended that the structure and assumptions of the PwC model be revisited by the MoT with a view to correcting payment anomalies that appear to exist between operators of different bus categories.) The Tribunal also notes that until the non-commercial contracts are amended to remove the reference to the PwC model¹ it is obliged to make its recommendations for non-commercial services based on this model.

1.2 Structure of report

This report explains the Tribunal's review and recommendations in more detail:

- Chapter 2 outlines the Tribunal's review process

¹ The MoT has indicated that the majority of non-commercial contracts contain references to the PwC model or the PwU parameters as the basis for measuring costs that revenue requirements must reimburse.

- Chapter 3 discusses the Tribunal's considerations and recommendations in relation to maximum fares for services provided under commercial contracts
- Chapter 4 focuses on the Tribunal's considerations and recommendations in relation to revenue payments for services provided under non-commercial contracts
- Chapter 5 outlines the implications of the Tribunal's recommendations for bus operators, their passengers, the environment and government funding.

2 INTRODUCTION AND REVIEW PROCESS

The Tribunal made its recommendations under Section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992*. In doing so, it was guided by the terms of reference for the review (Appendix 1). It also took into account a letter from the then Premier dated 18 May 2004, which asked it to consider a range of matters raised in the 2003 Ministerial Inquiry into Sustainable Transport² as part of all fare reviews (Appendix 2).

2.1 Tribunal's review process

As part of its review process, the Tribunal undertook public consultation and conducted its own research and analysis. In particular, it:

- invited the Ministry of Transport (MoT), the Bus and Coach Association (BCA), and other interested parties to make submissions to its review, and received 26 written responses (see Appendix 3 for a list of submissions)
- collected detailed financial information from the BCA
- held a public hearing on 28 October 2005 and invited some of the parties who made submissions to discuss relevant issues (see Appendix 3 for a list of participants).

The Tribunal then considered the submissions it received and the comments made at the public hearing, and analysed the information it obtained from the BCA. In addition, it explicitly considered all the matters outlined in its terms of reference. These matters relate to:

- consumer protection—protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions
- economic efficiency—greater efficiency in the supply of services; the cost of providing the services concerned; relativities with the Government owned bus services, including in terms of service, efficiency, cost and ticketing products
- financial viability—the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets; the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts
- environmental protection—promotion of ecologically sustainable development via appropriate pricing policies.

It also considered the issues raised in the Premier's letter dated 18 May 2004, which included:

- making recommendations based on five-year price paths
- making fare increases up to the Consumer Price Index (CPI) subject to operators achieving efficiency gains
- making fare increases above the CPI subject to operators delivering clearly demonstrated customer benefits through improvements in service quality linked to specific initiatives.

² Widely known as the Parry Report.

3 CONSIDERATIONS ON FARES FOR SERVICES PROVIDED UNDER COMMERCIAL CONTRACTS

One of the main factors the Tribunal considered in formulating its recommendation on changes to fares was the change in private bus operators' costs in providing services over 2004/05. To calculate the extent of this change, the Tribunal determined the change in operators' input costs using the Bus Industry Cost Index (BICI) and adjusted it to allow scope for productivity gains.

The Tribunal decided to restrict the period over which cost changes were measured to the 2004/05 financial year, instead of extending it to include the September quarter as it did in last year's review. It notes that the MoT intends to make a one-off payment to operators for farebox revenue foregone and to compensate, via School Student Transport Scheme (SSTS) and half-fare concession payments, private bus operators outside the Sydney metropolitan area for a wage increase that was granted from 1 July 2005.³ The Tribunal understands that the payment will compensate bus operators for some of the increase in costs since 1 July. Therefore, adjusting the BICI to include data from the September quarter 2005 would have resulted in 'double counting'.

The Tribunal's considerations in relation to the change in input costs and the productivity adjustment, and its recommended increase in maximum fares, are outlined below.

3.1 Change in operators' input costs

In its submission, the Bus and Coach Association (BCA) submitted that fares for private non-metropolitan bus services provided under commercial contracts should increase in line with the change in the BICI over 2004/05. The MoT also proposed that the Tribunal increase fares in line with the BICI.

In essence, the BICI is an index that measures the average change in the cost of a basket of inputs considered to be representative of the costs of private bus operators in NSW (see Box 3.1 for a more detailed description). The BCA maintains this index on behalf of private bus operators, and submits it to the Tribunal each year. In 2004/05, the BICI submitted by the BCA indicates that operators' costs rose by 5.61 per cent.

The Tribunal considered the BICI data supplied by the BCA. While it did not undertake a detailed examination, it reviewed⁴ each cost item to determine whether it is:

1. *consistent* with the item description used in the previous year
2. *representative* of the class of costs for which the item was selected, and
3. *verifiable* as to the size of the change.

The Tribunal also amended the 'all other costs' item which is based on the rise in the Consumer Price Index (CPI).⁵

³ Ministry of Transport submission, page 20.

⁴ As its starting point, the Tribunal examined the written quotes and other evidence supplied by the BCA (drawn from relevant industry sources and other data). Where necessary, it made its own enquiries.

⁵ The annual change in the Sydney CPI has been adjusted in accordance with the report *Estimating The New Tax System Effect on the Consumer Price Index*, 19 February 2001, which takes into account the prolonged impact of the changes in indirect taxes that occurred upon the introduction of A New Tax System (ANTS).

Box 3.1 The Bus Industry Cost Index

The Bus Industry Cost Index (BICI) is intended to measure the average change in the price of a basket of cost inputs considered to be representative of the costs of private bus operators in NSW.

The price of each cost input is expressed as a unit cost – for example, the cost of a bus, a driver, a \$1,000 worth of insurance cover, a litre of diesel fuel, a major service of a bus and a bus tyre. These unit costs are weighted, using weights derived from a survey of private bus industry costs undertaken for the BCA and the (then) Department of Transport in 1999. These weights have been adjusted each year since the survey by the percentage price rises in each component of the BICI, effectively “rolling forward” the weights in the BICI at each review.

The BICI makes no distinction between metropolitan and non-metropolitan bus costs. This is because most of the cost items (and the changes in them) are likely to be similar between regions of NSW (for example, bus capital costs, award rates of pay for drivers and maintenance staff and fuel prices). The two items that are likely to be different between country and urban areas (bus insurance costs and bus repairs and maintenance costs) comprise only around 10 per cent of the weights used in the BICI.

The result of this review is the BICI of Table 3.1 which indicates that the average increase in operators’ costs in 2004/05 was 5.54 per cent. The Tribunal notes that the biggest increase in costs occurred in fuel, reflecting the rise in the world price of oil. There was also a rise in labour costs, reflecting an increase in Award wages payable to private bus drivers.

Table 3.1. Increase in private bus operators’ input costs as measured by the BICI

	Base % 01-Jul-04	Base Cost 01-Jul-2004	Cost 30-Jun-2005	% Contribution change	Contribution to index
BUS CAPITAL COSTS					
Mercedes 0405NH / 0500 Chassis		\$ 198,934	\$ 202,934		
Custom Coach Body		\$ 225,500	\$ 245,850		
Lease Interest (10 Year Bond Rate)		5.65%	5.42%		
Monthly Lease Payment	16.81	\$8,135.97	\$8,556.24	5.17%	0.87
PEOPLE COSTS					
Award rate of Pay (incl D/C)	41.32	\$ 667.20	\$ 693.87	4.00%	1.65
Occupational Superannuation	3.66	\$ 60.05	\$ 62.45	4.00%	0.15
Pay Roll Tax - Wages	2.25	\$ 43.63	\$ 45.38	4.00%	0.09
Workers Comp	2.35	\$ 38.00	\$ 40.31	6.09%	0.14
Total	49.58				2.03
BUS INSURANCE & REGO					
Green Slips	2.00	\$ 2,661.00	\$ 2,642.50	-0.70%	(0.01)
Comprehensive Insurance (per \$1000)	1.39	\$ 14.56	\$ 14.94	2.64%	0.04
Registrations	0.68	\$ 907.00	\$ 918.00	1.21%	0.01
Total	4.07				0.03
BUS LUBRICANTS					
Distillate	9.80	\$ 0.9117	\$ 1.0930	19.89%	
Total	9.80				1.95
BUS REPAIRS & MAINTENANCE					
Mercedes Major Service	4.74	\$ 1,356.83	\$ 1,426.86	5.16%	0.24
Tyre List Price	1.06	\$ 697.40	\$ 718.30	3.00%	0.03
Total	5.80				0.27
ALL OTHER COSTS - CPI	13.94	141.54	145.40	2.73%	0.38
TOTAL COSTS	100.00				5.54

Sources: BCA and IPART calculations. Percentage changes do not sum to 5.54 due to rounding

3.2 Productivity adjustment

Section 19 of the *Passenger Transport Act 1990* states that “a commercial contract must fix a scale of maximum fares” and that “the scale must be fixed at not less than the average level of fares for the time being prevailing in the industry for comparable services, and due allowance must be made for inflationary movements in the costs of providing the service”. The phrase “the costs of providing the service” has often been interpreted as referring to costs per unit of *input*. However, the Tribunal considers that it is also reasonable to make an adjustment to reflect the potential for productivity growth.

The Tribunal considers that one of the major weaknesses of relying on the BICI as a guide to change in operators’ costs per unit of input is that it makes no allowance for the ongoing rises in productivity (output per hour worked) that characterise the Australian economy. For example, economy-wide labour productivity (measured by the rise in the volume of gross value added relative to total hours worked) has risen at an average annual pace of about 1.5 per cent over the past five years.⁶ As a first approximation, the Tribunal assumes that labour productivity is likely to continue to rise at about this rate in the future.

Given this, the Tribunal believes the average increase in operator’s input costs indicated by the BICI needs to be adjusted to take into account the scope for productivity gains. Some economy-wide productivity gains would be reflected in the rises in the non-labour items in the BICI. However, changes in labour award rates clearly overstate the change in labour costs *per unit of output*, because they do not reflect the effect that more output per hour worked would have on labour costs per unit of output. Therefore, ideally, the 4.0 per cent to 6.0 per cent rises in the various labour input cost components in the BICI should be adjusted for productivity gains in the non-metropolitan private bus industry of NSW.

Since no measure of these gains exists, the Tribunal considered using the five-year average economy-wide growth in labour productivity of around 1.5 per cent. However, to be conservative in estimating the likely growth in productivity in the non-metropolitan private bus industry over the recent past, it decided to adopt a 1.0 per cent productivity growth assumption. This reflects the fact that there may be less scope for productivity growth in the bus industry than elsewhere on average in the economy. It then applied this assumption to the labour component of operator costs. This resulted in a lower rise in labour cost *per unit of output*, and reduced the weighted average increase in costs to 5.02 per cent (Table 3.2).

3.3 Service Quality

No data were provided to the Tribunal on the current levels of service quality, reliability or safety being delivered by private non-metropolitan bus operators. The Tribunal expects that data will become available on these matters once the current extensive bus reform process being undertaken by the Ministry of Transport is extended to non-metropolitan areas.

⁶ The 1.5 per cent is the average of the annual increases in GDP per hour worked from 2000/01 to 2004/05. Source: ABS *Australian National Accounts National Income, Expenditure and Product*, June Quarter 2005, Table 3.

Table 3.2. Increase in private bus operators' costs measured by the BICI adjusted for productivity gains

	PWC Weights					
	Base %	Base Cost	Cost	%	Contribution	
	01-Jul-04	01-Jul-2004	30-Jun-2005	change	to index	
BUS CAPITAL COSTS						
Mercedes 0405NH / 0500 Chassis		\$ 198,934	\$ 202,934			
Custom Coach Body		\$ 225,500	\$ 245,850			
Lease Interest (10 Year Bond Rate)		5.65%	5.42%			
Monthly Lease Payment	16.81	\$8,135.97	\$8,556.24	5.17		0.87
PEOPLE COSTS						
Award rate of Pay (incl D/C)	41.32	\$ 667.20	\$ 693.87	2.97		1.23
Occupational Superannuation	3.66	\$ 60.05	\$ 62.45	2.97		0.11
Pay Roll Tax - Wages	2.25	\$ 43.63	\$ 45.38	2.97		0.07
Workers Comp	2.35	\$ 38.00	\$ 40.31	5.04		0.12
Total	49.58					1.52
BUS INSURANCE & REGO						
Green Slips	2.00	\$ 2,661.00	\$ 2,642.50	-0.70		(0.01)
Comprehensive Insurance (per \$1000)	1.39	\$ 14.56	\$ 14.94	2.64		0.04
Registrations	0.68	\$ 907.00	\$ 918.00	1.21		0.01
Total	4.07					0.03
BUS LUBRICANTS						
Distillate	9.80	\$ 0.9117	\$ 1.0930	19.89		1.95
Total	9.80					1.95
BUS REPAIRS & MAINTENANCE						
Mercedes Major Service	4.74	\$ 1,356.83	\$ 1,426.86	5.16		0.24
Tyre List Price	1.06	\$ 697.40	\$ 718.30	3.00		0.03
Total	5.80					0.28
ALL OTHER COSTS - CPI	13.94	141.54	145.40	2.73		0.38
TOTAL COSTS	100.00					5.02

3.4 Matters raised in the Premier's Letter

The Tribunal considered the question of a multi-year price path for non-metropolitan bus operators but considers such a path inappropriate until bus reform has been implemented and it has generated the data on which such a path could be considered.

As for the other issues raised by the Premier, the Tribunal has considered efficiency gains (in section 3.2) and noted that it had received no data on service improvements against which it might consider the fare adjustment.

3.5 Tribunal's recommendation on maximum fares

Recommendation 1

That maximum fares for all non-metropolitan private bus services provided under existing commercial contracts should be permitted to rise by 5.02 per cent, in line with the average increase in private bus operators' productivity adjusted costs.

4 CONSIDERATIONS ON REVENUE PAYMENTS UNDER NON-COMMERCIAL CONTRACTS

Revenue payments for private bus operators on non-commercial contracts are based on the revenue they require to recover the costs of running particular categories of bus, with an allowed return on investment. From the mid-1990s, this revenue requirement has been calculated using a model developed by the consultancy, Pricewaterhouse Coopers, on behalf of the MoT and the BCA (known as the PwC model).⁷

Despite concerns about this model (see Box 4.1), the MoT indicated to the Tribunal that the current contractual arrangements in place with the non-commercial operators mean that revenue payments must be increased in line with the revenue requirements calculated by the PwC model. This meant that the Tribunal's role was restricted to assessing the application of this model, as submitted by the BCA, to check the inputs and calculations. This assessment and the Tribunal's recommendation in relation to revenue payments are presented below.

4.1 Tribunal's assessment

The Tribunal examined each of the cost and rate of return items for the 2005 PwC model. It corrected the CPI in line with the ANTS adjustment used in the BICI (see footnote 5 on page 6). This resulted in the revenue requirements shown in Table 4.1. The percentage change in the revenue requirement for each category of bus is shown in Table 4.2.

Table 4.1 Revenue requirements based on Tribunal adjusted PwC model 2005

Items in Non-Commercial model	Cat. 1 \$	Cat. 2 \$	Cat. 3 \$	Cat. 4 \$
COSTS				
Bus-related costs	14,108	15,814	18,365	19,884
Driver-related costs per hour	19,807	19,807	19,807	19,807
Driver-related costs per day	2,052	2,052	2,052	2,052
Fuel-related costs	3,035	2,703	3,933	4,477
Other distance-related costs	3,957	4,086	6,495	7,763
	42,959	44,462	50,652	53,983
DEPRECIATION				
Depreciation	2,671	4,938	5,837	8,307
Depreciation (spare bus allowance)	267	494	584	831
REQUIRED RETURN				
Return on Investment	4,684	9,039	15,997	21,302
Return on Investment on spares	468	904	1,600	2,130
NET REVENUE REQUIRED PER BUS	51,050	59,837	74,670	86,553
GST	5,105	5,984	7,467	8,655
TOTAL REVENUE REQUIRED PER BUS	56,154	65,821	82,137	95,208

⁷ Known originally as the PWU model.

Table 4.2 Revenue requirements and percentage change

Year	2004	2005	Percentage Changes (%)
	<i>As determined by PwC model</i>		<i>From 2004 to 2005</i>
Category 1	\$53,764	\$56,154	4.45
Category 2	\$62,870	\$65,819	4.69
Category 3	\$77,743	\$82,136	5.65
Category 4	\$90,604	\$95,207	5.08

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

Box 4.1 Concerns about PwC model

In its 2005 review, the Tribunal noted that the report of the Ministerial Review of Bus Services in NSW (the Unsworth Report) criticised the PwC model on the following grounds:

“While, as a sector, non-commercial contract operators may be over-remunerated, the available evidence is that individually, not all non-commercial operators are doing equally well.

“INDEC suggests that the reason for the enormous disparity in the distribution of EBITDA is that the current funding model, the PwC model, is heavily skewed in favour of:

- The 375 operators who hold multiple contracts (and, in particular, the 21 who hold 10 or more contracts), and*
- Those operators who are operating the larger category 3 and category 4 buses (and, in particular, those operators with short routes and low daily operating hours).⁸*

The first of these criticisms relates more to the system of contracting in place than to the PwC model. Currently there is one contract for each bus, and each contract reimburses the total operating cost of that bus for the year, in addition to providing a fixed rate of return over these costs. This contracting system does not take into account economies of scale of operating more than one bus. While the system has in place one contract per bus rather than one per operator, operators who are able to extract economies will continue to derive larger profits than those with only one contract.

The second of these criticisms – that category 3 and category 4 bus operators, especially those on short routes and low daily hours, are advantaged by the PwC model – suggests to the Tribunal that the structure of the PwC model needs to be reassessed.

4.2 Tribunal recommendation on revenue required

The Tribunal recommends that the Director-General adopt the absolute dollar revenue requirements as generated by the 2005 version of the PwC model updated for the ANTS adjustment in the CPI.

In terms of percentage changes, the revenue requirement for each bus category will rise by around the following rates:

- Category 1 buses: 4.45 per cent

⁸ Review of Bus Services in NSW, Final Report, p 63.

- Category 2 buses: 4.69 per cent
- Category 3 buses: 5.65 per cent
- Category 4 buses: 5.08 per cent.

In addition, the Tribunal supports the MoT's plan to review the PwC model's structure and assumptions over the next 12 months so that the payment anomalies that appear to exist between operators of different bus categories can be rectified. However, it notes that until all non-commercial contracts are amended such that they no longer refer to the PwC model, it is obliged to make its recommendation on non-commercial revenue requirements based on this model.

Recommendation 2:

Revenue payments related to non-metropolitan private bus services provided under non-commercial contracts should be increased by between 4.45 per cent and 5.65 per cent, depending on the bus category involved and the revenue requirement determined by the PwC 2005 model.

5 IMPLICATIONS FOR BUS OPERATORS, THEIR PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING

In making its recommendations, the Tribunal considered the implications of these recommendations for private bus operators, their passengers, the environment and government funding.

5.1 Implications for private bus operators

The recommended 5.02 per cent increase in maximum fares for private bus operators on commercial contracts is likely to maintain these operators' current level of financial viability, assuming that the Tribunal's estimate of a 1 per cent gain in labour productivity is accurate.

The recommended 4.45 to 5.65 per cent increase in revenue payments to non-commercial operators should at least maintain these operators' existing levels of financial viability, and possibly improve them to the extent that operators have been able to achieve productivity gains in 2004/05.

5.2 Implications for passengers

The Tribunal has no information on the income levels of passengers on private non-metropolitan buses or the affordability of the public transport they use. That said, the overall impact of the Tribunal's fare recommendations on full fare-paying passengers as a whole is likely to be small if only because public transport fares are a very small part of most household budgets.⁹ For individual users of public transport, of course, the proportion would be considerably higher.

5.3 Environment

As an alternative to private motor vehicles, the benefits of public transport include reduced congestion and pollution. The impact on the environment from the fare recommendations in terms of pollution and congestion is likely to be minimal given that the state's bus fleets are tiny compared to the NSW stock of passenger motor vehicles of over three million.

The Tribunal has considered environmental issues and the influence of fares on the use made of public transport. Most of the available evidence suggests that price has a small role to play in influencing the decision to use public transport.

5.4 Government funding

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

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

⁹ In the weights used in the 15th series of the Consumer Price Index, urban transport fares comprise less than one per cent of an average Australian household's spending. It is likely that the proportion of public transport fares in non-metropolitan household budgets would be lower.

The payment made by Government under commercial contracts in 2004/05 was \$263.9m. The increase in fares of 5.02 per cent implies that Government funding would rise by approximately \$13m in a full year.

The payment made by Government under non-commercial contracts in 2004/05 was \$124.5m. The increase in revenue required under these contracts of between 4.45 and 5.65 per cent implies that Government funding would rise by approximately \$7m in a full year.

APPENDIX 1 TERMS OF REFERENCE

“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.”

The table below indicates where each of the terms of reference and matters raised in the Premier’s letter have been addressed in the report.

Table A1.1 Consideration of the terms of reference and Premier’s letter

Terms of Reference	Report reference
i. cost of providing the service	Sections 3.1, 3.2 and 4.1
ii. relativities with Government-owned buses	Appendix 4
iii. protection of consumers from abuse of monopoly power	Section 5.2
iv. need for greater efficiency in supply of services	Section 3.2
v. impact of pricing on borrowing and capital requirements	N/A
vi. ecologically sustainable development	Section 5.3
vii. social impact of recommendations	Section 5.2
viii. standards of quality, reliability and safety	Section 3.3
ix. effect on level of Government funding	Section 5.4
Premier’s letter	
a.) five-year price path	Section 3.4
b.) fare increase up to CPI subject to efficiency gains	Section 3.4
c.) fare increase above CPI subject to service improvements	Section 3.4

N/A = not applicable to this review

APPENDIX 2 PREMIER'S LETTER



**Premier of New South Wales
Australia**

18 May 2004

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

I am writing in relation to IPART's forthcoming review processes with respect to passenger transport fares for 2004-2005, in the context of the Government's recently announced transport reforms.

In light of recent performance issues on the CityRail network, I direct under section 7(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act') that the 2004-05 IPART fare review process for CityRail be deferred until further notice. However, fare reviews of other public transport modes should proceed.

Following the Ministerial Inquiry into Sustainable Transport, the NSW Government has committed to delivering parity in fare structures and consistent service levels across public and private bus and ferry transport operators.

I therefore request under section 13(l)(c) of the Act that, when making its investigations into passenger transport fares for all public transport modes, the Tribunal consider the following matters that arise from the Inquiry's recommendations:

- the making of a determination based on a 5-year price path;
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to efficiency gains; and
- providing for fare increases above the CPI to clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives such as bus priority measures.

In respect of the Tribunal's section 9 investigations of privately owned public transport fares, I would ask that you also have regard to the above matters.

Bus Services:

In order to progress with a consistent fare structure for the bus industry and to implement reforms arising from the Unsworth Review of Bus Services, several changes to the existing arrangements, including legislation and the role of IPART, are being considered by the Government. The proposed legislative amendments will not commence in the first half of 2004.

When calling for public and industry submissions I request, pursuant to section 13(l)(c) of the Act, that IPART consider the Government's preferred approach of moving to a single fare review, including moving to a single fare change applicable to all bus operators.

I also request that IPART consider whether any State Transit fare increase for 2004-05 and later years should be applied on a "weighted average" basis aimed at better aligning Government and private operator fares. Such an approach would result in IPART determining an overall price change for bus fares. Individual fare products may be adjusted to varying degrees but the changes must, in aggregate, be less than or equal to the overall adjustment determined by IPART.

For non-commercial bus services, the Government is developing a new funding approach along the lines recommended by the Unsworth Review of Bus Services (see p.70 of the Final Report), but this may not be completed for 2004-05. Therefore it may be appropriate that the process used for the 2003-04 review be used in 2004-05.

Ferry Services:

In respect of ferry services, under section 13(l)(c) of the Act, I also request that IPART consider adopting the same process outlined above (i.e. single fare increase figure for both private and public operators). As there are no relevant legislative changes planned in relation to ferries, I request that in all other respects IPART consider following existing processes for 2004-2005.

I have no objection to the contents of this letter being made publicly available, if you consider it appropriate.

If your officers wish to discuss these matters, they should contact Ms Zoe de Saram, Policy Manager, Economic Development Branch, at The Cabinet Office on (02) 9228 4930.

Yours sincerely

Bob Carr
Premier

APPENDIX 3 LIST OF SUBMISSIONS AND HEARING PARTICIPANTS

The Tribunal received submissions from the following organisations and individuals:

Organisations

Action for Public Transport (2 submissions)
Bus and Coach Association
Blue Mountains Commuter and Transport Users Association
Combined Pensioners and Superannuants Association
Commuter Council of NSW (2 submissions)
Engineers Australia Sydney Division, Transport Panel
Independent Transport Safety and Reliability Regulator
Lake Macquarie Transport Taskforce
Lower Hunter Councils Transport Group
Ministry of Transport
NSW Council of Social Service
Transit Planners Pty Ltd
University of Newcastle
Western Sydney Community Forum
Youth Action & Policy Association

Individuals

Mr Kirk Bendall
Mr Simon Clancy
Mr Bill Craig
Ms Joan Gennery
Mr Michael Haynes
Dr Chloe Mason
Mr Paul Pearce MP
Mr Norman Rich
Mr Greg Sutherland

The participants at the hearing on 28 October 2005 were:

Action for Public Transport (Mr Allan Miles)
Bus and Coach Association (Mr Darryl Mellish)
ITSRR (Mr John Austen)
Lower Hunter Councils Transport Group (Mr Len Regan)
Ministry of Transport (Mr John Lee)
NSW Council for Social Services (Mr Dinesh Wadiwel)
State Transit Authority (Mr Roger Wilson)
Western Sydney Community Forum (Ms Joan Gennery)
Western Sydney Regional Organisation of Councils (Mr Alex Gooding)

Also attending the hearing were:

Mr Frank D'Apuzzo (Buslines Group)
Mr Bill Grant (Ministry of Transport)
Mr Richard Langereis (Ministry of Transport)
Mr John Longton (Commuter Council)
Mr Kevin Parish (Commuter Council)
Mr Michael Petrie (Ministry of Transport)
Ms Liz Reedy (ITSRR)
Mr Paul Schuman (STA)
Mr Richard Smith (Busways)
Mr Graeme Taylor (Action for Public Transport)
Mr Peter Threlkeld (Transit First)
Mr George Tisse (Busways)
Mr Paul Trevaskis (Blue Mountains Commuter and Transport Users Association)

APPENDIX 4 COMPARISON OF PUBLIC AND PRIVATE BUS OPERATORS COSTS

Table A4.1 Private bus operators' and Sydney Buses' costs, 2001/02

	Sydney Buses	Private operators	Difference
Bus hourly cost element	\$/hr	\$/hr	%
Wages	30.77	21.65	42.1
Wages on-costs	6.38	3.44	85.5
Bus hourly cost	37.16	25.09	48.1
Bus kilometre cost element	\$/km	\$/km	%
Wages and on-costs	0.29	0.13	123.1
Other bus kilometre costs	0.65	0.49	32.7
Bus kilometre cost	0.94	0.62	51.6
Bus overhead cost element	\$/hr	\$/hr	%
Salaries and on-costs	9.47	4.54	108.6
Other overhead costs	10.30	7.24	42.3
Bus overhead cost	19.76	11.78	67.7
Capital costs	\$/bus	\$/bus	%
Bus	13396	11261	20.0
Non-bus	3800	2716	39.9
Total capital cost	17196	13977	23.0

Source: Ministerial Inquiry into Sustainable Transport, Final Report p 24, drawing on STA data and private operator data from Phase 1 Financial Viability Study of Private Commercial Contract Holders in Sydney, Newcastle and Wollongong by INDEC consulting 2003.

APPENDIX 5 ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
BCA	The BCA or Bus and Coach Industrial Association is the peak industry organisation for the NSW private bus and coach sector.
BICI	Bus Industry Cost Index
HTS	Household Travel Survey – these surveys are conducted by the TPDC
MoT	The Ministry of Transport, formerly the Transport Co-ordination Authority, formerly the Department of Transport
PAR	Performance Assessment Regime - a series of best practice objectives and standards for buses.
PwC	Pricewaterhouse Coopers, the author of the model used to calculate revenue requirements of operators on non-commercial contracts.
PTA	Passenger Transport Act 1990
RTA	Roads and Traffic Authority, NSW
SSTS	SSTS or School Student Transport Scheme provides subsidised travel for eligible school students on government rail, government and private bus and ferry services and long distance coaches. The scheme can only be used for travel between home and school.
STA	The STA or State Transit Authority is the government-owned provider of bus services in Sydney and bus and ferry services in Newcastle.
TPDC	The Transport Population and Data Centre. It is the major source of transport data for the Sydney Statistical District (Sydney, Wollongong, Blue Mountains, Central Coast and Newcastle). The TPDC, formerly within the Ministry of Transport, is now a division of the Department of Infrastructure, Planning and Natural Resources.

IPART

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
of New South Wales**

Level 2, 44 Market Street, Sydney NSW 2000

PO Box Q290, QVB Post Office, NSW 1230

Telephone: (02) 9290 8400

Facsimile: (02) 9290 2061

Email: ipart@ipart.nsw.gov.au

