LETTER FROM GEORGE MAIR, DIRECTOR, CPT SCOTLAND TO THE CONVENER OF THE PUBLIC AUDIT COMMITTEE, 11 JANUARY 2011.

I am writing to you in response to your letter of the 6th January requesting further information on the issues of bus industry costs, concessionary scheme fraud and CPT membership policy regarding fraud.

On the issue of bus industry costs, I have included copies of CPT's six-monthly cost index reports dating back to June 2004.

Below is a table detailing annual changes in operating costs for Scottish bus operators in comparison to the UK average and to RPI. The Scottish bus industry's operating costs have risen consistently higher than RPI since 2004 and above the UK bus industry average since 2006.

	Change in Operating Costs		**RPI Percentage change over 12 months** [1]
	Scotland	**UK**	
June 2004	5.6	7.7	3.0
June 2005	6.0	9.1	2.9
June 2006	9.8	7.8	3.3
June 2007	7.8	5.2	4.4
June 2008	4.5	4.2	4.6
June 2009	8.7	6.2	-1.6
June 2010	6.1	3.4	5.0

[1] Office for National Statistics; Retail Prices Index: monthly index numbers of retail prices 1948-2010 (RPI) (RPIX)

Additionally, according to DfT Statistics[1] the annual operating cost per vehicle mile on local bus services in Scotland has risen from 197p in 2006-07 to 238p in 2009-10. This is in increase of 20.8%. The total cost of the concessionary travel scheme operator reimbursement has risen by 21.4% over the same period.

On the question of whether the prospect of operator fraud was considered by any of the working groups tasked with implementing the National Concessionary Travel Scheme; it would appear from our records that this aspect was part of the remit of the Verification and Administration Task Group (Task Group 5).

The Verification and Administration Task Group worked towards 5 key outputs:

- Definition of the role that the internal audit function would undertake
- Definition of the role of external audit in respect of auditing third parties such as operators
- Examination of proposed reimbursement procedures for audit and verification procedures in a non-smart environment
- Definition of the processes for handling fraud by operators
- Definition of processes for handling user fraud

The Scottish Government was represented on this Task Group by Stuart Forrest of the then Scottish Executive Transport Division 2. Any minutes of the meetings of the Task Group may have been retained by Transport Scotland and we would advise that further queries on this topic would be better directed towards it.

As for CPT's policy towards any operator convicted of fraud; the CPT Operator Member Code of Conduct states that members should ensure they conduct themselves in a professional manner at all times so as to maintain the reputation of CPT and should not do anything likely to bring CPT or the passenger transport industry into disrepute. It also calls on members to maintain a public service vehicle operator's licence appropriate to their business and comply with all statutory requirements applicable to that business.

CPT presumes that any operator convicted of fraud would lose their repute and therefore their licence and so the decision of whether or not to revoke their CPT membership would be moot. It is not for CPT to second guess the decisions of the law courts or the Traffic Commissioner.

CPT does retain the mechanism for revoking the membership of a member who has brought the industry into disrepute but this has never been called upon as, as far as we are aware, no CPT member has been convicted of fraud and no operator with a conviction for fraud has requested to join.

CPT would like to reiterate its support for legal action against any bus operator, CPT member or not, who is thought to have committed fraud.

[1] DfT, Public Service Vehicle Survey, 21 October 2010

If CPT can be of any further help to you during your inquiry into the Auditor General for Scotland's report on National Concessionary Travel please do not hesitate to contact us.

Yours sincerely
George Mair FCILT
Director, CPT Scotland

LETTER FROM THE CONVENER OF THE PUBLIC AUDIT COMMITTEE TO GEORGE MAIR, DIRECTOR, CPT SCOTLAND, 6 JANUARY 2011.

I am writing on behalf of the Public Audit Committee to thank you and your colleague, Paul White from the Confederation of Passenger Transport (CPT), for the oral evidence you gave to the Committee at its meeting on 22 December 2010, as part of its inquiry into the Auditor General for Scotland's report entitled *National concessionary travel.*

You will receive an electronic transcript of the evidence given to the Committee from the Official Report in due course, allowing you to examine it for factual errors. In the meantime, there was some follow up information you offered to provide for the Committee in writing.

In reference to Exhibit 6 of the Auditor General for Scotland's report, the Committee questioned the reasons why, since the onset of the National Concessionary Travel Scheme, the costs of concessionary bus travel have increased at a higher rate than the number of journeys recorded.[2] You offered to provide the Committee with copies of CPT's 6 monthly cost indices comparing bus industry costs across the UK. You commented that this provides an explanation as to why industry costs have risen since the onset of the scheme and, in particular, why the costs in Scotland are greater than throughout the rest of the UK.

The Committee also had a number of questions on the issue of fraud and there were two areas where you offered to provide the Committee with further information. Firstly, whether any of the CPT working groups considers the issue of fraud, and secondly, whether any bus operator in the United Kingdom had been rejected from the CPT or refused membership to the CPT on the grounds of fraud.

I would be grateful for a response to these requests by 27 January 2011. Should this deadline cause you any difficulties or you require any further information please do not hesitate to contact either the Assistant Clerk, Jason Nairn on 0131 348 5236 or by email at pa.committee@scottish.parliament.uk.

Please also find enclosed a witness feedback form. I would be grateful if you could complete and return the form via email or you can request a pre-paid envelope to be provided.

[2] Audit Scotland. (2010) *National concessionary travel,* page 16

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to June 30, 2004

	Overall national result	Regional indices: London & Home Counties	Midlands	Northern England	South West England	Wales	Scotland
Overall change in operating costs	7.7%	9.5%	4.8%	9.3%	6.1%	4.4%	5.6%
Change in individual cost categories:							
1 Drivers wages and on costs	8.2%	11.7%	4.3%	7.3%	6.8%	7.5%	6.5%
2 Other labour and staff costs	6.3%	8.8%	6.1%	5.5%	5.5%	1.6%	5.4%
3 Insurance and claims	22.2%	17.4%	15.9%	29.9%	28.1%	4.8%	15.4%
4 Fuel	-0.5%	0.6%	2.5%	-1.6%	-1.4%	1.2%	-2.1%
5 Maintenance materials	12.6%	11.2%	5.1%	19.4%	6.6%	-2.8%	16.0%
6 Vehicle depreciation	21.8%	25.0%	6.7%	45.7%	-4.1%	-2.1%	3.1%
7 Other operating costs	3.9%	2.5%	4.3%	1.2%	12.0%	7.8%	4.3%
Sample size:							
Number of respondents	84	23	12	21	11	7	10
Representing operating costs of:	£1,871,049,175	£560,414,615	£191,569,048	£534,662,956	£217,100,750	£95,907,230	£271,394,576

All data is weighted by the size of each respondent's cost base and by the relative spend in each cost category.

Compiled by an independent consultant using data supplied directly to the consultant by a representative selection of bus and coach operators who are members of CPT.

Compiler:

Richard Delahoy, SiGNAL Training & Consultancy Services
272 Shoebury Road, Southend on Sea, SS1 3TT
01702 - 588590
richard@signal-training.com
23/09/2004

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to December 31, 2004

	Overall national result	Regional indices: London & Home Counties	Midlands	Northern England	South West England	Wales	Scotland
Overall change in operating costs	7.8%	10.7%	5.9%	6.0%	7.7%	5.9%	6.8%
Change in individual cost categories:							
1 Drivers wages and on costs	7.5%	11.4%	6.8%	5.1%	4.9%	6.1%	6.4%
2 Other labour and staff costs	7.7%	10.5%	7.6%	5.6%	9.3%	4.9%	5.8%
3 Insurance and claims	30.3%	25.5%	8.3%	40.6%	33.8%	19.3%	28.9%
4 Fuel	4.0%	6.0%	6.8%	1.8%	1.9%	0.0%	5.4%
5 Maintenance materials	11.9%	21.9%	3.5%	6.1%	5.4%	4.0%	18.3%
6 Vehicle depreciation	4.9%	7.7%	1.0%	5.2%	-2.7%	2.7%	7.0%
7 Other operating costs	4.2%	4.2%	4.1%	-0.2%	20.3%	8.4%	0.6%
Sample size:							
Number of respondents	86	27	13	18	12	6	10
Representing operating costs of:	£1,874,000,000	£600,200,000	£171,500,000	£509,200,000	£188,700,000	£101,600,000	£302,500,000

All data are weighted by the size of each respondent's cost base and by the relative spend in each cost category.

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Compiler:

Richard Delahoy, SiGNAL Training & Consultancy Services
272 Shoebury Road, Southend on Sea, SS1 3TT
01702 - 588590
richard@signal-training.com
16/03/2005

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to December 31, 2005

	Overall national result	Regional indices: London & Home Counties	Midlands	Northern England	South West England	Wales	Scotland
Overall change in operating costs	8.2%	8.7%	7.0%	8.7%	9.6%	6.4%	6.4%
Change in individual cost categories:							
1 Drivers wages and on costs	6.9%	7.3%	4.3%	7.7%	6.2%	6.5%	6.2%
2 Other labour and staff costs	10.6%	10.6%	11.3%	11.8%	12.7%	4.9%	8.1%
3 Insurance and claims	-4.3%	6.8%	-9.8%	-9.0%	-19.5%	0.4%	-11.2%
4 Fuel	22.5%	24.6%	20.9%	23.8%	18.9%	18.0%	19.8%
5 Maintenance materials	5.4%	6.4%	7.0%	2.7%	19.6%	-1.3%	2.1%
6 Vehicle depreciation	3.3%	1.5%	0.2%	1.7%	10.4%	6.5%	10.7%
7 Other operating costs	8.4%	7.8%	10.5%	11.1%	15.2%	6.5%	-1.9%
Sample size:							
Number of respondents	77	25	8	22	9	4	9
Representing operating costs of:	£2,441,600,000	£872,600,000	£248,300,000	£711,700,000	£189,900,000	£98,400,000	£320,500,000

All data are weighted by the size of each respondent's cost base and by the relative spend in each cost category.

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Compiler:

Richard Delahoy, SiGNAL Training & Consultancy Services
272 Shoebury Road, Southend on Sea, SS1 3TT
0845 260 0136
richard@signal-training.com
22/03/2006

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to December 31, 2006

	Overall national result	Regional indices: London & Home Counties	Midlands	Northern England	South West England	Wales	Scotland
Overall change in operating costs	7.1%	7.4%	6.0%	6.9%	7.1%	8.2%	7.5%
Change in individual cost categories:							
1 Drivers wages and on costs	4.3%	5.0%	4.4%	4.7%	2.5%	5.3%	2.1%
2 Other labour and staff costs	5.7%	7.7%	4.4%	5.7%	7.3%	4.1%	1.7%
3 Insurance and claims	-0.3%	4.6%	2.2%	-8.1%	11.2%	-19.4%	26.7%
4 Fuel	24.3%	19.4%	14.3%	27.1%	27.7%	35.5%	31.7%
5 Maintenance materials	5.9%	13.7%	6.4%	2.3%	-2.5%	11.3%	0.5%
6 Vehicle depreciation	5.7%	2.8%	3.0%	6.2%	12.4%	-0.6%	13.0%
7 Other operating costs	12.1%	11.8%	9.9%	8.6%	14.1%	15.7%	19.5%
Sample size:							
Number of respondents	68	22	8	16	10	4	8
Representing operating costs of:	£2,285,300,000	£672,100,000	£241,500,000	£655,000,000	£243,500,000	£112,800,000	£360,200,000

All data are weighted by the size of each respondent's cost base and by the relative spend in each cost category.

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Compiler:

Richard Delahoy, SiGNAL Training & Consultancy Services
272 Shoebury Road, Southend on Sea, SS1 3TT

0845 260 0136
richard@signal-training.com

Summary of previous results:

In each case, covering the 12 months to:

June 2004	7.7%
December 2004	7.8%
June 2005	8.7%
December 2005	8.2%
June 2006	7.8%
December 2006	7.1%

Comments on fuel costs

The figures shown above represent the weighted average of the actual experiences of the operators contributing data. In the case of fuel however, there has been a wide range of experiences, both in this period and in earlier periods. The actual position of individual operators can vary from the "average" experience for a number of reasons:

- whether the operator has used hedging programmes to protect against anticipated fuel prices;
- the impact of hedges expiring and not being replaced or being replaced at significantly higher prices;
- changes in the fuel efficiency of vehicles - in some cases, new buses/coaches acquired have worse consumption rates than the vehicles they have replaced.

The effect of hedging in particular means that the impact of the dramatic rises in diesel prices seen in the past couple of years affects different operators at different times.

In the current period (year to December 2006), the range of experiences on a pence per mile basis was from a slight *reduction* to over a 50% increase.

Typically, fuel represents around 8% of total operating costs, although for coach operators the figure is around double that percentage of total costs.

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to 31 December 2007

	Overall national result	Regional indices: London & Home Counties	Midlands	Northern England	South West England	Wales	Scotland
Overall change in operating costs	5.3%	5.6%	4.1%	6.4%	1.1%	3.8%	5.9%
Change in individual cost categories:							
1 Drivers wages and on costs	5.2%	4.8%	5.9%	5.9%	2.9%	5.4%	5.8%
2 Other labour and staff costs	6.4%	6.2%	3.2%	7.0%	8.6%	4.9%	6.8%
3 Insurance and claims	1.7%	10.9%	0.7%	-0.4%	-10.8%	-4.5%	-2.5%
4 Fuel	7.2%	10.7%	9.6%	6.4%	4.3%	4.4%	4.6%
5 Maintenance materials	-0.1%	-1.9%	0.2%	2.3%	-4.5%	3.5%	-0.5%
6 Vehicle depreciation	10.7%	18.9%	-2.2%	6.6%	4.1%	16.6%	14.7%
7 Other operating costs	2.8%	0.0%	0.6%	11.7%	-13.8%	-7.6%	5.4%
Sample size:							
Number of respondents	72	16	8	22	11	4	11
Representing operating costs of:	£2,830,900,000	£918,300,000	£260,700,000	£884,000,000	£233,600,000	£115,000,000	£419,300,000

All data are weighted by the size of each respondent's cost base and by the relative spend in each cost category.

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Compiler:

Richard Delahoy, SiGNAL Training & Consultancy Services
272 Shoebury Road, Southend on Sea, SS1 3TT
0845 260 0136
richard@signal-training.com

Summary of previous results:

In each case, covering the 12 months to:

June 2004	7.7%
December 2004	7.8%
June 2005	8.7%
December 2005	8.2%
June 2006	7.8%
December 2006	7.1%
June 2007	5.2%

Comments on individual categories

There continue to be a range of experiences in the change in fuel costs, probably largely due to some operators having hedging programmes in place and others not, so that the timing of changes in market prices varies from operator to operator.
The individual percentage changes in items such as depreciation and other operating costs should be treated with care, as it is possible some respondents have changed from operating leases to owned vehicles (or vice versa), moving certain costs from one heading to another but with little impact on the overall index result.

Breakdown of bus & coach industry operating costs for the 12 months to 31 December 2007

In response to requests, we are now also showing how much each cost category represents as a percentage of the overall total.

		Overall national result	Regional indices:					
			London & Home Counties	Midlands	Northern England	South West England	Wales	Scotland
	Total operating costs	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Percentage that each cost category represents:								
1	Drivers wages and on costs	48.4%	53.7%	45.7%	45.6%	45.7%	46.0%	46.7%
2	Other labour and staff costs	15.2%	14.0%	15.2%	14.9%	17.7%	16.6%	16.8%
3	Insurance and claims	3.1%	2.6%	2.6%	4.1%	2.5%	3.4%	2.3%
4	Fuel	9.4%	7.4%	9.8%	10.9%	9.1%	9.3%	10.7%
5	Maintenance materials	5.3%	4.5%	6.7%	5.3%	5.7%	5.0%	5.7%
6	Vehicle depreciation	6.5%	6.0%	7.4%	6.9%	6.1%	6.6%	6.5%
7	Other operating costs	12.2%	11.8%	12.6%	12.4%	13.2%	13.1%	11.2%

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to 31 December 2008

	Overall national result	Regional indices: Greater London bus	South East & Home Counties	Midlands	Northern England	South West England	Wales	Scotland	Breakdown: Percentage that each category represents of total costs
Overall change in operating costs	5.7%	4.5%	6.6%	6.1%	5.4%	6.2%	8.2%	6.6%	
Change in individual cost categories:									
1 Drivers wages and on costs	4.4%	3.6%	4.7%	5.0%	4.1%	4.3%	6.8%	5.3%	46%
2 Other labour and staff costs	4.3%	-2.3%	5.8%	3.9%	6.1%	9.4%	4.3%	6.1%	15%
3 Insurance and claims	2.1%	2.3%	1.5%	3.9%	4.2%	-3.2%	-3.2%	-0.5%	3%
4 Fuel	16.7%	27.7%	13.6%	14.6%	13.9%	15.7%	17.9%	16.8%	13%
5 Maintenance materials	2.6%	9.0%	10.5%	3.3%	-0.4%	-1.2%	-3.2%	-0.9%	5%
6 Vehicle depreciation	3.5%	-0.6%	3.5%	4.5%	7.1%	0.0%	7.2%	2.2%	6%
7 Other operating costs	4.4%	2.5%	6.0%	6.4%	1.6%	6.8%	16.1%	5.9%	12%
Sample size:									100%
Representing operating costs of:	£3,140,500,000	£720,500,000	£323,400,000	£272,400,000	£948,000,000	£290,100,000	£135,200,000	£450,900,000	

All data are weighted by the size of each respondent's cost base and by their relative spend in each cost category.
The regional indices are shown for information but care should be taken in interpreting the results, especially where there are relatively few respondents.
The CPT Cost Index is compiled by an independent consultant using data supplied directly to that consultant by a representative selection of bus and coach operators who are members of CPT, to satisfy OFT guidance.

Address any queries to:
Richard Delahoy, SiGNAL Training & Consultancy Services
272 Shoebury Road, Southend on Sea, SS1 3TT
0845 260 0136
richard@signal-training.com

Summary of previous results	
Covering the 12 months to:	
June 2004	7.7%
December 2004	7.8%
June 2005	8.7%
December 2005	8.2%
June 2006	7.8%
December 2006	7.1%
June 2007	5.2%
December 2007	5.3%
June 2008	4.2%

Comments on results and presentation:

Following a review by CPT, we have made some minor changes to the style of presentation, the most important being to break the former "London & Home Counties" region into 2 discrete areas: "Greater London bus" (comprising operators wholly or largely operating TfL contracted services) and "South East & Home Counties" (all others in the area). This split is intended to recognise the differing cost structures between these two categories and in anticipation of BSOG being paid direct to TfL rather than to operators from 2009.

As with the previous return, the data submitted by operators revealed very different experiences for fuel costs, between those who were hedged (at what proved to be very advantageous prices) and those who were exposed immediately to market price movements. Within the overall national average of 16.7%, there were individual operators who faced rises of 50% or even more. As we move into 2009, it is possible that the balance of advantage will move back to those who are unhedged.

Care should also be taken in looking at the movements in individual cost categories, as changes can take place for reasons other than cost inflation. For example, if an operator had previously directly employed cleaning staff but then contracted out that work, the cost would move from one category to another in the table above.
Equally, replacing older buses with new would increase the depreciation line but reduce the maintenance materials category. Users of the data should not therefore place excessive reliance on any individual category.

The next CPT Cost Index will cover the year to June 2009 and will be published in mid-September 2009.

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to 31 December 2009

	Overall national result	Regional indices: Greater London bus	Home Counties	Midlands	Northern England	South West England	Wales	Scotland	Breakdown: Percentage that each category represents of total costs
Overall change in operating costs	5.0%	1.6%	6.5%	2.7%	6.2%	6.0%	7.8%	6.6%	
Change in individual cost categories:									
1 Drivers wages and on costs	3.3%	1.6%	5.8%	2.5%	3.4%	2.8%	5.7%	5.0%	46%
2 Other labour and staff costs	1.4%	-1.9%	3.4%	2.2%	3.2%	0.9%	3.8%	0.9%	15%
3 Insurance and claims	4.2%	-0.3%	6.4%	-4.2%	7.7%	6.1%	0.3%	5.7%	3%
4 Fuel	19.9%	5.5%	17.3%	10.0%	24.7%	35.2%	27.8%	21.9%	14%
5 Maintenance materials	-1.8%	-4.4%	-2.1%	-1.2%	-1.3%	-6.7%	-1.9%	3.7%	5%
6 Vehicle depreciation	7.1%	7.1%	3.2%	6.5%	9.2%	3.7%	5.8%	7.3%	7%
7 Other operating costs	-0.1%	2.9%	3.6%	-4.9%	-1.7%	-0.3%	5.1%	-1.2%	11%
Sample size:									100%
Representing operating costs of:	£3,314,200,000	£748,600,000	£331,200,000	£315,000,000	£958,800,000	£323,700,000	£141,500,000	£495,400,000	

All data are weighted by the size of each respondent's cost base and by their relative spend in each cost category.
The regional indices are shown for information but care should be taken in interpreting the results, especially where there are relatively few respondents.
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Summary of previous results	
Covering the 12 months to:	
June 2004	7.7%
December 2004	7.8%
June 2005	8.7%
December 2005	8.2%
June 2006	7.8%
December 2006	7.1%
June 2007	5.2%
December 2007	5.3%
June 2008	4.2%
December 2008	5.7%
June 2009	6.2%

Comments on results and presentation:

This latest set of data follows the presentation adopted a year ago, splitting out TfL bus operators from the remainder of the London and Home Counties Region.
As ever, we urge users to exercise caution in interpreting the regional figures, which continue to show a marked variation either side of the national average.

The impact of fuel hedging continues to have a major influence on the figures, with some operators suffering substantial increases in their fuel costs whereas others saw a reduction (all on a "pence per mile" basis). The range of different experiences on fuel price movements is the most extreme since the Index was first published and users should therefore remember that the Index represents a weighted average experience across the indusry and not a reflection of the experience of any one operator.

CPT Cost Index

Summary of results: change in bus & coach industry costs for the 12 months to 30 June 2010

	Overall national result	Regional indices: Greater London bus	Home Counties	Midlands	Northern England	South West England	Wales	Scotland	Breakdown: Percentage that each category represents of total costs
Overall change in operating costs	3.4%	2.6%	3.8%	1.4%	3.2%	2.1%	4.1%	6.1%	
Change in individual cost categories:									
1 Drivers wages and on costs	2.1%	2.5%	3.0%	0.2%	1.1%	1.6%	3.5%	4.5%	44.5%
2 Other labour and staff costs	-0.2%	-1.1%	1.5%	-0.5%	-1.1%	-2.4%	0.0%	3.4%	15%
3 Insurance and claims	3.3%	-14.9%	4.2%	-0.6%	5.0%	-3.7%	12.7%	22.1%	3%
4 Fuel	14.1%	19.8%	11.0%	13.6%	13.9%	13.5%	16.9%	13.6%	15%
5 Maintenance materials	-0.7%	-4.9%	1.9%	-0.4%	-1.6%	-2.4%	4.5%	2.7%	5%
6 Vehicle depreciation	7.2%	6.6%	1.8%	4.5%	6.5%	12.4%	0.7%	12.9%	6%
7 Other operating costs	-1.3%	-1.3%	1.2%	-6.8%	1.1%	-4.0%	-4.5%	-1.5%	11.5%
Sample size:									100%
Representing operating costs of:	£3,047,200,000	£513,300,000	£332,900,000	£313,500,000	£969,400,000	£321,900,000	£131,800,000	£464,400,000	

All data are weighted by the size of each respondent's cost base and by their relative spend in each cost category.
The regional indices are shown for information but care should be taken in interpreting the results, especially where there are relatively few respondents. The CPT Cost Index is compiled by an independent consultant using data supplied directly to that consultant by a representative selection of bus and coach operators who are members of CPT, to satisfy OFT guidance.

Address any queries to:
Richard Delahoy, SiGNAL Training & Consultancy Services, 272 Shoebury Road, Southend on Sea, SS1 3TT
0845 260 0136 richard@signal-training.com

Summary of previous results	
Covering the 12 months to:	
June 2004	7.7%
December 2004	7.8%
June 2005	8.7%
December 2005	8.2%
June 2006	7.8%
December 2006	7.1%
June 2007	5.2%
December 2007	5.3%
June 2008	4.2%
December 2008	5.7%
June 2009	6.2%
December 2009	5.0%

Comments on results and presentation:

In compiling this latest 6-monthly update on how the bus and coach industry's costs are changing, we were hampered by the fact that a number of regular respondents were undergoing restructuring programmes which included exceptional costs that could not be eliminated from their data, and hence some returns could not be used, resulting in a slightly smaller sample size than usual.
As usual, respondents were asked to report the change in their costs on a "pence per mile" basis, so that any changes in the size and scale of each business did not distort the figures. In this period, a number of respondents have clearly down-sized their operations.

Experiences of the change in diesel costs continue to be affected by the differing outcomes of hedging programmes by various operators and once again there was a large variation in individual experiences, from the extremes of a decline of 16% to an increase of 47%. What is perhaps surprising is the reduction in costs in some other categories, and it would appear that a significant number of respondents have cut their overheads, leading to an overall decline of 1.3% in other operating costs.

The next CPT Cost Index will cover the year to December 2010 and is due to be published in mid-March 2011.