

Annex 3 – Hybrid CPT Index

I. FIRSTGROUP HAS BEEN UNABLE TO ADEQUATELY RECOVER ITS COSTS AS A RESULT OF THE PRICING MECHANISM

1. As explained above, as part of the undertakings, FirstGroup is allowed to increase its prices annually to take account of increases in its costs. The allowable price increase is determined by reference to the hybrid CPT index (*H-CPT*). This index is calculated from the components of a series of cost indexes published by the Confederation of Passenger Transport UK (the *CPT indexes*) bi-annually.¹
2. The use of the H-CPT was proposed by the CC in April 2008 to replace the Retail Prices Index (*RPI*). The reason behind this decision was that the RPI had failed to keep up with the increase in bus industry costs over the period 2002 to 2008.² The CC stated that using such an index as the basis for the fare control “*would permit First to increase fares so as to recover (efficiently-incurred) costs*”.³
3. The H-CPT is based on data published by Confederation of Passenger Transport (CPT). This data comes from the CPT’s bi-annual survey of bus and coach operators. Specifically, the CPT surveys bus and coach operators every 6 months for the purpose of compiling its own cost indexes. The data collected as part of this survey covers:
 - (a) the average percentage change in a number key costs items for bus and coach operators over the previous year (on a pence-per-mile basis); and
 - (b) the proportion of each operator’s overall costs accounted for by each of the cost items.
4. The CPT uses the responses from operators to produce both national and regional cost indexes for bus and coach operators. Each of these indexes are calculated by taking the weighted (arithmetic) average change in costs over the last 12 month period, using national data for the national index, and regional data for the regional indexes. **Table A** below shows the different cost components that make up the CPT’s indexes.

¹ The H-CPT uses data that covers the period 1st January to 31st December.

² CC Notice of acceptance of undertakings, 11 April 2008.

³ CC Notice of provisional decision, 20 February 2008.

TABLE A: COST COMPONENTS OF THE H-CPT

Component	Description	Geographic Coverage
Driver wages and costs	Includes all employment costs for drivers (i.e. employer's National Insurance contributions, employers pension contributions, tour driver allowances and – in London – the TfL bonus).	Great Britain, and separately reported for London, Home Counties, Midlands, Northern England, South West England, England (all regions), Wales and Scotland
Other labour and staff costs	Covers all employment costs for maintenance staff, conductors, couriers, admin and managerial staff.	
Insurance claims	Includes insurance premiums, the costs of claims settled directly, uninsured losses and the policy excess on each claim. Includes all insurances, i.e. fleet, property and public liability and employers' liability.	
Fuel	The average price per litre of fuel net of BSOG (where appropriate).	
Maintenance materials	Includes maintenance materials spend over the last year (i.e. does not include maintenance labour).	
Vehicle depreciation	Average depreciation charge across an operator's PSV fleet.	
Other operating costs	Includes office and admin costs, utility bills, and licences. Does not include costs that are unrelated to bus and coach operations, such as hotel and admission fees on holidays and inclusive tours or interest charges.	

5. The H-CPT uses the same underlying methods and data as the CPT's own cost index. However, it combines regional data from Scotland on changes in fuel costs, with national data on changes in all other cost items. Finally, the H-CPT weights these cost changes according to the importance of each of these cost items for bus and coach operators within Scotland to arrive at the overall value for the index.