

17<sup>TH</sup> September 2007

# **NSW BUS AND COACH ASSOCIATION (BCA) SUBMISSION TO IPART 2007**

## **Regional and Rural Bus Fares and Payments for Dedicated School Bus Services**

### **Executive Summary**

Bus fares in Regional and Rural NSW applicable to fare paying passengers are set by bus operators as long as they are below the maximum fare schedules set by Government. IPART's recommendation of the adjustment to the maximum fare scales predominantly affects the payments the Government makes to bus operators for providing free school travel under the Government's eligibility criteria (School Student Transport Scheme).

Operators of dedicated school bus services in Regional and Rural areas are paid by the bus (not fares per student). The Model used to remunerate the operators for the provision of the bus (the bus category and kilometers are set by Government) is also the subject of this submission. The providers of these dedicated school bus services under their contracts are entitled to receive annual increases based on the cost movements in the remuneration Model.

At the present time the Director General has the final decision on setting the maximum fare schedules and per bus payments and takes into account IPART's recommendations in doing so.

### **1. Introduction**

- a) Status of bus reform process which has an impact on fares and rates payable to operators

The New South Wales Government is currently at an advanced stage of making changes to New South Wales regional and rural bus contracts. This includes changing the terms for the provision of services, changing the way services are planned and changing the way operators are remunerated for providing such services. The Government has indicated that new contracts should start to be rolled out from the first half of 2008. Because of the current legislative and contractual system the Director General remains the final determinant of regional and rural bus fares and per bus payments. Under the present system cost increases are recovered through annual fare increases or the per bus Model. The vast majority of fares applicable under this system are payable by the New South Wales Government as part of the School Student Transport Scheme. The Ministry of Transport applies a formula to these fares to cater for the cross subsidy of route service (costs) and provide sufficient incentive to operators to provide suitable capacity for school students, acknowledging that not every student uses the free school travel scheme every day. The Ministry of Transport has engaged Ernst & Young to develop a new funding model which includes a full assessment of all the costs of providing the services, margins applicable, suitable fares and per bus payments.

- b) In this submission the BCA has:
  - i) provided the standard bus industry cost index as this is the current mechanism approved by the Director General;
  - ii) provided the standard so called PriceWaterhouseCoopers (PWC) non-commercial contract remuneration model for dedicated school bus contracts; and
  - iii) provided comments on the IPART issues paper.

**2. Bus Industry Cost Index (summary)**  
**(Measures movements in costs 1/7/06 to 30/6/07)**

As requested by IPART, BCA has submitted the standard bus industry cost index updated for 2006/7 cost movements (see below).

<b><u>Costs</u></b>	<b><u>Movement %</u></b>
Bus Capital	0.62
People Costs	1.69
Bus Insurances/Registration	0.03
Bus Fuel/Lubricants	-0.42
Bus Repairs and Maintenance	0.29
Other Costs	0.38
	<hr/>
	2.59%

The 2.59% fare increase would be applicable to the School Student Transport Scheme and half fare reimbursements effective from 1 July 2007. The increases for other passengers would be effective from 1 January 2008.

### **3. Remuneration model for non-commercial dedicated school bus services**

As requested BCA has taken the Model released by IPART in 2006 and approved by the Director General and adjusted the variable inputs in the normal way. The source documents verifying the inputs are provided to IPART in a separate package. A summary of the results of this Model is shown in the table below, taking a hypothetical bus operation that assumes the services operate for 4 hours and 100kms every school day in a standard school year.

**2007/8 Base Model Dedicated School Bus Remuneration Model “PWC”**

	<b>Cat. 1</b>	<b>Cat. 2</b>	<b>Cat. 3</b>	<b>Cat. 4</b>
	<b>\$ p.a.</b>	<b>\$ p.a.</b>	<b>\$ p.a.</b>	<b>\$ p.a.</b>
<b>COSTS</b>				
Bus-related costs	14,963	16,773	19,478	21,089
Driver-related costs per hour	21,384	21,384	21,384	21,384
Driver-related costs per day	2,411	2,411	2,411	2,411
Fuel-related costs	3,491	3,202	4,658	5,302
Other distance-related costs	4,197	4,334	6,889	8,234
	<b>46,445</b>	<b>48,104</b>	<b>54,820</b>	<b>58,420</b>
<b>DEPRECIATION</b>				
Depreciation	2,995	5,644	6,915	9,506
Depreciation (spare bus allowance)	299	564	691	951
<b>REQUIRED RETURN</b>				
Return on Investment	5,310	10,417	19,456	24,636
Return on Investment on spares	531	1,042	1,946	2,464
<b>NET REVENUE REQUIRED PER BUS</b>	<b>55,580</b>	<b>65,771</b>	<b>83,828</b>	<b>95,976</b>
GST	5,558	6,577	8,383	9,598
<b>TOTAL REVENUE REQUIRED (LAST YEAR)</b>	<b>61,138</b>	<b>72,347</b>	<b>92,210</b>	<b>105,574</b>
	<b>(59,170)</b>	<b>(69,503)</b>	<b>(87,542)</b>	<b>(100,803)</b>

Rates apply for period 1/7/07 to 30/6/08.

**4. Non Metropolitan Bus Fares**

a) Who pays the fares?

The current system provides for the use of two fare scales (Country Town and Rural). These are the maximum authorized fare scales and are used for:

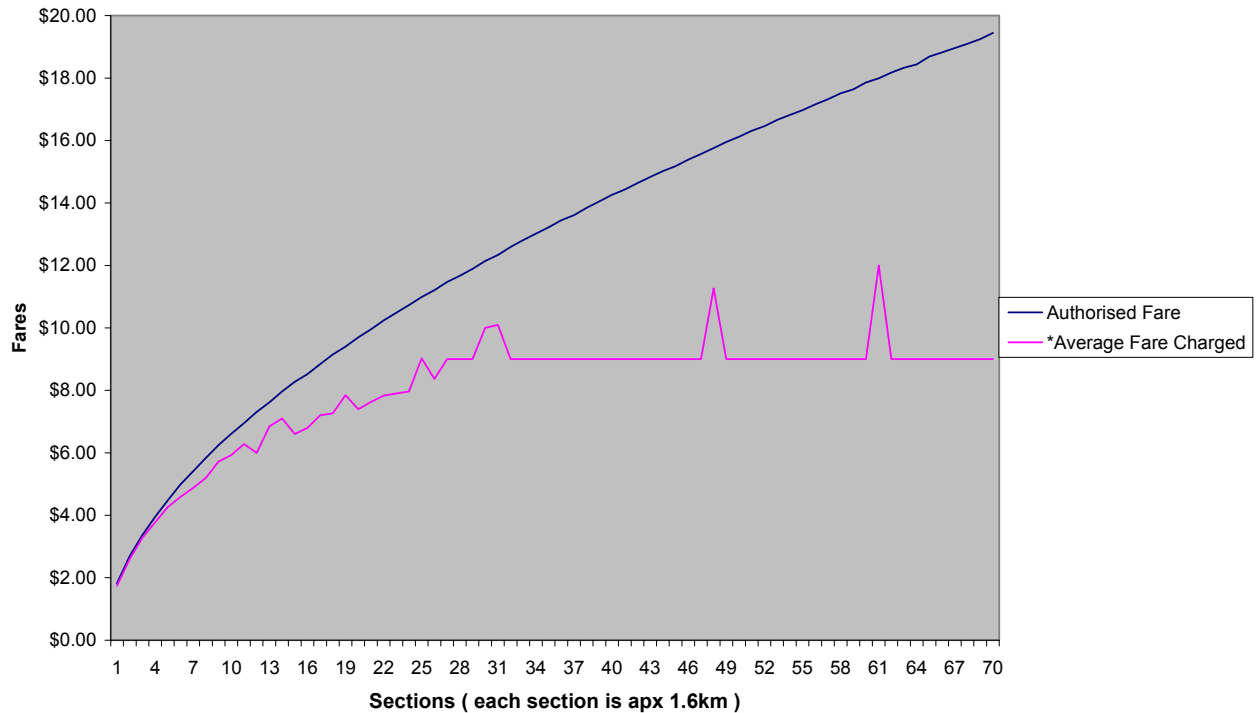
- i) Setting the maximum fares an operator can charge to the traveling public.
- ii) Establishing the fares payable by the Government to the operator for the operation of the free school travel scheme called SSTS - School Student Transport Scheme. The maximum authorised fares are then heavily discounted by the Government to adjust for the fact that they are not

payable for the actual trip but are a payment for provision of the bus regardless of the number of actual trips taken. The Government establishes the eligibility rules for the free school travel scheme and the operator must provide the bus capacity for that scheme regardless of the number of students that actually travel on any one day. For example, in the case of a primary school student the maximum authorized adult fare is discounted by 50% and the operator is then paid only 79% of that discounted fare, and in return the operator has to provide 92% capacity for all the students eligible for free school travel. This formula-based system was arrived at acknowledging that the payment for the school network also included a component of cross subsidy for route services and hence, adult fares. (See graph showing the average discounted fares). Altering the method of setting fares should not occur in isolation of this process.

b) How much is payable by the passenger?

The main purpose of the fare setting process and the maximum fare scales are for the SSTS system. Private operators are authorised to set the fares for the public up to this maximum. However, as can be seen on the graph below the actual fares charged to the traveling public are heavily discounted by the operators, to try and encourage travel. In regional and rural areas there are very low patronage rates for adult and concession travel. (Over 90% of the travel task is for school students).

**Regional & Rural Country Town Fares  
 (\* BCA Survey of R & R Operators )  
 Actual fares charged compared to max fares allowed**



c) The Bus Industry Cost Index

The Bus Industry Cost Index was developed jointly between the Ministry of Transport and the BCA and is agreed to be the basis for establishing the maximum fare scales. This was done with the awareness that the maximum fare scales are largely for the purpose of calculating the SSTS cost to Government and setting a maximum cap for fares chargeable to the general public. It is acknowledged by MoT and Bus Operators that the longer distance authorized fares are not attractive to encourage patronage and the costs of the services are subsidized by SSTS.

**5. Why the tribunal is reviewing the cost indices and the scope of the review**

a) Independent cost reflective and robust criteria

The industry believes that the present system does provide independence, is cost reflective and robust, but has always acknowledged that improvements can be made. However, such improvements should not be made in isolation of the total contractual environment applicable. Each month every commercial operator provides a detailed monthly report to the Ministry of Transport covering the performance of service provision in their contracts, these reports include:

- i) any timetable information changes;
- ii) performance data on services such as early or late or cancelled services;
- iii) patronage data broken up into all categories for all routes; and
- iv) full details of customer feedback including complaints, compliments incidents etc.

This information assists the Government assess value for money for its SSTS payments (fares) and contract requirements.

b) Recognition of the diversity of businesses operating in the industry

BCA supports IPART's acknowledgement of the diversity of the businesses operating in the bus industry. The geographic spread and the remoteness of services require many small businesses to operate from their residence or villages. However the level of regulation in the New South Wales bus industry regardless of the size of the operator is the highest in Australia. Every contracted bus operator has to comply with a strict accreditation system which has extensive reporting and self and external audit systems. Unlike other states this includes comprehensive safety management systems and drug and alcohol testing regimes. This point is emphasised because the costs affecting the industry are going through an upturn in regulation and compliance requirements and has a direct impact on costs which under the present system has to be managed through the fare setting process. The diversity of the industry supports the argument for industry specific cost indices.

- c) Minimizing the information requirements on operators

At present operators do not provide information to IPART for the purposes of establishing fares or the remuneration model.

**6. General comments on the current or alternative approaches for inflating each cost item**

BCA considers that the existing system already recognizes the diversity of businesses operating in industry and already minimizes the information requirements on operators and should not be changed in the middle of major reforms.

**7. Relative weightings of the cost of items in the index**

BCA welcomes the review of the relative weightings in the cost index and will work with the consultants appointed by IPART to recalibrate the weightings.

**8. Applicability of productivity gains**

The BCA considers that reducing the operators' revenue by reducing the level of fare increases to impose efficiency will actually result in lower productivity and greater cost to the community because of its impact on operator viability. Without adequate measurement it can be argued that productivity losses currently outweigh productivity gains. The Government's reform process and the industrial system (wage negotiation) already address productivity issues. Last year the BCA submitted a table listing items affecting productivity and sought IPART's comments on these matters. Application of an assumed productivity adjustment related to the general economy or the transport and storage index are not appropriate for services under transition to new contracts, funding model and planning principles. This was also the view of the Director General in 2006 who did not accept IPART's productivity adjustment. BCA refers IPART and the public to its 2006 submission which contained further information about the reform process, wage negotiations and productivity losses versus productivity gains. It also included discussion on economy wide productivity measures, technology impact and the already heavy discounting of the maximum fare scales as described above.

**9. Industry Specific Cost Index compared to the use of “inflaters” from wider activities**

BCA consider a Bus and Coach industry specific index is the most reflective of the actual costs incurred by Bus and Coach operators.

The Index measures movements in the agreed measures from one period to the next and hence, the main purpose of the index is to measure movements that best reflect the industry experience. BCA’s comments on the proposed use of different inflators are as follows.

- 9.1** The bus reform process may result in a funding Model where operators receive a shadow fare for the transport services. (This was the case in the Metropolitan and Outer Metropolitan reforms). This means that the fare received by the operator may be different to the one paid by the traveling public. This is only partly the case now in Regional and Rural NSW, (for the shorter distances maximum authorized fares set by the Director General are the actual fares charged to the traveling public). Some form of separate indexation will be needed for adjusting shadow fares, and as a general principle the index should reflect as close as possible to the actual industry circumstances applicable, supporting other contractual arrangements meeting the Government's value for money transparency and accountability objectives. This requirement supports retaining the current indices until new funding models are determined.
- 9.2** BCA would not expect the generic inflators to vary much compared with the existing bus industry cost index. The Regional and Rural Bus Industry at present is in a cycle of increased costs and limited growth in school student numbers which is best served by the Existing Cost Index approach, until new funding Models are finalised.
- 9.3** If the broader inflators are used, BCA considers that this would further discount the argument for productivity adjustments, as the indices arguably already reflect productivity benefits.

**9.4** If the actual wage arrangements for the industry are known, transparent, independent and published then this would appear to be the best inflator for this cost category.

**9.5** The benefit of using the insurance index in the BICI, is that it is industry specific incorporating only insurance costs relating to the Bus industry (not all insurance services).

The indicators used in establishing the insurance figures for the BICI are specific to the industry being;

- Fleet details - asset value, number of vehicles
- Incurred claims history
- Total premiums paid - reflecting the movement in the insurance market for Comprehensive Motor Vehicle Insurance & Compulsory Third Party Insurance on buses / coaches only.

The insurance market within the Bus Industry is primarily driven by claims costs, along with the asset value of fleets - each fleet being different in this regard, accordingly, the figures provided for the BICI reflect both the current costs and the current trends within the industry.

The insurance services sub-group appears to be all encompassing, being domestic and commercial insurances and therefore less relevant.

**9.6** On balance BCA considers the 5 year Bond rate is more relevant than the 10 year rate. IPART is asked to clarify if they are considering the Commonwealth Bond rates or Bank Bill swap rates. This is not clear from the issues paper (p.8 refers to Bond rate, p.12 refers to swap rate).

**9.7** BCA considers that Workers Compensation costs are related to wages and should be indexed by the wages index and the selected insurance index.

## **10. Conclusion**

BCA considers that the Cost Index should not be radically changed in the midst of major reforms that are also looking at fares, productivity and value for money. The BCA proposal is for the Cost Index and PWC Models to continue for the 2007/8 year.

Yours Sincerely

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