

Report on the Determination of Fares for Newcastle Services

From 3 January 2006



IPART

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**
of New South Wales

Report on the Determination of Fares for Newcastle Services

From 3 January 2006

Determination 11, 2005

December 2005

ISBN 1 920987 50 9

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.

The Tribunal members for this review are:

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

Inquiries regarding this paper should be directed to:

***Dennis Mahoney ☎ 02 9290 8494
Sheridan Rapmund ☎ 02 9290 8430***

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

Determination No 11, 2005

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

Newcastle Services

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

Reference No: 05/33

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.

Accordingly, the Tribunal may determine the prices for the STA’s Monopoly Services.

- (3) In investigating and reporting on the pricing of the STA’s 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.
- (4) In accordance with section 13A of the IPART Act, the Tribunal has fixed a maximum price for the STA’s Monopoly Services or has established a methodology for fixing the maximum price.
- (5) 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 (or sets a methodology for fixing the maximum prices) that the STA may charge for the Monopoly Services supplied by its Newcastle Services, but not its other services.
- (2) This determination commences on the later of 3 January 2006 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 on which this determination is replaced

3. Replacement of Determination No. 4 of 2004

This determination replaces so much of Determination No. 4 of 2004 which applies to the Newcastle 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. 4 of 2004 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 the Monopoly Services supplied by the STA.

5. Schedule

Schedule 1 and the Table in that schedule set out the maximum prices that the STA may charge for the Monopoly Services, supplied by its Newcastle 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 Monopoly Services supplied by its Newcastle 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 Newcastle Services

Tickets	Adult (\$)	Concession (\$)
<i>Time-based tickets</i>		
1-hour	\$2.80	\$1.40
4-hour	\$5.50	\$2.70
TimeTen 1-hour	\$23.10	\$11.50
All Day	\$8.40	\$4.20
<i>Ferry</i>		
<i>Stockton Ferry</i>	\$2.00	\$1.00
<i>TravelPass</i>		
TravelPass – orange weekly	\$37.00	\$18.50
TravelPass – yellow weekly	\$44.00	\$22.00
TravelPass – pink weekly	\$47.00	\$23.50

[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.]

Schedule 2

Definitions and Interpretation

1. Definitions

1.1 General 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.

Newcastle Services means the Newcastle bus and ferry services of the STA.

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

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 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.

Report No 11, 2005

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

Newcastle Services

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

Reference No: 05/33

TABLE OF CONTENTS

1	INTRODUCTION AND TRIBUNAL'S REVIEW PROCESS	1
1.1	Overview of determination	1
1.2	Tribunal's review process	1
1.2.1	Scope	2
1.2.2	Review process	2
1.3	Structure of report	3
2	NEWCASTLE SERVICES' COST OF SERVICE	5
2.1	Costs	5
2.2	Revenue	6
2.3	Cost recovery	7
2.3.1	Trends in efficiency	7
2.3.2	Patronage outlook	9
3	SERVICE QUALITY	11
4	IMPLICATIONS FOR NEWCASTLE SERVICES' PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING	13
4.1	Implications for passengers	13
4.2	Implications for the environment	14
4.3	Implications for Government funding	14
5	THE NEW FARES	15
	APPENDIX 1 IPART ACT REQUIREMENTS	17
	APPENDIX 2 PREMIER'S LETTER	19
	APPENDIX 3 LIST OF SUBMISSIONS, PARTICIPANTS AT HEARING	21
	APPENDIX 4 ABBREVIATIONS USED IN THIS REPORT	23

1 INTRODUCTION AND TRIBUNAL'S REVIEW PROCESS

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) has completed its 2005 review of fares for Newcastle Services. Based on this review, the Tribunal has determined the maximum fares that Newcastle Services can charge for public transport services from 3 January 2006.

1.1 Overview of determination

The Tribunal has determined that the maximum fares for Newcastle Services may increase across all ticket types by an average of 3.33 per cent. This is broadly in line with the average annual growth in the cost of providing services over the past few years.

The overall increase of 3.33 per cent results from:

- rises in single tickets of between zero and 30 cents. The 1-hour bus ticket will rise by 10 cents, the 4-hour bus ticket by 20 cents and the All Day bus ticket by 30 cents. The price of the Stockton Ferry ticket will remain unchanged
- a rise in the TimeTen 1-hour ticket of 80 cents (or 8 cents a journey)
- the Orange TravelPass ticket will rise by \$1.00. All other TravelPass prices will remain unchanged.

All the fare changes have been rounded upwards or downwards to the nearest 10 cents, or, in the case of TravelPasses, to the nearest dollar. All concession tickets have been rounded so that they are not more than half the corresponding full adult fare.

The Tribunal has decided on a small increase in fares for Newcastle Services because:

- the costs of providing the services have increased since the last determination
- the Tribunal considers that there is scope for Newcastle Services to improve their efficiency and has taken account of the scope for efficiency improvement in reaching its decision
- there have been some improvements in service quality, although performance in this area has been mixed
- a small increase is unlikely to have significant adverse effects on customers or the environment.

The Tribunal considered making its determination based on a multi-year price path. However, it decided that this would not be appropriate this year, given that the Ministry of Transport is about to embark on a major program of bus reform in the Lower Hunter region. The Tribunal intends to fully examine the benefits of setting a multi-year price path for Newcastle Services once this program is implemented.

1.2 Tribunal's review process

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 reaching this determination, the Tribunal was guided by the requirements set out in section 15 of the IPART Act. It also took into account a letter from the Premier dated 18 May 2004, which asked it to consider a range of matters raised in the 2003 Ministerial Inquiry into Sustainable Transport¹ and the proposal of the Ministry of Transport in the light of its ongoing process of bus reform.

The scope of the determination, and the Tribunal's review process, are outlined below.

1.2.1 Scope

The Tribunal's role in regulating Newcastle Services is to set the maximum fares that it can charge for public transport services. Because the Tribunal regulates Government monopoly services only under the IPART Act, its price determinations for Newcastle Services explicitly exclude any services that are deemed to fall outside the definition of a Government monopoly service, such as charters.

At present, Newcastle Services' half-fare concession prices change automatically, in line with changes to full-fare prices unless the Government alters the half-fare relationship to the full fares determined by the Tribunal. However, the Tribunal does not set the State Government's social policy. Therefore, any changes to that policy that affect fares or concessions granted to pensioners, children and students are matters for the Government.

1.2.2 Review process

The Tribunal's review process included undertaking its own research and analysis, and conducting public consultation. As part of this process, the Tribunal:

- invited the Ministry of Transport (MoT) to submit a proposal, setting out its views on the appropriate change in fares
- invited other interested parties to submit their views, and received 14 written responses (Appendix 3 lists the respondents)
- requested and received detailed financial data on Newcastle Services costs and revenues from the State Transit Authority (STA)
- held a public hearing on 28 October 2005 and invited some of the parties who submitted written responses to participate in a round-table discussion of issues at the hearing (Appendix 3 lists the participants and observers).

The Tribunal then considered the MoT's proposal, which asked the Tribunal to consider determining a fare rise for Newcastle Services that took into account the rise in the Bus Industry Cost Index (BICI).² It also considered the issues raised in other stakeholder submissions, and the information it obtained through its investigation and analysis.

In doing so, the Tribunal had regard to the matters outlined in section 15 of the IPART Act. These matters, which are listed in full in Appendix 1, relate to:

¹ Widely known as the Parry Inquiry. The Final Report of the Ministerial Inquiry is widely known as the Parry Report.

² This index was originally developed some years ago by MoT in conjunction with the Bus and Coach Association (BCA) to measure the rise in private bus industry costs in NSW.

- **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**—greater efficiency in the supply of services
- **environmental protection**—promotion of ecologically sustainable development via appropriate pricing policies.

It also considered each of the issues raised in the Premier's letter (see Appendix 2) including:

- making determinations based on a 5-year price path
- making fare increases up to the Consumer Price Index (CPI) subject to operators achieving efficiency gains
- making fare increases above the CPI subject to operators delivering clearly demonstrated customer benefits through improvements in service quality linked to specific initiatives.

The Tribunal's consideration of the matters listed in section 15 of the IPART Act is discussed throughout the report. Appendix 1 indicates where each matter is discussed in the body of the report. Further information relating to the Tribunal's review, including access to all submissions, can be found on the Tribunal website: www.ipart.nsw.gov.au.

1.3 Structure of report

This report explains the Tribunal's determination in detail, including why it reached its decisions and what those decisions mean for Newcastle Services, its passengers, the community in general and the environment. It is structured as follows:

- Chapter 2 looks at the changes in Newcastle Services' costs over 2004/05, and its current and expected levels of cost recovery
- Chapters 3 discusses the Tribunal's considerations in relation to Newcastle Services' quality of the service
- Chapter 4 considers the implications of its decisions for Newcastle Services, its passengers, the environment and Government funding
- Chapter 5 presents the new fares and the 2006 master fare schedule.

2 NEWCASTLE SERVICES' COST OF SERVICE

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 revenue it generates through fares for these services recovers these costs. It particularly focused on the change in costs and revenues over the 2004/05 financial year.

The Tribunal found that Newcastle Services' operating costs rose by 4.0 per cent in 2004/05, while revenue from regulated fares and Community Service Obligation (CSO) payments rose by 3.9 per cent. The agency's cost recovery ratio was around 63 per cent.

After considering the cost and revenue information, and taking into account Newcastle Services' service quality performance (see Chapter 3), the Tribunal decided that, on balance, an increase in maximum fares was warranted that reflected the recent trend growth in costs.

It also decided that this increase should be from around 10 to 30 cents for time-based tickets, in line with the increases it determined for Sydney metropolitan bus fares.³ The Tribunal considers that these increases are appropriate, given that the increase in Newcastle Services' operating costs was broadly in line with the rise in costs for metropolitan buses in Sydney. It believes this increase will not have adverse impacts on customers, patronage or the environment.

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

2.1 Costs

The Tribunal examined the data STA provided on the costs incurred by Newcastle Services⁴ in 2004/05 (Table 2.1). These data show that Newcastle Services' total costs for 2004/05 were around \$40 million.

The main drivers of these total costs were:

- labour costs, which comprised over 60 per cent of total costs in 2004/05
- vehicle fleet fuel and maintenance, which comprised 17 per cent
- vehicle fleet depreciation, which comprised 7 per cent.

The best guide to Newcastle Services' ongoing cost trends is its operating costs – which increased by 4.0 per cent last year and by an annual average of 3.1 per cent over the past three years – or its operating costs plus depreciation, which rose by 4.5 per cent in 2004/05 and by 3.5 per cent over the past three years.

³ *IPART, Report on the Determination of Fares for Sydney Metropolitan Bus Services*, December 2005.

⁴ 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 11.5m trips in 2003/04.

Table 2.1 Newcastle Services' costs

	2000/01 Actual \$000s	2001/02 Actual \$000s	2002/03 Actual \$000s	2003/04 Actual \$000s	2004/05 Forecast \$000s	% change 03/04 to 04/05	average % change 01/02 to 04/05
Labour	21358	22,906	23,962	24,290	25,124	3.4%	3.1%
Fuel/Fleet running costs	6052	6,401	5,743	6,076	6,622	9.0%	1.1%
Other	2307	2,716	3,211	3,121	3,063	-1.9%	4.1%
Corporate overheads	2063	1,968	2,174	2,335	2,439	4.5%	7.4%
Total operating costs	31780	33,991	35,090	35,822	37,248	4.0%	3.1%
Depreciation	2334	2,079	2,001	2,415	2,708	12.1%	9.2%
Total costs before interest	34,114	36,070	37,091	38,237	39,956	4.5%	3.5%
Interest	522	433	3,998	3,886	0		
Total Costs	34,636	36,503	41,089	42,123	39,956	-5.1%	3.1%

Source: STA financial data 2005. Although data for 2004/05 are shown as forecasts, actual outcomes are not expected to differ significantly. "Other" costs include security costs, general insurance, staff amenities, uniforms and accessories, equipment and premises maintenance, printing.

The 5.1 per cent fall in total costs was due to a Government decision to absorb Newcastle Services' debt into the Sydney Buses arm of the STA at the same time as Sydney Ferries was corporatised (and much of this agency's debt was also absorbed into Sydney Buses).

2.2 Revenue

Newcastle Services' revenue did not change significantly between 2003/04 and 2004/05, although there were significant shifts in the composition of that revenue (Table 2.2).

Table 2.2 Newcastle Services' revenues

	2000/01 Actual \$000s	2001/02 Actual \$000s	2002/03 Actual \$000s	2003/04 Actual \$000s	2004/05 Forecast \$000s	% change 03/04 to 04/05	average % change 01/02 to 04/05
Farebox revenue	6,258	6,123	6,319	6,124	7,005	14.4%	4.6%
Free and Concessional CSO	16,071	17,271	16,588	17,459	16,171	-7.4%	-2.2%
Passenger-related revenue	22,329	23,394	22,907	23,583	23,176	-1.7%	-0.3%
Pricing CSO	983	1,276	1,303	1,392	1,302	-6.5%	0.7%
Service CSO	3,461	3,836	4,387	3,146	4,729	50.3%	7.2%
Transport-related revenue	26,773	28,506	28,597	28,121	29,207	3.9%	0.8%
Other business revenue	492	2,050	3,446	3,221	2,078	-35.5%	0.5%
Total revenue	27,265	30,556	32,043	31,342	31,285	-0.2%	0.8%

Source: STA financial data 2005.

In 2004/05, just under a quarter of total revenue came from ticket sales - \$7m out of a total revenue of around \$31m. Two thirds of total revenue came from Government payments, either for the carriage of free and concession passengers or as pricing and service CSOs.⁵

Farebox revenue rose by 14.4 per cent, largely due to the Government's decision to increase the price of the Pensioner Excursion Ticket (PET) from \$1.10 to \$2.50 from 4 January 2005. The price increase caused a reduction in the number of trips taken by pensioners. As a result, Government reimbursements for free and half-fare concession travellers also fell, and this fall more than offset the extra farebox revenue.

⁵ Pricing CSOs are a subsidy for charging fares which are below equivalent private bus fares and service CSOs are a subsidy for running uneconomic services on social policy grounds.

Analysis of Newcastle Services' farebox revenue by ticket type shows that in 2004/05, almost two-thirds of this revenue came from sales of the 1-hour bus ticket and its ten-packet equivalent, TimeTen (Table 2.3). Most of the remaining third came from sales of the Pensioner Excursion Ticket.

Table 2.3 Newcastle Services farebox revenue by selected ticket type, 2004/05

1 hour	52.4%
4 hour	0.9%
All day	1.7%
TimeTen 1 Hour	11.1%
TravelPass - orange	0.1%
Pensioner Excursion	23.8%
Stockton Ferry	7.0%
Other ticket sales & hirings	3.0%
Total	100.0%

Source: STA financial data 2005.

2.3 Cost recovery

The Tribunal's approach to calculating cost recovery is to compare farebox revenue plus free and concessional payments by Government with an agency's total costs. Using this method, Newcastle Services' revenue fell 5.8 per cent in 2004/05, slightly more than the fall in total costs so that cost recovery deteriorated marginally as well (Table 2.4).

Table 2.4 Newcastle Services cost recovery

1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
72.4%	69.3%	68.2%	72.0%	64.1%	63.6%	63.2%

Source: STA financial data 2005, IPART calculations.

However, the measure of cost recovery in 2004/05 is not strictly comparable with prior years, for two reasons. The first is the loss of revenue from free and concessional CSO payments that has reduced revenue as measured by the Tribunal. The second is the elimination of interest as a cost as a result of the transfer of all debt to Sydney Buses.

Going forward, Newcastle Services will require revenue growth in either the farebox or from free and concessional payments if its cost recovery ratio is not to deteriorate in the face of operating costs which have been rising at an average annual rate of 3.1 per cent over the past three years (Table 2.1). The Tribunal considers that Newcastle Services should aim to improve its cost recovery ratio by pursuing efficiency gains and by improving its patronage levels.

2.3.1 Trends in efficiency

Operating cost per kilometre is one indicator of cost efficiency. The size of the bus fleet has changed little in recent years but vehicle kilometres travelled declined substantially over 2001/02 and 2002/03 (Figure 2.1). As a result, the increases in operating costs are magnified when expressed in per kilometre travelled terms (Figure 2.2). In 2004/05 operating cost per kilometre rose by 3.7 per cent.⁶

⁶ Reductions in "dead running" of buses have not occurred to distort these results. The kilometres travelled that were available to passengers remained steady relative to total vehicle kilometres travelled over

Figure 2.1 Fleet size and kilometres travelled

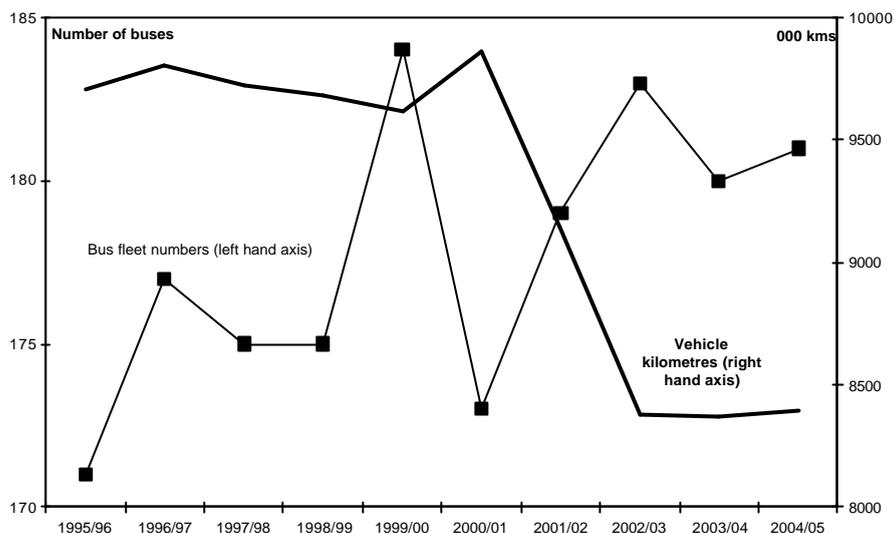
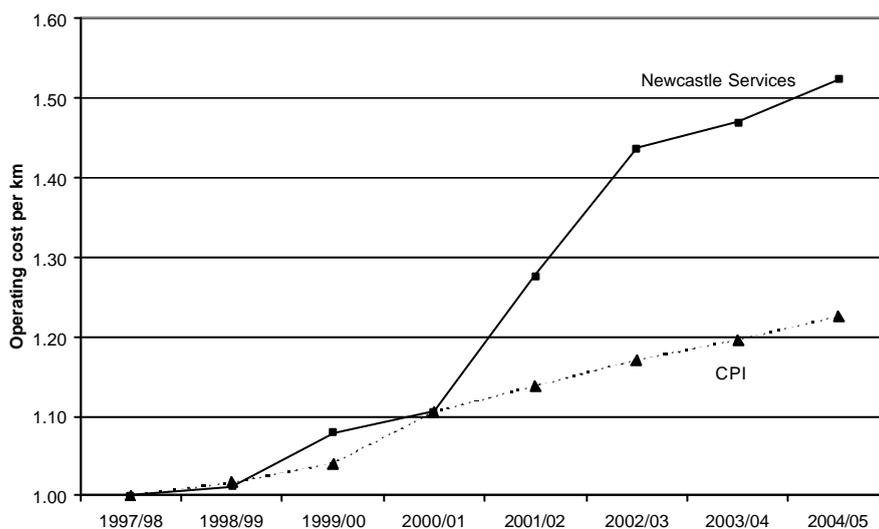


Figure 2.2 Operating cost per kilometre



Sources for Figures 2.1 and 2.2: STA and ABS

The Tribunal has had regard to the Premier’s request to consider making fare increases up to the Consumer Price Index subject to efficiency gains. However, the lack of detailed information on efficiency measures and the gains made in them by Newcastle Services has made it difficult for the Tribunal to reach a considered view on the extent of efficiency improvements for the present review.

The Tribunal notes, however, that the Ministry of Transport has accepted the need for public transport providers to make efficiency improvements. It understands that the new contracts that the Ministry will be entering into in 2006 with Newcastle bus operators under the bus

2000/01 to 2003/04. Source: IPART Report on the Determination of fares for State Transit Authority, December 2004 p 31, Table 6.5.

reform program will provide for the measurement and achievement of these improvements from 2007. In addition, the Tribunal is aware of evidence that indicates that private buses (albeit in Sydney) are more efficient than government buses.

2.3.2 Patronage outlook

To improve its level of cost recovery, Newcastle Services should take steps to improve its patronage levels. The number of passenger trips it provided decreased slightly between 2001/02 and 2003/04, and this trend is expected to have continued over 2004/05 (Table 2.5).

Table 2.5 Newcastle Services patronage and revenue per passenger trip

	2001/02 Actual	2002/03 Actual	2003/04 Actual	2004/05 Forecast
Total passenger trips (000s)	11,712	11,465	11,480	11,191
Passenger revenue (\$000s)	6,123	6,319	6,124	7,005
Free and Concessional CSO (\$000s)	17,271	16,588	17,459	16,171
Revenue per passenger trip (\$)	2.17	2.30	2.34	2.26

The declining trend 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 just under one half of one percent between 1991 and 2005. It is projected to grow by just under one-third of one percent a year between 2005 and 2011.⁷

The Tribunal would like the STA and Newcastle Services to investigate ways to improve patronage so that the public transport provider may 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.

Stakeholders raised two related issues in submissions and at the public hearing. The first relates to TravelPass products offered in Newcastle. Stakeholders pointed out that for the last few years, these products have been priced similarly to TravelPass products available in Sydney. Yet, unlike Sydney, there is no network of train and ferry services in Newcastle. This means that TravelPass products are not particularly attractive relative to TravelTens.

Further, the only TravelPass products offered in Newcastle are the more highly priced ones, which may also help to explain why so few are purchased. Tailoring TravelPasses so they are better suited to Newcastle conditions may be one avenue for improving patronage.

The second issue relates to student tickets. The University of Newcastle put forward a proposal for a new ticket type – a student semester ticket – which would give students unlimited access to public transport in the Newcastle area. Such a ticket, tailored to the needs of university students, may be another way to improve patronage.⁸

⁷ 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* p.53-54.

⁸ At the public hearing the Director General of the Ministry of Transport suggested that the all-day parking fee at the university should be raised by a considerable further amount, thereby generating an additional reason for a shift by students towards public transport. Transcript p 54, ln 7.

3 SERVICE QUALITY

Another major issue the Tribunal considered in making its pricing decisions was the service quality provided by Newcastle Services. The IPART Act requires the Tribunal to consider the standards of quality, reliability and safety in setting Newcastle Services' fares.

The Tribunal considered the information provided in MoT's submission on Newcastle Services' service quality over 2004/05, and whether this quality had improved since 2003/04. Newcastle Services measures its quality of service against several, customer-related key performance indicators (KPIs). Its performance against these indicators is shown in Table 3.1.

Table 3.1 Newcastle Services customer-related KPIs

KPI	Target (if specific)	2000/01	2001/02	2002/03	2003/04	2004/05*
Reliability						
On-time running	>95%	95.5	96.6	96.1	97.9	98.0
Service reliability	>99%	99.5	99.6	99.4	99.4	99.5
Mechanical reliability	<15 bus changeovers per 100,000kms	13.20	14.10	14.90	12.60	12.26
Traffic reliability (accidents)	<4 changeovers per 100,000kms	2.88	2.26	2.27	2.28	1.58
Safety						
Safety incidents	<0.5 per million passenger trips	0.9	0.3	1.8	0.4	<i>1.0</i>
Security incidents	<2 per million passenger trips	0.8	0.3	0.2	1.1	<i>1.2</i>
Comfort						
	<12 years average bus age	13.2	14.1	14.9	12.6	12.6
Convenience						
	total kms (000s)	9,868	9,141	8,381	8,367	8,336
Customer Service						
	<15 complaints per 100,000 trips	7.2	16.7	11.5	6.6	6.4
Accessibility						
	% fleet wheelchair accessible	0	0	1.6	17.8	21.5

* Estimated for 2004/05 at 31 May 2005

Over 2004/05, Newcastle Services' performance against some of the KPIs improved (shown **in bold type** in the table above), while its performance against other KPIs deteriorated (shown in *italics*).

In general, the agency met the targets set for it by STA for most of its KPIs. Its performance against the two safety KPIs was slightly worse than last year, although it still met the target for one of these KPIs. Its performance against the comfort KPI, which relates to the average age of the bus fleet, is still below the target. Its performance against the accessibility KPI (which relates to the proportion of buses that are wheelchair accessible and also air conditioned) improved, but is still below the 28 per cent progressive target that the STA provided to the Tribunal last year.⁹

⁹ IPART, *Report on the Determination of Fares for State Transit Authority*, December 2004, Table 6.6, p 32.

The Tribunal also considered stakeholder comments on service quality. One submission also raised the issue of service quality on the Stockton Ferry:

The Hunter Commuter Council would like to pursue an extension of running time for the Stockton Ferry Service and other improvements, as follows:

- Stockton Ferry Service is currently very well used during daylight hours, the car park being filled to capacity and spilling over to nearby streets. I have been told that there is often standing room only on the ferry, but because of the limited time of night service the patronage falls away drastically.
- The Sunday timetable is most inconvenient for connection to the train service.¹⁰

The Hunter Commuter Council requested various extensions of the ferry service on weekdays, Sundays and Public Holidays to address these issues. It also suggested that the western end of Newcastle Station be accessible for the public who intend to make a ferry-train connection.

For the next review, the Tribunal believes that STA and Newcastle Services should develop KPIs that are more readily understandable by customers and relevant from their perspective. For example, on-time running records the percentage of a sample of buses that commence their runs up to 5 minutes *after* the scheduled time. The sample is approximately 1 per cent of timetabled bus runs at various times.

The Tribunal believes that the KPI definitions and measurement require significant enhancement. Specifically, it would be more meaningful to have 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, the current standard, not more than 5 minutes late.

¹⁰ Hunter Commuter Council, submission to IPART, 22 August 2005.

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

The Tribunal's decision to increase maximum fares on all time-based single tickets by between 10 and 30 cents means that these fares will not change significantly in real terms, rising by a little more than the rate of inflation.

4.1 Implications for passengers

In assessing the likely impact of the fare increases, the Tribunal has examined 2001 Census incomes data on Newcastle residents. Ideally, it would have liked income data on residents who use Newcastle Services but these data on the incomes of passengers are not available.

Employed persons in the Hunter Region (which contains Newcastle but is much larger than it) earn the highest incomes outside the Sydney Region but those incomes are still only marginally above 80 per cent of the incomes of people employed in Sydney (Table 4.1).

Table 4.1 Weekly individual income of employed persons, 2001 census

	Numbers employed	Average Weekly Income \$	Average Weekly Income as % Sydney
Sydney	1,645,354	814	
Hunter	195,768	672	82.5
Illawarra	116,952	663	81.5
Richmond-Tweed	64,506	566	69.6
Mid North Coast	81,268	562	69.1
Northern	66,863	600	73.8
North Western	43,133	604	74.2
Central West	65,630	641	78.7
South Eastern	61,404	590	72.4
Murrumbidgee	60,342	619	76.1
Murray	44,448	600	73.7
Far West	7,718	636	78.1
NSW	2,580,882	748	

Source: ABS, Working Population Incomes 2001

The 2001 Census also indicates that, of those employed people who travel by one mode of transport to work, 89 per cent in the Newcastle Statistical District travel to work by car, either as a driver or passenger. This compares to 78 per cent for NSW as a whole. In addition, only 1.8 per cent of one-mode travelling workers in this district travel to work by bus, compared to 4.3 per cent for NSW (primarily Sydney) as a whole.

The Tribunal does not expect that the fare increases it has determined will have a significant effect on passengers, or their choice of transport. It believes the increases are not excessive, and notes that they are considerably less than in two of the past four years (Table 4.2).

Table 4.2 Average percentage fare rises and inflation in recent years

	1997/98	98/99	99/00	2000/01	01/02	02/03	03/04	04/05
Newcastle Services	2.3	3.3	7.0	8.6	5.0	2.0	7.5	2.9
Sydney CPI	0.1	1.6	2.4	6.2	2.9	3.1	2.2	2.5

Sources: IPART and ABS

The fact that the three most used full-fare tickets in Newcastle – 1-hour, TimeTen 1-hour and Stockton Ferry - will rise by no more than 10 cents per ticket (Table 4.3) suggests that the increases should not place significant financial pressure on passengers.

Table 4.3 Changes in fares for Newcastle Services

Ticket type	2005 Price	2006 Price	% Change	Absolute Change
1 Hour	\$2.70	\$2.80	3.7%	\$0.10
4 Hours	\$5.30	\$5.50	3.8%	\$0.20
TimeTen 1 Hour	\$22.30	\$23.10	3.6%	\$0.80
All Day	\$8.10	\$8.40	3.7%	\$0.30
Stockton Ferry	\$2.00	\$2.00	0.0%	\$0.00
Orange TravelPass	\$36.00	\$37.00	2.8%	\$1.00
Yellow TravelPass	\$44.00	\$44.00	0.0%	\$0.00
Pink TravelPass	\$47.00	\$47.00	0.0%	\$0.00

4.2 Implications for the environment

Public transport is an environmentally friendly alternative to the use of private motor vehicles. The extent to which environmental benefits, notably reduced pollution, can be realised will depend on factors such as the relative cost of public versus private transport, 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.

Most of the evidence available to the Tribunal 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.¹¹ Given this, the Tribunal does not expect this determination to result in a significant shift from the Newcastle bus and ferry services to private cars.

4.3 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, assuming unchanged patronage in response to the fare increase, is \$0.2m.¹² That amount is the maximum possible loss to Newcastle Services if fares stayed at 2004/05 levels.

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 2004/05, the Government funded CSOs to the value of around \$22m and a revenue shortfall of around \$9m.

¹¹ 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.

¹² These estimates do not include the higher reimbursements for free and concessional travel paid by Government whenever fares are increased.

5 THE NEW FARES

The exact ticket changes that have been determined, consistent with a weighted average fare rise of 3.33 per cent, are shown in Table 5.1 in both percentage and absolute terms.

Table 5.1 Newcastle Services fares and percentage changes

TICKET TYPE	2005 Master Fares	2005 Actual Fares	2006 [Master Fares] Increase of 3.5%	2006 Actual (Rounded) Fares	Percentage Changes	Absolute Changes
1 Hour	\$2.70	\$2.70	\$2.79	\$2.80	3.7%	\$0.10
4 Hours	\$5.29	\$5.30	\$5.48	\$5.50	3.8%	\$0.20
TimeTen 1 Hour	\$22.32	\$22.30	\$23.10	\$23.10	3.6%	\$0.80
All Day	\$8.10	\$8.10	\$8.38	\$8.40	3.7%	\$0.30
Stockton	\$1.97	\$2.00	\$2.04	\$2.00	0.0%	\$0.00
Orange TPass	\$35.71	\$36.00	\$36.96	\$37.00	2.8%	\$1.00
Yellow TPass	\$43.93	\$44.00	\$43.93	\$44.00	0.0%	\$0.00
Pink TPass	\$47.00	\$47.00	\$47.00	\$47.00	0.0%	\$0.00

The steps involved in calculating the new fares were as follows:

Each adult timed bus fare and ferry fare was increased by 3.5 per cent on its unrounded 2004/05 fare.¹³ The new unrounded 2005/06 fare was then rounded upwards or downwards to the nearest 10 cents to become the actual fare to be charged from 3 January 2006.

The adult bus and ferry TravelPass (Orange) was increased by 3.5 per cent on its unrounded 2004/05 fare. It was then rounded to the nearest dollar. There was no change in the three mode (rail/bus/ferry) TravelPasses.

The unrounded 2005/06 fares form the basis for any fare increase that might be determined by the Tribunal in the future.

¹³ Unrounded fares are also known as 'master fares' and the schedule of unrounded fares as the 'master fare schedule'.

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 and Premier's letter

Section 15	Report reference
(a) cost of providing the service	Chapter 2
(b) protection of consumers from abuse of monopoly power	Section 4.1
(c) appropriate rate of return and dividends	N/A
(d) effect on general price inflation	N/A
(e) improved efficiency in supply of services	Chapter 3
(f) ecologically sustainable development	Section 4.2
(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 4.1
(l) standards of quality, reliability and safety of the services	Chapter 3
Premier's letter	
1. a 5-year price path	Section 1.1
2. CPI increase subject to efficiency gains	Section 2.3
3. Above CPI increase if customer benefits through improvements in service quality linked to specific initiatives	Chapter 3

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 PREMIER'S LETTER



**Premier of New South Wales
Australia**

18 May 2004

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

I am writing in relation to IPART's forthcoming review processes with respect to passenger transport fares for 2004-2005, in the context of the Government's recently announced transport reforms.

In light of recent performance issues on the CityRail network, I direct under section 7(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act') that the 2004-05 IPART fare review process for CityRail be deferred until further notice. However, fare reviews of other public transport modes should proceed.

Following the Ministerial Inquiry into Sustainable Transport, the NSW Government has committed to delivering parity in fare structures and consistent service levels across public and private bus and ferry transport operators.

I therefore request under section 13(l)(c) of the Act that, when making its investigations into passenger transport fares for all public transport modes, the Tribunal consider the following matters that arise from the Inquiry's recommendations:

- the making of a determination based on a 5-year price path;
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to efficiency gains; and
- providing for fare increases above the CPI to clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives such as bus priority measures.

In respect of the Tribunal's section 9 investigations of privately owned public transport fares, I would ask that you also have regard to the above matters.

Bus Services:

In order to progress with a consistent fare structure for the bus industry and to implement reforms arising from the Unsworth Review of Bus Services, several changes to the existing arrangements, including legislation and the role of IPART, are being considered by the

Government. The proposed legislative amendments will not commence in the first half of 2004.

When calling for public and industry submissions I request, pursuant to section 13(l)(c) of the Act, that IPART consider the Government's preferred approach of moving to a single fare review, including moving to a single fare change applicable to all bus operators.

I also request that IPART consider whether any State Transit fare increase for 2004-05 and later years should be applied on a "weighted average" basis aimed at better aligning Government and private operator fares. Such an approach would result in IPART determining an overall price change for bus fares. Individual fare products may be adjusted to varying degrees but the changes must, in aggregate, be less than or equal to the overall adjustment determined by IPART.

For non-commercial bus services, the Government is developing a new funding approach along the lines recommended by the Unsworth Review of Bus Services (see p.70 of the Final Report), but this may not be completed for 2004-05. Therefore it may be appropriate that the process used for the 2003-04 review be used in 2004-05.

Ferry Services:

In respect of ferry services, under section 13(l)(c) of the Act, I also request that IPART consider adopting the same process outlined above (i.e. single fare increase figure for both private and public operators). As there are no relevant legislative changes planned in relation to ferries, I request that in all other respects IPART consider following existing processes for 2004-2005.

I have no objection to the contents of this letter being made publicly available, if you consider it appropriate.

If your officers wish to discuss these matters, they should contact Ms Zoe de Saram, Policy Manager, Economic Development Branch, at The Cabinet Office on (02) 9228 4930.

Yours sincerely

Bob Carr
Premier

APPENDIX 3 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
Hunter Commuter Council, Gosford
Council of Social Service of New South Wales (NCOSS)
Lower Hunter Region Local Councils
Ministry of Transport
Transit Planners P/L

Individuals

Mr Kirk Bendall
Mr Simon Clancy
Mr Bill Craig
Ms Joan Gennery
Mr Michael Haynes
Dr Chloe Mason
Mr Paul Pearce MP
Mr Norman Rich
Mr Greg Sutherland

The participants at the public hearing on 28 October 2005 were:

Representatives of IPART:

Dr Michael Keating AC, Chairman
Mr James Cox, CEO and Full-time Member
Ms Cristina Cifuentes, Part-time Member
Ms Fiona Towers, Director Energy and Transport
Dr Dennis Mahoney, Program Manager, Transport

On the round-table:

Action for Public Transport (Mr Allan Miles and Mr Graeme Taylor)
Council for Social Services (Mr Dinesh Wadiwel)
Public Interest Advocacy Centre (Mr Jim Wellsmore)
Transit Planners P/L on behalf of the Lower Hunter Region Local Councils (Mr Len Regan)
Lower Hunter Councils Transport Group (Mr Len Regan)

Also in attendance were:

Mr Richard Langereis (Ministry of Transport)
Mr Andrew Nicholls (Ministry of Transport)
Ms Elizabeth Reedy (ITSRR)
Ms Sheridan Rapmund (IPART)
Mr Steven Tropoulos (IPART)

APPENDIX 4 ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
HTS	Household Travel Survey; collected and published by TPDC
KPIs	Key performance indicators
MoT	The Ministry of Transport
SSTS	SSTS or School Student Transport Scheme 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

IPART

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
of New South Wales**

Level 2, 44 Market Street, Sydney NSW 2000

PO Box Q290, QVB Post Office, NSW 1230

Telephone: (02) 9290 8400

Facsimile: (02) 9290 2061

Email: ipart@ipart.nsw.gov.au

