

**Review of fares for taxis, private buses
and private ferries in NSW**

An Issues Paper

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

**Review of fares for taxis, private buses
and private ferries in NSW**

An Issues Paper

Discussion Paper DP51

February 2002

ISBN 1 877049 10 7

This work is copyright. The *Copyright Act 1968* permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

Request for submissions

Submissions are invited from interested parties to all Tribunal investigations. Unless confidentiality is sought, the submissions are generally available for public inspection at the Tribunal's offices and will be available on-line in PDF format for up to 3-4 weeks after the release of an inquiry report. The Tribunal exercises its discretion not to exhibit any submissions based on their length or content (containing material that is defamatory, offensive, or in breach of any law).

For price reviews/determinations, submissions are initially sought from agencies or relevant associations on their pricing proposals. These proposals are available about 4-6 weeks before the due date for public submissions to allow for their consideration in the preparation of other stakeholder submissions.

For these reviews of taxi, private bus and private ferry fares, submissions from the Taxi Council, the Bus and Coach Association and the Charter Vessel Association/private ferry operators must be received by 28 March 2002.

Submissions from other stakeholders must be received by 29 April 2002.

All submissions should be sent to:

Taxi, private bus and private ferry reviews
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Confidentiality

Special reference must be made to any issues in submissions for which confidential treatment is sought and all confidential parts of submissions must be clearly marked. *However, it is important to note that confidentiality cannot be guaranteed as the Freedom of Information Act and section 22A of the Independent Pricing and Regulatory Tribunal Act provide measures for possible public access to certain documents.*

Public information about the Tribunal's activities

Information about the role and current activities of the Tribunal, including copies of latest reports and submissions can be found on the Tribunal's web site at www.ipart.nsw.gov.au.

Inquiries regarding this review should be directed to:

Nicholas Hague ☎ 02 9290 8494
Nigel Rajaratnam ☎ 02 9290 8461

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

TABLE OF CONTENTS

1	INTRODUCTION	1
1.1	Review process and submissions	2
2	INDUSTRY CHARACTERISTICS	3
2.1	Taxis	3
2.2	Private buses	4
2.3	Private ferries	4
3	EXISTING REGULATORY FRAMEWORK	7
3.1	Taxis	7
3.2	Private buses	7
3.3	Private ferries	8
4	APPROACHES TO PRICE REGULATION	11
4.1	The existing approach	11
4.1.1	Taxis	11
4.1.2	Private buses	13
4.1.3	Private ferries	15
4.2	The cost index approach	15
4.2.1	Advantages	15
4.2.2	Disadvantages	15
4.2.3	Simplified cost index approaches	16
4.3	Alternative approaches	16
4.4	The protection of consumers from abuses of monopoly power	17
4.4.1	The theory of regulation and competition	18
4.4.2	The specific case of private ferries	19
5	FARE LEVELS AND STRUCTURE	21
5.1	Taxis	21
5.2	Private buses	23
5.3	Private ferries	25
6	SERVICE QUALITY	29
6.1	Performance requirements	29
6.1.1	Taxis	29
6.1.2	Private buses	31
6.1.3	Private ferries	33
6.2	Review of the performance regime	34
7	OTHER ISSUES	35
7.1	Environmental issues	35
7.2	Social impacts	35
	ATTACHMENT 1 TERMS OF REFERENCE	37
A1.1	Terms of reference for taxis	37
A1.2	Terms of reference for private buses	38
A1.3	Terms of reference for private ferries	39

1 INTRODUCTION

Public transport in NSW is provided by government run entities State Rail Authority (SRA) and State Transit Authority (STA), and a range of private operators. Fares for most rail, bus and ferry services provided by SRA and STA are regulated under section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act 1992).¹

The fares charged for the majority of services provided by taxi, private bus and private ferry operators are regulated under the *Passenger Transport Act 1990* (PTA 1990). The Minister for Transport is responsible for the setting of these fares. In June 2001, the Minister requested that the Tribunal review proposals for fare increases for taxis, private buses and private ferries. This was the Tribunal's first review of fare proposals for these areas. The Tribunal made recommendations to the Minister on fare changes, with the Minister maintaining final responsibility for the setting of fares for taxis, private buses and private ferries. The review period was short and did not allow for detailed public consultation.

In January 2002, the Tribunal was asked to review fares for private operators under section 9(1)b of the IPART Act 1992.² The terms of reference require the Tribunal to investigate and report on fares for taxi services and regulated private bus and private ferry services. In conducting these investigations the Tribunal is also required to consider submissions from key stakeholders and the general community. The Tribunal's role is similar to last year, but with a greater level of public consultation allowed in the process.

Under the terms of reference for these three reviews, the Tribunal is required to consider a number of specific matters. These matters include:

- the protection of consumers from the abuse of monopoly power in terms of prices, pricing policies and standards of service
- the social impact of the recommendations
- standards of quality, reliability and safety of the service concerned.

The full terms of reference for each of the reviews is contained in attachment 1.

The purpose of this issues paper is to:

- provide background information on the industries in question
- identify and discuss key issues the Tribunal will need to consider (stakeholders are welcome to raise additional issues which they believe are relevant to this review)
- invite comment from interested parties.

¹ The Tribunal only regulates the fares of SRA and STA services that are declared as government *monopoly* services. Other services supplied by these agencies which are not classified as a monopoly, such as Countrylink, and STA's Airport Express and Sydney Explorer services, are not regulated by the Tribunal.

² Concurrent with this review of taxi, private bus and private ferry fares, the Tribunal will be conducting its annual public transport determination.

1.1 Review process and submissions

The Tribunal's reviews of taxi, private bus and private ferry fares commenced with receipt of terms of reference from the NSW Government. These were formally received by the Tribunal on 23 January 2002. The Tribunal then advertised these reviews on 5 February 2002, notifying its intention to release this issues paper.

The Tribunal invites submissions from interested parties on the issues raised in this paper, plus other issues that stakeholders believe are relevant and the Tribunal should consider.

Submissions from the Taxi Council, the Bus and Coach Association and the Charter Vessel Association/private ferry operators must be received by 28 March 2002.

Submissions from other stakeholders must be received by 29 April 2002.

All submissions should be sent to:

Taxi, private bus and private ferry reviews
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

The Tribunal's recommendations on fare changes will be forwarded to the Minister for Transport in June 2002. A final decision on actual fare changes will be made by the Minister for Transport following consideration of the Tribunal's report.

2 INDUSTRY CHARACTERISTICS

This chapter provides introductory information on the key characteristics of the taxi, private bus and private ferry industries. This information will help readers understand the size and type of services provided by each of the industries.

2.1 Taxis³

Consideration of the taxi industry is often divided into two distinct areas of operation, the 'metropolitan transport district (Sydney)' and the 'country'. The metropolitan area encompasses Sydney suburbs bounded by Hornsby, Penrith and Sutherland. The country taxi area encompasses all taxi services in NSW outside the metropolitan area of operation, including services in cities such as Newcastle, Wollongong and Gosford.⁴ This distinction is made as the industry in rural NSW has characteristics that make it distinct from the industry in Sydney.

The metropolitan taxi industry is serviced by 12 taxi networks. Not all of these networks provide a radio booking service. The largest network is Combined Cabs which services approximately 60 per cent of taxis in the metropolitan area.⁵ Large networks also operate in country areas, and many smaller towns are serviced by only a single network operator.

Unlike country areas, bailee drivers in the metropolitan area of operation receive remuneration based on the set "pay in" method - the driver keeps any amount net of a fixed payment to the taxi owner for the shift, the cost of fuel and washing the taxi. In country areas, payment of bailee drivers is based on a fixed percentage of takings, usually 50 per cent.

The taxi industry has a combined phone, rank and hail market structure. In the metropolitan taxi industry the majority of hirings come from hail and taxi ranks, whilst phone bookings constitute 44 per cent of the total hirings. Hails account for about 30 per cent of hirings and mostly take place in the Sydney CBD. In the country taxi industry the majority of business comes from the phone and rank elements of the market with a much smaller proportion coming from on-street hailing.

Although for policy purposes a distinction between metropolitan and country areas is made (as defined above), a different definition is made for fare setting purposes. In NSW, 'urban' and 'country' taxi fares exist, and there is also an 'exempt' area. The 'urban' area for taxi fares is broader than that for 'metropolitan'. It includes the metropolitan transport district, and other areas such as Newcastle, Wollongong, the Blue Mountains, Gosford, Wyong, Shellharbour, Williamstown, Raymond Terrace and Camden. 'Country' is all areas in NSW except those in 'urban' and 'exempt' (Moama, Barham, Tocumwal, Mulwala, Barooga and Deniliquin).

³ The Department of Transport's *Discussion Paper on the Rural Taxi Industry in NSW* (May 2001) provides more detailed information on the industry.

⁴ In some parts of rural NSW, there are no taxi services.

⁵ In practice, Combined Cabs provides radio booking services to a number of smaller networks.

2.2 Private buses

Private bus services provide an important mode of travel in Sydney and throughout NSW. In Sydney, the Transport Data Centre (TDC) estimates that bus services provide approximately 6 per cent of all trips made on an average weekday, compared to 5 per cent for trains. Private bus services provide 44 per cent of these bus passenger trips.⁶

In Sydney, private bus operators provide services over western, north-western and south-western districts, as well as the Central Coast and Blue Mountains. This area includes the lower density residential areas and new urban fringe suburbs. It also incorporates the commercial centres of Bankstown, Blacktown, Campbelltown, Hornsby, Liverpool, Parramatta and Penrith.⁷

There are 42 private companies that provide bus services in Sydney. In total these companies have 1,585 buses registered for use. The data on fleet numbers indicates that there is a very diverse group of operators in the industry. For example, the largest 10 companies own over 60 per cent of the private buses that operate in Sydney. That is, the top 10 companies (by fleet size) have fleets of approximately 50 buses or over. Approximately half the companies that operate in Sydney have less than 20 buses.

In the areas outside Sydney, there are approximately 136 private companies that operate commercial and non-commercial bus services.⁸ In total these companies have 2,013 buses registered for use.

2.3 Private ferries

There are seven private ferry operators in NSW. The services provided are all commercial in nature. This differs from private buses, where the NSW Government has had to contract with some private bus operators to provide non-commercial services for transport of school students.

Matilda Cruises and Captain Cook Cruises provide regular ferry services in Sydney Harbour. Captain Cook Cruises operates Hegarty's ferries which service Circular Quay, McMahan's Point and Kirribilli wharves. Matilda Cruises operates regular services on the following routes:

- Cockle Bay – Aquarium Wharf – Circular Quay
- Circular Quay – Lane Cove river wharves
- Darling Harbour – Bayview Park – Cape Cabarita – Cabarita Point – Kissing Point – Homebush Bay.

⁶ NSW Department of Transport – Transport Data Centre, *Bus users in Sydney*, November 2000, p 2.

⁷ In Sydney, STA services cover eastern Sydney, from Palm Beach in the north to Carlingford, Lidcombe and Bankstown in the west, and Miranda and Hurstville in the south. Private operators provide bus services in the remainder of Sydney. STA's area of operation generally encompasses higher density, older established suburbs and includes the commercial centres of the Sydney CBD, North Sydney, St Leonards/Crows Nest, Chatswood and Macquarie/North Ryde.

⁸ Based on information provided by the RTA which notes the postcodes in which buses are registered. In general, Australia Post classifies the Sydney metropolitan area as excluding Wollongong, Newcastle and the Blue Mountains.

The remaining five private ferry operators are much smaller in scale, and the nature of journeys for passengers is likely to be quite different from the Sydney Harbour operators. In particular, it would be reasonable to expect less 'journey to work', and more discretionary travel among the small operators:⁹

- Church Point ferry service: Scotland Island – Morning Bay
- Clarence River Ferries: Iluka – Yamba
- Cronulla and National Park Ferries: Cronulla – Bundeena
- Dangar Island ferry service: Brooklyn – Dangar Island
- Palm Beach Ferries: Palm Beach – Patonga, and Palm Beach – Mackerel Beach – Currawong – Basin – Bonnie Doon.

In Sydney Harbour, private ferry operators face some degree of competition from Sydney Ferries, a business unit of STA. Sydney Ferries' operations are primarily based in Sydney Harbour, with one ferry route being operated in Newcastle. To a limited extent, the ferry services offered by Sydney Ferries compete with private operators operating in the Sydney Harbour area. However, each operator provides a separate service in their contract area.

It may appear that these regional private ferry operators face no competition. However, these operators could face competition from water taxis (as do Sydney Harbour operators), commuter dinghies and a degree of self-regulation is likely to exist in that the operators are closer to the communities they serve. Further, use of services is often of a discretionary nature, eg tourism.

In addition to regular passenger services, private operators (both ferry and bus) also offer leisure and charter cruises. As these types of services are not regular passenger services under the PTA 1990, they are not subject to price regulation, and hence do not form part of this review by the Tribunal.

⁹ Brisbane Water Ferries previously operated a service between Woy Woy, Saratonga, Davistown and Empire Bay. Brisbane Water Ferries withdrew from operating this service in 2001.

3 EXISTING REGULATORY FRAMEWORK

As the Tribunal's role in these reviews is to recommend on fares for taxis, private buses and private ferries, its interest lies with the existing regulatory framework as it relates to fares. The Tribunal acknowledges that regulation in general covers other aspects apart from fares, including service quality, safety, operator accreditation and market access.

The economic regulation of the public passenger services is governed through the PTA 1990, administered by the Department of Transport (DoT). The PTA 1990 specifies contract areas for which services are to be provided, the quality of these services and the maximum fares for these services.

3.1 Taxis

The taxi industry in NSW has a long history of regulation dating back to the pre-1930s. Up to 1982, local government was responsible for issuing taxi licences and regulating fare structures. These roles could only be performed after consultation with the Department of Motor Transport. Responsibility for all aspects of industry regulation was transferred to the Department of Motor Transport in 1982 (whose public vehicle responsibilities were subsequently taken over by the DoT).

At present, the DoT and the RTA regulate the taxi industry. The DoT has primary responsibility for regulating the industry. This authority is derived from the PTA 1990 and the *Passenger Transport (Taxi-Cab Services) Regulation 1995*. It issues licences, sets fares, and driver and vehicle standards. There is extensive vehicle, driver and passenger safety legislation administered by the RTA.

3.2 Private buses

The bus industry in NSW is regulated under the PTA 1990 and the *Passenger Transport (Bus Services) Regulation 2000*. Aspects of the industry that are regulated include:

- DoT authorisation of persons who drive a public transport vehicle
- regular passenger bus services can only be carried out via a contract entered into between an accredited service operator and the DoT
- accredited operators must be of good repute, propose to be responsible for the operation of a public passenger service and must be able to demonstrate the capacity to meet the government's standards of financial viability, safety of passengers/the public and vehicle maintenance.

Under the PTA 1990, bus operators are given exclusive operating rights for five years and ongoing contract renewal for a specified contract area if they meet the terms and conditions of their service contracts. This includes meeting prescribed minimum service levels (MSLs) and maximum designated fares.

Contracts fall into two categories:

- commercial contracts: these are contracts for a designated area where revenue is generated by fare paying passengers; and
- non-commercial contracts: where there is no commercial contract for regular route services, the DoT enters into a non-commercial contract with an operator to conduct a service along a specific route to transport school students, and reimburses the private operator for operating this service.

Commercial and non-commercial contracts each have different conditions for operation. These are discussed in more detail in chapter 6.

Fares for private buses are regulated under section 19 of the PTA 1990. This section specifies that:

- A commercial contract must fix a scale of maximum fares.
- The scale must be fixed at no less than the average level of fares for the time being prevailing in the industry for comparable services, and due allowance must be made for inflationary movements in the costs of providing the service.
- Maximum fares should be specified in terms of the distance for which a passenger, on payment of a fare, is entitled to be carried. For that purpose the contract may resort to terms of average or minimum distances, but it is not sufficient to describe distance in terms only of the intervals between stopping-places along the route.
- Under a non-commercial contract, provision may be made for adjustments in respect of any shortfall or surplus resulting from the difference between the agreed contract price and any revenue generated by fares.

3.3 Private ferries

The NSW Government regulates economic aspects of ferry services under the PTA 1990. Regular ferry service providers are required to hold operator accreditation and under the *Marine Safety Act 1998* ferry masters are required to hold appropriate certification with the Waterways Authority for the type of vessel under their control. Operators of all other ferry services (ie long distance, tourist and charter ferry services) are not required to hold operator accreditation, and are effectively deregulated provided that the services provided meet the relevant definitions as specified in the PTA 1990. Vessels which do not seat more than 8 adults are not regulated in any way under this Act (ie water taxis).

Regular ferry services may only be operated under the terms and conditions set out pursuant to:

- a service contract – section 16 of the PTA 1990
- an Exemption from a service contract issued by the Director General or his delegate.

Under a service contract, exclusive rights on a ferry route or service area is granted to an operator for 5 years. Similar to private buses, contracts may only be renewed if the requirements of a Performance Assessment Regime (PAR) are met. If no PAR has been specified and terms and conditions of the contract have been met, the contract has to be renewed for a further 5 year period. In effect, the regulatory framework for constituting

regular ferry services, as established under the PTA 1990, is the same as that for regular bus services.

Fares for private ferries are regulated under section 19 of the PTA 1990. The legislation governing fares is therefore the same as that for private buses (as discussed above).

4 APPROACHES TO PRICE REGULATION

The regulation of fares under the PTA 1990 is generally not prescriptive and allows flexibility in determining appropriate maximum fares and fare structures. This chapter discusses the existing approaches for fare setting in the taxi, private bus and private ferry industries. The advantages and disadvantages of these are also discussed, as are options for moving forward.

4.1 The existing approach

The cost index approach is a common approach to adjusting transport fares. As the name suggests, the approach focuses on the costs of the relevant industry, from which an index is constructed. A number of Australian states apply such an approach, and the Tribunal notes that in the ACT, a cost index was used to adjust taxi fares for around a decade. The cost index approach has also been applied to the private bus industry in NSW for a number of years.

4.1.1 Taxis

In considering changes to taxi fares last year, the Tribunal considered a cost index proposed by the NSW Taxi Council. The Council proposed separate cost index models to calculate fares for urban and country areas. The model contained 15 different cost elements (14 for the country model), which according to the Council represented the major costs for the taxi industry.¹⁰ In the model the urban index incorporated operators in Sydney, Wollongong, Newcastle and the Central Coast. Movements in costs for the country areas were based on sample data from six country centres: Coffs Harbour, Albury, Wagga Wagga, Bathurst, Armidale and Tamworth. Based on the cost indices the Taxi Council requested urban fares increase by 15.3 per cent, and country fares by 12.2 per cent.

The Tribunal considered that the cost indices did not properly reflect all costs associated with the operation of a taxi. Two key adjustments were made to the Taxi Council model. These were the inclusion of bailee driver costs (ie wages) and plate values. The Tribunal's amended cost indices for urban and country taxis are shown below. The Tribunal recommended fare increases of 4.1 per cent and 4.2 per cent respectively for urban and country taxi fares.

The Tribunal also noted some concerns with other cost items, eg network fees. In particular, the Tribunal noted that in the majority of areas outside of Sydney, network services are provided by a monopoly service provider. The Tribunal was unable to satisfy itself that the actual network costs charged were efficient network costs.

¹⁰ The consultants PricewaterhouseCoopers were engaged by the Taxi Council to develop the cost index.

Table 4.1 Urban taxi operating costs

	Sep-99		Jun-01		Weight	Change
	Total cost	Index	Total cost	Index		
Fixed costs:						
Vehicle lease payments	\$7,653	100	\$7,887	103	5%	0.1%
Insurance	\$9,937	100	\$12,025	121	6%	1.3%
Govt charges	\$729	100	\$739	101	0%	0.0%
Network fees	\$5,457	100	\$6,050	111	3%	0.4%
Plate lease fees	\$22,643	100	\$17,010	75	14%	-3.5%
Annualised establishment costs	\$954	100	\$1,295	136	1%	0.2%
Variable costs						
LPG Fuel	\$13,341	100	\$16,475	123	8%	2.0%
Maintenance labour	\$6,526	100	\$6,958	107	4%	0.3%
Vehicle parts and panels	\$8,313	100	\$10,403	125	5%	1.3%
Cleaning	\$3,191	100	\$3,220	101	2%	0.0%
Tyres	\$2,571	100	\$2,543	99	2%	0.0%
Operator's superannuation	\$815	100	\$969	119	1%	0.1%
Operator salary equivalent	\$11,640	100	\$12,108	104	7%	0.3%
Driver entitlements	\$3,463	100	\$3,705	107	2%	0.2%
Bailee driver payments	\$57,771	100	\$60,092	104	36%	1.4%
Uniforms	\$2,400	100	\$2,400	100	1%	0.0%
Other	\$3,246	100	\$3,361	104	2%	0.1%
Total	\$160,650	100	\$167,240	104		4.1%

As the tables indicate, the inclusion of plate lease fees and bailee driver entitlements significantly reduced the required fare increases. Both of these cost components are a relatively high proportion of total taxi costs, particularly bailee driver payments, and their inclusion dampens the effect of increases in other cost components such as LPG fuel, vehicle parts and panels and operator's superannuation.

Table 4.2 Country taxi operating costs

	Sep-99		Jun-01		Weight	Change
	Total cost	Index	Total cost	Index		
Fixed costs:						
Vehicle lease payments	\$7,224	100	\$7,703	107	6%	0.4%
Insurance	\$6,065	100	\$6,476	107	5%	0.3%
Govt charges	\$729	100	\$739	101	1%	0.0%
Network fees	\$8,568	100	\$8,568	100	7%	0.0%
Plate lease fees	\$12,480	100	\$10,575	85	10%	-1.5%
Annualised establishment costs	\$592	100	\$700	118	0%	0.1%
Variable costs						
LPG Fuel	\$11,216	100	\$13,000	116	9%	1.4%
Maintenance labour	\$5,025	100	\$5,124	102	4%	0.1%
Vehicle parts and panels	\$3,713	100	\$5,411	146	3%	1.4%
Cleaning	\$2,940	100	\$2,944	100	2%	0.0%
Tyres	\$1,837	100	\$1,817	99	1%	0.0%
Operator's superannuation	\$815	100	\$969	119	1%	0.1%
Operator salary equivalent	\$11,640	100	\$12,108	104	9%	0.4%
Bailee driver payments	\$45,543	100	\$47,374	104	37%	1.5%
Uniforms	\$2,400	100	\$2,400	100	2%	0.0%
Other	\$2,996	100	\$3,102	104	2%	0.1%
Total	\$123,782	100	\$129,009	104		4.2%

4.1.2 Private buses

Separate cost index models have been used to calculate appropriate fares and revenue for commercial and non-commercial contracts for private bus operators.

Over recent years maximum fares for commercial contracts have been regulated using a cost index approach. This approach was agreed to by the DoT and the BCA. The existing cost index contains 14 different cost elements, which are used to represent material costs for private bus operators. The main cost categories include capital costs, people costs, bus insurance and registration, bus lubricants, repairs and maintenance and other costs.

Based on this index, the Bus and Coach Association last year requested that private bus fares increase by 4.58 per cent. In that review the Tribunal made some minor adjustments to the index, recommending to the Minister for Transport that fares increase by 4.09 per cent. The Tribunal's amended cost index from last year's review is shown below.

Table 4.3 Private bus operating costs

	Base 1 Jul 99	Cost 1 Jul 00	Cost 30 Jun 01	Cost increase	Base 30 Jun 01	Change
Capital costs						
Mercedes chassis		\$185,183	\$188,067			
Custom coach body		\$138,328	\$143,000			
Bond rate		6.19%	6.10%			
M'thly lease pay'mt	15.42%	\$6,283.00	\$6,415.86	2.11%	15.75%	0.33
People costs						
Award rate of pay	43.92%	\$585.00	\$606.60	3.69%	45.54%	
Superannuation	2.01%	\$46.80	\$48.53	3.70%	2.08%	
Payroll tax	2.52%	\$40.44	\$40.62	0.45%	2.53%	
Workers comp.	1.15%	\$28.02	\$33.18	18.42%	1.36%	
Total	49.60%				51.51%	1.91
Bus ins./regis'tn						
Green slips	1.41%	\$2,457.00	\$2,681.00	9.12%	1.54%	
Compr. per \$1,000	0.82%	\$7.83	\$8.96	14.47%	0.94%	
Registrations	1.59%	\$762.00	\$767.00	0.66%	1.60%	
Total	3.82%				4.08%	0.26
Bus lubricants	10.92%	\$0.88	\$0.96	8.89%	11.89%	0.97
Repairs/maint'nce						
Major service	4.67%	\$1,072.50	\$1,072.50	0.00%	4.67%	
Tyres	1.33%	\$575.00	\$639.00	11.13%	1.48%	
Total	6.00%				6.15%	0.15
All other costs - CPI	14.24%	\$127.00	\$131.19	3.30%	14.71%	0.47
Total	100%				104.09	4.09

For non-commercial contracts the calculation of the revenue requirement relies on a financial model agreed to by the DoT and BCA, and developed by PricewaterhouseCoopers (PwC). The non-commercial model broadly separates bus costs into depreciation, bus related, driver related, fuel, other distance related and return on investment cost categories. GST is then added to this net revenue requirement to calculate the total revenue requirement. Individual operator characteristics (ie kilometres travelled per day and hours per day of operation) are entered into the model, in combination with general cost adjustments as determined by PwC.

Given the time available for this 2002/03 fare review, the Tribunal is not able to consider in detail the funding mechanism/model for non-commercial contracts. Rather, the Tribunal will concern itself with the general workings, accuracy and consistency of the existing non-commercial model.

4.1.3 Private ferries

Prior to the Tribunal's initial review of private ferry fares last year, fares were determined by DoT, taking into account inflation and STA fares. For last year's review, fares for the private ferry industry were regulated using a cost index approach. The Charter Vessel Association (CVA, which represents the majority of private ferry operators) suggested to the Tribunal a pro-forma cost information sheet which could be circulated to operators, the information from which may be used to assess required fare increases. The Tribunal made minor adjustments to the pro-forma information set, and this was circulated to operators.

The quality of the information provided to the Tribunal by private ferry operators was generally well short of that requested in the pro-forma information set, and only three operators submitted information relating to the movement in individual cost items. The quality of the Tribunal's analysis and robustness of results therefore suffered as a result of the inadequate information.

The cost index constructed suggested fares should be allowed to increase by up to 6.7 per cent. However, the Tribunal noted in its report that an increase within the range of inflation and that suggested by the cost index could be warranted. The Tribunal also noted specific concerns with the private ferry cost index, including the small sample size and the sensitivity of results (ie for the same individual cost items, different operators reported cost increases that varied significantly).

The Tribunal will again circulate a pro-forma information set to private ferry operators. It is envisaged that an improved information set will be made available this year, as this will lead to more accurate and robust outcomes for private ferry operators.

4.2 The cost index approach

4.2.1 Advantages

A key advantage of the cost index approach is its relative simplicity. The actual items that constitute the cost index are generally unchanged from year-to-year, and fare adjustments are estimated by considering the change in each of the cost items (usually weighted by their relative share of total costs).

4.2.2 Disadvantages

Although the method is relatively simple to apply, there are a range of disadvantages that suggest alternative methods may be more appropriate. Firstly, a cost index approach ignores efficiency improvements that may have been achieved, or should be achieved, within the particular industry, as opposed to those that may have been achieved by suppliers to the industry. Similarly, it is extremely difficult to drive efficiency improvements under a cost index approach. If an operator were compensated for all of its input cost increases, there would appear to be little incentive to seek efficiency gains.

Further, it cannot be taken as a given that a regulatory approach that only focuses on costs can properly and fully account for efficiency gains.

In addition, under normal economic conditions, the cost index approach will almost always lead to fare increases. This is perhaps one reason why it is often promoted by industry. With prices tending to rise over time (inflation) rather than fall, the cost index approach almost guarantees fare increases.

Such an outcome may not be appropriate. To understand this, we need to recognise that the cost index approach ignores the other side of the industry's operations, its revenues/return. If revenues have increased to a greater extent than costs over a particular period, there would appear to be little justification for a fare increase (eg this could occur through economic/employment growth promoting increased patronage). In contrast, a fare decrease could in fact be warranted. By ignoring the revenue side of the industry, a cost index approach cannot account for the complete environment under which an industry operates.

It is also the case that over time, the base on which the cost index was originally constructed will move away from the actual cost structure faced by the industry. That is, the changing cost structure of the particular industry cannot readily be captured through a cost index approach.

In the case of public transport, STA has been pushing for greater recognition of its cost index in the Tribunal's fare determinations. While considering the changes in an organisation's costs (eg through inflationary movements) and hence its cost index, the Tribunal has not endorsed making fare adjustments purely on the basis of an industry's cost index.

4.2.3 Simplified cost index approaches

In some cases, the cost-benefit trade-off involved in regulation may suggest a simplified cost index be applied. In such cases, rather than developing a specific cost index, eg for the taxi industry or private bus industry, an existing cost/price index which approximates key costs for the industry may be applied. In this regard, the Australian Bureau of Statistics produces a range of cost indices that may be used for this purpose.

4.3 Alternative approaches

The Tribunal points out that no industry it regulates is regulated under a cost index approach. There are a number of alternative price regulation approaches to the cost index.

In common with other regulators, the Tribunal has typically examined costs (operating and financing costs as well as providing a return on capital invested) to reach a view of efficient costs and determined average prices (or revenues) sufficient to cover these efficient costs, given expected demand. This is particularly the case for industries such as electricity, gas and water and sewerage. The approach is commonly known as a 'building block' approach. The approach allows for prices or revenue to be inflated by a CPI-X cap, where X represents an efficiency factor. Such an approach drives efficiency gains.

Other approaches may include an assessment of revenues/returns, as well as costs. The Tribunal notes the recent decision by the Independent Competition and Regulatory Commission (ICRC) on taxi fares in the ACT.¹¹ A cost index approach had been applied in the ACT for around a decade. In its first review of taxi fares in the ACT, the ICRC noted concerns with the cost index approach.¹² Its recent review has determined a new cost and pricing model, designed to represent a profit and loss statement for the typical ACT taxi operation. Of note, the new approach will take into account the revenue side of ACT taxi operations as well as costs. The ICRC considers that this should assist in capturing and encouraging efficiency improvements within the industry.

In the case of NSW private buses, fares have been set over recent years based on a cost index. However, the Tribunal is aware that the BCA has commissioned studies that, amongst other things, looked at the revenues and return on equity earned by operators. A key issue is how such information can usefully be applied to a fare setting process and/or what may be a reasonable approach if a cost index approach was deemed unsatisfactory.

In considering changes to the fare setting process, issues such as the size and number of operators in the industry are important. Further, the strict application of a cost index approach would preclude consideration of additional revenue/return information. If such information were to be considered, the question is how would it be incorporated into the cost index.

The choice of the form of price regulation may be dependent partly on the size and complexity of the industry being regulated. For example, a building block approach is more readily applied to the gas and electricity industries where there are a relatively small number of large operators, each with public audited financial accounts. In a small industry such as private ferries it is harder to justify a rigorous fare setting regime. The costs, as well as the benefits of regulation, need to be considered. This is discussed further below.

Approach to fare regulation

The Tribunal invites comments on the application of fare setting approaches to the taxi, private bus and private ferry industries, and the reasonableness of individual cost items that are currently included in the fare setting approaches.

4.4 The protection of consumers from abuses of monopoly power

This section discusses the basis for market regulation and related issues. It is important to remember that regulation involves both costs and benefits. Often the costs associated with regulation are ignored or not understood properly. However, an appreciation of these costs is required in order to assess the necessity for regulation. Only where net benefits exist should regulation, ie government intervention, be applied.

¹¹ Independent Competition and Regulatory Commission, *Taxi fares for 1 July 2001 – 30 June 2003*, Final report, May 2001.

¹² Independent Competition and Regulatory Commission, *Taxi fares for 2000-2001*, Final price direction, June 2000.

4.4.1 The theory of regulation and competition

Economic theory suggests that market failure can justify the regulation of firms. Generally, this market failure is associated with the particular good/service being provided by a single entity, a monopoly service provider. In these instances, the fear is that unchecked, the monopoly service provider will increase prices above what would normally be charged in a competitive environment. Regulation may also be justified in situations of asymmetric information and externalities. However, the existence of each of these situations does not automatically justify government intervention to regulate the particular market in question.

The Tribunal's focus in this review is on the regulation of prices, however in considering the regulation of prices, it is difficult to ignore the issue of market access. As discussed earlier, the DoT sets maximum fares for regular transport services provided by private operators. For private buses and ferries the DoT has granted operators monopolies over particular routes/regions. In the case of the taxi industry the DoT regulates the number of licences issued.

In a competitive environment the interaction between firms and consumers is likely to produce efficient levels of service (eg fares, frequency, service quality). If the cost of offering a service is greater than the amount consumers are willing to pay, the service will not be offered, or will be withdrawn to avoid the providers of the service making a loss. Resources are then freed to be used in more productive ways. Furthermore, if a producer is charging excessive prices, another producer may enter the market, charge a lower price, and win consumers from the previous supplier.

In fact, it is not even necessary to have individual service providers directly competing with each other for competition to work. The threat of entry can provide incentives for the existing operator to provide services that are efficient and meet consumer needs. This threat of entry is lost when service providers are given monopoly rights.

Of course, competition does not work perfectly and may not always be feasible. However, it provides a process whereby misjudgements by producers regarding the cost of production, price or quality of service, may be corrected. If a producer seriously misjudges what the market wants, it will be worthwhile for another producer to enter the market. Sooner or later, such an entry will take place.

Whether regulation is justified will depend on the degree of the market failure. That is, it will depend on the overall benefits and costs of regulation, and importantly, the prospects for regulation to yield better outcomes. Where there are net benefits from regulation, government intervention can provide benefits to consumers through, for example, lower prices and improved service quality. However, regulation involves costs, and it is not always certain that direct intervention produces a more reasonable outcome than competition. Under a regulated environment, some decisions are in the hands of government/regulators, rather than in the hands of service providers, who have a strong and immediate incentive to respond to the demand of users.

4.4.2 The specific case of private ferries

In its review of private ferry fares in 2001, the Tribunal raised some concerns as to whether the current form of economic regulation imposed on private ferries is appropriate. The key point was that there should be net benefits from regulation even in cases of monopoly service provision.

In the case of private ferries, operators have been given exclusive rights to particular routes or regions. These monopolies may not naturally exist, but have been created through government regulation. Even if a single operator served a particular route in a deregulated environment, the threat of entry has the potential to provide incentives to the incumbent operator to provide an appropriate level of service at an appropriate fare.

The number and scale of operators does not suggest a rigorous regulatory regime is required. The costs of such an approach are likely to outweigh any benefits associated with government regulation. Further, it appears that most operators are subject to close competition, hence demand is likely to be responsive to changes in price, particularly price increases. For example, operators in Sydney Harbour appear to be subject to close competition from Sydney Ferries' operations. Regional private ferry operators may face competition from water taxis, commuter dinghies and a degree of self-regulation is likely to exist. Further, use of services is often of a discretionary nature, eg tourism.

The Tribunal sees some worth in the DoT reviewing the private ferry contracting system and assessing the level of competition faced by private ferry operators/the availability of alternative transport options for consumers. The findings from such a review would be useful in assessing the need and form of any regulation applied to private ferries. Such a review may find that only some private ferry operators are an integral part of the transport infrastructure, and therefore may require more detailed regulation, while it may be beneficial to deregulate other services. In such circumstances, price monitoring may be an appropriate form of government oversight.

Although the preliminary views of the Tribunal are that economic regulation (ie regulation of fares and market entry) of private ferries may not be warranted, other aspects of regulation such as safety and accreditation of operators should continue.

The Tribunal notes that deregulation of fares for private ferries has flow on effects to levels of government funding. For example, higher private ferry fares would require higher levels of government funding for concession tickets and transport under the School Student Transport Scheme, under the current funding mechanisms. These flow on effects cannot be used to justify continued regulation of private ferry fares. Rather, they may be seen as a catalyst for amending the funding mechanisms.

Approach to industry regulation

The Tribunal invites comments on the level of regulation required to properly protect consumers from abuses of monopoly power. The Tribunal also invites comments on the level of competition in the taxi, private bus and private ferry industries.

5 FARE LEVELS AND STRUCTURE

For private operators the revenue from fares should recover operating costs and earn a rate of return on capital. These revenues could be funded by the users and Government through its social policy program. The choice of fare structures and ticket products can be used to increase patrons on the services, by providing more flexible or equitable services.

5.1 Taxis

The current fare structure for urban and country taxi operators is provided in table 5.1 below.

Table 5.1 Current fare structure¹³

	Urban	Country
Flagfall	\$2.45	\$2.95
Distance	\$1.38 / km	\$1.44 / km ¹
Radio ²	\$1.15	\$0.65
Waiting time	\$37.10 / hr	\$37.10 / hr

Notes

1. The distance rate for country trips over 12km is \$2.03/km.
2. This represents the phone booking charge.

The key components of the fare are the flagfall and distance rate. The following table shows the taxi fares for other capital cities around Australia (for daytime, single hirings of standard taxis). The purpose of this table is not to compare the absolute fare levels, but to compare the relativities between different components of the fare.

Table 5.2 Interstate fare comparison

	ACT	Vic	WA	SA	Qld
Flagfall	\$3.20	\$2.80 ¹	\$2.90	\$2.40	2.50 ²
Distance	\$1.282 / km	\$1.31 / km	\$1.17 / km	\$1.18 / km	\$1.25 / km
Radio	\$0.65	\$1.10	na	na	\$1.20
Waiting time	\$28.50 / hr	\$27.00 / hr	\$33.60 / hr	\$23.40 / hr	\$31.58 / hr ³

Notes

1. Includes first 76.34 metres of journey.
2. Includes first 102.7 metres of journey.
3. Exact calculation is 10 cents per 11.4 seconds.

It is also noted that some states have different rates for multiple hirings and maxi taxis (carriage of 6 or more passengers). Currently in NSW, rates for maxi taxis are negotiable between the driver and occupants. The Tribunal notes that in the ACT and Victoria maxi taxi hirings are 150 per cent of the rate for standard hirings.

¹³ In addition to the details in the table, the fare structure also includes a night-time surcharge, luggage rates and payment of tolls. A 20 per cent surcharge to the distance rate can apply between 10pm and 6am daily in both urban and country areas. For carriage of luggage, there is no charge for up to 25kg, then 10 cents for each subsequent 25kg or part thereof, up to a maximum of 55 cents. For urban fares, all road, bridge, ferry and tunnel tolls, and the return tolls for northbound journeys over the Sydney Harbour Bridge or through the Sydney Harbour Tunnel, are payable. For country fares, all road, bridge, ferry and tunnel tolls that apply to the journey are payable.

In addition, there is an issue of whether any night-time surcharge should be a flat charge or be distance based. In NSW it is distance based, although other states (eg Victoria) apply a flat rate of \$1.10 for hirings between midnight and 6am. The ACT regulator has raised the option of applying a flat rate for night-time hirings rather than the current surcharge to the distance rate.

Table 5.3 presents fare changes in Australian capital cities since July 1999. Other jurisdictions have generally considered CPI changes and/or a specific taxi cost index in adjusting fares.

Table 5.3 Changes to taxi fares since 1 July 1999

	Change	Timing		Change	Timing
	%			%	
NSW Urban	5.1	November 1999	NSW Country	5.1	November 1999
	7.8	July 2000 – GST		8.1	July 2000 – GST
	4.1	July 2001		4.2	July 2001
	17.9	cumulative		18.4	cumulative
Vic	5.8	September 1999	SA	4.2	July 2000
	4.6	May 2000		7.3	July 2000 – GST
	8.0	July 2000 – GST		3.1	January 2001
	9.0	December 2000		4.23	Dec 2001
	30.3	cumulative		20.15	cumulative
Tas	1.6	December 1999	ACT	7.7	July 2000
	9.7	July 2000		7.9	July 2000 – GST
	7.2	July 2000 – GST		5.5	July 2001
	3.8	December 2000		22.6	cumulative
	24.0	cumulative			
Qld	7.0	Dec 99	WA	7.4	July 2000 – GST
	6.86	July 2000 – GST		8.4	December 2000
	13.0	Nov 2000		16.4	cumulative
	29.2	cumulative			

The Tribunal cautions that the percentage changes between states, although broadly comparable, are not perfectly consistent with each other. For example, for some states the percentage change relates to an ‘average’ fare, made up a taxi trip of particular distance, plus waiting time, flagfall and radio fee. In other cases, the percentage increase may have been applied to a single component of the fare (usually distance charge). In these circumstances, the ‘average’ fare would have risen to a lesser extent than the said percentage change.

Although the above presents a broad comparison of recent interstate fare changes, the Tribunal cautions against any approach that suggests fare changes in NSW (or any other state) need necessarily reflect those occurring in other states. Varying industry factors will produce varying results between states. Obviously there will be some commonality between cost structures between states, however the different operating environments can be expected to produce different cost and fare outcomes.

The Tribunal has been asked to consider fare levels, and in doing so will recommend a percentage fare change to the Minister for Transport. However, it is also to consider pricing policies, ie the fare structure.

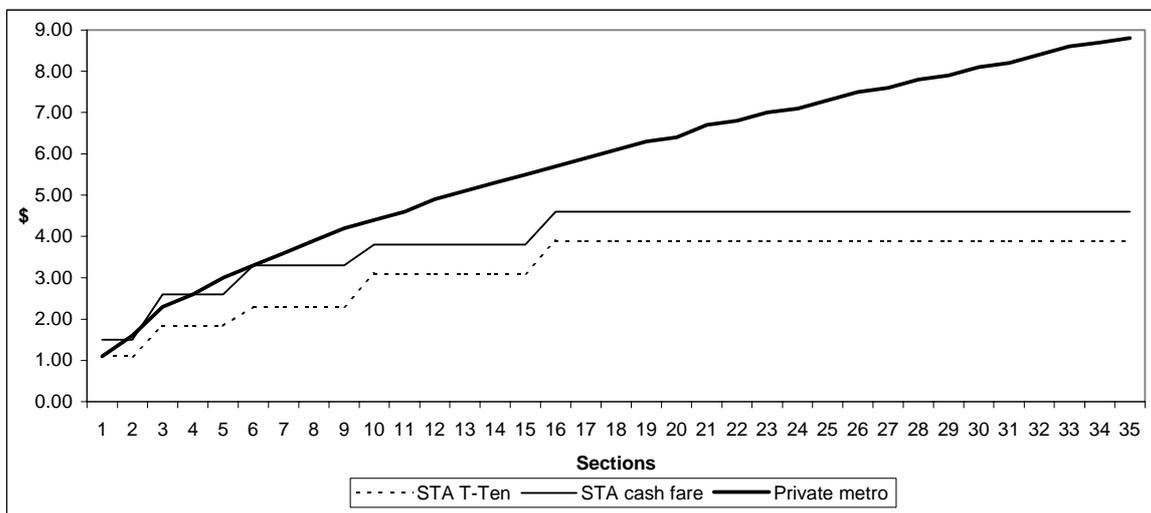
Taxi fare structure

The Tribunal invites comments on whether the existing fare structure for taxis should be altered, eg the balance between flagfall and distance rates, and day and night rates, the imposition of luggage rates, and whether an additional lift fee should apply to wheelchair accessible taxis.

5.2 Private buses

Private bus operators’ fares are comparable to Sydney Buses’ single cash fares for short distance trips, although they are significantly higher for the longer distance bands. In addition, Sydney Buses’ TravelTen and multimodal TravelPass tickets offer a discount compared to single cash fares, making them cheaper than private operators’ fares for all distance bands. This is illustrated in the following figure.

Figure 5.1 Comparison of STA and private operators fares in the metropolitan area



Note: Fares for private operators extend up to 70 sections.

Only a small proportion (approximately 0.9 per cent) of Sydney Buses' patrons travel 16 sections or more. Further, while travellers on private buses generally appear to travel longer distances on average,¹⁴ it is likely that very few would travel in the longer distance bands.¹⁵ This is partly due to the fact that the majority of private bus trips are 'feeder services' which do not take travellers to their final destinations. For example, information from the Transport Data Centre indicates that 39 per cent of private bus users catch a train after their private bus journey in order to reach their ultimate destination.

Table 5.4 provides a comparison of adult single fares between Westbus and Sydney Buses. The fares are broadly comparable. Westbus fares are higher for longer distance bands.

Table 5.4 Comparison of Sydney Buses and Westbus' fares

Distance bands	Westbus	Sydney Buses	Difference
1	\$1.10	\$1.50	\$0.40
2	\$1.60	\$1.50	(\$0.10)
3	\$2.30	\$2.60	\$0.30
4	\$2.60	\$2.60	\$0.00
5	\$3.00	\$2.60	(\$0.40)
6	\$3.30	\$3.30	\$0.00
7	\$3.60	\$3.30	(\$0.30)
8	\$3.80	\$3.30	(\$0.50)
9	\$3.80	\$3.30	(\$0.50)
10	\$4.30	\$3.80	(\$0.50)

Notes:

1. Westbus fares for all routes, excluding M2 city services, route 630 and Windsor routes.
2. Sydney Buses' fares are for single cash fares.

Private bus operators are able to offer fares below the maximum allowed, although during last year's review the Tribunal was not able to assess in detail the degree to which private bus operators charge lower fares than the maximum. The Tribunal notes that metropolitan operators BusWays and WestBus both charge prices below the regulated maximum, particularly for distances greater than 6 sections. The extent of these discounts vary between different sections on the same route, and for similar sections (ie distances) on different routes. For example, in the instances seen by the Tribunal, discounts ranged from only 1 per cent to over 30 per cent. Further, the Tribunal notes that some private bus companies did not increase their fares following the Minister for Transport's decision on fares for last year.

¹⁴ A recent survey of bus users conducted by the Transport Data Centre indicated that the average trip distance on STA buses is 5.7 kilometres compared to 8.0 kilometres for private bus operators (see NSW Department of Transport – Transport Data Centre, *Bus users in Sydney*, November 2000, p 2).

¹⁵ Based on data from May 1999 the BCA estimates that approximately 86 per cent of full fare paying passengers purchase fares of less than 7 sections.

Sydney Buses offers a much wider range of ticket products compared to private bus operators. For private buses the main ticket product is the single cash fare, although some operators offer weekly tickets which are linked with rail travel. Sydney Buses on the other hand, has a range of multiride (TravelTens) and multimodal weekly tickets, which are offered at a discount to equivalent single cash fares.

Sydney Buses also offers a wider range of concession tickets, as part of the Government's Social Policy Program. For example, holders of a pensioner's or senior's card can purchase a \$1.10 excursion ticket which provides all day travel on all STA and CityRail services. Pensioners only receive a half fare concession for single tickets on private bus travel.¹⁶

As for taxis, a key focus for the Tribunal is on fare levels, and in doing so it will recommend a percentage fare change to the Minister for Transport. However, it is also to consider pricing policies, ie the fare structure.

Private bus fare structure

The Tribunal invites comments on the existing fare structure for private buses, including the range of tickets on offer and relativities with Government owned operations.

5.3 Private ferries

The following details existing adult one way maximum fares for each of the private ferry operators:

- Hegarty's ferries (\$3.20 adult): Circular Quay, McMahons Point and Kirribilli wharves
- Matilda Cruises:
 - (\$4.30 adult): Cockle Bay – Aquarium Wharf – Circular Quay
 - (\$4.30 adult): Circular Quay – Lane Cove river wharves
 - (\$5.30 adult): Darling Harbour – Bayview Park – Cape Cabarita – Cabarita Point – Kissing Point – Homebush Bay
- Church Point ferry service (\$4.30 adult): Scotland Island – Morning Bay
- Clarence River Ferries (\$4.20 adult)¹⁷: Iluka – Yamba
- Cronulla and National Park Ferries (\$3.10 adult): Cronulla – Bundeena
- Dangar Island ferry service (\$3.40 adult): Brooklyn – Dangar Island
- Palm Beach Ferries (\$4.30 adult): Palm Beach – Patonga, and Palm Beach – Mackerel Beach – Currawong – Basin – Bonnie Doon.

¹⁶ It is important to note that different government funding arrangements apply to public and private operators. Whereas public operators receive government reimbursement for the \$1.10 excursion ticket, private operators do not.

¹⁷ As for the fares quoted for other operators, this is the maximum fare able to be charged by Clarence River Ferries. The actual fare charged by Clarence River Ferries is \$4.00.

In its recent public transport determination, the Tribunal set the following maximum fares¹⁸ for STA's Sydney Ferries services from 1 July 2001:

- Inner zone 1¹⁹: \$4.20
- Inner zone 2: \$4.40
- Manly and Rydalmere: \$5.30
- Parramatta: \$6.30
- Manly JetCat: \$6.60.

Generally, the fares for private ferry operators are less than those for Sydney Ferries' services.²⁰ The following table shows recent fare history for Sydney Ferries' inner zone 1 single cash fare, and Hegarty's maximum fares.

Table 5.5 Recent fare history

Hegarty's		Sydney Ferries		Difference	Difference
Date	Fare	Date	Fare	\$	%
Jul 96	\$2.20	Jul 96	\$2.80	\$0.60	27.3
Jun 97	\$2.40	Jun 97	\$3.00	\$0.60	25.0
Aug 98	\$2.45	Jul 98	\$3.20	\$0.75	30.6
Nov 99	\$2.80	Aug 99	\$3.70	\$0.90	32.1
Jul 00	\$3.00	Jul 00	\$4.00	\$1.00	33.3
Nov 01	\$3.20	Jul 01	\$4.20	\$1.00	31.3

Services offered by Hegarty's ferries are classified as 'basic' under the DoT's regulation of fares. This classification could explain some of the difference in fares between Hegarty's and Sydney Ferries. However, it is noted that the difference between fares has widened over time.

As the above table shows, fare increases for Sydney Ferries have been greater than those experienced by private operators. The following table shows recent fares increases for Sydney Ferries, and Church Point Ferry Service's maximum fares.

¹⁸ Fares are for a single, adult journey. Concession fares are half the adult fare, rounded down to the nearest 10 cents.

¹⁹ In 1996/97 inner harbour fares were split into two zones to improve the relationship between fares and distance travelled. Zone 1 covers journeys up to 10km. Zone 2 applies to journeys over 10km, currently only Meadowbank.

²⁰ The Tribunal notes that fare differences may be justified on a number of grounds, including length of trip, and service quality. The Tribunal has not been able to consider in detail such information.

Table 5.6 Recent fare increases

Church Point		Sydney Ferries	
Date	Increase	Date	Increase
Jul 96	3.30%	Jul 96	5.3%
Jun 97	2.00%	Jun 97	4.2%
Aug 98	2.25%	Jul 98	3.3%
Nov 99	2.00%	Aug 99	14.3%
Jul 00	8.60%	Jul 00	8.6%
Nov 01	6.70%	Jul 01	5.0%

Between July 1996 and November 2001, Church Point Ferry Service's fares increased by 27.3 per cent. This compares to an increase of 47.7 per cent for Sydney Ferries.²¹

The information and tables above give an indication of single cash fares and changes in average fare levels over recent years. As well as actual fare levels, it is also worth considering the range of fares/ticket types available. Sydney Ferries offers a much wider range of ticket products compared to private ferry operators, including multiple tickets for its ferries (FerryTen tickets), plus weekly travelpasses that offer multimodal travel on NSW Government rail (CityRail) and/or bus services. TravelPasses can also be purchased for quarterly or yearly travel.

The range of alternative ticket products offered by private ferry operators is not as great as those of Sydney Ferries. However, the private ferry operators in Sydney Harbour do offer some multiple ride/discount tickets. Matilda Cruises offers weekly commuter passes, plus student term passes at a 20 per cent discount for those students who are ineligible for the SSTS. Hegarty's ferries offer adult ten trip tickets at a discount (approximately 23 per cent) to the usual fare. The Tribunal has not been provided with any information indicating that other private operators offer multiple trip tickets.

Private ferry fare structure

The Tribunal invites comments on the existing fare structure for private ferries, including the range of tickets on offer and relativities with Government owned operations.

²¹ In addition, any comparison of fares/fare changes needs to consider other factors such as service quality and profitability of the service.

6 SERVICE QUALITY

Under the terms of reference for this review, the Tribunal is required to consider issues of service quality. Specifically, the Tribunal should consider:

- the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and **standards of service**
- standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

6.1 Performance requirements

6.1.1 Taxis

The DoT currently has in place interim standards for authorised taxi network operators.

Metropolitan performance standards

The required performance standards are separated into those relating to operations, telephone answering standards, delivery standards and customer services. Due to their direct affect on customers, the Tribunal has focussed its attention on telephone answering and delivery standards. In relation to telephone answering standards, requirements include:

- 90 per cent of calls to be connected to the booking service immediately
- of these, 70 per cent are to be answered within 1 minute
- and 90 per cent answered within 2 minutes.

In relation to delivery standards, requirements include:²²

- 85 per cent arrival within 15 minutes of booking being made
- 98 per cent arrival within 30 minutes of booking being made
- 100 per cent arrival within 60 minutes of booking being made.

The DoT requires performance reports to be submitted quarterly.

Country performance standards

For telephone answering standards, the country requirements are the same as those for metropolitan network providers. In relation to delivery standards, requirements include:²³

- 85 per cent arrival within 10 minutes of booking being made
- 98 per cent arrival within 15 minutes of booking being made
- 100 per cent arrival within 20 minutes of booking being made.

²² These standards apply to the provision of normal services in metropolitan areas. Any minimum performance standards contained in contracts for special purpose taxis or fringe area services will override these 'general' standards for metropolitan areas.

²³ These standards apply to the provision of normal services in metropolitan areas. Any minimum performance standards contained in contracts for special purpose taxis or fringe area services will override these 'general' standards for metropolitan areas.

These performance requirements are tighter than those applying to metropolitan network operators.

The DoT requires performance reports to be submitted by network operators every six months. The six monthly reports provided to the Tribunal as part of last year's fare review indicated the telephone answering targets were met by each of the taxi companies. Taxi companies did not perform as well in meeting delivery standards. Across both 1999 and 2000, a total of 81 per cent of taxis arrived within 15 minutes of the bookings being made. Only 87 per cent of taxis arrived within 30 minutes (target of 98 per cent). Similarly, only 88 per cent of taxis arrived within 60 minutes of the booking (target of 100 per cent).²⁴

DoT surveys of the taxi industry

As reported in the Tribunal's report on taxi fares last year, DoT commissioned in March 1998 a report on taxi usage and the level of satisfaction of taxi users with taxi services in Sydney.²⁵ The survey indicated that the overall level of satisfaction with taxi services was high. However, it suggested a relatively low quality of service in relation to waiting time after a telephone booking, at ranks and on the street.

In addition to these waiting time aspects of service quality, service quality was rated as relatively poor for driver knowledge of the area and driver proficiency in English. Ratings of 'poor' or 'very poor' totalled over 10 per cent for these aspects of service quality.

The survey also examined whether service quality was improving or deteriorating. The majority of respondents indicated little change over the previous twelve months. However, more than 10 per cent of respondents noted increase in waiting times for telephone bookings and in getting taxis on the street, and deteriorations in drivers' knowledge of the area and proficiency in English.

More recently, the DoT has conducted a survey of taxi drivers and operators in NSW. Although this does not directly measure service quality from the perspective of the passenger, it did cover some areas that have the potential to influence the quality of the taxi service, eg length of experience and driver training.

DoT complaints register

The Tribunal's 1999 taxi review noted that the type of complaints reported to the DoT were consistent with the passenger survey. The following table summarises the most common types of complaint registered with the DoT. This was updated for the Tribunal's review of taxi fares last year.

²⁴ The DoT has indicated to the Tribunal that it has some reservations about the accuracy of some of the information it currently receives from some network operators.

²⁵ NSW Department of Transport – Transport Data Centre, *Sydney taxi customer survey*, Report no 98/4, April 1998.

Table 6.1 Summary of complaints registered with DoT¹

	1996	1997	1998	1999	2000	2001 ²
Assault, abuse and dangerous driving	1,576	1,246	1,100	1,288	1,177	609
Trip refusals, no shows and lateness	771	762	714	1,026	792	330
Poor knowledge, dress or service stds	1,175	583	704	722	571	220
Technical infringements	317	211	284	174	150	56
Incorrect fare, start/stop meter	276	208	201	341	685	206
Poor vehicle cleanliness and safety	177	148	190	220	229	123
Total	4,292	3,158	3,193	3,649	3,604	1,544

Notes:

1. The Tribunal has not ascertained the individual complaint categories that make up each of the 6 complaint groups for 1996-1998. As such, data for years 1996-1998 may not be directly comparable to data for 1999-2001.
2. Figures are up to 27 June 2001.

Based on the categories of complaint the Tribunal has focussed on, there has been a fall in the level of complaints received by the DoT. However, some individual categories show significant variation over recent years. Between 1999 and 2001, there has been significant improvement in relation to the 'trip refusals, no shows and lateness' category. Complaints have fallen from 1,026 in 1999 to 792 in 2000, and on current trends may be under 700 for 2001. Similarly, there has been improvement in relation to the 'poor knowledge, dress or service standard' category.

Complaint category 'incorrect fare, start/stop meter' shows a significant deterioration in service quality. In addition, 'poor vehicle cleanliness and safety' has steadily worsened over the last few years. Data for each of these categories are likely to be comparable between 1996-1998 and 1999-2001.

Within the category 'incorrect fare, start/stop meter', there has been a significant increase in complaint descriptions 'demand more than prescribed fare' (from 204 in 1999 to 441 in 2000) and 'demand other than prescribed fare' (from 51 in 1999 to 164 in 2000). The part year figures for 2001 suggest some improvement over the past year.

The Tribunal will update the information in the above table during the course of this year's review.

Service quality - taxis

The Tribunal invites comments on the quality of service offered by taxis.

6.1.2 Private buses

Commercial service contracts

Commercial contracts are provided in areas where there are a range of existing bus services which can be operated on a commercial basis. Bus operators are permitted to carry regular full fare and half fare passengers as well as school students.

The contract provides conditions of operation including the provision of:

- routes, fare schedules and timetables
- minimum service levels as specified by the DoT
- a management information system to enable monitoring of compliance with standards of service
- a complaints register.

For commercial contracts, performance requirements are specified in the Minimum Service Level (MSL) policy. The MSL policy sets standards for:

- service frequency: a minimum quantity of service that must be provided in each contract area
- service coverage (spatial): ensures that most parts of each contract area are within a certain distance of a route
- service coverage (temporal): states the times that services must be available throughout the day, evening and weekends.

In metropolitan areas MSL standards are based primarily on the net patronage potential in a contract area. The net patronage potential is based on the population size, the number of private vehicles and the degree of alternative public transport options in the contract area. The MSL can therefore vary significantly between and within contract areas.

For the non-metropolitan services route coverage and frequency standards are set for four different types of services: country town services; village to town services; country town to town services; and urban fringe services. The MSL standards for service frequency and service coverage can vary significantly between the four different service types as well as due to the different population size in the contract areas.

Non-commercial contracts

The non-commercial contracts relate mainly to contracting bus services for transporting students to school, where a timetabled service does not exist. The majority of these contracts are associated with non-metropolitan areas.

The non-commercial contracts detail specific conditions to be met which relate to:

- vehicle and driver standards
- information services to be provided to the public (eg telephone complaints mechanisms)
- operational information to be collected.

The contracts also specify MSL standards that must be met. These standards specify the exact routes to be followed, the pick-up/drop-off points on the route as well as the timetable to be met.

During last year's review, the Tribunal found it difficult to assess private operators' performance against conditions in their contract, due to the lack of information. In July 1999, the BCA commissioned a study to assess the quality of services being provided by bus operators. However, a similar study has not been undertaken in recent years so it is difficult to judge whether service levels have improved.

The BCA has previously indicated that service quality has improved and notes that one of the indicators is the increased frequency of services in contract areas. The BCA also believes that kilometres travelled and hours worked by bus operators have increased. The Tribunal has not been able to verify the BCA's claim of improved services.

During last year's review, the Tribunal noted that given the delays in implementing the performance assessment regime (discussed below), it would be useful to start collecting a limited set of performance information in the interim. This would assist in gaining an improved understanding of the performance of private bus operators. The BCA viewed this positively, however the Tribunal is not aware of any progress by the BCA or DoT in moving this forward.

Service quality – private buses

The Tribunal invites comments on the quality of service offered by private buses, including relativities with Government owned operations.

6.1.3 Private ferries

Under the PTA 1990 ferry operators are given exclusive operating rights for five years and ongoing contract renewal for a specified route or region if they meet the terms and conditions of their service contracts. The DoT has only had to issue commercial contracts to ferry operators.

Commercial contracts are provided in areas where there are a range of existing ferry services which can be operated on a commercial basis. Ferry operators are permitted to carry regular full fare and half fare passengers as well as school students.

The contract provides conditions of operation including the provision of:

- routes, fare schedules and timetables
- minimum service levels as specified by the DoT
- information on scheduled journeys that have failed to operate
- notification to the DoT and passengers of changes to services.

Performance requirements are specified in the minimum service level (MSL) policy. In the PTA 1990 'service levels' are defined as the:

- periods of time during which services are to be operated; and
- frequency and extent of operation of services during the specified period of time.

The commercial contracts for ferry operators specify a minimum level of service that must be provided by the ferry operator. This primarily involves maintaining the service frequency as specified in the timetable and providing services on the routes specified in the contract.

During last year's fare review, the Tribunal was not able to assess the performance of private ferry operators against conditions in their contracts due to a lack of data. A rough analysis of service frequency between private operators in Sydney Harbour and Sydney Ferries indicated that this aspect of service levels may be comparable. Sydney Ferries, however, does offer a slightly broader range of tickets, such as TravelPass tickets that allow travel in other modes of transport.

Service quality – private ferries

The Tribunal invites comments on the quality of service offered by private ferries, including relativities with Government owned operations.

6.2 Review of the performance regime

In 1997, the PTA 1990 was amended to introduce a performance assessment regime (PAR) for commercial bus and ferry contracts. Under the PAR, the renewal of a contract for a commercial operator was to be dependent on the operator having met a series of best practice objectives and standards. The DoT has released two discussion papers on implementing the PAR to commercial bus contracts. No work has been progressed in relation to private ferries.

The DoT is now conducting a bus reform review which will consider the nature of the regulatory and contracting framework, and the performance assessment of operators. The review has the potential to lead to different arrangements in relation to the regulation of bus operators. Similar changes are also possible for ferry operators.

No date has been established for the completion and implementation of the PAR, either for private buses or private ferries.

7 OTHER ISSUES

The terms of reference for these reviews require the Tribunal to take account of a wide range of issues, including the potential social and environmental impacts of the fare recommendations. These factors will need to be considered when setting fares.

7.1 Environmental issues

Public transport provides an alternative to the use of private motor vehicles. The benefits of public transport include reduced congestion and pollution. The extent to which these benefits can be realised will depend on factors such as the relative cost of public versus private transport options and the propensity for private vehicle users to switch to public transport. This, in turn, will be influenced by accessibility, service quality and frequency of public transport.

Traditionally, the above factors have been discussed in respect of public transport options such as rail and buses. Those forms of mass transit provide the greatest opportunity to reduce congestion and pollution. Nonetheless, taxis do provide an alternative form of public transport, and an environmentally superior alternative to greater use of private motor vehicles.

Through the Tribunal's annual public transport determination process, it has also considered environmental issues and the influence of fares on use of public transport. The majority of available evidence suggests that price has only a small influence on the 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.

Environmental issues

The Tribunal invites comments on environmental issues and how these should be considered in the fare setting process.

7.2 Social impacts

The terms of reference of these reviews require the Tribunal to consider the social impacts of its recommendations. The Tribunal also considers such issues in its annual determination of public transport fares (CityRail and STA). During its latest determination, the Tribunal sought available information with which to assess the social impact of its determinations. The process indicated that existing information was limited for making such an assessment.

When examining this issue the Tribunal has relied on information collected and presented by the DoT's Transport Data Centre.²⁶ Such information provides a useful first step at gaining background information on the characteristics of users of all modes of public transport and assessing any social impact. However, due to the small sample size for taxi and private ferry users in the surveys by the Transport Data Centre, reasonable conclusions could not be made from the survey information.

²⁶ NSW Department of Transport – Transport Data Centre, *Bus users in Sydney*, Issues paper, November 2000.

In regard to taxis, the Tribunal is aware of the importance of taxi transport to particular community groups. For example, some people with disabilities may be reliant on taxi travel as other forms of public transport are not a viable alternative. Some people within this group would have access to the government's taxi transport subsidy scheme. Although they are required to pay a minimum of 50 per cent of the taxi fare, the scheme does limit the impact of any fare increase on this group.

For private bus and ferry users, half fare concessions are available for holders of student, unemployed and pensioner cards. The Government also provides funding under the School Student Transport Scheme for students travelling to and from school. This will help limit the social impacts of fare increases on eligible school students and their families.

Social impacts

The Tribunal invites comments on the potential social impacts of fare increases, and how such issues should be considered in the fare setting process.

ATTACHMENT 1 TERMS OF REFERENCE

A1.1 Terms of reference for taxis

The Independent Pricing and Regulatory Tribunal will investigate and report on prices for taxi services regulated under the *Passenger Transport Act 1990*.

A final report is to be provided to the Minister for Transport by 14 June 2002.

In conducting this investigation, the Tribunal should consider:

- i. the cost of providing the services concerned;
- ii. the protection of consumers from abuses of monopoly power in terms prices, pricing policies and standards of service;
- iii. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- iv. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- v. the need to maintain ecologically sustainable development;
- vi. the social impact of the recommendations;
- vii. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise);
- viii. the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial and non-commercial contracts.

In conducting the investigation the Tribunal will invite submissions from the Taxi Council, the relevant unions and other stakeholder groups, including the general community.

A1.2 Terms of reference for private buses

The Independent Pricing and Regulatory Tribunal will investigate and report on the following matters related to the private bus industry:

1. fares for regular services regulated under the *Passenger Transport Act 1990*
2. level of remuneration received from the Government for commercial and non-commercial school services.

A final report is to be provided to the Minister for Transport by 14 June 2002.

In conducting this investigation, the Tribunal should consider:

- i. the cost of providing the services concerned;
- ii. relativities with the Government owned bus services, including in terms of service, efficiency, cost and ticketing products;
- iii. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;
- iv. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- v. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- vi. the need to maintain ecologically sustainable development;
- vii. the social impact of the recommendations;
- viii. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise);
- ix. the effect of any pricing recommendation on the level of Government funding.

In conducting the investigation the Tribunal will invite submissions from the Bus and Coach Association, the relevant unions and other stakeholder groups, including the general community.

A1.3 Terms of reference for private ferries

The Independent Pricing and Regulatory Tribunal will investigate and report on prices for private ferry services regulated under the *Passenger Transport Act 1990*.

A final report is to be provided to the Minister for Transport by 14 June 2002.

In conducting this investigation, the Tribunal should consider:

- i. the cost of providing the services concerned;
- ii. relativities with the Government owned ferry services, including in terms of service, efficiency, cost and ticketing products;
- iii. the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service;
- iv. the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
- v. the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
- vi. the need to maintain ecologically sustainable development;
- vii. the social impact of the recommendations;
- viii. standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise);
- ix. the effect of any pricing recommendation on the level of Government funding.

In conducting the investigation the Tribunal will invite submissions from the private ferry operators, the relevant unions and other stakeholder groups, including the general community.