



Review of fares for Newcastle Services

From 2 January 2007

Transport - Report and Determination
December 2006



Independent Pricing and Regulatory Tribunal

Review of Fares for Newcastle Services

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 **Transport – Report**
December 2006

Determination 12, 2006

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The Tribunal members for this review are:

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

Inquiries regarding this paper should be directed to:

Fiona Towers **☎** ***(02) 9290 8420***
Aaron Murray **☎** ***(02) 9290 8440***
Craig Tipping **☎** ***(02) 9290 8443***

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

Report No 12, 2006

**Section 11
Independent Pricing and Regulatory Tribunal Act 1992**

Newcastle Services

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No: 05/33

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1 INTRODUCTION AND OVERVIEW

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) has completed its 2006 review of fares for bus and ferry services provided by Newcastle Buses and Ferries Services (Newcastle Services). Based on this review, the Tribunal has determined the maximum fares that Newcastle Services can charge for these public transport services from 2 January 2007.

1.1 Overview of determination

The Tribunal has determined that Newcastle Services can increase its existing maximum fares by 3.8 per cent before rounding. It is to be applied to the master fare schedule, and the resulting prices are to be rounded up or down to the nearest 10 cents for single tickets and the nearest dollar for adult TravelPass tickets.¹ The fare increase after rounding - the weighted average increase - is also 3.8 per cent². This increase is higher than in the increase general rate of inflation³.

The Tribunal notes that the 3.8 per cent increase in fares before rounding may result in different percentage increases in individual fares, however this is purely due to final rounding.

After rounding, this determination will result in:

- rises in the price of single tickets of between 10 and 30 cents. The 1-hour bus ticket and Stockton Ferry ticket will rise by 10 cents, the 4-hour bus ticket by 20 cents and the All Day bus ticket by 30 cents
- an increase in the price of the TimeTen 1-hour ticket of 90 cents (or 9 cents per journey)
- an increase in the price of the Orange TravelPass of \$1.00. The price of other travel passes will not change.⁴

The Tribunal's determination is in line with the Ministry of Transport's proposal that fares be increased by 3.8 per cent. However, the Ministry proposed that this increase be applied to the actual fare schedule. The Tribunal prefers to apply fare increases to the master fare schedule (which represents the fares it determined the previous year before they were rounded), as it indicated in last year's determination.

- The Tribunal is satisfied that its decision to increase maximum fares by slightly more than the change in the Consumer Price Index (CPI) is justified because Newcastle Services' costs have increased by more than the change in the CPI, largely due to increases in its fuel costs. There have also been improvements in the standard of the

¹ The 'master fare schedule' is the list of fares determined by the Tribunal at last year's determination *before* rounding. Each year the Tribunal applies a percentage increase to fares from a base level of fares. These new fares are called the master fares. For practicality of use these fares are rounded to the nearest 10 cents to determine actual fares.

² The weights are the revenue shares of each type of ticket the Tribunal adjusts fares for.

³ The Tribunal uses a year on year (or period on period) definition in calculating the change in Sydney CPI, as opposed to quarter on quarter definition. In essence, this methodology uses the average Sydney CPI of four quarters over the average of previous four quarters.

⁴ The price of all other TravelPass tickets increased by \$1.00 on 2 July 2006, as part of the Tribunal's Determination of Fares for CityRail in NSW 2006.

services it provides. The Tribunal's decision is likely to maintain Newcastle Services' cost recovery levels.

- However, the Tribunal notes that Newcastle Services has continued to rely on fare increases to maintain its cost recovery level. The Tribunal believes there are opportunities for the operator to improve its efficiency, and capturing these opportunities should be a key objective in the coming years.

The Tribunal also notes that the Ministry of Transport has begun negotiations with Newcastle Services, to move the operator onto a new bus contract as part of the Ministry's bus reform process. The new contract is likely to have implications for how the Tribunal sets fares for Newcastle Services in the future, and it intends to review this issue when the reform process is complete.

1.2 Structure of report

This report explains the Tribunal's determination in detail, including why it reached its decisions and what those decisions mean for key stakeholders. It is structured as follows:

- Chapter 2 outlines the Tribunal's review and decision-making process
- Chapter 3 looks at the changes in Newcastle Services' costs and cost recovery over 2005/06
- Chapters 4 discusses the Tribunal's considerations in relation to Newcastle Services' standards of service
- Chapter 5 sets out the new fares and the 2007 master fare schedule
- Chapter 6 outlines the implications of these new fares for Newcastle Services' passengers, government funding and the environment.

The Tribunal's determination is provided at the end of this report.

2 TRIBUNAL'S REVIEW AND DECISION MAKING PROCESS

The Tribunal's role in regulating Newcastle Services is to set the maximum fares that the operator can charge for public bus and ferry services. Because the Tribunal regulates monopoly services only, its price determinations for Newcastle Services explicitly exclude any services that are deemed to fall outside the definition of a monopoly service, such as charters. Its determinations also exclude the fares and concessions granted to pensioners, children and students who use Newcastle Services' services. At present, these half-fare and concession prices change automatically, in line with changes to the full-fare prices determined by the Tribunal. Any changes to the relationship between concession and full-fare prices are a matter for the NSW Government.

The Tribunal's review process, and the matters it took into consideration in reaching its decisions are outlined below.

2.1 Review process

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

- invited the Ministry of Transport to submit a proposal, setting out its views on the appropriate change in Newcastle Services' fares
- invited other interested parties to submit their views (Appendix 2 lists the respondents)
- received detailed financial data on Newcastle Services' costs and revenues from its owner, the State Transit Authority (STA)
- held a public hearing on 20 October 2006 and invited some of the parties who made written submissions to participate in a round-table discussion of issues at the hearing (Appendix 2 lists the participants and observers).

The Tribunal then considered the Ministry of Transport's proposal, which asked for a 3.8 per cent increase on the actual fare schedule (rather than the master fare schedule). It also considered the issues raised in other stakeholder submissions, and analysed the information provided by the STA.

2.2 Matters considered

The Tribunal made its price determination in accordance with Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). In doing so, the Tribunal was guided by the requirements set out in section 15 of this Act. These matters, which are listed in full in Appendix 1, 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—the need for greater efficiency in the supply of services
- financial viability—the cost of providing the services and the extent to which revenue recovers this cost

- environmental protection—promotion of ecologically sustainable development via appropriate pricing policies.

Further information relating to the Tribunal's review, including all submissions, can be found on the Tribunal website: www.ipart.nsw.gov.au.

3 NEWCASTLE SERVICES' COSTS AND COST RECOVERY

One of the main factors the Tribunal considered in reaching its pricing decisions was the costs that Newcastle Services incurs in providing regulated passenger bus and ferry services in the Hunter Region, and the extent to which the revenues it generates recovers these costs. It particularly focused on the change in costs and revenues over the 2005/06 financial year.

The Tribunal found that in 2005/06, Newcastle Services' operating costs increased by 7.4 per cent, and its farebox revenue increased by 10.2 per cent. At the same time, its farebox cost recovery ratio increased from 17.2 per cent to 17.7 per cent.⁵ This occurred despite falls in Newcastle Services' levels of cost efficiency and patronage.

After considering the cost and revenue information, and taking into account Newcastle Services' service quality performance (see Chapter 4), the Tribunal decided to allow a fare increase slightly above the change in the CPI. The Tribunal considers that, on balance, this level of increase is required to maintain Newcastle Services' cost recovery ratio. However, the Tribunal believes it is important that the Ministry of Transport, the STA and Newcastle Services also take steps to address this decline, by pursuing opportunities to improve the operators' efficiency and increase passenger numbers.

The following sections discuss Newcastle Services' costs, cost efficiency, revenue, cost recovery ratio and patronage levels in more detail.

3.1 Costs

The Tribunal examined the data STA provided on the costs incurred by Newcastle Services⁶ in 2005/06 (Table 3.1). These data show that Newcastle Services' total costs for 2005/06 were around \$43.5 million. The main drivers of these costs were:

- labour costs, which comprised over 60 per cent of total costs in 2005/06
- fuel and fleet running costs, which comprised 17 per cent
- vehicle fleet depreciation, which comprised 7 per cent.

Newcastle Services' total costs increased by 7.4 per cent in 2005/06, which is significantly more than the annualised growth in its costs over the last years of 4.5 per cent (Table 3.1). This increase was driven primarily by a 36.4 per cent increase in its fuel/fleet running costs, which in turn was driven by rises in fuel and maintenance costs. If this increase in fuel/fleet running costs is excluded, Newcastle Services' total costs increased by around 2.5 per cent in 2005/06.

⁵ Farebox cost recovery is measured as passenger revenue divided by total costs.

⁶ Newcastle Services operate 29 bus routes and provide around 7,000 services per week in and around Newcastle and Lake Macquarie and a ferry service across Newcastle Harbour to Stockton. Each year buses travel about 8 million kilometres. Passenger trips on Newcastle bus and ferry services were 11.0m trips in 2005/06. Source: State Transport Authority of NSW 2006, *Annual report 2005/06*, available from www.sta.nsw.gov.au.

Table 3.1 Newcastle Services' total costs

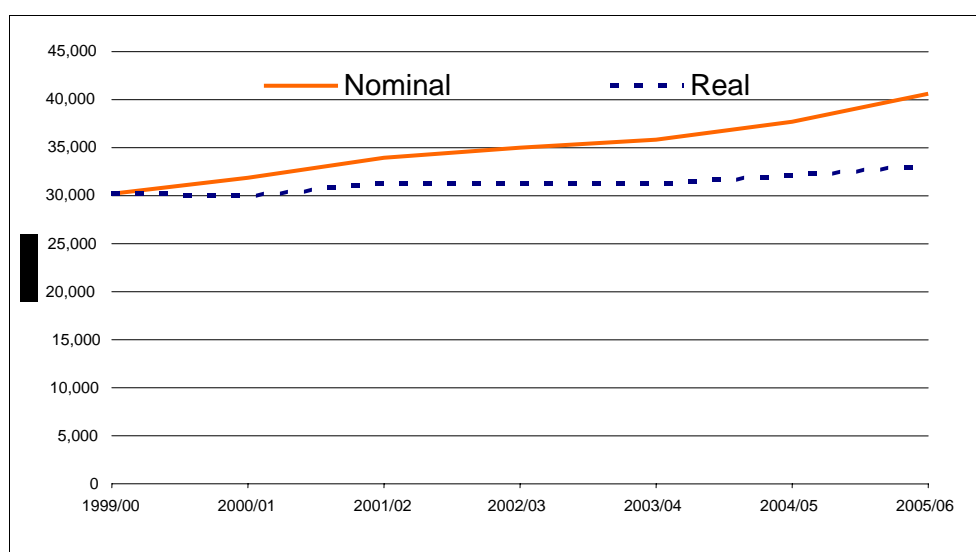
Cost type	2001/02 Actual \$'000s	2002/03 Actual \$'000s	2003/04 Actual \$'000s	2004/05 Actual \$'000s	2005/06 Actual \$'000s	Change 04/05 to 05/06 %	Annualised growth 01/02 to 05/06 %
Labour	22,906	23,962	24,290	25,606	26,141	2.1	3.4
Fuel/fleet running costs(a)	5,179	5,015	5,278	5,512	7,520	36.4	9.8
Other costs(a)	3,938	3,939	3,919	4,218	4,539	7.6	3.6
Corporate overheads	1,968	2,174	2,335	2,439	2,375	(2.6)	4.8
Total operating costs	33,991	35,090	35,822	37,775	40,575	7.4	4.5
Depreciation	2,079	2,001	2,415	2,708	2,918	7.8	8.8
Total cost before interest	36,070	37,091	38,237	40,483	43,493	7.4	4.8
Interest expense	433	3,998	3,886	0	0	-	na
Total Costs	36,503	41,089	42,123	40,483	43,493	7.4	4.5

(a) IPART has changed the classification of vehicle registration and 3rd party insurance from fuel/fleet running costs to other costs consistent with what is provided by STA. "Other" costs include vehicle registration and 3rd party insurance, security costs, general insurance, staff amenities, uniforms and accessories, equipment and premises maintenance, printing.

Source: STA and MoT.

Over the last five years, Newcastle Service' total costs have increased by an annualised average rate of 1.6 per cent more than the rate of inflation (Figure 3.1).

Figure 3.1 Historical operating costs for Newcastle services (\$,000)



Data source: ABS, STA..

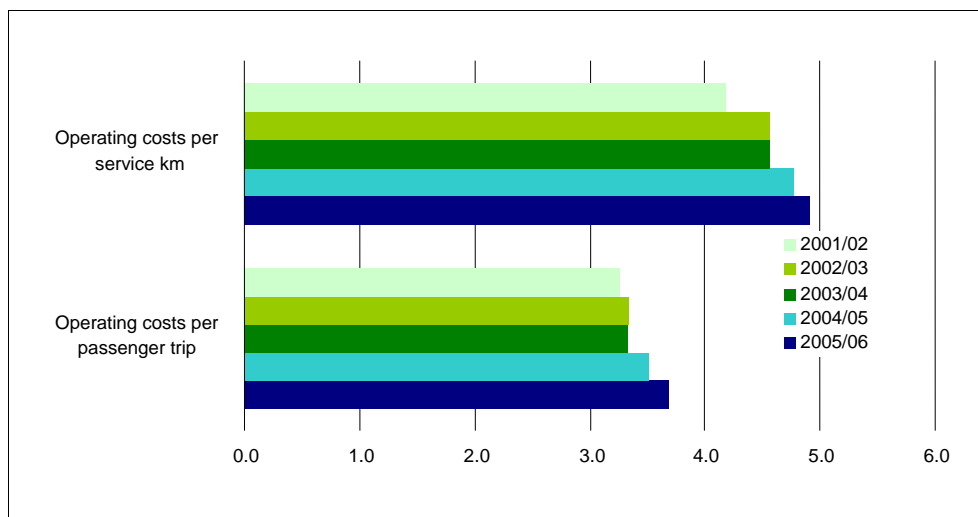
3.2 Cost efficiency

The Tribunal assessed changes in Newcastle Service' cost efficiency over the last five years using two measures – the changes in its operating costs per service kilometre travelled and its operating costs per passenger trip (Figure 3.2). It adjusted each year's operating costs for inflation to provide a comparable measure of the changes in cost efficiency.

This assessment indicates that Newcastle Services' cost efficiency has decreased over recent years. Between 2004/05 and 2005/06, its operating costs per service kilometre travelled went from \$4.77 to \$4.91, which is an increase of 3 per cent. Operating costs per passenger trip went from \$3.51 to \$3.69, which is an increase of 5 per cent.

The Tribunal notes that cost efficiency analysis has several limitations – for example, it does not consider all inputs and outputs in combination, and does not allow for impacts on costs from changes to the operating environment. Nevertheless, it provides a readily understandable and easily measurable indicator, and can be constructed with relatively limited data.

Figure 3.2 Cost efficient indicators (real, 2006 dollars)



Source: IPART calculations on STA and MoT data and ABS.

While some of the decline in Newcastle Services' cost efficiency is due to the rise in fuel prices, the Tribunal believes it is also due to a lack of focus on improving efficiency. The Tribunal considers that improvements in efficiency should be a key objective for Newcastle Services. Going forward, it will be looking for information from the Ministry of Transport and STA on how they intend to address this issue, by reducing costs and increasing patronage.

3.3 Revenue

In 2005/06, Newcastle Services' total revenue increased by 5.2 per cent to \$34 million, and there were significant shifts in the composition of that revenue (Table 3.2).

Table 3.2 Newcastle Services' revenues

Revenue type	2001/02 Actual \$'000	2002/03 Actual \$'000	2003/04 Actual \$'000	2004/05 Actual \$'000	2005/06 Actual \$'000	Change 04/05 to 05/06 %	Annualised change 01/02 to 05/06 %
Farebox revenue	6,123	6,319	6,124	6,978	7,692	10.2	5.9
Free and concessional CSO	17,271	16,588	17,459	16,171	15,687	-3.0	-2.4
Passenger-related revenue	23,394	22,907	23,583	23,149	23,379	1.0	0
Pricing CSO	1,276	1,303	1,392	1,452	1,536	5.8	4.7
Service CSO	3,836	4,387	3,146	5,664	7,613	34.4	18.7
Transport-related revenue	28,506	28,597	28,121	30,265	32,528	7.5	15.7
Other business revenue	2,050	3,446	3,221	2,077	1,489	-28.3	-7.7
Total revenue	30,556	32,043	31,342	32,342	34,017	5.2	-0.6

Source: STA and MoT.

Only around \$7.7 million (or 23 per cent) of total revenue came from farebox revenue, which is a 10.2 per cent increase compared to 2004/05. Around \$25.0 million (or 73 per cent) came from Government payments for Community Service Obligations (CSOs).⁷ Revenue related to Free and concessional CSOs declined by 3 per cent, while revenue for Pricing CSOs increased by 5.8 per cent and revenue for Service CSOs increased by 34.4 per cent.

The increase in farebox revenue is largely due to a 21.7 per cent rise in the number of passengers using the 1-hour concession ticket. As this rise was accompanied by a 15.2 per cent fall in the number of passengers using the Pensioner Excursion Ticket (PET), it seems likely that it was due to further flow on from the Government's 2005 decision to increase the price of the PET from \$1.10 to \$2.50, which made the 1-hour concession ticket more economical than the PET in some circumstances.

The increase in the price of the PET also reduced the amount of Free and concessional CSO revenue related to this ticket type, and thus contributed significantly to the overall fall in Free and concessional CSO revenue. A decline in passenger numbers also contributed to the reduction in the Free and concessional CSO revenue. However, this reduction was offset by an increase in Service CSO revenue.

⁷ Free and concessional CSO revenue compensates operators for providing Government-approved discounts to some groups of customers. Pricing CSOs are a subsidy for charging fares that are below equivalent private bus fares, and Service CSOs are a subsidy for running uneconomic services on social policy grounds.

3.4 Cost recovery

For this year's determination, the Tribunal changed its methodology for calculating Newcastle Buses' cost recovery ratio to farebox cost recovery. This reflects changes that will occur to the structure of payments stemming from the MoT bus reform process. These changes have already occurred for Sydney Metropolitan Buses and will occur for Newcastle Services over the coming year. Given this, the Tribunal considers that farebox cost recovery provides a more relevant measure of cost recovery under this system.⁸

Farebox cost recovery is defined as total passenger revenue divided by total costs. Farebox cost recovery shows the proportion of Newcastle Services' total costs directly funded by users. The balance of Newcastle Buses' costs must be recovered largely through government funding. Therefore, deterioration in farebox cost recovery would typically increase taxpayers' funding of Newcastle Services.

Using this methodology, the Tribunal calculated Newcastle Services' farebox cost recovery ratio for 2005/06 as 17.7 per cent, which is slightly higher than the ratio for 2004/05 (Table 3.3). This increase was driven by a 10.2 per cent rise in passenger revenue, and was achieved despite a 55 per cent increase in fuel costs.

Table 3.3 Newcastle services farebox cost recovery (%)

1998/1999	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
21.1	20.1	18.1	16.8	15.4	14.5	17.2	17.7

Source: IPART calculations on STA and MoT data.

The Tribunal considers that there is significant room for Newcastle Services to improve its farebox cost recovery ratio, by rigorously pursuing efficiency gains and by improving its patronage levels.

3.5 Patronage

The number of passenger trips Newcastle Services provided decreased in 2005/06, by a little under 200,000 trips (Table 3.4). A similar decrease occurred in 2004/05.

Table 3.4 Newcastle Services patronage and revenue per passenger trip

	2002/03	2003/04	2004/05	2005/06
	Actual	Actual	Actual	Actual
Total passenger trips (000s)	11465	11480	11191	11006
Passenger revenue (\$000s)	6319	6124	6978	7692
Free and Concessional CSO (\$000s)	16588	17459	16171	15687
Revenue per passenger trip (\$)	2.30	2.33	2.25	2.26

Source: STA and MoT.

⁸ Historically, the Tribunal has measured an agency's level of cost recovery by calculating its relevant revenue – passenger revenue plus the free and concessional payment from Government – and dividing this by its total costs. However, the comparison is no longer valid because the revenue that Newcastle Services will receive from government will come in a single contract payment. This is unlike previously where revenue was obtained through separate CSOs and some of these were not included in the Tribunal's previous cost recovery methodology.

As the Tribunal noted last year, this decline in passenger numbers is occurring against a backdrop of modest population growth in Newcastle. According to the ABS, population in the area grew by an annual average of 0.9 per cent between 2000 and 2005. Growth is projected to slow to 0.4 per cent between 2006 and 2011.⁹

In its submission to the Tribunal, the Lower Hunter Councils Transport Group (LHCTC) pointed out (as it has done in previous years) that there is no marketing of public transport services in the Lower Hunter area, and spare capacity on most services.

The Tribunal would like STA and Newcastle Services to investigate ways to improve patronage so that the public transport provider can benefit from the expected population growth in its operating area and ease its dependence on fare increases as the chief means of increasing its farebox revenues. With the Ministry of Transport negotiating a new contract with Newcastle Buses, the Tribunal looks forward to seeing measures put in place to improve patronage levels and efficiency.

⁹ The area in question is within the three statistical local areas (SLAs) of Newcastle Inner, Newcastle Remainder and Lake Macquarie. The three SLAs cover more than the Newcastle bus operating area, so a better approximation to it was derived by omitting Lake Macquarie SLA and measuring only the growth in population projected for the other two SLAs. Source: Department of Infrastructure, Planning and Natural Resources, Transport Population and Data Centre, *NSW Statistical Local Area Population Projections 2001-2031, 2004 Release* pp 53-54.

4 SERVICE QUALITY

The Tribunal considered the standards of quality, reliability and safety of the services delivered by Newcastle Services over 2005/06. Newcastle Services measures its service standards against several customer-related key performance indicators (KPIs). Its performance against these indicators is shown in Table 4.1.

Table 4.1 Newcastle Services customer-related KPIs

KPI	Target (if specific)	2001/02	2002/03	2003/04	2004/05	2005/06
Reliability						
On-time running	>95%	96.6%	96.1%	97.9%	98.0%	98.5%
Service reliability	>99%	99.6%	99.4%	99.4%	99.9%	99.9%
Mechanical reliability	<15 bus changeovers per 100,000kms	14.1	14.9	12.6	12.3	9.2
Traffic reliability (accidents)	<4 changeovers per 100,000kms	2.30	2.30	2.30	2.20	1.90
Safety						
Safety incidents	<2.0 per million passenger trips	1.71	1.66	2.18	1.9	1.78
Security incidents	<0.5 per millions passenger trips	0.22	0.22	0.23	0.3	0.19
Comfort						
Average Bus Age	<12 years	14.1	14.9	12.6	12.6	12.8
Convenience						
Total kilometres	(000kms)	9141	8381	8367	8236	8232
Customer service						
Complaints	<15 per passenger 100,000 trips	16.7	11.5	6.6	6.4	2.3
Accessibility						
Wheelchair accessible	percentage of fleet	0	1.6	17.8	21.5	25.4

Source: STA and MoT.

Newcastle Services' improved its performance against the on-time running, mechanical reliability, traffic reliability, safety incidents, security incidents and complaints KPIs, and its performance against all these KPIs is also better than target levels. Newcastle Services also maintained its better-than-target performance against the service reliability KPI, and increased the percentage of its services that are wheelchair accessible to more than 25 per cent of its total bus fleet. This significant improvement in KPIs was a key factor in the Tribunal's decision to grant a fare increase above CPI.

In its report on last year's determination, the Tribunal requested more readily understandable information on the KPIs that are relevant from the customer perspective. Specifically, the Tribunal requested data on buses that leave the depot/terminus not more than 1 minute late (which might be considered 'on-time' by most passengers), not more than 3 minutes late, and not more than 5 minutes late. STA indicated that it currently does not have such information, but may be able to provide it in future under the reporting requirements associated with the Ministry of Transport's new bus contracts.

5 THE NEW FARES

Having considered the changes in Newcastle Services' costs and level of cost recovery, and the improvements in service standards that the operator has achieved, the Tribunal determined that the maximum fares it can charge for public bus and ferry services will increase by a weighted average of 3.8 per cent from 2 January 2007.

This increase is to be applied to the current master fare schedule,¹⁰ and the resulting prices are to be rounded up or down, to the nearest 10 cents for single tickets and the nearest dollar for adult TravelPass tickets. The Tribunal notes that the 3.8 per cent increase in fares before rounding may result in different percentage increases in individual fares, however this is purely due to final rounding.

The impact of these decisions on individual fares are shown in Table 5.1.

Table 5.1 Newcastle Services fares for 2007

Ticket Type	2006	2006	2007	2007	Percentage Changes %	Absolute Changes \$
	Master Fares \$	Actual Fares \$	Master Fares (Increase of 3.8%) \$	Rounded Fares \$		
1 Hour	2.79	2.80	2.90	2.90	3.6	0.10
4 Hours	5.48	5.50	5.69	5.70	3.6	0.20
TimeTen 1 Hour	23.10	23.10	23.98	24.00	3.9	0.90
All Day	8.38	8.40	8.70	8.70	3.6	0.30
Stockton	2.04	2.00	2.12	2.10	5.0	0.10
Orange TPass	36.96	37.00	38.00	38.00	2.7	1.00
Yellow TPass	43.93	44.00	45.00	45.00	2.3	1.00
Pink TPass	47.00	47.00	48.00	48.00	2.1	1.00

Note that the Yellow and Pink TPass were adjusted in July 2006 to \$45 and \$48 respectively, (See Review of Fares for CityRail in NSW 2006, IPART). Hence these fares are unchanged this review and are presented for information purposes

The new master fares form the basis for any fare increase that the Tribunal might determine in the future.

¹⁰ Each year the Tribunal applies a percentage increase to fares from a base level of fares. These new unrounded fares are called the master fares. For practicality of use these fares are then rounded to the nearest 10 cents to determine actual fares.

6 IMPLICATIONS FOR NEWCASTLE SERVICES' PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING

Before finalising its determination, the Tribunal considered the likely implications of its pricing decisions on Newcastle Services' passengers, government funding and the environment.

6.1 Implications for passengers

The Tribunal does not expect that the fare increases it has determined will have a significant effect on passengers, or their choice of transport. The weighted average increase of 3.8 per cent is only slightly higher than the increase in the general rate of inflation, and is broadly in line with the increases allowed in previous years (see Table 6.1).

Table 6.1 Average percentage fare rises and inflation in recent years¹¹

	2001/02	2002/03	2003/04	2004/05	2005/06
Newcastle Services	5.0	2.0	7.5	2.9	3.8
<i>Inflation (Sydney)</i>	3.0	2.8	2.2	2.5	3.0

Source: IPART calculations on STA and MoT data and ABS.

6.2 Implications for Government funding

The Tribunal is required under Section 16 of the IPART Act 1992 to report on the likely annual cost to the Government if fares were not increased to the maximum permitted, and the agency were compensated from the Consolidated Fund for the revenue foregone.

The increase in farebox revenue for Newcastle Services from this determination on a full-year basis is \$0.3 million, assuming unchanged patronage in response to the fare increase.¹² Therefore, that amount is the maximum possible revenue Newcastle Services would forego if fares stayed at current levels and patronage remained unchanged. These estimates do not include the higher reimbursements for free and concessional travel paid by Government whenever fares are increased.

The Government will still carry a major funding cost for Newcastle Services in the future, given that cost recovery remains well below 100 per cent. In 2005/06, the value of Government funding via CSO payments was around \$25 million.

¹¹ This is the simple average of all of the fare increases that the Tribunal has approved this review. As such the Yellow and Pink TPass have been excluded.

¹² This is calculated by multiplying the weighted average fare increase by the 2005/06 farebox revenue figure and then obtaining the difference.

6.3 Implications for the environment

As an alternative to private motor vehicles, the benefits of public transport include reduced congestion, carbon emissions and other pollution. However, most of the evidence available to the Tribunal suggests that price has only a small influence on people's decision to use public transport. Other issues, such as service quality, timeliness, frequency, convenience and accessibility, are likely to be more important determinants of public transport demand.¹³ The Tribunal considers it unlikely that the price increases it has recommended will cause any significant switching in transport modes.

¹³ See, for example, commentary in Centre for International Economics, *Subsidies and the social costs and benefits of public transport*, March 2001, pp 38 & 43; available at www.ipart.nsw.gov.au.

APPENDIX 1 IPART ACT REQUIREMENTS

Section 15 requirements

Section 15 of the IPART Act 1992 details the matters to be considered by the Tribunal when making a determination. The section is reproduced in full below.

(15) Matters to be considered by Tribunal under this Act

- (1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):
 - (a) the cost of providing the services concerned,
 - (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
 - (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,
 - (d) the effect on general price inflation over the medium term,
 - (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
 - (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the [Protection of the Environment Administration Act 1991](#)) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
 - (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
 - (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
 - (i) the need to promote competition in the supply of the services concerned,
 - (j) considerations of demand management (including levels of demand) and least cost planning,
 - (k) the social impact of the determinations and recommendations,
 - (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).
- (2) In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.
- (3) To remove any doubt, it is declared that this section does not apply to the Tribunal in the exercise of any of its functions under section 12A.
- (4) This section does not apply to the Tribunal in the exercise of any of its functions under section 11 (3).

Table A1.1 indicates where the matters have been considered throughout the report by the Tribunal in making this determination.

Table A1.1 Tribunal consideration of section 15 matters

Section 15	Report reference
(a) cost of providing the service	Chapter 3
(b) protection of consumers from abuse of monopoly power	Section 6.1
(c) appropriate rate of return and dividends	N/A
(d) effect on general price inflation	N/A
(e) improved efficiency in supply of services	Section 3.2
(f) ecologically sustainable development	Section 6.3
(g) impact on borrowing, capital and dividend requirements	N/A
(h) additional pricing policies	N/A
(i) need to promote competition	N/A
(j) considerations of demand management	N/A
(k) the social impact on customers	Section 6.1
(l) standards of quality, reliability and safety of the services	Chapter 4

N/A – Not applicable to this review.

Section 16 requirements

Section 16 of the IPART Act requires the Tribunal to report on the likely impact to the Consolidated Fund if fares were not increased to the maximum permitted. This information is contained in Section 4.3.

APPENDIX 2 LIST OF SUBMISSIONS, PARTICIPANTS AT HEARING

The Tribunal received submissions from the following organisations and individuals (not all refer to Newcastle Services):

Organisations

Action for Public Transport
Council of Social Service NSW
Lower Hunter Councils Transport Group
Ministry of Transport
Older Women's Network NSW

Individuals

Ms Ana Corpuz
Mr Robert Luton

The participants at the public hearing on 20 October 2006 were:

Representatives from IPART

Dr Michael Keating AC, Chairman
Mr James Cox, CEO and Full-time Member
Ms Sibylle Krieger Part-time Member
Ms Fiona Towers
Mr Aaron Murray

Roundtable participants

Action for Public Transport (Mr Allan Miles)
Bus and Coach Association (Mr Darryl Mellish)
Buslines Group representing the Bus and Coach Association (Mr Frank D'Apuzzo)
Council of Social Services New South Wales (Mr Warren Gardiner)
Ministry of Transport (Mr Jim Glasson)
Ministry of Transport (Ms Catherine Reilly)
State Transit Authority (Mr Roger Wilson)
State Transit Authority (Mr Paul Schuman)
Western Sydney Regional Organisation of Councils (Mr Alex Gooding)

Other attendees

Mr Craig Tipping (IPART)
Mr Ivan Gantar
Mr Peter McCallum (Inner Metropolitan Transport Forum)
Mr Paul Trevaskis (Blue Mountains Commuter and Transport Users Association)
Mr John Webb (Parents and Citizens Association)

APPENDIX 3 ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
CPI	Consumer Price Index
KPIs	Key performance indicators
MoT	The Ministry of Transport
SSTS	School Student Transport Scheme, which 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	State Transit Authority
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 is a division of the Department of Planning.

Determination No 12, 2006

Newcastle Buses and Ferries Services

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No: 06/481

1. Background

- (1) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* provides the Tribunal with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in schedule 1 of the IPART Act.
- (2) State Transit Authority (the **STA**) is listed as a government agency for the purposes of schedule 1 of the IPART Act. The services of the STA declared as monopoly services (**Monopoly Services**) under the *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998 (Order)* are the regular passenger services (within the meaning of the *Passenger Transport Act 1990*) supplied by the STA but excluding the following:
 - (a) services supplied in accordance with the ticket known as the “SydneyPass”;
 - (b) the bus service known as the “Airport Express”;
 - (c) the bus service known as the “Sydney Explorer”, the bus services known as the “Bondi & Bay Explorer” and any other similar bus services operating in any other areas.
- (3) STA has a division known as ‘Newcastle Buses and Ferries Services’ which provides Monopoly Services in Newcastle (**STA Newcastle Monopoly Services**). Accordingly, the Tribunal may determine the prices for STA Newcastle Monopoly Services.
- (4) In accordance with section 13A of the IPART Act, the Tribunal has fixed a maximum price for STA Newcastle Monopoly Services.
- (5) In investigating and reporting on the pricing of the STA Newcastle Monopoly Services, the Tribunal has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (6) By section 18(2) of the IPART Act, the STA may not fix a price below that determined by the Tribunal without the approval of the Treasurer.

2. Application of this determination

- (1) This determination only fixes the maximum prices that the STA may charge for STA Newcastle Monopoly Services.¹
- (2) This determination commences on the later of 2 January 2007 and the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (3) The maximum prices in this determination apply from the Commencement Date to the date that this determination is replaced.

¹ For this review, the Tribunal did not determine the prices for the Bus, Ferry and Train TravelPass tickets as those were determined by the Tribunal as part of the CityRail 2006 Review. However the prices for those tickets are listed in Table 1.

3. Replacement of Determination No. 11 of 2005 and Determination No 7 of 2006

This determination replaces:

- (a) Determination No. 11 of 2005. and
- (b) so much of Determination No 7 of 2006 which relates to STA Newcastle Monopoly Services,

from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under Determination No. 11 of 2005 or Determination No 7 of 2006 prior to its replacement.

4. Monitoring

The Tribunal may monitor the performance of the STA for the purposes of:

- (a) establishing and reporting on the level of compliance by the STA with this determination; and
- (b) preparing a periodic review of pricing policies in respect of STA Newcastle Monopoly Services.

5. Schedule

Schedule 1 and the Table in that schedule set out the maximum prices that the STA may charge for the STA Newcastle Monopoly Services.

6. Definitions and Interpretation

Definitions and interpretation provisions used in this determination are set out in Schedule 2.

Schedule 1

Maximum prices

1. Application

This schedule sets the maximum prices that the STA may charge for STA Newcastle Monopoly Services.

2. Maximum prices

The maximum prices that may be charged by the STA for a ticket in column 1 of Table 1 are the corresponding prices in columns 2 and 3 of Table 1.

Table 1

Maximum prices for STA Newcastle Monopoly Services

Tickets	Adult (\$)	Concession (\$)
<i>Time-based tickets</i>		
1-hour	\$2.90	\$1.40
4-hour	\$5.70	\$2.80
TimeTen 1-hour	\$24.00	\$12.00
All Day	\$8.70	\$4.30
<i>Ferry</i>		
<i>Stockton Ferry</i>	\$2.10	\$1.00
<i>TravelPass</i>		
TravelPass – orange weekly (Bus and Ferry)	\$38.00	\$19.00
TravelPass – yellow weekly (Bus, Ferry and Train)	\$45.00	\$22.50
TravelPass – pink weekly (Bus, Ferry and Train)	\$48.00	\$24.00

[Note:

1. Quarterly TravelPass = 11 x weekly fare.
2. Yearly TravelPass = 40 x weekly fare.
3. All half fare concessions have been rounded down to the nearest 10 cents.
4. Time based tickets are for travel anywhere up to the maximum time permitted for the ticket purchased
5. Children up to their 4th birthday are entitled to travel free.
6. Information on concession beneficiaries on www.sydneybuses.info/tickets/concession.php applies to this determination.]

Schedule 2

Definitions and Interpretation

1. Definitions

In this determination:

Commencement Date means the Commencement Date as defined in clause 2(3) of section 1 (**Background**) of this determination.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992*.

Monopoly Services means the Monopoly Services defined in clause 1(2) of section 1 (**Background**) of this determination.

STA means the STA defined in clause 1(2) of section 1 (**Background**) of this determination, constituted under the *Transport Administration Act 1988*.

STA Newcastle Monopoly Services has the meaning given to that term in clause 1(3) of section 1 (**Background**) of this determination.

Tribunal means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

2. Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute; and
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation, other body corporate or government agency.

2.2 Explanatory notes

Explanatory notes or footnotes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.

2.3 Prices inclusive of GST

Prices specified in this determination include GST.

