

# THE EFFICIENT COSTS OF PROVIDING RURAL AND REGIONAL BUSES

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Operators recover the efficient costs of providing rural and regional buses through the contract payments made by Transport for NSW (TfNSW) and fares – some of which are determined by IPART, and some are not, such as the RED ticket. We consider the cost of providing the services, as well as the need for greater efficiency in the supply of services to reduce costs for the benefit of consumers and taxpayers, among other factors.<sup>1</sup>

TfNSW does not collect information on actual operator costs. Until the next round of contracts are negotiated in 2024-25, the best indicators we have of cost changes are through contract payments and changes in IPART's Bus Industry Cost Index (BICI). The BICI is similar to CPI, except rather than measuring changes in the costs across the whole economy, it only estimates the changes in the costs of providing bus services (such as fuel, labour and insurance costs).<sup>2</sup> Evidence shows that there have been some cost changes since our last review, but we do not consider these to be significant.

Contract payments made to operators have increased by around \$44 million, or 10% since 2016-17.<sup>3</sup> Periodically, TfNSW indexes bus operator contract payments based on a combination of the following key cost categories:

- ▼ Labour, driven by bus driver wages (indexed by the ABS quarterly Wage Price Index for Transport, Postal and Warehousing)
- ▼ Fuel and oil (indexed by the monthly average Mobil terminal gate price for diesel)
- ▼ The costs of purchasing buses (reflecting the actual price of purchasing a particular category of bus from the TfNSW procurement panel)
- ▼ Other costs (indexed by Sydney CPI, and applied annually).<sup>4</sup>

The change in contract costs are broadly consistent with the BICI estimate of rises in the typical costs of providing rural and regional bus services. Figure 1.1 (below) shows changes in the BICI components over recent years.

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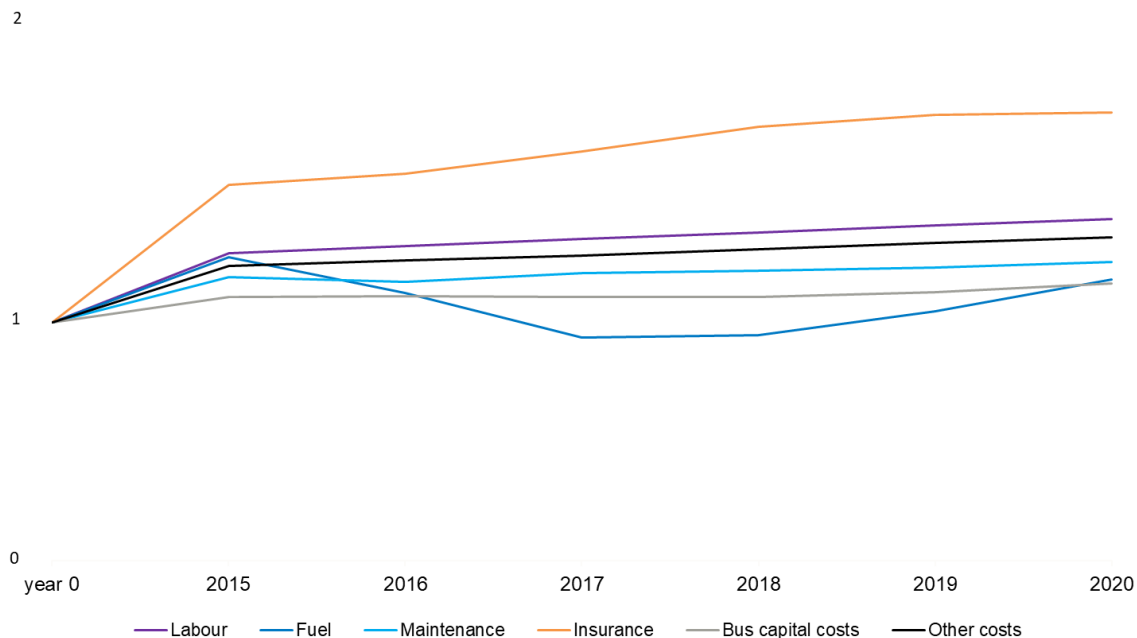
<sup>1</sup> We are required to consider the matters set out in section 124(3) of the *Passenger Transport Act 2014*.

<sup>2</sup> Prior to our 2018 determination, we used the BICI to adjust fares.

<sup>3</sup> Information provided by Transport for NSW.

<sup>4</sup> TfNSW, [Rural & Regional Bus Service Contract \(Large\)](#), p 107, accessed 31 August 2020.

Figure 1 Index of the the Bus Industry Cost Index components (2015 - 2020)



Data source: ABS statistics, Fueltrac data, IPART analysis.

## Bus operators could be more efficient

In 2017 we engaged a consultant (AECOM) to estimate the efficient costs of providing rural and regional bus services (see Box 1). AECOM concluded that there was considerable scope for bus operators to be more efficient. However many of the efficiencies are unlikely to be realised until contracts are re-negotiated in 2024. Based on AECOM’s analysis, we identified the following actions TfNSW could take to achieve some of these efficiencies:

- ▼ Collecting better information on route distances so that only efficient route kilometres are funded and reviewing the choice of bus makes and models
- ▼ Making more use of competitive tendering to ensure the costs of rural and regional bus services reflect efficient costs.<sup>5</sup>

Because many of these efficiency opportunities cannot be realised until the current bus contracts expire (in 2024), we consider that these recommendations still stand. We have not undertaken another detailed efficient cost study for this review given our primary objective is to set fares that are affordable for people with limited transport options, and that fare revenue accounts for a very small proportion of total revenue.

<sup>5</sup> IPART, [Maximum fares for rural and regional bus services from March 2018 Final Report](#), December 2017, p 5.

**Box 1 AECOM approach to estimating efficient costs in 2017**

1. Established most common vehicles in bus fleet
2. Estimated costs of maintaining vehicles
3. Estimated length and duration of each trip
4. Applied labour costs to duration of each trip
5. Estimated seat capacity and utilisation for each route
6. Benchmarked overheads
7. Estimated return of and on capital
8. Summed efficient costs by route for all routes.

**Source:** AECOM, *Efficient costs of rural and regional bus operators Final Report*, December 2017, p 2.