

**Report to the  
NSW Minister for Transport**

**Report on fares for  
taxis, private buses and private ferries**



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**PART A**  
**REPORT TO THE MINISTER**



## 1 INTRODUCTION

Pursuant to section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Premier has requested the Tribunal to investigate and report on prices for taxis, private buses and private ferries regulated under the *Passenger Transport Act 1990*.

In conducting these reviews, the Tribunal is required to consider a number of specific matters listed in the terms of reference. These matters include:

- the costs of providing the services
- 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 are included in attachment 1.

## TRIBUNAL'S RECOMMENDATIONS

### **Taxis**

The Tribunal recommends that urban taxi fares increase by 4.6 per cent, and country taxi fares by 4.0 per cent.

### **Private buses**

The Tribunal recommends that private bus fares increase by 4.2 per cent based on the existing cost index. The Tribunal considers the results of the non commercial revenue requirement model, as presented by the BCA, to be reasonable.

### **Private ferries**

The Tribunal recommends that private ferry fares be increase by 5.0 per cent.

The Tribunal recommends that Transport NSW conduct a review of the private ferry contracting system to determine the continued need for economic regulation of the private ferry industry.

## 2 SUBMISSIONS FROM INDUSTRY ASSOCIATIONS

### *The Taxi Council*

The Taxi Council's submission dated 2 April 2002 makes use of a taxi cost index to measure cost changes over time. Separate models are calculated for urban and country areas. The proposed cost index contains 17 different cost elements (16 for the country model) which the Taxi Council states represent all material costs for the taxi industry. In line with the Taxi Council's 'one taxi - two businesses' view of the taxi industry, the cost indices have been divided into operator costs and driver costs. Based on these, the Taxi Council has requested that urban taxi fares increase by 5.45 per cent, and country taxi fares by 5.77 per cent.

### *The Bus and Coach Association*

In April 2002, the Bus and Coach Association (BCA) formally lodged submissions for a fare increase for commercial contracts and revenue requirements for non commercial contracts to the Tribunal. The BCA's commercial contracts submission uses a cost index to measure cost changes over time. Based on this index, the BCA has requested a fare increase of 4.18 per cent. On top of this the BCA are requesting an additional increase of 1.85 per cent as compensation for A New Tax System (ANTS) costs.

The BCA also submits revised revenue requirements for non commercial contracts. The calculation of non commercial revenue requirements relies on a financial model agreed to by Transport NSW and BCA, and developed by PricewaterhouseCoopers (PwC).

### *The Charter Vessel Association*

In developing a cost index, the CVA expressed reluctance on behalf of its member operators to provide absolute cost data, preferring to indicate only percentage increases in cost items. A pro forma was developed which required each operator to state the percentage of total costs contributed by each of the specified cost categories, in addition to the percentage change in the quantum of that cost item over the past 12 months. This pro forma was distributed to each of the seven ferry operators, with responses provided to the CVA by five operators. The CVA then took the average of the total cost increase incurred by each of these operators, resulting in the requested fare increase of 10 per cent.

## **3 THE MERITS OF A COST INDEX APPROACH**

Each of the industry associations, the Taxi Council, BCA and the CVA has applied a cost index approach to setting fares. A key advantage of the specific cost index approach is its relative simplicity and the fact that it attempts to reflect the specific changes in input prices for each sector. The actual items that constitute the cost index are 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).

Although the method is relatively simple to apply, there are a range of disadvantages that suggest alternative methods may be more appropriate. Firstly, under normal economic conditions, the cost index approach will almost always lead to fare increases. Such an outcome may not be appropriate, particularly if revenues have increased to a greater extent than costs over a particular period. It does not for example, take into account the impact of changes in passenger/trip numbers on utilisation and costs per passenger/trip.

Another disadvantage with the cost index approach is that it ignores efficiency improvements that may have been achieved, or should be achieved, within the industry. Similarly, it is extremely difficult to drive efficiency improvements under a cost index approach. If an operator is compensated for all of its cost increases, there would appear to be little incentive to seek efficiency gains.

A number of submissions have commented on the application of a cost index for fare setting purposes. Others have stated that fare increases should not be given until service improvements are achieved. The Council of Social Services of NSW (NCOSS) states:

We would be concerned if fares were to be set through the strict application of a cost index approach, which would not appear to take any account of social considerations or service standards.

Similar views were shared by the Western Sydney Community Forum (WSCF), which states:

WSCF is concerned about fare increases based on a cost index approach that does not drive efficiency gains or consider revenue and returns, and that almost automatically allows for fare increases.

The Tribunal also points out that no industry it regulates is regulated under a cost index approach. Industries such as electricity, gas and water and sewerage are essentially regulated under a building-block approach. More often than not, prices or revenue are subject to a CPI-X cap. Such an approach drives efficiency gains. In the case of public transport, State Transit Authority has been pushing for greater recognition of its cost index in the Tribunal's fare determinations. While considering the changes in organisations' costs and hence its cost index, the Tribunal has not endorsed making fare adjustments purely on the basis of an industry's cost index.

In moving away from a cost index approach, it is necessary to consider a number of factors. For example, the ability to apply an alternative 'modelling' approach is dependent on data availability. The decision on the application of an alternative approach may also be dependent on the regulatory regime applying, or to be applied in the future, to that industry. The Tribunal notes that Transport NSW is currently conducting a comprehensive review of the current regulatory and contracting systems for buses.

The Tribunal has previously discussed the issue of competitive tendering for bus contracts. The Tribunal recommended that all franchise areas should be open to competitive tender at the end of the five year contract.<sup>1</sup> Depending on the specifics of the tender contracts, this has the potential to remove the need for a detailed fare setting methodology and would allow government to concentrate on service characteristics/quality as part of the contract, and developing a more integrated and efficient transport network. It would also allow government to more easily and transparently assess subsidy levels for the industry.

## **4/5 TRIBUNAL ASSESSMENT OF TAXI COUNCIL APPROACH AND AMENDMENTS TO TAXI COUNCIL COST INDEX**

Chapter 4 of the detailed report to Transport NSW includes an assessment of each of the cost items in the Taxi Council cost index. There are a number of areas where the Tribunal has made adjustments to this index. For example, the Tribunal adjusted vehicle parts and panels, establishment and insurance costs, and converted the index to June to June.

The following tables outline the adjustments the Tribunal has made to each of the urban and country cost indices. In each case, the overall effect of these adjustments is to reduce the required fare increase. For the urban cost index, the adjustment to the vehicle parts and panels cost item had the greatest impact on the level of the fare increase required. This was offset to some degree by the conversion of the index to a June 2002 end date. The

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<sup>1</sup> IPART, *An inquiry into pricing of public passenger transport services: buses and ferries*, Transport interim report no. 2, March 1996, p 32.

adjustment made to the calculation of establishment costs had the effect of slightly reducing the fare increase required.

**Summary of amendments to urban taxi cost index**

	<b>Total increase required (%)</b>
<b>Taxi Council submission</b>	<b>5.45</b>
Alignment with electronic submission	5.42
Adjust vehicle parts and panels	3.38
Conversion to June to June index	4.62
Adjust establishment costs	4.60
<b>IPART revised index</b>	<b>4.60</b>

In the case of the country cost index, the adjustment to vehicle parts and panels also had the greatest impact on the cost index outcome. Converting the index to a June 2002 year end further reduced the fare increase required, due to movements in the price of LPG between March 2002 and June 2002. Adjustments to insurance costs resulted in the total fare increase required falling by 0.31 percentage points, to 4.00 per cent.

**Summary of amendments to country taxi cost index**

	<b>Total increase required (%)</b>
<b>Taxi Council submission</b>	<b>5.77</b>
Adjust vehicle parts and panels	4.59
Conversion to June to June index	4.31
Adjust insurance cost	4.00
<b>IPART revised index</b>	<b>4.00</b>

The conversion of the index to June to June had significantly different effects between the urban and country cost indices. This is due to the relative change in fuel prices between March and June 2002 for the urban and country areas. The following table shows those relative fuel movements.

**Fuel prices, cents per litre**

	<b>Urban</b>	<b>Country</b>
June 2001	47.0	52.0
March 2002	38.0	54.2
June 2002	45.0	52.7

## 6/7 TRIBUNAL ASSESSMENT OF BCA APPROACH AND AMENDMENTS TO BCA COST INDEX

Chapter 6 of the detailed report to Transport NSW includes an assessment of each of the cost items in the BCA cost index. The Tribunal also considered the funding on non commercial services.

The Tribunal did not need to make any adjustments to the cost items originally included in the cost index. However, the Tribunal does not accept the BCA's proposal for an additional fare increase based on adjustments for the introduction of the goods and services tax and other related changes. Thus the Tribunal is recommending a fare increase for private buses of 4.2 per cent.

The Tribunal considers the results of the non commercial model to be reasonable. However, this should not be taken to represent endorsement of the approach.

## 8/9 TRIBUNAL ASSESSMENT OF CVA APPROACH AND AMENDMENTS TO CVA COST INDEX

Chapter 8 of the detailed report to Transport NSW includes an assessment of each of the cost items in the CVA cost index. While cost indexes were effectively collected from five individual operators, the CVA did not combine these to form an industry cost index. Instead, the CVA averaged the cost increase resulting from each of the individual operator cost indexes. The preferred approach of the Tribunal is to develop an industry wide cost index based on the individual cost indexes supplied by operators. This results in a cost increase of 9.54 per cent, which differs slightly to the result obtained by the CVA from averaging the total cost increase of each operator.

The table below outlines the effect of each of the adjustments made by the Tribunal. In addition to the conversion to an industry wide cost index, labour costs were adjusted to reflect movements in award wage rates. This had the greatest impact on the total fare increase required, reducing it by 3.24 percentage points to 6.3 per cent. Adjusting fuel costs in line with a revised submission further reduced the increase required to 5.7 per cent. It was also necessary to modify the repairs and maintenance costs in accordance with the revised submission, which reduced the fare increase required to 5.03 per cent.

### Summary of amendments to private ferry cost index

	Total increase required (%)
<b>CVA submission</b>	<b>10.00</b>
Conversion to cost index	9.54
Adjust labour for award wage increases	6.30
Adjust fuel as per revised submission	5.70
Adjust repairs and maintenance	5.03
<b>IPART revised index</b>	<b>5.03</b>

## 10 SERVICE QUALITY

### 10.1 Taxis

In exploring service quality issues, the Tribunal has considered information presented in its previous review of the taxi industry<sup>2</sup>, information provided by Transport NSW, and submissions from the Taxi Council and other stakeholders.

#### *Tribunal's 1999 review*

##### Transport NSW taxi user survey

In March 1998, Transport NSW commissioned a report on taxi usage and the level of satisfaction of taxi users with taxi services in Sydney.<sup>3</sup> The survey indicated that the overall level of satisfaction with taxi services was high. Cleanliness inside the taxi, driver's appearance, and driver's politeness/friendliness were all rated highly. However, a lower quality of service was associated with waiting time after a telephone booking, driver knowledge of the area and driver proficiency in English.

##### Transport NSW complaints register

The following table summarises the most common types of complaint registered with Transport NSW. It has been updated since the Tribunal's previous review.

**Summary of complaints registered with Transport NSW<sup>1</sup>**

	1996	1997	1998	1999	2000	2001
Assault, abuse and dangerous driving	1,576	1,246	1,100	1,288	1,177	1,283
Trip refusals, no shows and lateness	771	762	714	1,026	792	681
Poor knowledge, dress or service stds	1,175	583	704	722	571	466
Technical infringements	317	211	284	174	150	129
Incorrect fare, start/stop meter	276	208	201	341	685	436
Poor vehicle cleanliness and safety	177	148	190	220	229	222
<b>Total</b>	<b>4,292</b>	<b>3,158</b>	<b>3,193</b>	<b>3,771</b>	<b>3,604</b>	<b>3,217</b>

Note:

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.

Despite significant variation in some categories, overall there has been a fall in the level of complaints received by Transport NSW during 2001, as measured by the complaint categories considered by the Tribunal in the above table. However, it should be noted that the categories considered by the Tribunal are only a subset of the total complaints received by Transport NSW. Transport NSW indicates that if all categories were considered, they would show an increase in the number of complaints between 2000 and 2001.

<sup>2</sup> IPART, *Review of the taxi cab and hire car industries*, Final report, 24 November 1999.

<sup>3</sup> NSW Department of Transport - Transport Data Centre, *Sydney taxi customer survey*, Report no 98/4, April 1998.

*Performance standards attained*

Performance reports

In the past, the Tribunal has considered the network operator quarterly performance reports for each of the taxi operators. The Tribunal notes that these reports are not independently audited, and that Transport NSW has indicated to the Tribunal that it has some reservations about the accuracy of some of the information it receives.

The only new quarterly performance reports the Tribunal was able to receive from Transport NSW this year was from Premier Cabs. This information suggests an increase in performance offered by Premier Cabs in 2001. In some cases, this increase was significant relative to earlier years.

*Information from Taxi Council*

An issue emphasised by the Taxi Council is the industry's tiered structure, and the separation of responsibilities associated with each tier (ie network, operator and driver). The Taxi Council is willing to accept the good performance in relation to such aspects as telephone answering, but unwilling to accept responsibility for waiting time performance.

Although acknowledging the tiered structure of the industry, the Tribunal cannot support the Taxi Council's position of removing taxi companies, co-operatives or networks responsibility for service quality issues that may be influenced by drivers. These are still responsibilities (performance targets) that the company, co-operative or network is required to meet, and it is a requirement that each tier of the industry strive to meet those targets.

## **10.2 Private buses**

In exploring private bus service quality issues, the Tribunal has considered information provided by Transport NSW and the BCA.

*Review of the performance regime*

In 1997 the *Passenger Transport Act 1990* was amended to introduce a Performance Assessment Regime (PAR) for commercial bus contracts. Under PAR, the renewal of a contract for a commercial bus operator was to be dependent on the operator having met a series of best practice objectives and standards.

Transport NSW is currently developing a strategic model for bus reform, which includes a review of the proposed PAR. Also, a review of the legislative and regulatory framework for bus contracts, with a view to introducing a more flexible, responsive contracting regime, is being undertaken. No date has been established for the completion and implementation of the PAR.

*Performance standards attained*

The Tribunal has been unable to assess in detail the service quality performance of private bus operators. Under the commercial and non commercial contracts, operators are not required to collect performance information. Performance assessment is therefore largely dependent on Transport NSW's ability to independently collect information.

While the Tribunal has not been able to consider detailed quantitative information, the BCA has provided some limited information on service quality and notes in its submission that:

- private bus operators are currently delivering service levels which are equivalent to 50 per cent above the minimum prescribed under current contracts for private operators
- in terms of on-time running performance, it is very rare for private bus services to be cancelled or for a vehicle not to leave the depot on time, however, difficulties experienced as a consequence of increasing road congestion have diminished on-time running statistics as the sole reliability measure of industry performance.

Stakeholders have raised a number of concerns as to service quality. NCOSS suggests that private bus operators should 'develop and implement a service charter for bus users with full stakeholder and community involvement, including measurable service targets and objectives, the process of measurement (including customer satisfaction) and the publication of performance data'.

### *The way forward*

In order to ensure that the community receives an appropriate level of service quality (and that taxpayers funds are being used effectively) the Tribunal supports the establishment of service standards for private bus operators. Given the delays in implementing the PAR, the Tribunal believes that it would be useful to start collecting a limited set of performance information. This would assist in gaining an improved understanding of the performance of private bus operators, prior to implementation of the PAR. As outlined in the detailed report to Transport NSW following, the suggested information set is comparable to information collected by State Transit Authority on Sydney Buses.

## **10.3 Private ferries**

In exploring private ferry service quality issues, the Tribunal has considered information provided by Transport NSW.

Commercial contracts are provided to private ferry operators in areas where there are a range of existing ferry services which can be operated on a commercial basis. 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.<sup>4</sup>

The Tribunal has been unable to assess the service quality performance of private ferry operators. Under existing contracts, operators are not required to collect performance information. Performance assessment is therefore largely dependent on Transport NSW's ability to independently collect information on operator's performance. Transport NSW has not conducted any reviews of private ferry performance.

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<sup>4</sup> The timetable is set following negotiations between Transport NSW and the private ferry operator.

## 11 OTHER ISSUES

### *Taxi transport subsidy scheme*

The Taxi Transport Subsidy Scheme (TTSS) was introduced in 1981 to promote accessibility for those persons who cannot use public transport because of a qualifying severe and permanent disability. The Government payment under the TTSS is currently around \$12.1 million per annum. Under the Tribunal's recommendation of a 4.6 per cent average fare increase for urban areas, the additional subsidy is approximately \$0.56m per annum.<sup>5</sup>

### *Government funding for private bus operators*

Total subsidy payments to private bus operators for the half fare concession and the School Student Transport Scheme (SSTS) was approximately \$337.4m in 2000/01. Approximately \$310.5m of these payments related to the SSTS, comprising \$195.9m for transport provided under commercial contracts and \$114.7m under non commercial contracts.

Operators of commercial contracts are funded based on the number of SSTS registered students (for their particular route/region). Assuming that these factors do not change, any increase in fares will be translated to an equal percentage increase in SSTS funding on commercial contracts. If fares increase by an average of 4.2 per cent, the Tribunal estimates that SSTS funding of commercial contracts will increase by \$8.2m per annum.

The funding of non commercial contracts is based on the costs of providing particular bus services specified in the relevant contract. In the absence of more detailed information on which to base its considerations, the Tribunal has used the information presented by the BCA. This suggests that non commercial funding should increase by around 4.5 per cent. The Tribunal estimates that SSTS funding of non commercial contracts will increase by \$5.2m per annum.

Overall, the Tribunal estimates that total private bus SSTS funding will increase by \$13.4m per annum.

Based on existing concession fare funding of \$27m, an average fare increase of 4.2 per cent is expected to increase government funding of the half fare concession scheme by \$1.1m per annum. This calculation assumes that existing patronage on half fare concession tickets does not change.

### *Government funding for private ferry operators*

The latest information available to the Tribunal indicates that total subsidy payments to private ferry operators for the half fare concession and the SSTS were \$946,000 in 2000/01. Approximately \$452,000 of these payments related to the SSTS.

The Tribunal estimates that if private ferry fares increase by an average of 5.0 per cent, SSTS funding of commercial contracts for private ferries will increase by around \$22,600 per annum.

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<sup>5</sup> The Tribunal's recommendation for a 4.6 per cent average fare increase applies only to urban taxi fares. The recommended increase for rural taxi fares is 4.0 per cent. Given that passengers in rural areas also have access to government payments under the TTSS, the Tribunal's estimate of the additional subsidy (\$0.56m per annum) represents an upper bound, as it is based on a 4.6 per cent fare increase.

Based on existing concession fare funding of \$494,000, an average fare increase of 5.0 per cent is expected to increase government funding of the half fare concession scheme by around \$24,700 per annum. This calculation assumes that existing patronage on half fare concession tickets does not change.

### *Social impact of fare changes*

The Tribunal notes that its recommended fare increase for private taxis is relatively small. In the absence of specific information suggesting otherwise, the Tribunal considers that the modest increase in taxi fares proposed would have a minimal social impact on taxi users. However, the biggest impact would likely be felt by TTSS passengers whose fares are above \$60. That part of the fare that exceeds this amount is not subsidised by the scheme.

For the purposes of this review on private buses, the Tribunal has relied on information collected and presented by the Transport NSW's Transport Data Centre.<sup>6</sup> The data illustrates some major differences in the nature of STA and private bus users. Notwithstanding the limitations of the survey data, the data indicates that private bus users are predominantly school pass and single ticket users, who have relatively low incomes compared to STA bus users. Although the majority of private bus users (ie school pass holders) would not be affected by an increase in fares, full fare paying passengers would experience the impact of increased fares.

The Tribunal notes that its recommended private bus fare increase is relatively small. It considers that the modest increase in private bus fares would have a minimal social impact on private bus users. However, the Tribunal notes that the change in private bus fares will lead to an increase in SSTS funding for commercial services of \$8.2m, and an increase in SSTS funding for non commercial services of \$5.2m. This is not an insignificant impact on Government funding requirements.<sup>7</sup>

The Tribunal has been unable to consider any specific information with which to assess the social impact of fare changes on private ferry users, mainly due to the small size of the private ferry industry. Despite the unavailability of specific data on which to assess social impacts, the Tribunal has considered the issue. The Tribunal notes any fare increase will be relatively small in absolute terms. Further, it notes that in many cases private ferry operators serve the tourist/recreational travel market. The Tribunal considers that the modest increase in private ferry fares would have a minimal social impact on private ferry users.

### *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. In this review, the environmental benefits of public transport are most relevant to private buses as opposed to taxis or private ferries.

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<sup>6</sup> Transport Data Centre, NSW Department of Transport, *Bus users in Sydney*, Issues paper, November 2000.

<sup>7</sup> It should also be noted that under the pricing CSO for STA bus services, funding is based on the gap between private bus fares and what fare STA is able to collect. As such, increases in private bus fares have the potential to increase government funding for STA services, other things being equal.

Data for transport services in Sydney indicates that between 1991 and 1999, the share of public transport trips has remained stable at around 11 per cent. More recent information from the Transport Data Centre on travel patterns for 2000 indicate a decline in the modal share for public transport, and an absolute decline in bus patronage compared to 1999.

The Tribunal also notes that the majority of available evidence suggests that price has only a small influence on the decision to use public transport and that other issues such as service quality, timeliness, frequency, convenience and accessibility are likely to be more important determinants of public transport demand. The Tribunal has considered environmental factors, and believes that the modest increase in fares will not have a significant effect on the use of private bus services.

#### *Comparisons of fares and ticket products*

Private bus operators' fares are comparable to STA's single cash fares for the 1-9 sections but significantly higher for the longer distance bands. STA's TravelTen and multimodal TravelPass tickets offer a discount compared to single cash fares, making them cheaper than private operators' fares for all distance bands.

Further, STA 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. STA 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.

Generally, the fares for private ferry operators are less than those for Sydney Ferries' services. In addition, fare increases for Sydney Ferries over recent years have been greater than that experienced by private operators. 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.



**PART B**  
**DETAILED REPORT TO TRANSPORT NSW**



## 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).<sup>8</sup>

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, pursuant to section 9(1)b of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Premier requested the Tribunal investigate and report on prices for taxis, private buses and private ferries regulated under the *Passenger Transport Act 1990*. 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.

### 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 an issues paper.

The Tribunal's issues paper was released in February 2002. The Tribunal invited submissions from interested parties on the issues raised in this paper, plus other issues that stakeholders believe are relevant and the Tribunal should consider.

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<sup>8</sup> 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.

The Tribunal has now considered the submissions it has received during the course of these reviews. This report outlines the Tribunal's recommendations on fare changes for taxis, private buses and private ferries.

## 2 SUBMISSIONS FROM INDUSTRY ASSOCIATIONS

### 2.1 NSW Taxi Council

The Taxi Council's submission dated 2 April 2002 makes use of a taxi cost index to measure cost changes over time. Separate models are calculated for urban and country areas. The proposed cost index contains 17 different cost elements (16 for the country model) which the Taxi Council states represent all material costs for the taxi industry.<sup>9</sup> In line with the Taxi Council's 'one taxi - two businesses' view of the taxi industry, the cost indexes have been divided into operator costs and driver costs.

The Taxi Council presents costs increases for both urban and country taxi operators for the period July 2001 to March 2002. Urban areas have been defined to include Sydney, Wollongong, Newcastle and the Central Coast. To simplify the process of evaluating cost movements for country areas, the Taxi Council has used a representative sample of cost data from six country centres.

Based on the taxi cost index, the Taxi Council has requested that urban taxi fares increase by 5.45 per cent, and country taxi fares by 5.77 per cent. The following tables taken from the Taxi Council submission show the cost elements included in the taxi cost index, and the corresponding cost levels between June quarter 2001 and March quarter 2002. From these, the proposed fare increases are calculated.

The most recent taxi fare adjustments have been:

- a 5.1 per cent increase from 14 November 1999
- a GST related increase from 1 July 2000, equalling 7.8 per cent in urban areas and 8.1 per cent in country areas
- an increase of 4.1 per cent in urban areas and 4.2 per cent in country areas from July 2001.

Table 2.1 shows the cost index for urban taxis, and illustrates the basis for the 5.45 per cent increase in urban taxi fares requested by the Taxi Council. The table indicates that increases in vehicle parts and panels and plate lease fees contribute the greatest proportion of increased total taxi costs for the period. Of the 5.45 per cent increase, 2.3 percentage points are due to increased vehicle parts and panels costs, while 2.1 percentage points are attributable to increases in plate lease fees. Decreases in fuel costs serve to offset these cost increases to some degree, contributing -1.6 percentage points.

In presenting the cost index, the Taxi Council has classified costs as either applying to the operator or the driver. The Tribunal has maintained this presentation format, however it has not formally assessed the operator/driver cost split.

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<sup>9</sup> Consultants PricewaterhouseCoopers were engaged by the Taxi Council to develop the cost index.

**Table 2.1 Urban taxi operating costs – Taxi Council**

	June 2001		March 2002		Weight <sup>1</sup>	Change
	Total cost	Index	Total cost	Index		
<b><u>Operator expenses</u></b>						
<b>Fixed costs:</b>						
Vehicle lease payments	\$7,887	103	\$8,281	108	4.8%	0.2%
Insurance	\$12,025	121	\$12,737	128	6.2%	0.4%
Govt charges	\$739	101	\$739	101	0.5%	0.0%
Network fees	\$6,050	111	\$6,436	117	3.4%	0.2%
Plate lease fees	\$17,010	75	\$19,500	86	14.1%	2.1%
Annualised establishment costs	\$1,295	136	\$1,640	172	0.6%	0.2%
<b>Variable costs</b>						
Maintenance labour	\$6,958	107	\$6,854	104	4.1%	-0.1%
Vehicle parts and panels	\$10,403	125	\$15,043	181	5.2%	2.3%
Cleaning	\$3,220	101	\$3,220	101	2.0%	0.0%
Tyres	\$2,543	99	\$2,800	109	1.6%	0.2%
Operator's superannuation	\$969	119	\$1,002	123	0.5%	0.0%
Operator salary equivalent	\$12,108	104	\$12,525	108	7.2%	0.2%
Driver entitlements	\$3,705	105	\$3,731	106	2.2%	0.0%
Uniforms	\$2,400	100	\$2,400	100	1.5%	0.0%
Other	\$3,361	104	\$3,484	108	2.0%	0.1%
<b><u>Driver expenses</u></b>						
LPG Fuel	\$16,475	123	\$13,335	100	8.3%	-1.6%
Bailee driver payments	\$60,092	104	\$62,135	108	36.0%	1.2%
<b>Total</b>	<b>\$167,240</b>	<b>104</b>	<b>\$175,862</b>	<b>109</b>	<b>100%</b>	<b>5.45%</b>

Note:

1. Weighting at September quarter 1999.

Table 2.2 below shows the cost index for country taxis, and illustrates the basis for the 5.77 per cent increase in country taxi fares requested by the Taxi Council. Similarly to urban taxis, the table indicates that increases in the cost of vehicle parts and panels contribute the greatest proportion of increased total taxi costs for the period. Of the 5.77 per cent increase, 1.3 percentage points are due to increased vehicle parts and panels costs. Increases in driver bailment fees and network fees are also significant contributors to the increase in costs.

**Table 2.2 Country taxi operating costs – Taxi Council**

	June 2001		March 2002		Weight <sup>1</sup>	Change
	Total cost	Index	Total cost	Index		
<b><u>Operator expenses</u></b>						
<b>Fixed costs:</b>						
Vehicle lease payments	\$7,703	107	\$7,703	107	5.8%	0.0%
Insurance	\$6,476	107	\$7,290	121	4.9%	0.6%
Govt charges	\$739	101	\$739	101	0.6%	0.0%
Network fees	\$8,568	100	\$9,660	113	6.9%	0.9%
Plate lease fees	\$10,575	85	\$10,575	8	10.1%	0.0%
Annualised establishment costs	\$700	118	\$700	118	0.5%	0.0%
<b>Variable costs</b>						
Maintenance labour	\$5,124	102	\$6,057	121	4.1%	0.7%
Vehicle parts and panels	\$5,411	146	\$7,824	211	3.0%	1.3%
Cleaning	\$2,944	100	\$2,944	100	2.4%	0.0%
Tyres	\$1,817	99	\$2,001	109	1.5%	0.1%
Operator's superannuation	\$969	119	\$1,002	123	0.7%	0.0%
Operator salary equivalent	\$12,108	104	\$12,525	108	9.4%	0.3%
Uniforms	\$2,400	100	\$2,400	100	1.9%	0.0%
Other	\$3,102	104	\$3,216	108	2.4%	0.1%
<b><u>Driver expenses</u></b>						
LPG Fuel	\$13,000	116	\$13,550	121	9.1%	0.4%
Bailee driver payments	\$47,374	104	\$48,957	108	36.8%	1.2%
<b>Total</b>	<b>\$129,009</b>	<b>104</b>	<b>\$137,142</b>	<b>111</b>	<b>100%</b>	<b>5.77%</b>

Note:

1. Weighting at September quarter 1999.

## 2.2 Bus and Coach Association

In April 2002, the Bus and Coach Association (BCA) formally lodged submissions for a fare increase for commercial contracts and revenue requirements for non commercial contracts to the Tribunal.

The BCA's commercial contracts submission uses a cost index to measure cost changes over time. The cost index contains a number of key cost elements, which are used to represent material costs for private bus operators. Based on this index, the BCA has requested that private bus fares increase by 4.18 per cent. On top of this the BCA are requesting an additional increase of 1.85 per cent as compensation for A New Tax System (ANTS) costs. The following table shows the BCA cost index.

**Table 2.3 Private bus operating costs – BCA**

	Base 1 Jul 01	Cost 1 Jul 01	Cost 30 Jun 02	Cost increase	Change
<b>Capital costs</b>					
Mercedes chassis		\$188,067	\$192,206		
Custom coach body		\$143,000	\$170,500		
Bond rate		6.10%	6.32%		
M'thly lease pay'mt	<b>14.98%</b>	\$6,415.86	\$7,066.22	10.14%	<b>1.52%</b>
<b>People costs</b>					
Award rate of pay	42.44%	\$606.60	\$626.26	3.24%	
Superannuation	3.35%	\$48.53	\$56.35	16.15%	
Payroll tax	2.38%	\$40.62	\$40.96	0.84%	
Workers comp.	2.32%	\$33.18	\$37.68	13.57%	
<b>Total</b>	<b>50.49%</b>				<b>2.25%</b>
<b>Bus ins./regis'tn</b>					
Green slips	1.59%	\$2,681.00	\$3,064.71	14.31%	
Compr. per \$1,000	0.97%	\$8.96	\$12.23	36.54%	
Registrations	0.64%	\$767.00	\$859.00	11.99%	
<b>Total</b>	<b>3.20%</b>				<b>0.66%</b>
<b>Bus lubricants</b>	<b>11.63%</b>	\$0.96	\$0.89	-7.12%	<b>(0.83)%</b>
<b>Repairs/maint'nce</b>					
Major service	4.22%	\$1,072.50	\$1,105.50	3.08%	
Tyres	1.11%	\$639.00	\$658.15	3.00%	
<b>Total</b>	<b>5.33%</b>				<b>0.16%</b>
<b>All other costs - CPI</b>	<b>14.37%</b>	\$130.22	\$134.04	2.93%	<b>0.42%</b>
<b>Total</b>	<b>100.00%</b>				<b>4.18%</b>
<b>ANTS adjustment</b>					<b>1.85%</b>
<b>Total claim for fare increase</b>					<b>6.03%</b>

As indicated in the table, the BCA separates private bus operating costs into capital costs, people costs, bus insurance and registration, bus lubricants, repairs and maintenance, and other costs. Bus capital costs represent 14.98 per cent of the cost index, and have been calculated based on a 5 year lease of a Mercedes chassis and custom coach body, at the government bond rate. Based on these parameters, the monthly lease payments have been calculated to have increased by 10.14 per cent over the year to 30 June 2002.

People costs represent the cost of private bus staff. The bulk of this is made up of wages (ie award rate of pay). Superannuation, payroll tax and workers compensation also constitute people costs. People costs represent the highest proportion of private bus operating costs, with a weighting of 50.49 per cent. Overall, people costs have increased by approximately 4 per cent in the BCA submission, leading to a 2.25 percentage point contribution to the cost index increase of 4.18 per cent.

Bus insurance and registration costs represent only a small proportion of private bus operating costs, with a weighting of only 3.20 per cent. The BCA presents that these costs increased by around 20 per cent in the year to 30 June 2002, leading to a 0.66 percentage point increase in the cost index.

Bus lubricants (ie fuel) have an 11.63 per cent weighting in the cost index, and the BCA presents that fuel costs have decreased by 7.12 per cent in the year to 30 June 2002. This change leads to fuel constituting a 0.83 percentage point decrease in the cost index.

Repairs and maintenance (made up of major service and tyre costs) has a 5.33 per cent weighting in the cost index. In total, repairs and maintenance is presented as having increased by around 3.0 per cent in the year to 30 June 2002, contributing 0.16 percentage points to the 4.18 per cent cost index increase.

Finally, the BCA cost index includes the category 'all other costs'. These are said to represent 14.37 per cent of the cost index, and have been inflated by CPI for the year to 30 June 2002. This cost category contributes 0.42 percentage points to the 4.18 per cent cost index increase.

The BCA also submits revised revenue requirements for non commercial contracts. The calculation of non commercial revenue requirements relies on a financial model agreed to by Transport NSW and BCA, and developed by PricewaterhouseCoopers (PwC). The Tribunal did not have a role in the development of this model. For the purposes of this review, the Tribunal has conducted a high level review of the model.

As illustrated in the table below, 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 operators' 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.

The model has been updated by PwC to reflect recent cost changes and the impact of the New Tax System introduced by the Federal Government. Based on these changes, the model calculates the following examples of increased revenue requirements for each of the 4 bus categories<sup>10</sup> (the figures assume 100km a day is travelled over a 4 hour period). For buses in categories 2 - 4, two figures are calculated. The additional figure for each of these categories acknowledges that some operators are eligible for grants under the diesel and alternatives fuels grants scheme (DAFGS). For example, the model calculates that for a category 4 bus eligible for the DAFGS, revenue requirements have increased by \$3,325 per bus, or \$3,658 when GST is included.

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<sup>10</sup> For the purposes of modelling, private buses have been separated into four broad categories, reflecting the size of the buses, and hence relative costs. Category 1 represents commuter buses, category 2 are coaster buses (less than 4.5 tonnes), category 3 are Hino buses, and category 4 Mercedes buses.

**Table 2.4 Increased revenue requirements – non commercial contracts (\$)**

Cost	Cat. 1	Category 2		Category 3		Category 4	
	-	DAFGS	-	DAFGS	-	DAFGS	-
Depreciation	174	344	344	360	360	491	491
Depreciation <sup>1</sup>	17	34	34	36	36	49	49
Bus related	368	412	394	479	461	518	500
Driver related / hr	856	856	856	856	856	856	856
Driver related / day	13	13	13	13	13	13	13
Fuel	(182)	(199)	(199)	(290)	(290)	(330)	(330)
Other distance related	103	107	107	169	169	202	202
ROI	290	661	661	1,069	1,069	1,386	1,386
ROI on spares	29	66	66	107	107	139	139
<b>Net revenue rqt</b>	<b>1,668</b>	<b>2,294</b>	<b>2,276</b>	<b>2,800</b>	<b>2,782</b>	<b>3,325</b>	<b>3,307</b>
GST	167	229	228	280	278	333	331
<b>Total</b>	<b>1,835</b>	<b>2,523</b>	<b>2,503</b>	<b>3,080</b>	<b>3,060</b>	<b>3,658</b>	<b>3,637</b>

Note:

1. This figure represents depreciation associated with a spare bus allowance.

## 2.3 Charter Vessel Association

In the review undertaken by the Tribunal in 2001, a number of problems with the information provided by the private ferry operators were noted. Specifically, a number of operators failed to comply with the agreed pro forma that had been set up in conjunction with the Charter Vessel Association (CVA), resulting in the quality of information available to the Tribunal for the review falling short of that generally required.

In an effort to overcome this difficulty, the Tribunal engaged in further consultation with the CVA in order to develop a pro forma that would be acceptable to the operators whilst at the same time providing sufficient information. The CVA expressed reluctance on behalf of its member operators to provide absolute cost data, preferring to indicate only percentage increases in cost items. In order that the data would be consistent across operators, costs were divided into 11 categories.

A pro forma was developed which required each operator to state the percentage of total costs contributed by each of the specified cost categories, in addition to the percentage change in the quantum of that cost item over the past 12 months. This pro forma was distributed to each of the seven ferry operators, with responses provided to the CVA by five operators. The CVA then took the average of the total cost increase incurred by each of these operators, resulting in the requested fare increase of 10 per cent. This is composed of individual cost increases of 1.94 per cent, 4.76 per cent, 11.38 per cent, 13.97 per cent and 17.95 per cent. That is, the CVA has taken a simple average of the cost increases suggested by each of the individual operators.

### 3 THE MERITS OF A COST INDEX APPROACH

Each of the industry associations, the Taxi Council, BCA and the CVA has applied a cost index approach to setting fares. This is the second review for which the Taxi Council has applied an index, and it has previously proposed that the index form the basis of annual fare adjustments in future years. A bus industry cost index approach, agreed to by Transport NSW and the BCA has been applied for a number of years. In the case of private ferries, the Tribunal's Secretariat stated to the CVA that a cost index approach would generally be acceptable.

A key advantage of the specific cost index approach is its relative simplicity and the fact that it attempts to reflect the specific changes in input prices for each sector. The actual items that constitute the cost index are 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).

Although the method is relatively simple to apply, there are a range of disadvantages that suggest alternative methods may be more appropriate. Firstly, under normal economic conditions, the cost index approach will almost always lead to fare increases. This is perhaps one reason why some industries within Australia have tended to favour the index approach. 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. In contrast, a fare decrease could in fact be warranted. By ignoring the revenue side of the industry, the cost index approach cannot account for the complete environment under which the particular industry operates. Further, it does not for example, take into account the impact of changes in passenger/trip numbers on utilisation and costs per passenger/trip.

Another disadvantage with the cost index approach is that it ignores efficiency improvements that may have been achieved, or should be achieved, within the 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 is compensated for all of its cost increases, there would appear to be little incentive to seek efficiency gains.

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 an industry cannot readily be captured through a cost index approach.

There is a range of alternative approaches to the application of a specific cost index. These include:

- focus on and analysis of cost building blocks and opportunities for productivity improvements for each operator
- use of a general benchmark of inflation to adjust fares, eg CPI
- adjustments to a general benchmark of inflation by estimates of trend productivity improvements in public transport
- use of an index of comparable prices, eg public transport component of CPI.

Any alternative approach will have its advantages and disadvantages. These will need to be considered in choosing between alternative approaches. For example, the ability to apply an alternative 'modelling' approach is dependent on data availability. The Tribunal already has some concerns with cost data of the taxi industry. These would need to be at least partially addressed in moving to an alternative approach. Further, approaches that considered revenue information would need to overcome significant data verification issues. All of this suggests that some detailed thought would need to be given to the practical issues surrounding any alternative 'modelling' approach, and that any change in approach would likely take some time to develop and implement.

The decision on the application of an alternative approach may also be dependent on the regulatory regime applying, or to be applied in the future, to that industry. The Tribunal notes that Transport NSW is currently conducting a comprehensive review of the current regulatory and contracting systems for buses.

A number of submissions have commented on the application of a cost index for fare setting purposes. Others have stated that fare increases should not be given until service improvements are achieved.

The Council of Social Services of NSW (NCOSS) states:<sup>11</sup>

We would be concerned if fares were to be set through the strict application of a cost index approach, which would not appear to take any account of social considerations or service standards.

Similar views were shared by the Western Sydney Community Forum (WSCF), which states:<sup>12</sup>

WSCF is concerned about fare increases based on a cost index approach that does not drive efficiency gains or consider revenue and returns, and that almost automatically allows for fare increases.

The Tribunal also points out that no industry it regulates is regulated under a cost index approach. Industries such as electricity, gas and water and sewerage are essentially regulated under a building-block approach. More often than not, prices or revenue are subject to a CPI-X cap. Such an approach drives efficiency gains. In the case of public transport, State Transit Authority has been pushing for greater recognition of its cost index in the Tribunal's fare determinations. While considering the changes in organisations costs

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<sup>11</sup> NCOSS submission, 17 May 2002, p 2.

<sup>12</sup> WSCF submission, May 2002, p 4.

and hence its cost index, the Tribunal has not endorsed making fare adjustments purely on the basis of an industry's cost index.

The Tribunal has previously discussed the issue of competitive tendering for bus contracts. The Tribunal recommended that all franchise areas should be open to competitive tender at the end of the five year contract.<sup>13</sup> Depending on the specifics of the tender contracts, this has the potential to remove the need for a detailed fare setting methodology and would allow government to concentrate on service characteristics/quality as part of the contract, and developing a more integrated and efficient transport network. It would also allow government to more easily and transparently assess subsidy levels for the industry.

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<sup>13</sup> IPART, *An inquiry into pricing of public passenger transport services: buses and ferries*, Transport interim report no. 2, March 1996, p 32.



## **4 TAXIS – TRIBUNAL ASSESSMENT OF TAXI COUNCIL APPROACH**

In this chapter the Tribunal assesses the cost index approach which the Taxi Council has used to support its request for taxi fare increases in urban and country NSW. The Tribunal's approach has been to consider the reasonableness of each of the cost items (ie do the actual figures presented for each cost item reasonably represent the actual costs faced by taxi operators for those cost items), the internal workings of the Taxi Council's models, and to consider more generally implications of a cost index approach as suggested by the Taxi Council.

The Tribunal has not been able to carry out a detailed examination of all of the cost items. This is particularly the case for vehicle parts and panels, where the Tribunal is heavily reliant on the accuracy of the Taxi Council's information. Where there have been some concerns over the absolute cost level for a particular cost item, but this item has only an insignificant affect on the model's cost increase outcome, the approach of the Tribunal has been to simply highlight these concerns, rather than necessarily ascertain a specific figure for the item.

### **4.1 Vehicle lease costs**

In order to reflect the capital costs associated with operating a taxi, the Taxi Council has calculated a notional lease charge. The annual vehicle lease charge is based on the following assumptions:

- average vehicle cost for both new and second-hand or two year old Ford Falcon AU Forte and Futura vehicles
- proportion of second-hand vehicles, taken to be 50 per cent for urban areas, and 100 per cent for country areas
- interest rates of 8.25 per cent
- term of lease, typically 5 years for new vehicles and 4 years for second-hand vehicles
- residual value, typically 10 per cent.

Information on vehicle costs has been sourced from City Ford. The proportion of second-hand vehicles in the NSW taxi fleet is in line with figures modelled in the Tribunal's taxi fare review in 2001.

#### *Tribunal assessment*

The parameters behind the calculation of vehicle leasing costs are largely identical to those assumed in the 2001 review. Only the purchase price of the new vehicles has been altered. This has been increased by 10 per cent, in line with advice to the Taxi Council from City Ford. The quoted prices are for AU3 Forte and Futura models, in comparison to the AU2 models used in 2001.

The vehicle prices quoted by the Taxi Council for second-hand vehicles remain unchanged from those provided in 2001. At the time of the last review, the Tribunal noted that the second-hand (two year old) cost of vehicles at \$23,650 was considerably higher than that used in the ICRC report<sup>14</sup>, being \$17,000 for a two year old vehicle. This is despite similar vehicles being used (ie Ford Falcons), and the same source (ie Glass's Dealers Guide 2001).

The Tribunal has considered the information in the Glass's Dealers Guide and figures the Taxi Council has used in its modelling. Second-hand vehicle prices for 2000 onwards used by the Taxi Council in its modelling are still somewhat toward the high end of estimates given in the sources.

For the purposes of this review, the Tribunal has decided to use the figures presented by the Taxi Council in its model. However, this should not be taken to represent Tribunal endorsement of the figures.

In calculating vehicle lease costs, the Taxi Council's modelling assumes an interest rate of 8.25 per cent. This is assumed constant over the period March quarter 2001 to March quarter 2002. The Tribunal has two key concerns with this approach, which were also raised in the 2001 review:

- if leasing interest rates are in reality not constant over the period, the resulting Taxi Council figure will not accurately estimate actual leasing costs
- the 8.25 per cent figure for March 2001 appears high compared to the ICRC<sup>15</sup> figure of 7.5 per cent, which it stated was consistent with typical finance lease rates.<sup>16</sup>

Ford Credit has indicated to the Tribunal that leasing interest rates are fixed during the term of the lease, however the rates at which individual leases are entered into may vary depending on the lease commencement date.

For the purposes of this review, the Tribunal has used the interest rate figure contained in the Taxi Council modelling. Under a cost index approach, with a constant interest rate over the period, the actual level of the interest rate does not significantly affect the cost outcome calculated by the model. However, it should be noted that under a cost build-up approach, the level actual level of the interest rate will be a more important factor. In this regard, the Tribunal approach should not be taken as an endorsement of the interest rate figure used by the Taxi Council.

Under the fourth Taxi Council assumption in calculating leasing costs, a typical lease period is assumed to be 5 years for new vehicles and 4 years for second hand vehicles. Finally, the Taxi Council assumes a residual value at the end of the lease of 10 per cent. From discussions with Ford Credit, it was indicated that a 10 per cent residual value at the end of the lease was normal where the vehicle was leased for a period of five years. The Tribunal has decided to maintain the assumptions used by the Taxi Council in regard to the residual value.

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<sup>14</sup> Independent Competition and Regulatory Commission, *Taxi fares for 1 July 2001 – 30 June 2003*, Final report, May 2001.

<sup>15</sup> Independent Competition and Regulatory Commission, *Taxi fares for 1 July 2001 – 30 June 2003*, Final report, May 2001.

<sup>16</sup> The Tribunal notes that if in reality interest rates are constant over the period, the change in interest rate from 8.25 per cent to 7.5 per cent would not have a material effect on the outcome of the taxi cost index.

As a result of the increase in prices of new vehicles, vehicle leasing costs in urban areas have increased by 5.0 per cent over the past 12 months. This results in a contribution of 0.2 percentage points towards the overall cost index. As all vehicles are assumed to be second hand in country areas in line with Taxi Council operator surveys, there has been no increase in vehicle lease payments.

## **4.2 Insurance costs**

The Taxi Council's modelling has separated insurance costs into three areas: urban – Sydney, urban – Wollongong, Newcastle and Central Coast; and country. For each of the two urban areas insurance costs are given for comprehensive, third party property, green slip and workers compensation. It is assumed that 50 per cent of urban operators take out comprehensive insurance. The Taxi Council ascertained this figure through an operator survey.

For country areas insurance costs are given for comprehensive, green slip and workers compensation. A Taxi Council operator survey indicated that 100 per cent of country operators take out comprehensive insurance.

### *Tribunal assessment*

The Tribunal contacted representatives of Cabsure and Zurich insurance in order to verify the insurance costs presented by the Taxi Council. These inquiries were able to confirm that the figures used by the Taxi Council for urban areas were within the range of 'normal values'. Weighted average insurance costs in urban areas increased by 5.9 per cent, which added 0.4 percentage points to the overall cost index.

Insurance costs for country areas proved more difficult to verify. Discussions with a number of insurance providers suggested that significant variation in premiums exists across country NSW, and that individual driver history was a major determinant of price. The Taxi Council submission suggests that premiums in country areas have increased by 12.6 per cent on average. The Tribunal was unable to find evidence to support this increase.

Without a detailed survey of individual operators, it is difficult to ascertain what may be a more reasonable figure for some of the insurance costs. As increases in insurance costs contribute 0.6 percentage points to the Taxi Council's requested increase for country areas, it would be desirable to have an accurate picture of what actual insurance costs are for taxi industry operators. Further, as discussed below, any move from an index approach to fare setting would need to more accurately define and estimate each of the cost elements.

Consequently it is suggested that the percentage increase found to have occurred in urban areas, 5.9 per cent, be applied to country areas. However, this should not be taken to represent Tribunal endorsement of the Taxi Council's figures. Any move away from a cost index approach would need to consider in detail the actual insurance costs faced by the taxi industry.

### **4.3 Government charges**

The Taxi Council's model includes government charges for vehicle registration and taxi operator licences. The figure for the taxi operator licence has not changed from \$260 between March 2001 and March 2002, and hence has no effect on the outcome of the taxi cost index. Similarly vehicle registration has remained unchanged from \$479 over the same period.

#### *Tribunal assessment*

The taxi operator licence cost figure represents the cost of taxi operator accreditation. It is the renewal figure per annum per taxi, and has been verified with Transport NSW.

The Tribunal contacted the NSW Roads and Traffic Authority to verify vehicle registration costs. It was indicated to the Tribunal that taxi registration would be at most \$479 in 2002, unchanged from 2001.

### **4.4 Network fees**

Network fees vary between regions and between networks. The Taxi Council states that information on network fees was sourced from Premier, Combined and Legion networks for the urban area. For country areas, information was collected through network surveys.

The Taxi Council submission provides network fees per calendar month. Based on information gathered from various operators, network fees have been estimated for each of the urban (Sydney, Wollongong, Newcastle and Central Coast) and country (Coffs Harbour, Albury, Wagga Wagga, Bathurst, Armidale and Tamworth) areas. The overall network fee for urban and country areas is a weighted average, based on the number of taxis in each of the individual areas, eg Sydney, Wollongong, Newcastle and Central Coast for the urban area.

#### *Tribunal assessment*

The Tribunal has contacted network operators in order to verify the network costs quoted by the Taxi Council. Network operators were able to provide the Tribunal with their network fees. These were broadly consistent with the figures presented by the Taxi Council. According to the Taxi Council's submission, network fees for urban areas have increased by an average of 6.4 per cent. The corresponding increase for country areas was 12.7 per cent.

Although the Tribunal has applied the existing figures quoted by the network operators, this should not be taken to represent Tribunal endorsement of the figures. The Tribunal has some key concerns with network costs. In particular, it should be kept in mind that in all NSW areas except Sydney, network services are provided by a monopoly service provider. At this stage, the Tribunal cannot be satisfied that the actual network costs charged are efficient network costs.

## 4.5 Plate lease fees

The Taxi Council have estimated plate lease fees in urban areas based on the market rental rate of \$375 per week, obtained via operator surveys. This results in an increase of 14.6 per cent over the period, and contributes an increase of 2.1 percentage points to the overall urban cost index. The Taxi Council state that minimal change in country plate values has been identified over the past 12 months, thus country plate lease fees are assumed to remain at 2001 levels.

### *Tribunal assessment*

In order to verify the plate rental data submitted by the Taxi Council, the Tribunal analysed a series of plate auction values provided by Transport NSW. While this approach provides only an approximate measure, the data did appear to support the assertion of the Taxi Council that average plate values in urban areas have increased by 14.6 per cent. It must be noted that this verification is based on changes in plate values only; changes in other parameters such as the market yield on plates are not reflected.

The Taxi Council have assumed that the yield of 8.3 per cent calculated by the Tribunal in the 2001 review is still appropriate. To the extent that this is no longer the case, it would be necessary to recalculate the lease fee on the basis of current plate values.

The plate lease fees for each quarter were obtained by taking the average auction plate value for that quarter, and multiplying it by the per annum rate of return (8.3 per cent). The resulting annual lease fee was then divided by 52 to arrive at a weekly lease fee. This calculation was performed for each quarter, for each of the Sydney, Wollongong, Newcastle and Central Coast areas (note the rate of return calculated from the initial Sydney lease fee data was assumed for all areas, although the plate values used corresponded to the specific area). The weighted average weekly plate lease fee was then calculated, based on the number of taxi plates in each area.

The Tribunal is aware that the approach has a number of limitations. Firstly, the rate of return on taxi plates was calculated based on less than 2 quarters of data, and this data was Sydney specific. Applying this rate of return across the entire period assumes that the rate has not varied over this time; this may or may not be correct. Further, the rate is then applied to the Wollongong, Newcastle and Central Coast areas. The Tribunal notes that the distortion due to this approximation is minimal as these areas combined constitute such a small percentage of the total urban region (93 per cent of the plates in the urban region are in Sydney). Finally, it is possible to measure plate lease fees directly. However, for this approach to add value relative to the current approach, a detailed survey would need to take place. At this time and given the nature of this review, the Tribunal has not undertaken or requested such a survey.

In country areas, the Taxi Council submits that plate values are unchanged. Again this is broadly consistent with plate auction data provided to the Tribunal by Transport NSW, but the lack of data points for country areas makes a precise valuation difficult.

## **4.6 Establishment costs**

The Taxi Council submission gives establishment costs as being made up of LPG conversion, meter, roof sign, radio and camera. Figures for each of these elements are provided for each of Sydney, Newcastle, Wollongong and the Central Coast. The installation cost of EFTPOS and an alarm are also included for the Sydney area.

For urban areas, the Taxi Council submission states that establishment costs have increased by 26.7 per cent. For country areas, the Taxi Council states that there has been no increase, but a breakdown of the cost elements for country areas is not provided. Although this increase in urban areas appears large in an absolute sense, establishment costs only make up around 1 per cent of total taxi costs in the Taxi Council model, and hence the increase does not have a significant effect on the total cost increase calculated by the model.

### *Tribunal assessment*

The total figure for establishment costs is obtained by adding a number of smaller costs that comprise establishment expenses. The annualised establishment costs are calculated by spreading the total establishment costs over four years. While it has been possible to ascertain that the 2002 figures quoted in the model for urban areas are within the range of current prices for these items, the Tribunal is concerned at the inclusion of a number of items that were not part of the cost index in 2001.

In particular, EFTPOS facilities, livery and alarms were not part of the establishment costs submitted by the Taxi Council in the 2001 review. Including them for the calculation of 2002 costs distorts the movement in costs as measured under the index approach. Specifically, the Taxi Council have stated that establishment costs have risen by 26.7 per cent. However the establishment costs as defined in 2001 have increased by only 8 per cent; the remainder of the increase is due to the inclusion of these additional cost items.

As cost increases are being measured using a cost index approach, it is inappropriate to introduce new cost items in this manner. Consequently the Tribunal will use the 8 per cent increase in the establishment costs as defined in the 2001 review. However, this should not be taken to represent Tribunal endorsement of the figures. A detailed examination of average actual establishment costs should ideally be carried out, particularly where a cost index approach is rejected.

## **4.7 LPG fuel**

LPG costs constitute around 8 per cent of total costs and fuel is one of the largest cost components. The LPG cost per annum is derived from three parameters; the LPG price per litre at the pump, the average distance travelled per year and the fuel consumption rate.

The LPG price per litre has fallen in urban areas by around 20 per cent, at the same time increasing by 4 per cent in country areas. This price has been sourced by the Taxi Council from Shell and service station price surveys. The average distance travelled per annum was obtained from operator surveys. This was assumed to be 175,000 km in the urban model and 125,000 km for the country model. A fuel consumption rate of 5.0 km per litre, sourced from Ford, was assumed to apply to both urban and country taxis.

### *Tribunal assessment*

LPG costs are dependent on the LPG price per litre, the average distance travelled per year and the fuel consumption rate. A concern relating to LPG costs is the possibility of fluctuations in price since the March 2002 quarter (ie the end of the time period for the Taxi Council model). The Taxi Council have suggested that the current urban weighted average fuel price, as at March 2002, is 38 cents per litre, which represents a decrease of 19.1 per cent from the 47 cents per litre price of June 2001. The Taxi Council's current weighted average country price is 54.2 cents per litre, up 4 per cent since June 2001. The accuracy of the LPG prices quoted in the Taxi Council's submission has been questioned by the Transport Workers Union (TWU), in their submission to the Tribunal.<sup>17</sup>

In order to reflect movements in LPG prices over the entire 12 month period, the Tribunal has obtained LPG prices from GOGAS as at June 2002. GOGAS indicate that a weighted average urban price of 45 cents per litre is more appropriate at the current time. This represents a 4 per cent decrease in the price of LPG since June 2001. For country areas, data from GOGAS current as at June 2002 suggests a weighted average price of 52.67 cents per litre. This is an increase of 1.3 per cent over the past 12 months.

Finally, total LPG costs are dependent on the vehicles fuel consumption rate. The Taxi Council has assumed a fuel consumption rate of 5.0 km per litre for both urban and country areas. The Tribunal notes that in the ICRC review<sup>18</sup>, a rate of 5.5 km per litre was used, which was said to be consistent with interstate figures. The different traffic conditions between Sydney and Canberra, particularly congestion and related to this average vehicle speed, may contribute to higher fuel use in Sydney. However, the Tribunal notes that more favourable traffic conditions (relative to Sydney) would exist in all other areas of NSW. Despite this, the Taxi Council has applied the same fuel consumption rate statewide.

For the purposes of this review and given the application of a cost index, the Tribunal has decided to apply the consumption figures used by the Taxi Council. However, the Tribunal cautions against accepting these figures in the future without further analysis, particularly where the form of regulation does not involve application of a cost index.

## **4.8 Maintenance labour**

The determinants of the maintenance labour cost item are the number of major services, the hours of labour per service, the hours of maintenance required outside of services and the labour cost per hour. These were sourced from a combination of Ford and operator surveys.

The model assumes major services take place at every 10,000 km, which amounts to up to 18 per year under the model's mileage assumptions. Each of these services takes 3 and one-third hours. In addition, 4 hours a month of additional servicing is required. The hourly wage rate used was that charged by Ford, which was up to \$72 (\$75 for country areas). The weighted average wage rate in urban areas has fallen from \$65 in 2001 to \$64 at March 2002, while for country areas has risen from \$55 to \$65 over the same period.

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<sup>17</sup> TWU submission, May 2002, page 15.

<sup>18</sup> Independent Competition and Regulatory Commission, *Taxi fares for 1 July 2001 – 30 June 2003*, Final report, May 2001.

### *Tribunal assessment*

The frequency of services assumed in the model appears high, and while this may be close to the service frequency recommended by Ford, that does not necessarily reflect the service frequency employed in the taxi industry (where any time off the road due to servicing would be at the expense of revenue). Further, the per hour cost of maintenance labour appears high. Again, this may not reflect the rates paid by taxi operators for maintenance services.

Regardless of the form of regulation (eg cost index, building block approach), the Tribunal considers it reasonable that actual costs and industry practice be appropriately considered. Maintenance labour is one area of the Taxi Council's approach where the costs modelled are likely to be higher than those actually experienced by the average taxi operator.

For the purposes of this review and given time limitations, the Tribunal has decided to apply the figures used by the Taxi Council. However, the Tribunal cautions against accepting these figures in the future without further analysis, particularly where the form of regulation does not involve application of a cost index.

## **4.9 Vehicle parts and panels**

Vehicle parts and panels is the largest contributor to the requested fare increase. Vehicle parts and panels contributes 2.3 percentage points of the 5.45 per cent increase requested for urban areas, and 1.3 percentage points of the 5.77 per cent increase requested for country areas. This cost item was sourced from operator surveys in conjunction with Ford, and represents a basket of goods. In 2001 neither the exact composition of the basket of goods, nor the cost of the individual parts within the basket was provided. In their current submission the Taxi Council have provided this information, for March 2001 and March 2002.

In the urban model, the cost of spare parts has risen 44.6 per cent over the past year. The cost increase in spare parts in the country model is also 44.6 per cent, although the cost of parts assumed in the country model is only half that assumed in the urban model.

### *Tribunal assessment*

The Tribunal notes that the Taxi Council has provided a list of parts that have been used to calculate the increase in vehicle parts and panels costs. However this list was not provided during the 2001 review, thus it is difficult to verify that the price movements suggested by the Taxi Council actually occurred over the past 12 months. The submission by the TWU Taxi Drivers Committee also questions the costs included by the Taxi Council for vehicle parts and panels.<sup>19</sup>

As a reasonableness check on the Taxi Council's figures the Tribunal considered movements in 'motor vehicle parts and accessories' as part of the CPI series produced by the Australian Bureau of Statistics. The series indicates that motor vehicle parts and accessories increased by only 5.2 per cent over the last 12 months.

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<sup>19</sup> TWU Taxi Drivers Committee submission, May 2002, pp 7 and 12.

The Tribunal has not been able to convince itself that the vehicle parts and panels figure supplied by the Taxi Council accurately reflects costs the industry actually faces. For this reason, the Tribunal has decided to apply the 'motor vehicle parts and accessories' expenditure class of the Consumer Price Index. Having increased by 5.2 per cent over the past 12 months, this results in a 0.27 percentage point contribution to the total cost index in urban areas and 0.16 percentage points in country areas.

#### **4.10 Cleaning**

Cleaning costs comprise a daily wash and vacuum, and an annual detail. All cost figures are sourced from an operator survey. Costs have not increased over the past year, and comprise less than 2 per cent of total costs. A daily car wash in the urban area is assumed to cost \$10, and \$7 in country areas.

##### *Tribunal assessment*

Transport NSW requires a daily wash for taxi vehicles. Such a regulation is very difficult to enforce, and the Taxi Council stated to the Tribunal that the regularity of washes is likely to be less than that required by Transport NSW. Given the regulated requirement, the Tribunal has accepted the figures presented by the Taxi Council.

An issue raised in the TWU Taxi Driver's submission<sup>20</sup> is that daily washing and cleaning costs should rightly be attributed to drivers rather than operators in the Taxi Council's 'two businesses model', at least in urban areas. This is consistent with the fixed pay in system prevalent in urban areas. Furthermore the Taxi Council's own submission<sup>21</sup> states that cleaning costs are considered a business expense to drivers rather than operators. Thus the Tribunal notes that the inspection detailing cost is attributable to operators, while the daily car wash costs to drivers.

#### **4.11 Tyres**

Annual tyre costs are dependent on the cost of tyres, the life of each tyre, and the distance travelled by the taxi per annum. The price of the tyres was sourced from Beaurepaires, and are for new tyres. The life of each tyre was assumed to be 30,000 kilometres, as sourced from Ford. This was uniform for urban and country areas. As mentioned above, urban taxis were assumed to travel 175,000 km per annum, and country taxis 125,000 km per annum.

##### *Tribunal assessment*

The Tribunal has contacted Beaurepaires to confirm the tyre prices quoted in the submission. The Tribunal was informed that the prices refer to recommended retail prices. The Taxi Council has assumed that these prices also apply not only in Sydney but across country NSW. In addition, the tyre prices used in the model are around 10 per cent higher than those used in the ICRC review<sup>22</sup>, for the identical brand and make of tyre.

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<sup>20</sup> TWU Taxi Drivers Committee submission, May 2002, p 20.

<sup>21</sup> NSW Taxi Council submission, April 2002, p 17.

<sup>22</sup> Independent Competition and Regulatory Commission, *Taxi fares for 1 July 2001 – 30 June 2003*, Final report, May 2001.

The ICRC review assumed the life of a tyre was 45,000 kilometres. This compares to the 30,000 km figure used by the NSW Taxi Council. Even allowing for the superior roads in the ACT, this appears to be a very significant difference. The TWU Taxi Drivers Committee submission<sup>23</sup> also questioned the assumptions used by the Taxi Council.

Sensitivity analysis indicated that adjusting the Taxi Council model for these issues resulted in no real change to the resulting total cost increase. Given this outcome, the Tribunal has decided to apply the figures presented by the Taxi Council. However, the Tribunal cautions against accepting these figures in the future without further analysis, particularly where the form of regulation does not involve application of a cost index.

### **4.12 Operator's superannuation**

Operator superannuation is based on the figure for operator's salary equivalent (discussed below). The compulsory employer contribution rate is applied to the calculated operator's salary equivalent to derive a superannuation figure.

#### *Tribunal assessment*

For the purposes of this review, the Tribunal has included operator's superannuation in the Taxi Council cost index, as was the case in 2001. However, the Tribunal does have a number of concerns with the Taxi Council's approach, and at this stage is not endorsing operator's superannuation as a legitimate cost item.

Returns to taxi operators generally accrue in the form of taxi fares received (from their own driving and that of bailee drivers where relevant), pay-in rates received from bailee drivers, and changes in the value of the taxi licence. It is from taxi fares received and/or pay-in rates that items such as superannuation are funded. This is how the industry operates, and the Tribunal is mindful that any regulatory approach should ideally recognise such aspects of industry operation.

The Taxi Council approach also assumes that the taxi operator is subject to the compulsory employer superannuation contribution rates. These rates generally apply where there is an employer-employee relationship. This is very different to the situation of a taxi operator, who is essentially self-employed and therefore funds their own superannuation from the returns associated with owning a taxi plate.

The Tribunal also has some concerns with the calculation of operator's salary equivalent, as discussed below.

### **4.13 Operator's salary equivalent**

The Taxi Council has included in its cost index a figure for operator salary equivalent to recognise the cost of labour dedicated to the business of operating a taxi. This figure is based on the labour time involved in the operation of a taxi (labour time is associated with tasks such as changeovers, rostering, organising maintenance, banking etc), and average weekly earnings for NSW.

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<sup>23</sup> TWU Taxi Drivers Committee submission, May 2002, p 16.

Following industry consultation, the Taxi Council estimates labour time of 10 hours per week statewide.

#### *Tribunal assessment*

For the purposes of this review, the Tribunal has included operator's salary equivalent in the Taxi Council cost index. However, the Tribunal does have a number of concerns with the Taxi Council's approach, and at this stage is not endorsing operator's salary equivalent as a legitimate cost item.

The decision to operate a taxi is largely independent of average weekly earnings figures for NSW. The decision is based on the returns one can receive from a taxi, and these are largely based on fare revenue received.

This line of argument was also considered reasonable in the ICRC review<sup>24</sup>. In that report, administration of the taxi business was recognised as a legitimate cost. Its return was based on the actual earnings made by the average taxi driver, not an unrelated average weekly earnings figure. As a further comparison, the ICRC review estimated labour time as 3 hours per week. The Taxi Council has applied a figure of 10 hours per week.

Despite this the Tribunal notes the increase in average weekly earnings applied to operator's salary equivalent as consistent with the way in which the Taxi Council have calculated the base cost.

The submission by the TWU Taxi Drivers Committee also questions the reasonableness of the 10 hours per week figure assumed by the Taxi Council. Its submission identifies four clear taxi models, these being the single owner/driver, lessee driver and bailees, base operation up to 12 taxis, and fleet operation of more than 12 taxis. It states that for the first two examples of taxi models, management time per taxi would be no more than 3 hours per week. For the base operation with up to 12 taxis management time would be less than 3 hours per week, and for the fleet operator certainly less than 3 hours.<sup>25</sup>

## **4.14 Driver entitlements**

The Taxi Council has included in its cost index an allowance for driver entitlements. Driver entitlements are available to permanent bailee drivers. Such drivers are able to receive 5 weeks' annual leave and 8 days of sick leave per annum. These entitlements are only relevant for the urban model.

#### *Tribunal assessment*

For the purposes of this review, the Tribunal has retained driver entitlements in the Taxi Council cost index, as was the case in 2001. However, the Tribunal notes that the item may actually be irrelevant when considered against actual industry operations. In its 1999 review, the Tribunal noted that few Sydney taxi drivers are paid these entitlements. Discussions with the Taxi Council during last year's review indicated that this situation has not changed.

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<sup>24</sup> Independent Competition and Regulatory Commission, *Taxi fares for 1 July 2001 – 30 June 2003*, Final report, May 2001.

<sup>25</sup> TWU Taxi Drivers Committee submission, May 2002, p 8.

## **4.15 Driver bailment fees**

Driver bailment fees represent the equivalent of wages paid to taxi drivers. As such the Taxi Council have applied an increase in line with average weekly earnings to the 2001 figure. This item is the single largest component of the cost index, contributing 36 per cent of total costs.

### *Tribunal assessment*

One of the costs of operating a taxi is that of paying bailee drivers to keep the taxi on the road. Although the bailee driver pays for each shift (either in the form of a pay-in rate or a split of fare revenue earned), this representing revenue to the operator, there is also a cost involved. The cost is essentially the revenue that the bailee driver retains, which would otherwise have accrued to the operator had he/she been driving that shift.

These 'payments' made to bailee drivers are a legitimate cost in the operation of a taxi, and the Tribunal sees no reason why they should be excluded from the analysis. The Tribunal supports the increase in driver bailment fees in line with increases in average weekly earnings, as proposed by the Taxi Council.

## **4.16 Uniforms**

Uniforms comprise 1.5 per cent of total costs in urban areas and 1.9 per cent in country areas. Uniform costs did not change over the period in either the urban or country models. Costs were sourced from an operator survey.

### *Tribunal assessment*

The contribution made to total costs by uniforms is small in both urban and country areas. As uniform costs were unchanged in both models, under a cost index approach this variable has no impact. As the impact of uniform costs is negligible and costs were attained through operator survey, the Tribunal has not attempted to verify these costs. Costs as presented by the Taxi Council have been applied.

## **4.17 Other**

The costs that fall into the 'other' category have not been provided in detail. They have been sourced from operator surveys and inflated by CPI. These costs make up around 2 per cent of the total costs.

### *Tribunal assessment*

That this cost item has been increased at CPI appears reasonable. However the Tribunal notes the submission from the TWU Taxi Drivers Committee<sup>26</sup> that suggests some degree of double counting of uniforms may have occurred in this cost item.

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<sup>26</sup> TWU Taxi Drivers Committee submission, May 2002, p 17.

## 5 TRIBUNAL AMENDMENTS TO TAXI COUNCIL COST INDEX

The preceding chapter discussed the Tribunal's assessment of the cost index items included in the Taxi Council model. Minor adjustments were made to some items, however the Tribunal generally applied the figures it had been presented with by the NSW Taxi Council.

In this chapter, the Tribunal discusses the changes it has made to the items included in the model, and presents a revised cost index. The most significant of these was the adjustment of the increase in vehicle parts and panels to reflect increases in the motor vehicle parts and accessories component of the CPI.

### 5.1 Alignment with electronic submission

In the written submission to the Tribunal dated 2 April 2002, the Taxi Council state that for urban areas the total increase in the cost index is 5.45 per cent.<sup>27</sup> However, the electronic submission made to the Tribunal contains an Excel spreadsheet which calculates the increase in the cost index. According to this spreadsheet the total increase in the urban cost index is 5.42 per cent. As the calculations presented in the spreadsheet suggest the latter is the correct figure, the Tribunal has based its analysis on 5.42 per cent as the increase in operating costs for urban taxis. No such discrepancy existed for country taxis.

### 5.2 Vehicle parts and panels

As noted in the previous chapter, the Tribunal considers the 44.6 per cent increase in vehicle parts and panels costs excessive, particularly when compared to verifiable indices prepared by the Australian Bureau of Statistics. Further, the NSW Taxi Council has not provided adequate evidence that such an increase in prices took place. The Tribunal recommends that rather than using the basket of goods approach adopted by the Taxi Council, a more robust measure of movements in prices of vehicle parts could be obtained by incorporating the movement in the motor vehicle parts and accessories expenditure class of the CPI. This measure is calculated quarterly by the ABS, and as such is a consistent and verifiable method of determining any change in the cost of vehicle parts.

This index has increased by 5.2 per cent over the past 12 months. Consequently, the Tribunal has modified the cost index to incorporate a 5.2 per cent increase in vehicle parts and panels for both urban and country areas.

### 5.3 Conversion to June to June index

As the index determined in last year's review ran up until June 2001, the Tribunal considers it appropriate that this year's cost index run from June 2001 until June 2002. If the index runs from March 2001 as submitted by the Taxi Council, it is possible that double counting may occur, as cost increases incorporated into last year's fare increase would be partially allowed for again in this year's increase.

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<sup>27</sup> Annexure A: NSW Taxi Council Fare Submission March 2002, p 14, table 15.

Consequently the Tribunal has converted the index to a June start and finish. This results in a change to the movement of fuel costs, but leaves other cost items unchanged. Therefore an urban LPG price of 45 cents per litre and a country price of 52.67 cents per litre have been assumed for June 2002, based on information sourced from GOGAS.

As a result the contribution to the total urban cost index of fuel costs changes to -0.35 percentage points, from the Taxi Council's -1.6 percentage points. For country areas the contribution to total costs falls from 0.4 percentage points to 0.12 percentage points.

### **5.4 Insurance**

It was noted in the previous chapter that the Tribunal considered the increase in insurance premiums applied to country areas as high, and that a more appropriate level would be more similar to that reported for urban areas. Consequently, the Tribunal has adjusted the country cost index to reflect the same percentage increase in insurance as that proposed by the Taxi Council for urban areas. This is consistent with inquiries carried out by the Tribunal that suggest increases in insurance premiums have been comparable across the state.

Altering the percentage increase in insurance costs from 12.6 per cent to 5.9 per cent results in the contribution of insurance to the total country index falling from 0.60 percentage points to 0.29 percentage points.

### **5.5 Establishment costs**

As a cost index approach is being used to measure movements in costs, it is necessary that individual cost items are defined in a consistent manner over time. It was noted in the previous section that the Taxi Council has included a number of items in the category of establishment costs that were not previously covered by the index. This results in the Taxi Council's cost index suggesting that establishment costs in urban areas have risen by 26.7 per cent since June 2001. The Tribunal's analysis indicates that a large proportion of this increase is due to the inclusion of additional items in the index, and that the establishment costs as defined in 2001 have increased by only 8 per cent. Consequently the cost index has been modified to reflect an 8 per cent increase in establishment costs in urban areas.

### **5.6 Reallocation of cleaning costs**

According to page 17 of the NSW Taxi Council submission, "the cost to drivers of fuel and cleaning are shown as a business expense to drivers rather than operators". The Tribunal's investigation suggests that the Inspection Detailing Cost referred to in the NSW Taxi Council's submission is paid for by the operators, and the remainder of cleaning costs are borne by drivers. In line with this the inspection cleaning cost has been allocated to operators and the remainder of the cleaning costs to drivers. This adjustment has not had any impact on the fare increase required under the cost index as cleaning costs have not increased over the past 12 months.

## 5.7 Tribunal recommendation on taxi fares

Table 5.1 summarises the changes made to the Taxi Council's proposed urban cost index by the Tribunal. Clearly the adjustment to the vehicle parts and panels cost item had the greatest impact on the level of the fare increase required, reducing it by 2.04 percentage points. This was offset to some degree by the conversion of the index to a June 2002 end date, which increased the fare increase required by 1.24 percentage points, as a result of including June 2002 fuel prices. The adjustment made to the calculation of establishment costs had the effect of slightly reducing the fare increase required, by 0.2 percentage points to 4.6 per cent.

**Table 5.1 Summary of amendments to urban taxi cost index**

	Total increase required (%)
<b>Taxi Council submission</b>	<b>5.45</b>
Alignment with electronic submission	5.42
Adjust vehicle parts and panels	3.38
Conversion to June to June index	4.62
Adjust establishment costs	4.60
<b>IPART revised index</b>	<b>4.60</b>

Table 5.2 shows the changes made to the Taxi Council's country cost index. The adjustment to vehicle parts and panels had the greatest impact on the cost index outcome, reducing the fare increase required by 1.18 percentage points. Converting the index to a June 2002 year end further reduced the fare increase required by 0.28 percentage points, due to movements in the price of LPG between March 2002 and June 2002. Adjustments to insurance costs resulted in the total fare increase required falling by 0.31 percentage points, to 4.00 per cent.

**Table 5.2 Summary of amendments to country taxi cost index**

	Total increase required (%)
<b>Taxi Council submission</b>	<b>5.77</b>
Adjust vehicle parts and panels	4.59
Conversion to June to June index	4.31
Adjust insurance cost	4.00
<b>IPART revised index</b>	<b>4.00</b>

The conversion of the index to June to June had significantly different effects between the urban and country cost indices. This is due to the relative change in fuel prices between March and June 2002 for the urban and country areas. The following table shows those relative fuel movements.

**Table 5.3 Fuel prices, cents per litre**

	Urban	Country
June 2001	47.0	52.0
March 2002	38.0	54.2
June 2002	45.0	52.7

The Tribunal's revised cost indices are presented in Table 5.4 for urban taxis and Table 5.5 for country taxis.

**Table 5.4 Revised urban taxi operating costs**

	June 2001		June 2002		Weight <sup>1</sup>	Change
	Total cost	Index	Total cost	Index		
<b><u>Operator expenses</u></b>						
<b>Fixed costs:</b>						
Vehicle lease payments	\$7,887	103	\$8,281	108	4.8%	0.2%
Insurance	\$12,025	121	\$12,737	128	6.2%	0.4%
Govt charges	\$739	101	\$739	101	0.5%	0.0%
Network fees	\$6,050	111	\$6,436	117	3.4%	0.2%
Plate lease fees	\$17,010	75	\$19,500	86	14.1%	2.1%
Annualised establishment costs	\$1,295	136	\$1,399	147	0.6%	0.0%
<b>Variable costs</b>						
Maintenance labour	\$6,958	107	\$6,854	104	4.1%	-0.1%
Vehicle parts and panels	\$10,403	125	\$10,944	132	5.2%	0.3%
Cleaning	\$360	101	\$360	101	0.2%	0.0%
Tyres	\$2,543	99	\$2,800	109	1.6%	0.2%
Operator's superannuation	\$969	119	\$1,002	123	0.5%	0.0%
Operator salary equivalent	\$12,108	104	\$12,525	108	7.2%	0.2%
Driver entitlements	\$3,705	105	\$3,731	106	2.2%	0.0%
Uniforms	\$2,400	100	\$2,400	100	1.5%	0.0%
Other	\$3,361	104	\$3,484	108	2.0%	0.1%
<b><u>Driver expenses</u></b>						
LPG Fuel	\$16,475	123	\$15,774	118	8.3%	-0.35%
Bailee driver payments	\$60,092	104	\$62,135	108	36.0%	1.2%
Cleaning	\$2,860	101	\$2,860	101	1.8%	0.0%
<b>Total</b>	<b>\$167,240</b>	<b>104</b>	<b>\$173,961</b>	<b>108</b>	<b>100%</b>	<b>4.60%</b>

Note:

1. Weighting at September quarter 1999.
2. Figures may not add due to rounding.

Table 5.5 Revised country taxi operating costs

	June 2001		June 2002		Weight <sup>1</sup>	Change
	Total cost	Index	Total cost	Index		
<b><u>Operator expenses</u></b>						
<b>Fixed costs:</b>						
Vehicle lease payments	\$7,703	107	\$7,703	107	5.8%	0.0%
Insurance	\$6,476	107	\$6,858	113	4.9%	0.3%
Govt charges	\$739	101	\$739	101	0.6%	0.0%
Network fees	\$8,568	100	\$9,660	113	6.9%	0.9%
Plate lease fees	\$10,575	85	\$10,575	8	10.1%	0.0%
Annualised establishment costs	\$700	118	\$700	118	0.5%	0.0%
<b>Variable costs</b>						
Maintenance labour	\$5,124	102	\$6,057	121	4.1%	0.7%
Vehicle parts and panels	\$5,411	146	\$5,692	154	3.0%	0.2%
Cleaning	\$240	100	\$240	100	0.2%	0.0%
Tyres	\$1,817	99	\$2,001	109	1.5%	0.2%
Operator's superannuation	\$969	119	\$1,002	123	0.7%	0.0%
Operator salary equivalent	\$12,108	104	\$12,525	108	9.4%	0.3%
Uniforms	\$2,400	100	\$2,400	100	1.9%	0.0%
Other	\$3,102	104	\$3,216	108	2.4%	0.1%
<b><u>Driver expenses</u></b>						
LPG Fuel	\$13,000	116	\$13,171	118	9.1%	0.1%
Bailee driver payments	\$47,374	104	\$48,957	108	36.8%	1.2%
Cleaning	\$2,704	100	\$2,704	100	2.2%	0.0%
<b>Total</b>	<b>\$129,009</b>	<b>104</b>	<b>\$134,200</b>	<b>108</b>	<b>100%</b>	<b>4.00%</b>

Note:

1. Weighting at September quarter 1999.
2. Figures may not add due to rounding.

### 5.7.1 Proposed fare structure

This section considers some key issues relating to fare structure, and translates the recommended fare increase to new urban and country fares.

### *Day and night rates*

During the course of last year's taxi fare review, the Tribunal considered that it may be appropriate to review the effect of the introduction of the night surcharge that applies to taxi fares, and to consider whether this surcharge is still warranted. In its 1999 review, the Tribunal's interim report proposed the surcharge to promote night time taxi availability.

Supporting the proposal to review the effect of the night surcharge was the observation that the regulatory approach, whether it is through the consideration of a cost index or other methodology, is likely to focus on revenues and costs for the average taxi. These costs and parameters cover operation of the taxi during the day and night. From this approach, it is implied that the different rate is not required from a cost point of view. Whether issues relating to service delivery/standards continue to support differential rates is an issue that should be examined.

The Tribunal is not aware of Transport NSW having carried out any review of day and night taxi rates over the last year.

The tariff surcharge for night time rates applies to the distance component of the fare. The Taxi Council submission states that since this is the case, it acts as a disincentive for drivers to accept short hirings at night. The Council recommends the continuance of the 20 per cent night time surcharge, but recommends that it be applied as an increase to the total fare.<sup>28</sup>

In effect, the Taxi Council proposes that the 20 per cent surcharge be applied to every component of the fare, eg flagfall, distance, waiting time, and radio booking fee. The Tribunal notes that in all other states of Australia where a night time surcharge has been applied, it has been applied to either the flagfall or the distance rate. It has not been applied to both flagfall and distance rate, and certainly not to all components of the fare.

The Tribunal does not support the recommendation of the Taxi Council, and will maintain the 20 per cent surcharge to the distance rate only.

### *Wheelchair accessible taxi hirings*

As noted in the Taxi Council's submission, the Tribunal's review of the taxi and hire car industries recommended that an additional \$5 pick-up fee be paid to drivers of wheelchair accessible taxis (WATs).<sup>29</sup> This was to be funded through the NSW Government's Taxi Transport Subsidy Scheme. The Taxi Council submits that due to increased costs and movements in the labour market, it is appropriate that this fee be \$6.00.<sup>30</sup>

The Tribunal is aware that currently WAT drivers are able to charge a maximum of 15 minutes waiting time. This allowance effectively provides some payment for the extra time involved in serving wheelchair-bound passengers. At the existing waiting time rate (\$37.10 per hour), 15 minutes waiting time equates to \$9.25.

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<sup>28</sup> Taxi Council submission, 2 April 2002, p 27.

<sup>29</sup> IPART, *Review of the taxi cab and hire car industries*, Final report, 24 November 1999, p 46.

<sup>30</sup> Taxi Council submission, 2 April 2002, p 28.

The Tribunal considers that any decision to implement an explicit lift fee for WATs should involve greater consultation with relevant community groups than this review has been able to generate. Further, it would need to consider whether removal of the maximum 15 minute waiting time allowance should be undertaken with the introduction of a flat lift fee. To do otherwise may imply a degree of 'double payment' on the part of WAT passengers and/or government.

Finally, if additional payments were to be made through a lift fee, it may be appropriate to have specific WAT performance measures in place to monitor the effect of the payment. The argument for such payments is that it would provide an incentive for drivers to attend WAT bookings, thereby improving service performance to WAT users. If no such improvement is actually forthcoming, than alternative mechanisms, eg stronger enforcement and monitoring, may be required.

### *Tribunal recommendation*

In applying the recommended fare increases to actual fares, the Tribunal does not propose to make any significant changes to the existing fare structure. The Tribunal has maintained the convention of considering an 'average' trip on which to base the calculation. This 'average' trip consists of the flagfall component, a 10 km trip, 3 minutes waiting time and 50 per cent booking fee for urban areas, and flagfall component, a 3 km trip, 3 minutes waiting time and 50 per cent booking fee for country areas. This definition of an 'average' trip has been applied by Transport NSW and the Taxi Council for a number of years. The only recent change has been the inclusion of the booking fee by the Tribunal from last year. This reflects the fact that around 50 per cent of taxi trips involve a booking fee.

The Taxi Council had submitted that the 'average' trip for an urban taxi should be based on 7 km travel. The Tribunal was not provided with any detailed information to support this change. For this reason, the Tribunal has maintained the 'average' trip definitions as applied last year. It notes that if the average trip distance were inappropriately reduced, then in effect a higher fare increase than the actual percentage fare increase is actually passed onto the industry.

In adjusting the components of the taxi fare structure, the Tribunal has applied increases to each of the flagfall, distance, radio booking fee and waiting time rates. The flagfall has been increased by 10 cents in both urban and country areas. The existing and recommended urban flagfall is still relatively low compared to fare structures in other Australian capital cities. It should be noted that the country flagfall is already significantly higher than the urban rate. Waiting time charges have been increased by 25 cents per hour to \$37.35 for both urban and country. Both the urban and country radio booking fee will increase by 10 cents respectively. Finally, the distance charge makes up the balance of the fare increase.

The following table shows the recommended new fare structure for urban and country taxi fares. The Tribunal acknowledges that a wide range of scenarios is possible. However, it feels that the recommended fare structure strikes an appropriate balance between each of the items.

**Table 5.5 Recommended new taxi fares**

<b>URBAN<sup>1</sup></b>					
<b>Current fare structure</b>			<b>Recommended</b>		
Flagfall	\$2.45		\$2.55		4.1%
Distance	\$1.38 per km		\$1.45		5.1%
Radio	\$1.15		\$1.25		8.7%
Waiting time	\$37.10 per hour		\$37.35		0.7%
Average fare	\$18.68	<b>4.6%</b>	<b>\$19.54</b>	\$19.54	<b>4.6%</b>
(recommended increase)					
<b>COUNTRY<sup>2</sup></b>					
<b>Current fare structure</b>			<b>Recommended</b>		
Flagfall	\$2.95		\$3.05		3.4%
Distance <sup>3</sup>	\$1.44 per km		\$1.51		5.0%
Radio	\$0.65		\$0.75		15.4%
Waiting time	\$37.10 per hour		\$37.35		0.7%
Average fare	\$9.45	<b>4.0%</b>	<b>\$9.83</b>	\$9.83	<b>4.0%</b>
(recommended increase)					

Note:

1. The 'average' fare calculation for urban areas is based on the flagfall rate, 10 km trip, 50 per cent weighting to the radio fee, and 3 minutes waiting time.
2. The 'average' fare calculation for country areas is based on the flagfall rate, 3 km trip, 50 per cent weighting to the radio fee, and 3 minutes waiting time.
3. The current and recommended distance rate of \$1.44 per km and \$1.51 per km respectively, relate to travel for the first 12 km. The Tribunal recommends that the existing rate of \$2.03 per km for travel in excess of 12 km be increased to \$2.11 per km.

## 5.8 The way forward

Having conducted two taxi fare reviews over the past year, the Tribunal has been able to broadly consider issues relevant to the regulation of the taxi industry. Through this process, the Tribunal has come to a number of general conclusions on how best to approach the task, and related to this, some changes to process that would assist the government in monitoring and regulating the industry in the future. The following are key conclusions reached by the Tribunal:

- The government should reject any proposal for annual automatic adjustments to taxi fares based on a cost index. Industry may wish to base its claims on a cost index, but it should only be used as a guide by government. It should be noted that no industry regulated by the Tribunal has its prices determined through a cost index approach.
- This review has not been able to verify a range of cost items put forward by the Taxi Council, and many assumptions behind these cost items. A detailed study on cost items may need to be undertaken if the current regulatory approach is maintained. Further, there appears to be minimal information on the earnings of taxi operators. Such information may be useful in reaching appropriate regulatory outcomes. A detailed study of industry revenue may need to be undertaken.

- The regulatory approach needs to encourage efficiency gains within the industry. It is the Tribunal's view that a cost index is a poor mechanism to achieve this aim.
- An on-going annual information return from the industry should be established, to include revenue, cost and performance information. This will provide government with a consistent set of information in considering fare outcomes. As the industry environment changes and/or particular issues increase their relevance, this information set may be changed/expanded.
- Performance standards need to be properly defined, properly monitored, and where necessary, action needs to be taken by government and/or industry to attain those performance standards (service quality is discussed in detail in chapter 10).



## **6 PRIVATE BUSES – TRIBUNAL ASSESSMENT OF BCA APPROACH**

In this chapter the Tribunal assesses the cost index and non commercial fares modelling approaches which the BCA has used to support its request for private bus fare increases and SSTS funding requirements. The Tribunal's approach to the cost index has been to consider the reasonableness of each of the cost items (ie do the actual figures presented for each cost item reasonably represent the actual costs faced by private bus operators for those cost items), and to consider more generally the implications of a cost index approach as suggested by the BCA.

In regard to the non commercial revenue model, the Tribunal has commented generally on the non commercial modelling approach. This reflects prior Transport NSW/BCA agreement on the model. It does not reflect Tribunal endorsement of the model.

### **6.1 The cost index**

#### **6.1.1 Bus capital costs**

Bus capital costs are included in the cost index as a monthly lease payment. This payment is based on a five year lease of the combined chassis and coach body cost, with the prevailing government bond rate as the lease interest rate.

The bus on which the bus capital costs are based is a Mercedes 0405NH chassis with a custom coach body. The Mercedes 0405 chassis used in previous years is no longer available, and has been replaced by the low floor model 405NH. The BCA state that a custom coach body for such a low floor chassis is more costly. Prices have been obtained from Daimler Chrysler, the suppliers of this bus. In moving to the new low floor model the chassis price has increased 2.2 per cent, from \$188,067 to \$192,206 and the coach body increased in price by 19.2 per cent, from \$143,000 to \$170,500. This represents an increase in the total price of a bus of 9.6 per cent, from \$331,067 to \$362,706.

The 10 year government bond rate, which is used as the lease interest rate, has risen over the course of the year from 6.10 per cent at 1 July 2001 to 6.32 per cent at 30 June 2002.

The result of these changes is an increase in the monthly lease payment from \$6,415.86 to \$7,066.22, a change of 10.14 per cent. As bus capital costs are weighted at 14.98 per cent of the cost index, this cost increase translates to an increase in the cost index of 1.52 percentage points.

#### *Tribunal assessment*

The Tribunal has three key concerns with the approach to calculating bus capital costs. These relate to the choice of lease period, the lease interest rate, and the model's assumption that all buses are new.

The choice of 5 year lease period with no residual value over which the whole value of the bus capital cost is repaid appears unrealistically short. In discussions with the BCA it stated that a difficulty with the 5 year contract period was obtaining the typical 10 year lease term. This would imply it is more appropriate to use a 10 year lease. Further, the BCA submit that

the average bus age is between 10 and 10.5 years, thus buses are clearly not replaced every 5 years.

If a 10 year lease period were used instead of a 5 year period, the monthly cost would be only \$3,692.17 in 2001, and \$4,085.32 in 2002, instead of \$6,415.86 and \$7,066.22 respectively. This equates to around 13 per cent of the cost of the bus per annum instead of 23 per cent of the cost of the bus per annum when 5 years is used. Increasing the period of the lease to 10 years from 5 increases the percentage increase in the monthly lease payment from 10.14 per cent to 10.65 per cent, thus 1.60 percentage points to the overall increase in the cost index, compared to the 1.52 in the BCA base case (ie cost increase overall of 4.26 per cent compared with 4.18 per cent as in the base case). As the weightings used for the index are fixed, this is not a large difference.

The other difficulty with the treatment of bus capital costs is the use of the government bond rate as the lease interest rate. Being a risk free rate it is unlikely that this would approximate the interest rate charged on financing obtained to purchase buses by private operators. As an example, the average fixed interest rate STA is paying on its debt is around 8 per cent.<sup>31</sup>

Applying a 2 per cent 'risk premium' to the interest rates used by the BCA (using 8.10 per cent in 2001 and 8.32 in 2002) increases the monthly lease payments to \$6,728.70 in 2001 and \$7,410.05 in 2002 (ie roughly 5 per cent higher). Leaving the weighting of bus capital cost in the index fixed, changing the interest rate does not change the contribution to the overall cost index.

The Tribunal's third key concern with the BCA's approach to calculating bus capital costs relates to its assumption that all buses are new. The model captures increases in bus capital costs (ie in table 2.1 the cost of a Mercedes chassis and custom coach body are both shown to have increased). When these costs increase, they feed into lease costs, effectively assuming that lease costs for all buses have increased. Such a modelling approach is equivalent to applying a new asset base each year, and then giving a nominal rate of return on top of this.

In practice, there will be a portfolio of leases across the private bus industry, and changes in new bus costs and interest rates will only affect new leases. Ideally, one would model the portfolio of leases and the change in average lease costs would be the difference between the cost of the retiring leases and the new leases averaged over the whole fleet.

Despite the Tribunal's concerns in regard to the calculation of bus capital costs, it has not amended the BCA's approach. It has not been possible to change the weightings given to each cost category in the model as the Tribunal has not been given a breakdown of total costs. Consequently, it is not possible to change the term of the lease used nor the benchmark used as the lease interest rate; these parameters are inextricably linked to the structure of the model, and changing either would necessarily require reweighting of the index, as these are assumptions on which the current weightings are based. Therefore, as the vehicle costs stated in the base case were determined to be accurate, the contribution to the total increase in the cost index of bus capital costs remains at 1.52 per cent, as presented in the base case.

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<sup>31</sup> State Transit Annual Report 200-2001, p 52.

The Tribunal also raises the issue that the model should reasonably reflect the operational requirements of the industry. The cost index uses a single bus type. If this bus type does not represent the actual bus used for the average private bus operator, in both urban and rural areas, the cost index is unlikely to accurately represent the actual cost change experience by the operator. Further, to the extent that the single bus type does not reflect community and government requirements, private bus operators may not be adequately compensated for meeting higher bus standards.<sup>32</sup>

### 6.1.2 People costs

The bulk of 'people costs' are wages, which comprises 84 per cent of this cost category (as weighted in the index). Other components are superannuation, payroll tax on wages, and workers compensation. This cost category as a whole is the most significant contributor to total costs, making up 50.49 per cent of the cost index.

The wages cost increase is calculated by using the weekly award wage rate under the "Motor Bus Drivers and Conductors State Award" as agreed between the BCA and TWU, plus the Drivers and Conductors Allowance of \$9 per day (or \$45 per week) which also forms part of the award.<sup>33</sup> The total weekly wage including this allowance has risen from \$606.60 in 2001 to \$626.26 as at 1 July 2002. This is an increase of 3.24 per cent, and wages alone contribute 1.38 percentage points of the 4.18 per cent cost increase set out in the BCA's submission.

Superannuation costs are based on the wage cost, and calculated as 9 per cent of the weekly wage, as required by legislation. As the 9 per cent represents an increase from the 8 per cent required in 2001, superannuation costs have increased faster than wages (that is 16.15 per cent) and contributed 0.54 percentage points to the total increase in the cost index.

Payroll tax is calculated as a given percentage of the weekly wage and superannuation payments. It is 109 per cent of the award wage multiplied by the prescribed payroll tax rate. This rate was 6.20 per cent in 2001, falling slightly to 6.00 per cent in 2002. As the decline in the rate at which payroll tax is levied offsets the increase in wages to some degree, payroll tax contributions increase by only 0.84 per cent, contributing 0.02 to the overall cost index.

Workers compensation is calculated, like superannuation, as a legislated percentage of the wage rate. This percentage increased from 5.47 per cent in 2001 to 6.02 per cent in 2002. This, coupled with increasing wage rates, results in a 13.57 per cent increase in workers compensation costs over the course of the index. As workers compensation makes up only 2.32 per cent of the total index, this translates to only a 0.31 percentage point contribution to the cost index.

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<sup>32</sup> The Tribunal notes the different methods for calculating lease costs in the Taxi Council and BCA submissions. For example, the Taxi Council approach attempts to recognise the varying age profile of taxis. The BCA submission assumes a single bus type and age profile is not explicitly considered. The varying approaches have been applied for a number of years by the industry associations and Transport NSW, and for the purposes of this review each approach has been considered reasonable by the Tribunal.

<sup>33</sup> The Tribunal notes the different methods of adjusting 'labour' costs between the BCA and Taxi Council submissions. The different approaches are as submitted by each of the industry associations, and the Tribunal has assessed broadly whether each submission is reasonable. It has not attempted to apply the same approach to each. In fact, in some cases this may be inappropriate.

### *Tribunal assessment*

The wage rates quoted in the base case model are consistent with those agreed to between the BCA and the TWU. Further, superannuation percentages, payroll tax rates and workers compensation percentages are consistent with regulatory requirements.

### **6.1.3 Bus insurance and registration**

This cost category comprises only 3.20 per cent of the total cost index, 1.59 per cent of which is green slips, 0.97 per cent represents comprehensive insurance and the remaining 0.64 per cent is registration.

CTP green slip charges as included in the model were provided by Zurich. The insurance charge is fixed for any 'omnibus vehicle seating more than 16 passengers'. This premium has increased from \$2,681.00 in 2001 to \$3,064.71 in 2002, up 14.31 per cent. This amounts to a 0.23 per cent contribution to the overall index increase of 4.18 per cent.

Comprehensive insurance costs were calculated on a different basis, where instead of including the premiums paid by operators, a survey of total premiums paid per thousand dollars of asset value was conducted. These figures, supplied by AEI Insurance Brokers, showed that asset values had decreased from \$138,142,603 in 2001 to \$124,751,546 in 2002, a decrease of 9.69 per cent. Total premiums increased from \$1,237,525 to \$1,526,110 over the same period, an increase of 23.32 per cent. As the increase in premiums paid is compounded by the decrease in asset values, the comprehensive insurance cost (per \$1,000) increased significantly, from \$8.96 to \$12.23. This represents an increase of 36.54 per cent in comprehensive insurance costs, translating to an additional 0.35 percentage points on the cost index.

The registration charge for buses, as levied by the RTA, has risen from \$767 in 2001 to \$859 in 2002, an increase of 11.99 per cent. This contributes 0.08 percentage points to the overall index increase of 4.18 per cent.

### *Tribunal assessment*

The registration costs quoted in the base case are consistent with prices charged by the RTA. Further the comprehensive insurance and CTP premiums quoted by the BCA have been verified by the Tribunal. Insurance costs in the model have risen substantially over the year (by up to 36.54 per cent) but this is broadly in line with cost increases across all motor vehicle insurance premiums. The BCA state that they have been advised that the significant increases in insurance costs are mainly due to the collapse of HIH Insurance and the events of September 11, 2001.

### **6.1.4 Bus lubricants**

This cost item comprises the fuel cost, taken as the average fuel price over the past 12 months. This data was provided by Mobil. The average fuel price for the year ending June 2001 was 95.82 cents per litre, decreasing to 89.00 cents per litre for the year ended June 2002. This was a 7.12 per cent decrease, and contributed -0.83 percentage points to the 4.18 per cent increase requested.

### *Tribunal assessment*

The Mobil fuel data provided by the BCA as support for their submission quotes fuel prices for Sydney. The Tribunal notes that the cost index applies statewide, however there is likely to be some variation in fuel costs in different parts of the state. Given the various prices prevailing, the Tribunal has not been able to collect information on fuel prices across NSW. It has therefore not been able to assess whether this is a significant issue. In addition, since the index simply measures the actual unit price of fuel, rather than total fuel costs, potential differences in fuel consumption rates between metropolitan, regional and rural operators are not captured. A similar issue arises with changes in fuel consumption over time and with changing bus types. The Tribunal has no information that would allow it to assess the potential impact on the cost index of moving from changes in unit fuel prices to changes in total fuel costs. Therefore the Tribunal is retaining the information provided by the BCA.

### **6.1.5 Bus repairs and maintenance**

This cost item comprises major services and tyres. Prices for major services are obtained from Mercedes, while tyre prices are the price for Michelin 11R22.5 XZU radial bus tyres, obtained from Western Tyre & Wheel P/L. This cost category in total makes up 5.33 per cent of the total costs, of which 4.22 percentage points is for services, and 1.11 percentage points is for tyres.

The BCA submission states that the cost of a major service has increased from \$1072.50 as at 1 July 2001 to \$1,105.50 as at 30 June 2002, an increase of 3.08 per cent. This contributes 0.13 percentage points to the increase requested of 4.18 per cent. Similarly, tyre prices have increased from \$639 to \$658.15 over the same period, an increase of 3.00 per cent. This results in a contribution of 0.03 percentage points to the overall cost increase of 4.18 per cent.

### *Tribunal assessment*

The Mercedes major service costs submitted by the BCA have been verified by the Tribunal, and are inclusive of GST, as required for the approach taken under the cost index. Similarly the tyre price quoted has been found to be accurate when compared to quoted recommended retail prices.

### **6.1.6 All other costs**

The index includes a category for other miscellaneous cost items which are inflated at CPI. These items are not identified, and are collectively weighted at 14.37 per cent of the index. The BCA has not provided any indication as to what cost items this category includes. These items make a total contribution of 0.42 percentage points to the overall cost increase required, and as inflation is currently lower than the total increase required, this item has the effect of reducing the quantum of the overall cost increase.

### *Tribunal assessment*

The index uses the March 2001 Sydney CPI for the 2001 value, adjusted for the ANTS impact, and an estimate of the March 2002 CPI adjusted for the ANTS impact for the 2002 value. This estimate has been obtained from estimates provided by a number of banks, as official CPI figures for March had not been released at the time the submission was made. As the March 2002 Sydney CPI has now been released, it is possible to incorporate the official inflation figure, however the resultant inflation of 2.9 per cent is unchanged.

### **6.1.7 Cost index weights**

The weightings used in the cost index model in previous years were established from the results of a survey commissioned by Transport NSW in 1997 on the costs of all NSW bus operators. The BCA and Transport NSW were in agreement that these were representative of the average costs incurred on a single standard bus route. This is the first year that the weightings used in the index have been revised by the BCA.

When carrying out an assessment of the Federal Government's New Tax System (ANTS) impact on private buses, PricewaterhouseCoopers (PwC) attempted to verify that the weightings being used in the cost index were an accurate representation of the cost structure. PwC state 'to undertake analysis of the impact of ANTS, we started by examining the BICI [bus industry cost index] and the original report supporting the baseline, prepared by Deloitte Touche Tomatsu. These documents did not provide information at a sufficient level of detail to enable our analysis'.<sup>34</sup> Consequently, PwC developed their own weightings based on 'underlying costs of the average single standard bus route'<sup>35</sup>, and these were used in estimating the ANTS impact on private bus fares. These weightings are pre-GST cost weightings, as of May 2000, and it is this set of weightings that the BCA have incorporated into the BICI for the current year.

There are a number of differences between the weightings developed by PwC and those used previously in the cost index. For example, the original cost index weightings give CTP greenslips a weighting of 1.41 per cent of total costs, and vehicle registration 1.59 per cent. PwC weight CTP greenslips at 1.67 per cent and registration at 0.68 per cent. Given that the BCA submission quotes CTP prices at \$3,064.71 in 2002, and registration at \$859, it would be logical that the weighting for CTP greenslips be substantially higher than that of registration. Thus, the PwC weighting as used this year by the BCA appears more appropriate in this case.

The Tribunal notes that it is possible that the original weightings (as used in previous years) no longer represent the cost structure of the industry. This has the potential to distort the outcome of the cost index, as any increases or decreases in cost elements may be weighted incorrectly in calculating the overall movement in the cost index. However, the weightings proposed by PwC (as used in this year's BICI) are also based on pre-GST costings, thus may also contain distortions as a result of redundant sales tax rates. Consequently, the BCA state that they have "been adjusted for the changes in costs due to ANTS based on the PwC report and the BICI adjustments for 2000/2001 and 2001/2002".<sup>36</sup>

As the Tribunal has not been provided with information on the actual costs incurred by the industry, it has not been possible to assess the reasonableness of the weightings used. However, for reasons discussed above, the Tribunal has accepted the modified weightings proposed by the BCA, although this should not be taken as Tribunal endorsement of the figures.

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<sup>34</sup> PricewaterhouseCoopers, *A methodology for estimating the ANTS impact on private bus fares*, May 2000.

<sup>35</sup> As above.

<sup>36</sup> BCA submission, April 2002.

The BCA state that “a more comprehensive analysis of the weightings and other concepts in the BICI model will be undertaken before the submission in 2003”.<sup>37</sup> The Tribunal support such an approach provided the basis for any changes, and cost information used are thoroughly documented.

### 6.1.8 ANTS adjustment

In addition to the usual cost index that the BCA has submitted to the Tribunal and Transport NSW in the past, the BCA has included an additional item in its commercial fare adjustment model. The BCA submits that an additional fare increase of 1.85 per cent is required to account for duplicated ANTS (ANTS refers to the Commonwealth Government’s *A New Tax System* which introduced the goods and services tax and related reforms) savings.

The BCA has submitted to the Tribunal that from July 2000, Transport NSW approved a fare adjustment of 8 per cent to compensate private bus operators for the GST of 10 per cent from 1 July 2000. The BCA claims that as the Tribunal’s review last year focussed on post GST costs, that there has been a duplication of the ANTS systems savings.

The Tribunal disagrees with the BCA’s contention that the ANTS savings have been applied twice. Each of the reviews for the 2000/01 and 2001/02 fare adjustments can be considered in isolation. With the introduction of ANTS from 1 July 2000, the private bus industry received two components to its fare increase:

- an increase to reflect cost movements, as represented by the cost index
- an increase to reflect the introduction of ANTS. As written above, this component allowed an 8 per cent increase with the introduction of the 10 per cent GST, reflecting expected cost savings of 2 per cent.

Thus these increases to private bus fares reflected cost increases that the industry had experienced and that it would experience with the introduction of ANTS.

For the 2001/02 review, the analysis of cost movements had to be careful to compare ‘like’ figures over time. That is, it had to ensure that movements in the cost index compared either GST inclusive or GST exclusive figures. The model would have been inconsistent if it compared, say, GST exclusive figures for 2000 with GST inclusive figures for 2001. As the Tribunal modelled only GST inclusive figures, the approach ensured that there was proper account of the GST, and that there was no double counting of GST cost related savings as suggested by the BCA.

On the basis of the above, the Tribunal will not be including the BCA’s request for an additional 1.85 per cent fare adjustment for the introduction of the ANTS.

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<sup>37</sup> As above.

## **6.2 Funding of non commercial services**

### **6.2.1 Background**

Payments to private operators who run non commercial services are not based on the fare schedule, unlike commercial contracts. Consequently the cost index which is used to inflate the bus fares, and thereby the reimbursements for commercial contracts, is not applied to non commercial contracts. Rather, payment is made on a per bus basis, using a PwC model that calculates the revenue required per bus per operator. This model takes into account the average number of school days, the bus size, the total hours taken to provide the service and the kilometres travelled. PwC then annually adjust this model to take into account underlying cost changes.

### **6.2.2 Fuel prices**

The fuel price used in the model for the 2002/03 year is calculated on the same basis as the BICI, that is the average of the weekly fuel price, but for the period 1 May 2001 to 31 March 2002. This results in a fuel price of 88.37 cents per litre. Further the Diesel and Alternative Fuel Grants scheme rebate for diesel fuel remains 18.51 cents per litre as at 1 February 2002.

#### *Tribunal assessment*

The Tribunal notes that the methodology used for the inclusion of fuel price effects on total costs in the non-commercial contracts model has been aligned more with the approach taken in the BICI. The Tribunal considers this an appropriate treatment of fuel costs.

### **6.2.3 Wages**

The wage costs included in the model are the award wage rates agreed between the BCA and the TWU. This agreement permitted a 3.5 per cent increase in wages. Superannuation, which is modelled as 9 per cent of wages, was therefore also increased. These costs are modelled in a forward looking manner, that is the increase in revenue requested is to cover the increase in expenditure on wages in this current year, not increases that occurred over the past 12 months.

#### *Tribunal assessment*

The wage costs incorporated into the model are consistent with those that prevail for the 2002/2003 financial year. That is, they correspond to the wages bill incurred over the period for which the contract payments are being made.

### **6.2.4 Workers compensation**

The model has increased the workers compensation premium to 5.44 per cent from 4.79 per cent in line with increased rates announced in June 2001. This represents a 13.6 per cent increase in the rate at which the premium is levied, which coupled with the increases in wages on which it is based, results in a significant increase in workers compensation costs.

### *Tribunal assessment*

The wage rates used in the model in order to calculate labour costs, and from which workers compensation premiums are derived, are those that come into effect from 1 July 2002 and apply until 30 June 2003. However, the workers compensation rates used are those that applied from 1 July 2001 until 30 June 2002. This mismatch in the calculation of workers compensation costs means that the modelled cost is a hybrid of the previous year's cost and the current year's costs, but represents neither. Altering the workers compensation rate assumed in the model to match the wage rates used would result in a very slight increase in the revenue required per bus. The Tribunal notes that PwC state it is not possible to rectify this mismatch as changes to the workers compensation insurance premium rates are generally not announced until late June, while the annual update to the Required Revenue Model usually occurs in April or May.<sup>38</sup> Given this constraint, the Tribunal is retaining the approach taken by the BCA.

### **6.2.5 Bond rate**

The bond rate assumed in the model is 6.32 per cent, which is the government bond rate as at 28 March 2002. This is used to determine the required return on investment. The rate of return on investment that is modelled is 14.32 per cent, which is composed of the government bond rate with an 8 per cent margin.

### *Tribunal assessment*

Whilst the correct bond rate has been assumed in the model, it is not clear whether or not the 8 per cent margin constitutes an appropriate premium for this industry. This figure has not been substantiated in the BCA's submission, merely assumed. The Tribunal notes comments by PwC addressing this issue, but also recognise that changes were not made to the model. It is worth noting that the return on investment, as a proportion of the net revenue requirement per bus, ranges from 11 per cent for category 1 vehicles up to 27 per cent for category 4 vehicles. In the case of category 4 vehicles, if for example the revenue required for the bus was \$76,471 (as provided as an example in the model), then \$20,670 of this would be the return on investment or profit margin.

Given that private bus operators essentially have monopoly rights over their relevant routes/region, the 8 per cent premium on bond rates appears a high figure. Given the timing of this review, the Tribunal has not been able to consider further the appropriateness of the 14.32 per cent return on investment. If the model continues to be used to assess non commercial SSTS revenue requirements, Transport NSW may wish to consider a review of the return on investment parameter. The Tribunal notes that this issue was last reviewed in 1996.

### **6.2.6 Consumer price index**

The model uses the Sydney CPI figure for the 12 months to March 31 2002, adjusted to remove the ANTS impact. This has been sourced from Econtech, and the resulting inflation rate is 2.9 per cent. The CPI figure is used throughout the model to inflate a large number of the cost items from 2001 to 2002. The revenue increases linked to cost items inflated by CPI are retrospective in that increased revenue is compensation for increases in price that have occurred over the past 12 months, not increases that are forecast to occur in this current year.

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<sup>38</sup> BCA submission on non commercial contracts – required revenue model, April 2002.

### *Tribunal assessment*

The CPI used in the model is in line with Tribunal estimates of CPI less ANTS impact. The CPI is used to inflate a large number of cost components from 2001 to 2002. Essentially every cost with the exception of fuel, driver labour and bus capital cost is increased in this way. Notably bus insurance is inflated using the CPI figure, while arguably insurance costs have risen at far in excess of this rate (for comparison, comprehensive insurance costs by over 30 per cent in the cost index). While there are separate entries for labour associated with administration and cleaning, these too are inflated using the CPI figure rather than average weekly earnings. While these 'other' costs are not individually as significant as driver labour, fuel and bus capital costs, when summed together they comprise almost a third of the cost base.

While the Tribunal notes the comments made by PwC addressing this issue, it is still an area that could be given further consideration in subsequent reviews of the non commercial model.

### **6.2.7 Bus capital costs**

The model is divided into four different types of bus, categories 1 through 4, and a separate capital cost is modelled for each. From the capital cost of the buses a depreciation expense is calculated, and this is then included as a revenue requirement. The depreciation rate used is 11.5 per cent per annum, over a bus life of 24 years. This expense constitutes up to 8.5 per cent of the revenue required. Depreciation costs have increased by around 8 per cent between 2001 and 2002.

### *Tribunal assessment*

Whilst noting the information on average bus age provided by the BCA, the Tribunal considers the depreciation regime applied in the non commercial contracts model to be an area that could be addressed if modifications to the model are undertaken.

### **6.2.8 Tribunal recommendation**

The Tribunal has only been able to consider at a high level, the BCA model used to calculate non commercial revenue requirements. The above discussion highlights a number of areas of concern. Although overall these factors only have a marginal impact on the outcome of the model and hence non commercial contract funding, the Tribunal has not been able to fully consider these matters given available information. Its preliminary findings suggest that non commercial operators may be overfunded by around 3 per cent on average. The Tribunal stresses that these findings are only preliminary.

Notwithstanding these issues, the Tribunal is satisfied with the workings of the model, and its use for calculating non commercial contract revenue this year. However the Tribunal is not in a position to endorse the model for the reasons outlined above.

## 7 TRIBUNAL AMENDMENTS TO BCA COST INDEX

The preceding chapter discussed the Tribunal's assessment of the cost index items included in the BCA submission. While each item was analysed by the Tribunal, no adjustments were considered necessary. Therefore the Tribunal has applied the figures it has been presented with by the BCA.

In addition to the fare increase to compensate for movements in the cost index, the BCA also sought an increase to take into account the impact of ANTS. The Tribunal does not believe that such an increase is appropriate.

### 7.1 Tribunal recommendation on private bus fares

The cost index for private buses is presented in table 7.1. This is as submitted by the BCA, less the proposed ANTS adjustment. The Tribunal is recommending that average private bus fares increase by 4.2 per cent.

**Table 7.1 Private bus cost index**

	Base 1 Jul 01	Cost 1 Jul 01	Cost 30 Jun 02	Cost increase	Change
<b>Capital costs</b>					
Mercedes chassis		\$188,067	\$192,206		
Custom coach body		\$143,000	\$170,500		
Bond rate		6.10%	6.32%		
M'thly lease pay'mt	<b>14.98%</b>	\$6,415.86	\$7,066.22	10.14%	<b>1.52%</b>
<b>People costs</b>					
Award rate of pay	42.44%	\$606.60	\$626.26	3.24%	
Superannuation	3.35%	\$48.53	\$56.35	16.15%	
Payroll tax	2.38%	\$40.62	\$40.96	0.84%	
Workers comp.	2.32%	\$33.18	\$37.68	13.57%	
<b>Total</b>	<b>50.49%</b>				<b>2.25%</b>
<b>Bus ins./regis'tn</b>					
Green slips	1.59%	\$2,681.00	\$3,064.71	14.31%	
Compr. per \$1,000	0.97%	\$8.96	\$12.23	36.54%	
Registrations	0.64%	\$767.00	\$859.00	11.99%	
<b>Total</b>	<b>3.20%</b>				<b>0.66%</b>
<b>Bus lubricants</b>	<b>11.63%</b>	\$0.96	\$0.89	-7.12%	<b>(0.83)%</b>
<b>Repairs/maint'nce</b>					
Major service	4.22%	\$1,072.50	\$1,105.50	3.08%	
Tyres	1.11%	\$639.00	\$658.15	3.00%	
<b>Total</b>	<b>5.33%</b>				<b>0.16%</b>
<b>All other costs - CPI</b>	<b>14.37%</b>	\$130.22	\$134.04	2.93%	<b>0.42%</b>
<b>Total</b>	<b>100.00</b>				<b>4.18%</b>



## 8 PRIVATE FERRIES – TRIBUNAL ASSESSMENT OF CVA APPROACH

While cost indexes were effectively collected from five individual operators, the CVA did not combine these to form an industry cost index. As this is the preferred approach of the Tribunal, the cost index resulting from combining the individual submissions, giving each an equal weighting, is given below. Note that this results in a cost increase of 9.54 per cent, which differs slightly to the result obtained by the CVA from averaging the total cost increase of each operator.

**Table 8.1 Private Ferry cost index**

<b>Costs</b>	<b>Weighting %</b>	<b>Cost increase %</b>	<b>Index %</b>
Labour	39.0	11.2	4.37
Fuel	13.9	3.4	0.47
Repairs and maintenance	15.2	10.3	1.56
Insurance	4.2	29.6	1.23
Depreciation	5.1	11.7	0.60
Interest	4.5	-6.5	-0.30
Licensing fees	2.2	3.7	0.08
Berthing/mooring fees	2.4	5.9	0.14
Advertising	1.7	40.9	0.67
Motor vehicle expenses	3.3	0.3	0.01
Other	8.6	8.2	0.71
<b>TOTAL</b>	<b>100.0</b>		<b>9.54</b>

### 8.1 Labour

Labour costs are the greatest contributor to the private ferry cost index, comprising 39.0 per cent of total costs. The contribution of labour costs to the total costs of individual operators varied significantly, ranging from only 11.7 per cent to 56.5 per cent. There was similar variation in the extent to which operators reported labour costs to have increased over the past 12 months. While the overall cost index indicates an average increase of 11.2 per cent, the increase incurred by individual operators ranged from 4 per cent to 28.4 per cent.

#### *Tribunal assessment*

The Tribunal is concerned at the variation in labour costs reported by the individual operators, specifically the range of percentage cost increases submitted. The resultant aggregate labour cost increase of 11.2 per cent also appears higher than may be expected given movements in average weekly earnings and award wages.

The format in which the cost data has been presented, that is as a percentage increase on the previous year's cost, has the inherent downfall that any increase in the total labour expense is reflected in the percentage increase, rather than just increases in the unit price of the cost item. For example, additional costs incurred as a result of increasing the size of the labour force are captured in the cost index. A further concern is that returns or profits from the

businesses that are paid to owner operators are being included in the labour cost category. This would have the impact of distorting the reported labour costs, allowing an increase in profitability to translate to an increase in labour costs and thus required fare increase.

Consequently, the Tribunal feels it is more appropriate to measure the movement in labour costs by reference to the increase in the relevant award wages over the past 12 months. The CVA has indicated that the wage rates in the Marine Charter Vessels Award are appropriate. These rates were increased by an average of 2.87 per cent over the past 12 months.

### **8.2 Fuel**

Fuel is a significant component of the total cost index, with a weighting of 13.9 per cent. However, as was the case with the labour cost category, significant variation exists between the individual operators. Fuel contributes as little as 6.9 per cent and as much as 24.8 per cent of the total costs of individual operators. In aggregate the cost of fuel has risen by 3.4 per cent, however this figure is not an accurate reflection of the movement in cost faced by the majority of operators. Only one of the five operators reported an increase in the cost of fuel, but the magnitude of this increase (at 19.2 per cent) was such that it was sufficient to result in the average cost movement also showing an increase. Two of the remaining operators reported a decline in the cost of fuel, the others reported no change.

#### *Tribunal assessment*

The one off reported cost increase of 19.2 per cent is clearly an outlier when considered in the context of the other submissions, and falling fuel prices in general. The Tribunal considered it possible that the reported increase was due to greater fuel consumption by that operator rather than a movement in the fuel price. Consequently clarification was sought from the operator involved.

In response, the operator revised their estimate of fuel cost movements to a decrease of 2.3 per cent, stating, "diesel prices have on average decreased by 2.3 per cent for the years ended 30 June 2001 to 30 June 2002". Thus the Tribunal have adjusted the cost index to reflect this information.

### **8.3 Repairs and maintenance**

Repairs and maintenance expenditure comprises 15.2 per cent of the total cost index. Again significant variation was apparent between operators, who reported contributions to total costs ranging from 6.1 per cent to 30.9 per cent. On average repairs and maintenance costs increased by 10.3 per cent over the 12 month period. Individual operators reported increases ranging from 2.8 per cent to 27.0 per cent.

#### *Tribunal assessment*

Whilst operators reporting differing increases in repairs and maintenance costs is to be expected, the 27.0 per cent increase reported by one operator was considerably higher than the increases of 2.8 per cent, 6.5 per cent, 7.0 per cent and 8.1 per cent reported by the other operators. As repairs and maintenance can at times be a lumpy expense item, the Tribunal sought clarification from the operator involved as to the nature of the increased costs.

The operator stated that as they were unable to separate the repairs and maintenance costs incurred on behalf of the private ferry operation from those attributable to other river operations carried out, they were happy to agree to a 5.0 per cent increase figure. The Tribunal is satisfied that this figure is more in line with those provided by the other operators, and thus has revised the cost index to take this new information into account.

## 8.4 Insurance

Insurance costs contribute 4.2 per cent of the total cost index, with individual operators reporting weightings ranging from 1.7 per cent to 8.5 per cent. On average insurance costs have risen 29.6 per cent. Four of the five operators reported substantial increases in the cost of insurance, ranging from 20.0 per cent to 52.5 per cent. The fifth operator submitted only a 0.20 per cent increase in insurance costs.

### *Tribunal assessment*

The Tribunal acknowledges that insurance costs in general have risen over the past 12 months, thus the average 29.6 per cent increase, although high, appears reasonable.

## 8.5 Depreciation

Depreciation costs comprise 5.1 per cent of the total cost index, with individual operators reporting depreciation costs contributing from 1.4 per cent to 12.3 per cent. Depreciation expenses have risen by 11.7 per cent on average. Individual operators reported varying movements in depreciation charges, with two operators reporting no change, one reporting a decline of 1.4 per cent and the remaining two reporting increases of 31.3 per cent and 28.6 per cent.

### *Tribunal assessment*

Clearly the depreciation cost would not necessarily be expected to be similar for the different operators, as it is highly dependant on the type and age of vessels operated. Thus the Tribunal is satisfied that a weighting of 5.14 per cent while not reflective of the true cost incurred by each operator does lie towards the middle of the range reported and is thus an appropriate measure.

It is noted that the two larger operators reported no change in the depreciation cost incurred, while the remaining operators who are considerably smaller reported significant movement in the cost incurred. This would be expected as the larger operators have a fleet of vessels over which depreciation would tend to remain fairly constant over time.

## 8.6 Interest

Interest expenses make up 4.5 per cent of the total private ferry cost index. This consists of individual operator's reported contributions ranging from zero to 8.6 per cent. Interest costs declined on average by 6.5 per cent, with all operators reporting either a decrease in their interest cost or no change.

### *Tribunal assessment*

The Tribunal is satisfied that the weighting of the interest expense in the total cost index is appropriate, as it falls within the range submitted by operators, and there are no obvious outliers. The change in interest costs is generally consistent with the interest rate movements of the past 12 months.

## **8.7 Licensing fees**

Licensing fees comprise only a relatively small amount of total costs at 2.2 per cent. Individual operators reported licensing fees making up between 0.3 per cent and 6.6 per cent of total costs, with larger operators tending to attribute a smaller percentage of total costs to licensing fees. Licensing fees increased on average 3.7 per cent, with operators reporting increases ranging from zero to 14.9 per cent.

### *Tribunal assessment*

Whilst it has not been possible to independently verify private ferry licensing fees, the Tribunal is satisfied that the 3.7 per cent increase captured by the total cost index is an adequate reflection of the movement in licensing fees, given the information supplied by the CVA.

## **8.8 Berthing/mooring fees**

Berthing and mooring fees comprise 2.4 per cent of the total cost index, and have on average increased by 5.9 per cent over the past 12 months. This cost item is unique in that it is incurred by only the two larger operators.

### *Tribunal assessment*

Although this item represents a cost to only two of the operators who made submissions, the Tribunal considers that given the nature of the cost index approach it is appropriate to include this item. Furthermore the impact of berthing/mooring fees on the cost index's outcome is sufficiently small so as not to distort the result unduly. In the absence of independent information to verify these costs, the Tribunal accepts the information provided by the CVA regarding this cost item.

## **8.9 Advertising**

Advertising costs are the least significant of the cost categories explicitly included in the cost index, contributing 1.7 per cent. Costs incurred by individual operators ranged from 0.03 per cent of total costs to 4.8 per cent. While the average increase in advertising costs was 40.9 per cent, the individual cost movements reported by the operators ranged considerably.

### *Tribunal assessment*

The Tribunal is concerned that this is a substantial increase in costs, but has been informed by a number of operators that such costs were necessary to arrest falling patronage. It is noted that Sydney Ferries have also submitted that declining patronage has adversely impacted farebox revenue over the past 12 months. However it has not been possible to verify these reported advertising costs, as the CVA are not willing to divulge actual cost figures in dollar amounts. The Tribunal is inclined to accept the reported cost increases for the purposes of this review, but may require additional information in subsequent reviews.

## 8.10 Motor vehicle expense

Motor vehicle expenses comprise 3.3 per cent of total costs in the overall cost index. This cost item is contributed by only the three smaller operators. On average this cost item has increased by 0.3 per cent, with all operators reporting cost increases of under one per cent.

### *Tribunal assessment*

As was previously discussed in relation to berthing/mooring fees, the Tribunal believes it is appropriate to include expenses in the private ferry industry even if they are not incurred by all operators. As such, motor vehicle expenses are still a cost to the private ferry industry and belong in the cost index. The increases in this cost submitted by the operators were within a relatively narrow range, thus the Tribunal is satisfied that the average figure is appropriate.

## 8.11 Other

The other category, which acts as a catch all for items not explicitly included in the cost index, is a significant component of the cost index, contributing 8.6 per cent of total costs. All operators reported an other cost category, with weightings ranging from 1.7 per cent to 20.8 per cent. The increase in the other category on average is 8.2 per cent. Individual operators reported increases ranging from 0 per cent to 34.6 per cent.

### *Tribunal assessment*

It is difficult to assess the validity of the movement in the other cost item as the CVA has not clearly identified the components of this cost category. While the Tribunal accepts the need for an 'other' cost category to cover those items too small to include individually, or specific only to a small number of operators, it is not desirable that this item dominate the cost index outcome.

The overall contribution to the cost index of the other category as submitted by the CVA is 0.7 percentage points of a 9.5 per cent cost increase. As it does not have an overly large impact the Tribunal is prepared to accept the information provided by the CVA. However, the Tribunal may require additional information on the items that comprise the other category and their cost movements in subsequent reviews.



## 9 TRIBUNAL AMENDMENTS TO CVA COST INDEX

The preceding chapter discussed the Tribunal's assessment of the cost index items included in the private ferry cost index. Minor adjustments were made to some items, however the Tribunal generally applied the figures it had been presented with by the CVA.

In this chapter, the Tribunal discusses key changes it has made to the items included in the cost index. The most significant of these was the adjustment of the increase in labour costs to reflect increases in award wage rates, however revisions were also made to the fuel and repairs and maintenance cost categories.

### 9.1 Conversion to cost index

While the intention of the Tribunal was to develop a cost index in conjunction with the CVA for use in this review, the CVA did not aggregate individual operator's submissions into such an industry wide index. Rather, the CVA averaged the total cost increase required by each operator to determine that costs had risen by 10 per cent.

The Tribunal converted the individual submissions into an industry wide cost index based on the individual cost indexes supplied by operators, as had been previously agreed with the CVA. This index was presented as Table 8.1 in the previous chapter. The resultant cost increase was 9.54 per cent.

### 9.2 Labour costs

It was noted in the previous chapter that the CVA's submission suggested that labour costs had increased on average 11.2 per cent. The Tribunal is of the opinion that a more appropriate measure of the movement in labour costs would be the movement in the appropriate award wage rates. Adjusting the cost index to reflect the 2.9 per cent increase in wage rates results in the contribution of labour costs to the total cost index falling from 4.4 percentage points to 1.1 percentages points. Consequently the total cost increase as measured by the cost index also falls by 3.2 percentages points from the original 9.5 per cent submitted by the CVA.

The Tribunal intends to continue using the movement in award wages under the Marine Charter Vessels Award to measure movements in labour costs for future reviews.

### 9.3 Fuel

The Tribunal has adjusted the increase in fuel costs incurred by one operator in line with their revised submission, as discussed in the previous chapter. This results in the increase in fuel costs of 3.4 per cent originally recorded in the index changing to a decrease of 0.9 per cent. The Tribunal is satisfied that this is a more accurate reflection of movements in fuel costs. The impact of this revision is the contribution of fuel toward to the overall cost index changing from 0.5 percentage points to negative 0.1 percentage points. Consequently the total cost increase measured by the index also falls by 0.6 percentage points.

## 9.4 Repairs and maintenance

The Tribunal has incorporated the revised increase in repairs and maintenance cost submitted by one operator, as detailed in the previous chapter. Changing this one operator's repairs and maintenance cost increase from 27 per cent to 5 per cent results in the average increase in repairs and maintenance costs falling from 10.3 per cent to 5.9 per cent. This reduces the overall cost index increase by 0.7 percentage points.

## 9.5 Tribunal recommendation on private ferry fares

Table 9.1 summarises the changes made to the CVA's proposed cost index by the Tribunal. The CVA's submission called for a fare increase of 10.0 per cent, which was the average of the total cost increases faced by the five operators who provided information. The Tribunal then converted this information into an industry wide cost index, in which the increase in each cost component was obtained from the weighted average of the increases in that cost component submitted by each of the individual operators. This reduced the increase in fares required to 9.54 per cent. The adjustment of labour costs to reflect movements in award wage rates had the greatest impact on the total fare increase required, reducing it by 3.24 percentage points to 6.3 per cent. Adjusting fuel costs in line with the revised submission further reduced the increase required to 5.7 per cent. It was also necessary to modify the repairs and maintenance costs in accordance with the revised submission, which reduced the fare increase required to 5.0 per cent.

**Table 9.1 Summary of amendments to private ferry cost index**

	<b>Total increase required (%)</b>
<b>CVA submission</b>	<b>10.00</b>
Conversion to cost index	9.54
Adjust labour for award wage increases	6.30
Adjust fuel as per revised submission	5.70
Adjust repairs and maintenance	5.03
<b>IPART revised index</b>	<b>5.03</b>

The composition of the Tribunal's revised cost index is presented in Table 9.2.

**Table 9.2 Revised private ferry cost index**

<b>Costs</b>	<b>Weighting %</b>	<b>Cost Increase %</b>	<b>Index %</b>
Labour	39.0	2.9	1.12
Fuel	13.9	-0.9	-0.13
Repairs and maintenance	15.2	5.9	0.89
Insurance	4.2	29.6	1.23
Depreciation	5.1	11.7	0.60
Interest	4.5	-6.5	-0.30
Licensing fees	2.2	3.7	0.08
Berthing/mooring fees	2.4	5.9	0.14
Advertising	1.7	40.9	0.67
Motor vehicle expenses	3.3	0.3	0.01
Other	8.6	8.2	0.71
<b>TOTAL</b>	<b>100.0</b>		<b>5.03</b>

Note: Cost components may not add to total due to rounding.

Based on the revised cost index, the Tribunal recommends that average private ferry fares increase by 5.0 per cent.



## 10 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 or quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

### 10.1 Taxis

The primary justification for regulating the taxi industry is that in an unregulated environment quality standards will fall and the cost of such a deterioration will be borne primarily by rank and hail customers who have little ability to pick and choose between taxis.

In exploring these issues, the Tribunal has considered information presented in its previous review of the taxi industry<sup>39</sup>, information provided by Transport NSW, and submissions from the Taxi Council and other stakeholders.

#### 10.1.1 Tribunal's 1999 review

The Tribunal's previous review of the taxi industry considered service quality through a number of approaches/data sources. The following summarises the information considered by the Tribunal during that review.

##### *Transport NSW taxi user survey*

In March 1998, Transport NSW commissioned a report on taxi usage and the level of satisfaction of taxi users with taxi services in Sydney.<sup>40</sup> The report included a telephone survey of Sydney residents who had used taxi services over the previous 12 months and an airport intercept survey of visitors at the domestic and international terminals.

The survey indicated that the overall level of satisfaction with taxi services was high. Figure 5.1 in the Tribunal's 1999 review shows the proportion of residents and visitors who rated Sydney Taxis as 'good' or 'very good'.<sup>41</sup> The figure indicates that taxi quality rates relatively highly in terms of cleanliness inside the taxi, driver's appearance, and driver's politeness/friendliness. It suggests a lower quality of service in relation to waiting time after a telephone booking, at ranks and on the street.

Service quality was also 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.

<sup>39</sup> IPART, *Review of the taxi cab and hire car industries*, Final report, 24 November 1999.

<sup>40</sup> NSW Department of Transport – Transport Data Centre, *Sydney taxi customer survey*, Report no 98/4, April 1998.

<sup>41</sup> IPART, *Review of the taxi cab and hire car industries*, Final report, 24 November 1999.

The survey also examined whether service quality was improving or deteriorating. The majority of respondents indicated little change in the past 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.

*Transport NSW complaints register*

The Tribunal's 1999 taxi review noted that the type of complaints reported to Transport NSW were consistent with the passenger survey. The following table summarises the most common types of complaint registered with Transport NSW. It has been updated since the Tribunal's previous review.

**Table 10.1 Summary of complaints registered with Transport NSW<sup>1</sup>**

	1996	1997	1998	1999	2000	2001
Assault, abuse and dangerous driving	1,576	1,246	1,100	1,288	1,177	1,283
Trip refusals, no shows and lateness	771	762	714	1,026	792	681
Poor knowledge, dress or service stds	1,175	583	704	722	571	466
Technical infringements	317	211	284	174	150	129
Incorrect fare, start/stop meter	276	208	201	341	685	436
Poor vehicle cleanliness and safety	177	148	190	220	229	222
<b>Total</b>	<b>4,292</b>	<b>3,158</b>	<b>3,193</b>	<b>3,771</b>	<b>3,604</b>	<b>3,217</b>

Note:

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.

Based on the complaint categories that the Tribunal has focussed on, there has been a fall in the level of complaints received by Transport NSW during 2001. However, some individual categories show significant variation over recent years. Between 1999 and 2001, there has been significant improvement to the 'trip refusals, no shows and lateness' category. Complaints in this category have fallen from 1,026 in 1999 to 681 in 2001. Similarly, there has been significant improvement in the 'poor knowledge, dress or service standard' category.

After a significant deterioration in performance within the category 'incorrect fare, start/stop meter' during 2000, the data for 2001 indicate a more favourable outcome with an improvement in service quality during the year. Similarly, despite some improvement in 2001, the category 'poor vehicle cleanliness and safety' has also been characterised by a deterioration in service quality over the last few years.

It should be noted that the categories considered by the Tribunal in the above table are only a subset of the total complaints received by Transport NSW. Transport NSW indicates that if all categories were considered, they would show an increase in the number of complaints experienced between 2000 and 2001.

In its submission to the Tribunal in 2002, the Taxi Council notes that there has been a decline in the level of complaints registered with Transport NSW between 1996 and 2001, with the categories of 'trip refusal, no shows and lateness' showing marked improvement.<sup>42</sup>

However, the Taxi Council suggests that the Tribunal should exercise caution when analysing the Department's data on complaints, referring to this data as an 'unfiltered summary'. The Taxi Council suggests that:<sup>43</sup>

- the data gives no regard to the number of unsubstantiated claims
- taxi hirers have scant knowledge of the regulations pertaining to taxi operations.

### **10.1.2 Performance requirements**

Taxi networks are required to be authorised by the Director-General of the Department of Transport and to meet various standards and levels of service on which the authorisation is based.

Transport NSW currently has in place interim standards for authorised taxi network operators. These standards are separated into those networks operating in the metropolitan, Wollongong and Newcastle transport districts, and those operating country areas.

The interim standards were introduced in 1993. At that time, it was expected that more stringent standards of performance would be required to be met after a phased introduction of one year. Transport NSW has indicated to the Tribunal that the interim standards are currently being reconsidered.

The following discusses the performance standards required of network operators in metropolitan and country areas.

#### *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 performance relative to the telephone answering and delivery standards.

In relation to telephone answering standards, requirements in the interim standards for metropolitan network operators 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.

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<sup>42</sup> NSW Taxi Council submission, 2 April 2002, p. 35.

<sup>43</sup> NSW Taxi Council submission, 2 April 2002, pp. 35-36.

In relation to delivery standards, requirements in the interim standards for metropolitan network operators include:<sup>44</sup>

- 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.

Transport NSW requires performance reports to be submitted quarterly.

### *Country performance standards*

Telephone answering requirements are the same as those for metropolitan network providers. In relation to delivery standards, requirements in the interim standards for country network operators include:

- 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.

These performance requirements are tighter than those applying to metropolitan network operators. Traffic congestion, the complexity and size of the road system, and the size of the area covered would have been factors in justifying the different performance requirements for metropolitan and country areas.

Transport NSW requires performance reports to be submitted six monthly.

### **10.1.3 Performance standards attained**

Transport NSW has not undertaken a general taxi user survey since the Tribunal's 1999 review. However, a survey of wheelchair taxi users was conducted in August 2000, and Transport NSW has received performance reports from some network operators. The Tribunal has been provided with the copy of the survey results and performance reports for some Sydney networks.

#### *Performance reports*

In the past, the Tribunal has considered the network operator quarterly performance reports for each of the taxi operators. The Tribunal notes that these reports are not independently audited, and that Transport NSW intends to introduce direct data links to the network operator's system so as to allow a greater degree of independent auditing by the Department. Transport NSW 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

In its report to the Minister last year the Tribunal included the following analysis in order to provide an assessment of industry performance. The following table shows industry performance in relation to telephone answering and waiting time for Sydney taxi companies. The statistics provided indicate that on average across all Sydney taxi

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<sup>44</sup> 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.

companies, 79.8 per cent of calls received are answered within 1 minute and 92.2 per cent are answered within 2 minutes for the year 2000.

While there was some variation between the companies all met the performance targets set by Transport NSW. There was also some improvement in 2000, compared to the previous year.

Taxi networks did not perform as well in meeting the delivery standards set by Transport NSW. Across each survey year 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 of a booking being made, well below the target of 98 per cent set by Transport NSW. Similarly, only 88 per cent of taxis arrived within 60 minutes of the booking being made, well below the target of 100 per cent. Performance in 2000 was only marginally better than 1999.

**Table 10.2 Sydney taxi company performance information<sup>1,2</sup>**

		Telephone answered		Waiting time since booking		
		< 1 min	< 2 mins	< 15 mins	< 30 mins	< 60 mins
Legion Cabs	1999	81.4	91.5	85.3	93.8	97.4
	2000	85.1	94.9	89.0	98.3	100.0
Manly Warringah	1999	73.9	90.4	84.0	88.6	89.1
	2000	75.1	89.4	84.6	89.4	89.8
Premier	1999	80.2	96.2	na	na	na
	2000	80.1	96.6	84.0	92.4	93.3
	2001 <sup>3</sup>	89.6	98.3	89.8	98.8	99.8
RSL	1999	74.1	91.0	67.2	70.1	70.4
	2000	76.3	90.2	72.3	75.2	75.4
Taxis Combined	1999	74.5	90.1	84.8	88.9	89.4
	2000	76.6	89.1	84.7	88.7	89.1
St George	1999	72.4	89.4	86.3	90.9	91.4
	2000	80.9	91.0	85.5	90.1	90.5
South Western	1999	na	na	na	na	na
	2000	76.5	89.8	84.7	91.2	91.7
Yellow Cab	1999	na	na	na	na	na
	2000	90.0	96.2	35.4	44.6	46.3
<b>Total</b>	1999	<b>76.4</b>	<b>91.6</b>	<b>81.1</b>	<b>86.1</b>	<b>87.3</b>
	2000	<b>79.8</b>	<b>92.2</b>	<b>81.3</b>	<b>87.4</b>	<b>88.2</b>

Note:

1. Based on quarterly information sheets from taxi radio networks for the calendar years 1999, 2000 and 2001. Transport NSW has not been provided with all the quarterly information sheets for each year.
2. There are only 3 Radio Network Centres, operated by Premier Cabs, Legion Cabs and Taxis Combined. The other taxi companies have generally used the Taxis Combined telephone services.
3. Figures were calculated from quarterly reports to September 2001.

While there was variation in performance across all taxi companies, the performance overall was poor. Of the eight urban taxi companies that provide statistics only 2 met the performance targets for arrivals within 15 minutes of booking being made. A significant majority of taxi companies were unable to meet the targets for arrivals within 30 minutes and within 60 minutes.

Transport NSW has indicated that it is currently reviewing the telephone network and delivery standards. The Tribunal believes that it would be useful to set standards on other indicators such as the proportion of bookings offloaded and the proportion of bookings where no taxis are available. There appears to be considerable variation in these two statistics between the different taxi companies.

The only new quarterly performance reports the Tribunal was able to receive from Transport NSW was from Premier Cabs. As mentioned above, Transport NSW has some concerns with the quality and integrity of the information contained in the quarterly reports. Given these concerns, Transport NSW was only willing to provide the Premier Cab information. This information suggests an increase in performance offered by Premier Cabs in 2001. In some cases, this increase was significant relative to earlier years as shown in Table 10.2.

### *Survey of WAT users*

Transport NSW has completed a survey of customers who use the WATs.<sup>45</sup> The survey provides information on the characteristics of WAT users as well as their perceptions of the quality of WAT services.<sup>46</sup> The survey also provides information on waiting times for WATs.

The survey indicates that 82 per cent of WATs arrived within 10 minutes after the booking was made, 87 per cent arrived within 30 minutes of the booking and 91 per cent arrived within 60 minutes. The survey also indicated that 2 per cent of WATs arrived more than 2 hours after the booking was made. Of the passengers surveyed, 66 per cent were satisfied with the waiting times, while 22 per cent were dissatisfied. In Sydney the areas with the highest waiting times were the Northern Beaches and Northern Sydney. Waiting times did not seem to be a problem in the Illawarra and rural NSW.

The survey showed that 64 per cent of those who have used the M50 booking service were satisfied with the service. The majority of dissatisfied Sydney customers were located in the Northern Beaches, Outer Western and Outer Southern areas. The level of dissatisfaction with the M50 service was also higher among workers/students who were the more regular users of WAT services.

The dissatisfaction with the longer waiting times of the M50 booking service partly explains the preference of WAT travellers to book the service through a private arrangement. This is particularly true for those travellers who frequently use WATs. Private arrangement was also more commonly used by WAT users in Outer Southern Sydney and Outer Western Sydney.

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<sup>45</sup> Transport Data Centre, Survey of Usage of Wheelchair Accessible Taxis, October 2000.

<sup>46</sup> As at May 2000 there were 9,791 active participants who required wheelchair accessible taxi services and who received a government subsidy under the Taxi Transport Subsidy Scheme. 4,775 of these participants had used the service in the last 12 months.

Survey respondents were generally satisfied with the driver service. Ninety per cent of WAT users were satisfied with the driver service provided during their last trip. Only 3 per cent of users were dissatisfied with the service during their last trip.

#### *Information from Taxi Council*

During the course of last year's review, the Tribunal requested information from the Taxi Council on recent initiatives to improve service quality. It was clear that the Taxi Council is moving to improve the quality of taxi services in NSW, particularly through training courses. Training initiatives over the last couple of years include:

- upgrading the taxi operator training course
- upgrading the WAT drivers' course
- upgrading the Taxicare (Sydney metropolitan) taxi drivers' course
- introduction of Taxicare professional driver's course for all NSW taxi drivers.

The Taxi Council also cited the following as improvements to service quality outcomes:

- introduction of WAT specific driver authority card
- introduction of taxi industry website
- introduction of security ranks in the Sydney CBD
- introduction of afternoon peak time supervised ranks
- introduction of genuine VIP taxi service option
- promotion of maxi-cab group booking service.

Although the Taxi Council is the peak industry body representing taxi companies, co-operatives and networks in NSW, training and service quality initiatives are also directed at drivers.

This year the Taxi Council notes that the industry has taken advantage of developments in communications in recent years in order to improve service levels. Speech recognition systems and in-vehicle navigation systems are already being utilised in many networks throughout NSW.

An issue emphasised in the Taxi Council's submission is the tiered structure of the industry, and the separation of roles/responsibilities associated with each tier. The Taxi Council identifies the three tiers of the industry as the network, the operator and the driver.

The Taxi Council suggests that accountability for industry performance should be apportioned across each of the three tiers. It states that whilst the public consistently rates highly the performance of the taxi operator and the network, the performance of the taxi driver has often drawn some criticism.<sup>47</sup>

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<sup>47</sup> NSW Taxi Council submission, 2 April 2002, p 31.

Further, the Taxi Council states that networks are accountable for performance related to answering telephones and offering hirings, key accountability for timely arrival after the booking is offered rests with the driver. The Taxi Council is willing to accept the good performance in relation to telephone answering as shown in the table above, but unwilling to accept responsibility for waiting time performance.

In relation to the Taxi Council's submission and the issue of industry performance, the Transport Workers' Union of NSW states:<sup>48</sup>

The submission of the Taxi Council that operators have no direct control over driver performance is downright devious... Overall driver performance is determined by two fundamental issues, driver entry requirements and the pool of experienced and skilled drivers in the industry... Notwithstanding the time and cost involved the evidence suggests that new drivers leave the taxi schools with little practical knowledge of how to operate a taxi service, deliver customer service or navigate around Sydney.

The two taxi training schools in Sydney teach a syllabus created and owned by the NSW Taxi Council... The Taxi Council has a responsibility to ensure that the syllabus is delivered. The Taxi Council is failing its members (operators) and the public by not ensuring that entry level drivers are proficiently trained. Drivers, particularly new drivers, cannot be fairly blamed for poor quality service that accompanies inadequate training. Yet both the Taxi Council and the Tourism Task Force do precisely that.

Although acknowledging the tiered structure of the taxi industry, the Tribunal cannot support the Taxi Council's position of removing taxi companies, co-operatives or networks responsibility for service quality issues that may also be influenced by drivers. These are still responsibilities (performance targets) that the company, co-operative or network is required to meet, and it is a requirement that each tier of the industry strive to meet those targets. Whether they directly or indirectly influence the performance outcome is not the key issue. The key issue is overall performance of the industry in meeting those standards.

## 10.2 Private buses

Under the *Passenger Transport Act 1990* bus operators are given exclusive operating rights for five years and ongoing contract renewal for a specified contract area or service if they meet the terms and conditions of their service contracts.<sup>49</sup> Transport NSW currently issues two types of bus contracts, commercial and non commercial.<sup>50</sup>

### 10.2.1 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.

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<sup>48</sup> Transport Workers' Union of NSW submission, May 2002, p 10.

<sup>49</sup> In practice contract renewal has been virtually automatic except in a few cases of exceptionally poor performance.

<sup>50</sup> There are around 240 commercial and 1,821 non commercial contracts across NSW.

The contract provides conditions of operation including the provision of:

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

Other specific performance requirements incorporated into the commercial contracts include:

- sub-cl5.1(d) states that operators are required to provide sufficient bus capacity to and from each school so that the total licensed seating and standing capacity is not less than 92 per cent of the number of passes on issue in the particular school
- cl5.1(e) asks the operator to use its best endeavours to ensure that no scheduled journey operates early and that 95 per cent of the scheduled journeys operate no more than five minutes late (with the exception of intermodal journeys which are delayed waiting for the connecting service)
- cl5.4 requires public passenger vehicles to meet minimum quality standards, to be clean and tidy, to display route number and destination signage and to have an average age that does not exceed twelve years.

The conditions of the contract do not require the operator to provide statistical information pertaining to patronage or performance monitoring. The contract does however specify that an audit of private operator contract conditions and accreditation requirements occurs at least once during the contract period. The audits only check operational issues such as qualifications of maintenance of staff, driver's qualifications and verifying the cleanliness of buses.

#### *Minimum service level (MSL) policy*

For commercial contracts, performance requirements are specified in the MSL policy. In the *Passenger Transport Act 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 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.

### *MSL in metropolitan areas*

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.

Service coverage (spatial) standards requires that:<sup>51</sup>

- at least 95 per cent of net patronage potential should be within 400 metres of a primary or secondary bus route
- at least 95 per cent of net patronage potential should be within 800 metres of a primary bus route
- the routes should not be unduly circuitous: as a general rule the route length from any point on a route to the route destination should not exceed the shortest distance between the 2 points by over 25 per cent.

The minimum service frequencies and service coverage (temporal) standards are set for specific routes. In addition to those factors considered under the net patronage potential, other standards considered when setting these standards include:

- population density along the route
- the length of particular routes
- the type of route (secondary vs primary)
- the type of day (weekend vs weekday)
- the time of day (peak vs off-peak).

While the MSL policy sets specific frequency standards, operators have the option of negotiating lower frequency standards if they believe that their contract area is more difficult to service (eg rugged topography) or that residents have different travel patterns to the Sydney average due to a different age profile.

### *MSL in non metropolitan 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
- urban fringe services.

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<sup>51</sup> The specific design of the route coverage is the responsibility of the operator

Clause 20(3) of the *Passenger Transport Act 1990* states that MSL standards for non-metropolitan services should have regard to the:

- needs of the community to be served by the service; and
- average service levels for the time being prevailing in the industry with respect to communities which have similar population densities and which are in other respects comparable.

Factors such as number of private vehicles and the degree of alternative public transport options in the contract area are generally not considered in setting MSL standards for non-metropolitan areas. However, the MSL standards do take into account the population in the contract area.

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.

Consistent with the metropolitan services, operators have the option of negotiating lower frequency levels if there are mitigating circumstances.

### **10.2.2 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.

Under the non commercial contracts, bus operators may provide other public passenger services from time to time on a charter basis provided that the provision of those services does not impair the capacity of the operator to service school students.

### **10.2.3 Review of the performance regime**

Transport NSW has been concerned that the current contractual and regulatory regime was oriented more towards meeting minimum service standards rather than encouraging or recognising increased performance in bus services. In 1997 the *Passenger Transport Act 1990* was amended to introduce a Performance Assessment Regime (PAR) for commercial bus contracts. Under PAR, the renewal of a contract for a commercial bus operator was to be dependent on the operator having met a series of best practice objectives and standards.<sup>52</sup>

Transport NSW has released two discussion papers, and engaged transport consultants to review the MSL policy and to develop an improved methodology for determining service levels in bus contract areas.<sup>53</sup> The review indicated that the renewal of bus contracts should be based on the degree to which operators are achieving best practice rather than focusing on minimum service levels.

The draft PAR framework sets benchmarks that relate to service performance and quality. The key areas that benchmarks are proposed include:

- vehicle accessibility
- passenger comfort
- information and signage
- passenger and driver safety
- environmental standards
- complaints management.

As part of the review of the regulatory framework, Transport NSW recognises that a major limitation in the past has been the lack of data to assess service quality performance. Under the draft PAR, operators would be required to report to Transport NSW on a quarterly basis providing information on:

- patronage rates
- fares charged by individual operators
- operational costs per passenger
- on time running performance
- complaints management
- safety, comfort and access.<sup>54</sup>

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<sup>52</sup> The Audit Office has also suggested an alternative regime “whereby periodic (maybe yearly) certification of regulatory compliance would be the responsibility of the service providers, using accredited independent agents”. Audit Office, *Management of Road Passenger Transport Regulation*, September 2000, p 3.

<sup>53</sup> See Booz-Allen Hamilton, *Appraisal of Existing Methodology* (July 1999) for a review of the regulatory framework.

<sup>54</sup> The level of information required from bus operators is similar to that demanded by the Tribunal of the State Transit Authority (STA) during the annual determination process, although the Tribunal only requests this data on an annual basis. STA also conducts independent surveys of its customers to determine the level of customer satisfaction and the quality of services being offered. The PAR, when implemented, would apply to STA as well as private bus operators.

Transport NSW recognises that the capability of individual operators to meet the benchmark could vary widely. The draft PAR, therefore, allows a phase-in period where the benchmarks will be kept at a lower level in the short term. Transport NSW believes that this will minimise the financial impact on bus operators and will provide all operators with the opportunity to attain the required standards.

The BCA is not confident that bus operators will be able to meet required standards without threatening their commercial viability.<sup>55</sup> The BCA also believes that the benchmarks set are unrealistic because they are largely based on best practice in the bus industry in other states. The BCA argues that it is not valid to compare bus operators in other states due to the greater level of government assistance provided to those operators.<sup>56</sup>

The BCA has also contributed significantly to the debate on incorporating service quality into the PAR. In 1999 the BCA commissioned the Institute of Transport Studies, University of Sydney, to research ways to best capture customer satisfaction with the service levels being offered by bus operators. The study attempted to develop appropriate service quality indicators for bus operators. In 2000 further work was undertaken to select appropriate service segments within an operator's contract area and to determine appropriate sampling techniques to capture an operator's overall performance.

The Tribunal has been informed by Transport NSW that it is reconsidering its approach to the introduction of the PAR. After the release of the second discussion paper in October 2000, Transport NSW began planning for the implementation of the proposed PAR. However, it became evident that the legislative and contractual framework under which bus contracts are currently administered places constraints on the Government's ability to introduce the reforms originally proposed in the PAR.

In addition, several other initiatives are in train or have recently been completed that impact significantly on commercial bus contracts. These initiatives and their relationship to the bus industry need to be considered in relation to proposed reforms to ensure a coordinated and consistent approach to the regulation and administration of bus contracts. These initiatives include the:

- Parliamentary Accounts Committee review into the SSTS
- integrated transport information service
- Liverpool Parramatta Transitway Project
- integrated ticketing.

As a consequence, Transport NSW is currently developing a strategic model for bus reform, which includes a review of the proposed PAR. Also, a review of the legislative and regulatory framework for bus contracts, with a view to introducing a more flexible, responsive contracting regime, is being undertaken. Alternative contracting regimes will be considered by Transport NSW as part of this process. Transport NSW states that performance of contracted bus services will be improved by the establishment of industry performance standards, which are rigorously assessed and enforced. It is currently working

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<sup>55</sup> Submission by the Bus & Coach Association, *Performance Assessment Regime and review of service levels (for metropolitan commercial contracts)*, January 2000.

<sup>56</sup> Bus operators in Queensland, for example, receive a maximum grant of 25 per cent of the cost of wheelchair accessible buses. In NSW bus operators are required to meet the full cost of such buses.

cooperatively with the BCA to identify performance indicators and data to be provided by operators to measure these indicators.

No date has been established for the completion and implementation of the PAR.

### **10.2.4 Performance standards attained**

The Tribunal has been unable to assess in detail the service quality performance of private bus operators. Under the commercial and non commercial contracts, operators are not required to collect performance information. Performance assessment is therefore largely dependent on Transport NSW's ability to independently collect information on operator's performance. Transport NSW has not conducted any reviews of private bus performance.

In July 1999, the BCA commissioned a study to assess the quality of services being provided by bus operators. The survey was based on the Service Quality Index developed by the Institute of Transport Studies, University of Sydney. The report does not measure temporal improvements in services but establishes an index based on various service attributes that are considered important to customers.

Given that a similar study has not been undertaken in recent years it is difficult to judge whether service levels have improved. Further, the BCA has identified a number of problems with the study, placing doubt on some of the results.

In last year's report the Tribunal commented that the BCA believes service quality has improved, noting that one indicator is the increased frequency of services in contract areas over the past year. The BCA also believes that kilometres travelled and hours worked by bus operators have increased over the past year. The Tribunal has not been able to verify the BCA's claims of improved services. For example, if population/passenger numbers have increased at a greater rate than service frequency, there may actually be decreases in service quality due to increased crowding and missed stops.

The BCA submission states that:<sup>57</sup>

- private bus operators are currently delivering service levels which are equivalent to 50 per cent above the minimum prescribed under current contracts for private operators
- in terms of on-time running performance, it is very rare for private bus services to be cancelled or for a vehicle not to leave the depot on time, however, difficulties experienced as a consequence of increasing road congestion have diminished on-time running statistics as the sole reliability measure of industry performance.

Further, the BCA suggests that the poor performance in terms of on-time running in recent years can be attributed to the poor on-time running of CityRail services due to the fact that many private bus services are structured to coincide with the public transport services operated by CityRail.

Although the BCA has provided some information on service quality, the Tribunal has not been able to consider detailed quantitative information measuring the service quality of private bus operators.

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<sup>57</sup> BCA submission, April 2002, pp 26-27.

In its submission to the Tribunal, WSCF notes the existence of operational difficulties associated with using on-time running as a reliable measure of performance.<sup>58</sup> In addition, it supports the BCA in calling for the widespread introduction of bus priority lanes and technologies that give priority to buses in traffic and also of technologies that inform passengers of real time information for bus arrivals. Moreover, both suggest that the introduction of an industry wide customer charter in order to address service quality issues.

On the development of a customer charter, NCOSS suggests that private bus operators should 'develop and implement a service charter for bus users with full stakeholder and community involvement, including measurable service targets and objectives, the process of measurement (including cutover satisfaction) and the publication of performance data'.<sup>59</sup>

### **10.2.5 The way forward**

Private buses provide a valuable service to the community but these services are often provided in 'monopoly' situations. In order to ensure that the community receives an appropriate level of service quality (and that taxpayers funds are being used effectively) the Tribunal supports the establishment of service standards for private bus operators.

While the Tribunal believes that the PAR will be a useful document the progress in implementing it has been slow. There also still appears to be some doubt within the private bus industry as to whether the benchmarks established in the PAR are appropriate and whether private bus operators will be able to meet these standards.

Given the delays in implementing the PAR, the Tribunal believes that it would be useful to start collecting a limited set of performance information.<sup>60</sup> This would assist in gaining an improved understanding of the performance of private bus operators, prior to implementation of the PAR.

The first step to properly assessing performance is also important given Transport NSW's position as a regulator of the private bus industry. Transport NSW provides funding to operators, it issues operator licence to particular routes/regions and it needs some indication of industry performance to properly undertake its responsibilities.

Key areas where data could be collected and provided to Transport NSW on at least an annual basis include:

- on-time running
- percentage of scheduled services operated
- percentage of missed stops
- number of passengers using the services<sup>61</sup>
- number of school students who use the services<sup>62</sup>

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<sup>58</sup> Western Sydney Community Forum WSCF submission, May 2002, p. 2.

<sup>59</sup> NCOSS submission, May 2002 p 3.

<sup>60</sup> In its document *Implementing the Performance Assessment Regime* (October 2000, p 20) Transport NSW acknowledges that a major limitation has been the lack of performance data collected.

<sup>61</sup> Private bus operators should already have a large amount of this information from their ticket transactions. This information will help Transport NSW to determine appropriate service levels, rather than relying on the net patronage potential calculation.

- the fares set by each operator.

In the medium term, broad community and customer surveys could also be conducted to:

- measure service quality standards and performance of operators in regards to qualitative indicators
- help identify and prioritise service needs
- ensure that the characteristics of individual contract areas are more accurately reflected in the service levels as well as providing a rationale for the introduction of service innovations.

The past survey conducted by the Institute of Transport studies could be used as a basis for further surveys on service quality measurement.

The information requirements proposed above are similar in nature to information collected by STA and provided to the Tribunal as part of the annual fare determination process.<sup>63</sup> STA also provides audited annual financial statements and capital works expenditure to the Tribunal.

### 10.3 Private ferries

Under the *Passenger Transport Act 1990* ferry operators can be 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. Transport NSW has only had to issue commercial contracts to ferry operators.<sup>64</sup>

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 Transport NSW
- information on scheduled journeys that have failed to operate
- notification to Transport NSW and passengers of changes to services.<sup>65</sup>

The conditions of the contract do not require the operator to provide statistical information pertaining to patronage or performance monitoring. Further, the contract does not specify that an audit of private operator contract conditions and accreditation requirements will

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<sup>62</sup> This would also apply for the STA which currently does not provide Transport NSW with information on the number of students on the SSTS that use the bus services.

<sup>63</sup> However, the Tribunal points out that it has some concerns with the actual definitions used to calculate some of STA's performance measures. Performance assessment of STA also suffers in the absence of the PAR.

<sup>64</sup> This differs to the private bus industry where in some cases non commercial contracts have been entered into to provide transport for school students.

<sup>65</sup> The contracts also specify that the contract should 'ensure all vessels are clean and tidy when performing the services'.

occur at least once during the contract period. This is in contrast to private bus operator contracts which provide for an audit of performance.

#### *Minimum service level (MSL) policy*

Performance requirements are specified in the MSL policy. In the *Passenger Transport Act 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.<sup>66</sup>

The contract also requires operators to 'ensure that scheduled journeys arrive on time and that 95 percent of the scheduled journeys operate no more than five minutes late with the exception of intermodal journeys which are delayed waiting for the connecting service'. Scheduled services are to be provided at all times other than in exceptional circumstances beyond the control of the operator.

Section 20(3) of the Act requires that 'in fixing the scale of minimum service levels for a service, regard should be had to the average service levels for the time being prevailing in the industry with respect to communities which have similar population densities and which are in other respects comparable'. Transport NSW and ferry operators have agreed that at this stage average service levels cannot be accurately determined due to the lack of information currently available. Instead, both Transport NSW and ferry operators have agreed that the levels of service be set through negotiation. The contract does allow minimum service levels to be renegotiated during the term of the agreement if more information arises on average service levels.

General comments in section 10.2.3 on the PAR for private buses are also applicable to private ferries.

### **10.3.1 Performance standards attained**

The Tribunal has been unable to assess the service quality performance of private ferry operators. Under existing contracts, operators are not required to collect performance information. Performance assessment is therefore largely dependent on Transport NSW's ability to independently collect information on operator's performance. Transport NSW has not conducted any reviews of private ferry performance.

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<sup>66</sup> The timetable is set following negotiations between Transport NSW and the private ferry operator.

The Chartered Vessel Association (CVA) did not provide specific data on service quality in its submission. However it notes that service quality should be assessed on:<sup>67</sup>

- frequency and adequacy of the timetabled trips
- achievement of a certain standard of on-time running
- provision of adequate shelter on vessels from adverse weather, including rain, wind and sun
- adequate standards of maintenance, other than safety, such as lights that work and toilets that are not blocked (safety issues are the province of the Waterways Authority), and
- provision of a suitably sized vessel.

It is suggested that service quality should be limited to these items and that specific targets should be negotiated between the operator and Transport NSW at the time contracts are signed or renewed.

During last years review, the Tribunal received submissions from both Matilda Cruises and Hegarty's. In its submission, Matilda Cruises stated that it provides a quality of service comparable to Sydney Ferries' inner harbour services, as measured by service frequency. While the Tribunal suggested that service quality encompasses a large range of factors, it accepted that service frequency is relevant.

In addition Matilda noted that it operates between Circular Quay and Darling Harbour every 25 minutes during weekdays and every 15 minutes on weekends and public/school holidays. The Tribunal noted that this is more frequent than equivalent Sydney Ferries services. However, it also noted that Matilda's Lane Cove to Circular Quay service generally runs only during peak morning and afternoon periods. In comparison, Sydney Ferries operates a more regular service throughout the day along a similar route

The Tribunal noted that Hegarty's service from Circular Quay to Luna Park - McMahons Point runs every 20-30 minutes on weekdays, until 6.30pm and that on weekends and public holidays the service generally runs every 30 minutes. This is comparable to the frequency for Sydney Ferries' services.

The Tribunal also noted last year that on the whole there did not appear to be major differences in service frequency between private operators in Sydney Harbour and Sydney Ferries' services.

No additional information as to the level of service offered by private ferry operators has become available since and as such the Tribunal has been unable to make any further assessment as to the quality of service offered by private ferry operators.

Another aspect examined by the Tribunal was the range of ticket types offered by private operators compared to Sydney Ferries. This is discussed in section 11.6.2.

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<sup>67</sup> CVA submission, April 2002, p 6.

### 10.3.2 The way forward

The Tribunal stated last year that it would be useful for Transport NSW to start collecting a limited set of performance information on private buses given the delays in implementing the PAR. At this stage, the Tribunal does not believe that a similar approach should be applied to private ferries. A key reason for this is the smaller scale of the private ferry industry compared to the private bus industry in NSW.

In regard to private ferries, Transport NSW should undertake a review of the contracting system, considering such issues as the structure of the private ferry industry and the level of competition that private operators face. A key question that needs to be answered is whether the private ferry industry requires a regulatory regime similar to that of buses. Both the costs and benefits of regulation need to be considered in answering this question. On the basis of current information, the Tribunal believes such a review could well conclude that the operation of private ferry routes and fares be deregulated.

If Transport NSW determines that regulation should be maintained, the regime should recognise that regulation involves both costs and benefits. Whether a PAR as detailed and complex as that envisioned for private buses is warranted for private ferries, is open to question. Further, whether direct fare setting as currently applied or a system of fare/information monitoring is more appropriate, also needs to be considered.

## **11 OTHER ISSUES**

The terms of reference require the Tribunal to take account of a wide range of issues. This section discusses the effect of the Tribunal's recommendations on the level of government funding, the social impact of the Tribunal's recommendations, and environmental issues.

### **11.1 Taxi transport subsidy scheme**

The Taxi Transport Subsidy Scheme (TTSS) was introduced in 1981 to promote accessibility for those persons who cannot use public transport because of a qualifying severe and permanent disability. The scheme operates statewide and allows a participant to travel by taxi for all their transport needs (eg work, study, medical treatment or leisure). The Tribunal reported last year that as at 30 July 2000, there were 33,527 participants in the TTSS, of which approximately 80 per cent were located in urban areas. Approximately 30 per cent of all participants use WATs, while the other participants use standard taxis.

The scheme subsidises travel costs of the participants, allowing them to travel at half fare, up to a maximum subsidy of \$30 per trip. Information from Transport NSW for 2001 indicated that the average subsidy per trip under the voucher scheme is around \$10.22. Given the manner in which the TTSS operators, government payments under the TTSS would increase if taxi fares increased.

The Government payment under the TTSS is currently around \$12.1 million per annum. Under the Tribunal's recommendation of a 4.6 per cent average fare increase for urban areas, the additional subsidy is approximately \$0.56m per annum.<sup>68</sup>

These calculations are based on the current average subsidy and total expenditure figures. No account has been taken of those trips that would cost more than \$60 under the increased fares because of the absence of such information.

### **11.2 Government funding for private bus operators**

There are two main sources of Government (taxpayer) flow of funds to private bus operators. Private bus operators are paid under the SSTS for transporting students to and from school. The Government also reimburses private bus operators for providing half price concessions to pensioners, retired senior citizens, and the unemployed in the form of a targeted CSO.

Total subsidy payments to private bus operators for the half fare concession and the SSTS was approximately \$337.4m in 2000/01. Approximately \$310.5m of these payments related to the SSTS, comprising \$195.9m for transport provided under commercial contracts and \$114.7m under non commercial contracts.

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<sup>68</sup> The Tribunal's recommendation for a 4.6 per cent average fare increase applies only to urban taxi fares. The recommended increase for rural taxi fares is 4.0 per cent. Given that passengers in rural areas also have access to government payments under the TTSS, the Tribunal's estimate of the additional subsidy (\$0.56m per annum) represents an upper bound, as it is based on a 4.6 per cent fare increase.

The Tribunal's terms of reference requires it to investigate and report on the levels of remuneration received from the government for commercial and non commercial school services. As the major proportion of CSO payments relate to the SSTS, the Tribunal has focussed its attention on the financial impact of the SSTS on government funding. Nonetheless an assessment of the funding impact on government through concession fares' policy has been provided.

Due to the different funding mechanisms operated under commercial and non commercial SSTS contracts, each of these contracts needs to be considered separately.

Operators of commercial contracts are funded based on the number of students (for their particular route/region) registered with the SSTS. The Tribunal is not in the position to predict changes in student numbers or distance travelled. Assuming that these factors do not change, any percentage increase in fares will be translated to an equal percentage increase in SSTS funding on commercial contracts. If fares increase by an average of 4.2 per cent, the Tribunal estimates that SSTS funding of commercial contracts will increase by \$8.2m per annum.

The funding of non commercial contracts is based on the costs of providing particular bus services specified in the relevant contract. This will be influenced by the type and number of buses operated, length of the route and time taken. Although the BCA submission includes the model used to calculate non commercial revenue requirements for each of the four bus categories, it does this for an example contract of a bus travelling 100 kilometres per day for four hours per day. It has not been indicated to the Tribunal that this represents an average of actual non commercial contracts. The timing of this review has meant the Tribunal has been unable to consider in detail the characteristics of current non commercial contracts.

In the absence of more detailed information on which to base its considerations, the Tribunal has used the information presented by the BCA. This suggests that non commercial funding should increase by around 4.5 per cent.<sup>69</sup> The Tribunal estimates that SSTS funding of non commercial contracts will increase by \$5.2 m per annum.

Overall, the Tribunal estimates that total SSTS funding will increase by \$13.4m per annum.<sup>70</sup>

The Tribunal has also considered the impact of fare changes on the funding of the half fare concession scheme. Transport NSW makes payments to the private bus operators to cover the costs of carrying eligible passengers at concessional fares by reimbursing the actual concession fare charged provided that such fare is equal to or less than the authorised (rounded) concession fare.

Based on existing concession fare funding of \$27m, an average fare increase of 4.2 per cent is expected to increase government funding of the half fare concession scheme by \$1.1m per annum. This calculation assumes that existing patronage on half fare concession tickets does not change.

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<sup>69</sup> BCA submission, April 2002. The summary page in the BCA model notes that revenue required is 4.5 per cent for all the bus types except category 1, which is only 3.8 per cent.

<sup>70</sup> Sum of SSTS funding for commercial and non commercial contracts.

### **11.3 Government funding for private ferry operators**

Like private bus operators, private ferry operators receive government funding through the SSTS and reimbursement of half price concessions to pensioners, retired senior citizens, and the unemployed in the form of a targeted CSO.

The latest information available to the Tribunal indicates that total subsidy payments to private ferry operators for the half fare concession and the SSTS were \$946,000 in 2000/01. Approximately \$452,000 of these payments related to the SSTS.

The Tribunal's terms of reference requires it to consider the effect of any pricing recommendation on the level of government funding.

Operators of commercial contracts are funded based on the number of students (for their particular route/region) registered with the SSTS. The Tribunal is not in the position to predict changes in student numbers or distance travelled. Assuming that these factors do not change, any percentage increase in fares will be translated to an equal percentage increase in SSTS funding on commercial contracts. If fares increase by an average of 5.0 per cent, the Tribunal estimates that SSTS funding of commercial contracts will increase by around \$22,600 per annum.

The Tribunal has also considered the impact of fare changes on the funding of the half fare concession scheme. Based on existing concession fare funding of \$494,000, an average fare increase of 5.0 per cent is expected to increase government funding of the half fare concession scheme by around \$24,700 per annum. This calculation assumes that existing patronage on half fare concession tickets does not change.

### **11.4 Social impact of fare changes**

#### **11.4.1 Taxis**

The Tribunal is aware of the importance of taxi transport to particular community groups. In particular, some people with disabilities are 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.

Of greater concern would be instances where the user is not eligible for the government's scheme, but he/she considers other forms of public transport as not viable alternatives. Under these circumstances, the user would face the full increase in taxi fares.

Unfortunately, the Tribunal does not have detailed information on the extent of taxi use by such people or the reason for taxi travel. Without this information it is not possible to assess the potential social impact of fare changes on this group.

The Tribunal notes that its recommended fare increase is relatively small. In the absence of specific information suggesting otherwise, the Tribunal considers that the modest increase in taxi fares proposed would have a minimal social impact on taxi users. However, the biggest impact would likely be felt by TTSS passengers whose fares are above \$60. That part of the fare that exceeds this amount is not subsidised by the scheme.

### 11.4.2 Private buses

The terms of reference of this review 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 State Transit Authority). During last year's determination, the Tribunal sought out the available information with which to assess the impact of its determinations. The process indicated that existing information was not entirely suitable at fully assessing the social impacts of the Tribunal's determination.

For the purposes of this review on private buses, the Tribunal has relied on information collected and presented by the Transport NSW's Transport Data Centre.<sup>71</sup> Such information provides a useful first step at gaining background information on the nature of private bus users and assessing any social impact. However, the information cannot fully answer the question of the potential social impacts of changes to private bus fares.

In assessing potential social impacts, it is necessary to understand the characteristics of private bus users. Factors such as fare type, ticket type, labour force status and personal income are all relevant in considering social impacts. The Transport Data Centre presents such information for State Transit Authority (STA) and private bus users in the Sydney statistical division.

The data illustrates some major differences in the nature of STA and private bus users. In regard to fare type, 48 per cent of STA bus users pay a full fare, concession fares account for 31 per cent of trips, and school passes 16 per cent for the average weekday. In contrast, for private bus users only 19 per cent of trips are by full fare paying passengers, with concession fares accounting for 22 per cent, and school passes 43 per cent.

This distribution of fare types has some relationship to the proportion of bus trips by ticket type. The majority of private bus trips are made by passengers using school passes (43 per cent) or a single trip ticket (39 per cent). In contrast, only 16 per cent and 19 per cent of STA bus passengers use school passes or single tickets respectively.

The majority of STA bus passengers use TravelTen tickets (25 per cent), weekly tickets (19 per cent) or full day tickets (17 per cent). The corresponding figures for private bus passengers are zero for TravelTen tickets, and 2 per cent for each of weekly and full day tickets.

This variance in ticket type used reflects the unavailability of many ticket options to private bus passengers that are available to users of STA buses. For example, weekly tickets and multiple trip tickets (TravelTens).

In terms of labour force status, school students are the largest group of users on private buses (33 per cent), followed by full time workers (31 per cent). The largest users of STA buses are full time workers (39 per cent) and school students (18 per cent).

The personal income data presented by the Transport Data Centre indicates that on average, users of private buses have lower incomes than STA bus users. Eighty per cent of private bus users have an annual income of \$20,799 or less, compared to 60 per cent of STA bus

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<sup>71</sup> Transport Data Centre, NSW Department of Transport, *Bus users in Sydney*, Issues paper, November 2000.

users. Further, the average private bus user has an annual income between \$4,160 and \$10,399, compared to \$10,400 and \$15,559 for STA bus users.

The Tribunal cautions against use of the income data in assessing social impacts. Although the data excludes people aged less than 15 years, it nonetheless includes students, housewives/husbands (and others keeping house), concession travellers and the unemployed. In many of these cases, it is probable that the income information does not give an accurate indication of a users' ability to pay. Related to this issue, household income is also relevant in assessing social impacts. Although an individual may report a low income (eg those keeping house), their travel costs may be funded by their partner, who has a high income. Further, social impact is difficult to assess where travel frequency is not known.

Notwithstanding the limitations of the survey data, the data indicates that private bus users are predominantly school pass and single ticket users, who have relatively low incomes compared to STA bus users. Although the majority of private bus users (ie school pass holders) would not be affected by an increase in fares, full fare paying passengers would experience the impact of increased fares.

The Tribunal notes that its recommended fare increase is relatively small. It considers that the modest increase in private bus fares would have a minimal social impact on private bus users. However, the Tribunal notes that the change in private bus fares will lead to an increase in SSTS funding for commercial services of \$8.2m, and an increase in SSTS funding for non commercial services of \$5.16m. This is not an insignificant impact on Government funding requirements.<sup>72</sup>

### 11.4.3 Private ferries

The Tribunal has been unable to consider any specific information with which to assess the social impact of fare changes on private ferry users, mainly due to the small size of the private ferry industry. For private buses, the Tribunal was able to consider information collected and presented by Transport NSW's Transport Data Centre.<sup>73</sup>

Unfortunately, similar information is not available for private ferry users. As the number of private ferry users is small in an absolute sense, and given the relatively small sample of private ferry users contained in the Transport Data Centre's surveys, reasonable conclusions could not be made from the survey information.

Despite the unavailability of specific empirical data on which to assess social impacts, the Tribunal has considered the issue. The Tribunal notes any fare increase will be relatively small in absolute terms. Further, it notes that in many cases private ferry operators serve the tourist/recreational travel market. The Tribunal considers that the modest increase in private ferry fares would have a minimal social impact on private ferry users.

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<sup>72</sup> It should also be noted that under the pricing CSO for STA bus services, funding is based on the gap between private bus fares and what fare STA is able to collect. As such, increases in private bus fares have the potential to increase government funding for STA services, other things being equal.

<sup>73</sup> Transport Data Centre, NSW Department of Transport, *Bus users in Sydney*, Issues paper, November 2000.

## 11.5 Environmental issues

The terms of reference for this review require the Tribunal to consider environmental factors. 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 and private ferries do provide an alternative form of public transport.

### 11.5.1 Taxis

The Tribunal has considered the likely diversion of passenger journeys from taxis to private motor vehicles. As discussed above, demand tends to be greatest on Fridays and Saturdays in terms of daily demand, from 8:00pm on weekdays and late at night/early morning on weekends. Much of this demand would be associated with work and social related travel. These taxi user groups are unlikely to be significantly affected by changes in fare levels. Related to this, the Tribunal believes that given the varied factors that contributed to choice of transport mode, there will not be a significant shift from use of taxi vehicles, and a resulting increase in environmental or air quality problems.

The Tribunal has considered environmental factors, and believes that the modest increase in fares will not have a significant detrimental effect on the use of taxi services.

### 11.5.2 Private buses and private ferries

The Tribunal has considered usage trends of public transport, and the extent to which any fare increase may affect demand for private bus and ferry services. Transport NSW's Transport Data Centre collects and publishes information on Sydney household travel patterns. The Tribunal acknowledges that such information is more relevant to rail and bus travel as patronage on private ferries is relatively small compared to these other modes. Data indicates that between 1991 and 1999, the share of public transport trips has remained stable at around 11 per cent. Similarly, trips for work have remained at around 16 per cent of all trips on an average weekday. These static 'share' figures mask the fact that the number of public transport trips increased by around 1 per cent every year between 1991 and 1999.

In contrast to public transport's static share of total trips, the share of private vehicles trips made on weekdays increased from 67 per cent in 1991 to 70 per cent in 1999. Overall, the actual number of trips undertaken by car increased by around 18 per cent, compared to around 12 per cent for rail and 5 per cent for buses. Information from the Transport Data Centre on travel patterns for 2000 indicate a decline in the modal share for public transport, and an absolute decline in bus patronage compared to 1999.

The above information suggests a relative shift towards the use of private vehicles, however this has not been at the expense of public transport. Nonetheless, with congestion and environmental issues continuing to become important community issues, and the government's desires to increase the use of public transport, it is important that continual improvements are made to public transport to attract additional users.

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 and that other issues such as service quality, timeliness, frequency, convenience and accessibility are likely to be more important determinants of public transport demand.

During the 2001/02 Determination of Public Transport Fares, the Tribunal commissioned an independent study by the Centre for International Economics (CIE) on subsidies and the social costs and benefits of public transport.<sup>74</sup>

The study indicated that changes in public transport fare levels are unlikely to have a major impact on patronage levels, and that a range of factors are considered by the traveller when determining travel mode. The study states:<sup>75</sup>

The effectiveness of public transport subsidies in controlling transport externalities depends partly on the influence they have on fares, and, through these, on the relative price of travel by these modes compared with car. The influence is only partial because subsidies can also be used to change the quality of service at a given fare – through expenditure that change journey speed, frequency, reliability, comfort and safety. The EPA and NCOSS have emphasised that these factors play a significant role in inhibiting public transport patronage. Mees (2000, p 86) also points out that '... public transport is already cheaper than owning and operating a car. It is flexibility, convenience and door to door travel times that count most'.

Although changes in fare levels are likely to have only a limited effect on public transport usage, the Tribunal is mindful that higher fares can have social impacts.

The CIE study considered the issue of appropriate pricing of alternate transport modes. It notes that the external costs of car use include congestion, noise and air pollution, and accidents. However, it is possible to take a broader view, and come up with correspondingly larger estimates of external costs of road use.

The Tribunal has considered environmental factors, and believes that the modest increase in fares will not have a significant effect on the use of private bus services.

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<sup>74</sup> Centre for International Economics, *Subsidies and the social costs and benefits of public transport*, March 2001. Available from the Tribunal's website, [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

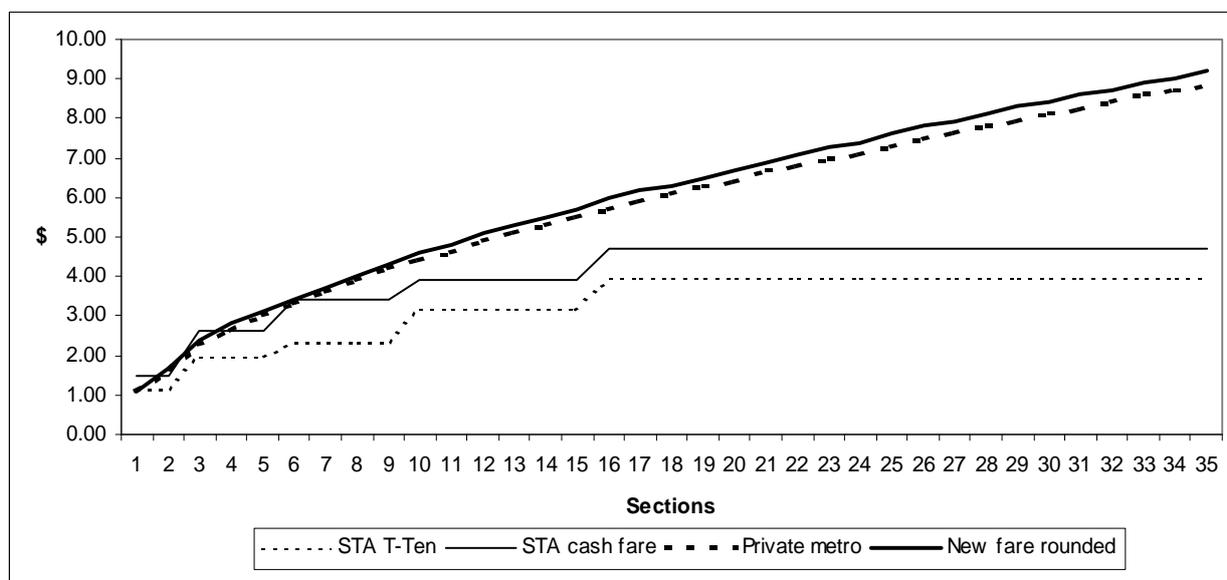
<sup>75</sup> Op cit, pp 38 and 43.

## 11.6 Comparisons of fares and ticket products

### 11.6.1 Private buses

Figure 11.1 below provides an indication of the maximum metropolitan fare scale for private bus operators compared to that of STA's business unit, Sydney Buses.<sup>76</sup>

**Figure 11.1 Comparison of STA and private operators fares in the metropolitan area**



**Notes:**

1. The calculation of the new fare assumes a 4.2 per cent increase on the unrounded old fares.
2. Fare for private operators extend up to 70 sections. Only 35 sections are represented in the figure.

Private bus operators' fares are comparable to STA's single cash fares for the 1-9 sections but significantly higher for the longer distance bands. STA's TravelTen and multimodal TravelPass tickets offer a discount compared to single cash fares, making them cheaper than private operators' fares for all distance bands.

The range of private bus tickets on offer and the ability to discount fares without affecting profitability varies from operator to operator. Despite the lack of incentive to introduce fare discounts and ticket products, a number of operators have introduced measures to try and meet their customer needs.

In its submission to the Tribunal, the BCA notes that private bus operators discount extensively the fares for trips longer than eight sections. It notes that approximately 12 per cent of all passengers benefit from this discounting of an average 17 per cent off the maximum authorised fare. The BCA suggests that the general level of discounted fares demonstrates how much the private operators are responding to market forces and competition with motor vehicles over the longer journeys without the benefit of the subsidies which are enjoyed by STA.<sup>77</sup>

<sup>76</sup> Bus operators are allowed to charge a fare below the maximum level. Operators appear to regularly set different fares for each contract area, depending on the price elasticities in each area.

<sup>77</sup> BCA submission, April 2002, p 19.

As reported by the Tribunal last year, 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.

STA's single cash fares and TravelTen fares are significantly lower than maximum authorised fares for private bus operators in the distance bands greater than 16 sections. While this is the case, it does not justify increasing STA's fares for the longer distance bands. Only a small proportion (approximately 0.9 per cent) of STA's patrons travel 16 sections or more. Further, while travellers on private buses on average travel longer distances<sup>78</sup>, it is likely that very few would travel in the longer distance bands.<sup>79</sup> 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. This again supports the notion that simple consideration of private buses relatively high long distance fares may be misleading.

While it is true that private operator's maximum fares are significantly higher than those of STA for the longer distance bands, the above discussion indicates that it is important to consider trip distribution. While it is clear that private bus users tend to travel longer distances on average, only a very small proportion travel distances of 10 or more sections. Further, it also needs to be noted that discounts are often given for longer journeys.

STA 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. STA 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.

In addition, the BCA notes that direct comparisons between the fare structure of STA and private operators are difficult and often misleading due to the inherent differences between the two business models. The fundamental differences outlined include; operating regions, traffic congestion, population density, cost structures, industrial relations environment, government reimbursement policy, government subsidies and pensioner excursion tickets.<sup>80</sup>

The BCA notes that the private bus industry in NSW has a long-standing reputation for delivering cost efficient services in both metropolitan and non-metropolitan NSW, but fare levels in any commercial industry are directly related to cost structures.<sup>81</sup>

Data provided in the BCA submission suggest that private operators are on average more cost efficient than STA (\$2.63/km compared with \$4.86/km). The BCA suggests that it would be reasonable to expect that Sydney Buses' cost per km would be influenced by slower journey and boarding times on crowded routes.<sup>82</sup>

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<sup>78</sup> 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.

<sup>79</sup> 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.

<sup>80</sup> BCA submission, April 2002, pp 19-20.

<sup>81</sup> BCA submission, April 2002, p 21.

<sup>82</sup> BCA submission, April 2002, p 22.

By way of contrast, STA is more cost effective per passenger than the private operators (\$1.93 compared with \$2.17). Revenue per kilometre from all sources (including government concession reimbursements) in 2000/01 is higher for STA (\$4.80) than for the private operators (\$2.61). In terms of revenue per passenger, the private operators have performed slightly better than STA, mainly due to the longer trips. Fleet age for the private operators is approximately 10.2 years, which is below the contracted average age requirements of 12 years. STA has an average fleet age of 12.2 years.<sup>83</sup>

### 11.6.2 Private ferries

The following details existing 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): Circular Quay - Lane Cove river wharves
  - (\$5.30): 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)<sup>84</sup>: 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.

Child and concession fares are half the adult fare, except for Cronulla and National Park Ferries, where the child and concession fare is \$1.50.

The Tribunal set the following maximum fares for STA's Sydney Ferries services at its determination of public transport fares for 2002/03:

- Inner zone 1<sup>85</sup>: \$4.30
- Inner zone 2: \$4.50
- Manly and Rydalmere: \$5.40
- Parramatta: \$6.40
- Manly JetCat: \$6.70.

<sup>83</sup> BCA submission, April 2002, pp 22-23. A recent Audit Office report gave an average fleet age of 11.83 years - see Audit Office, *State Transit Authority - Department of Transport: bus maintenance and bus contracts*, Performance audit report, May 2002.

<sup>84</sup> 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.

<sup>85</sup> 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.

Generally, the fares for private ferry operators are less than those for Sydney Ferries' services.<sup>86</sup> The following table shows recent fare history for Sydney Ferries' inner zone 1 single cash fare, and Hegarty's maximum fares.

**Table 11.1 Recent fare history**

<b>Hegarty's</b>		<b>Sydney Ferries</b>		<b>Difference</b>	<b>Difference</b>
<b>Date</b>	<b>Fare</b>	<b>Date</b>	<b>Fare</b>	<b>\$</b>	<b>%</b>
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
		Jul 02	\$4.30	-	-

Services offered by Hegarty's ferries are classified as 'basic' under Transport NSW'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.

More generally, fare increases for Sydney Ferries over recent years have been greater than that experienced by private operators. The following table shows recent fares increases for Sydney Ferries, and Church Point Ferry Service's maximum fares.

**Table 11.2 Recent fare increases**

<b>Church Point</b>		<b>Sydney Ferries</b>	
<b>Date</b>	<b>Increase</b>	<b>Date</b>	<b>Increase</b>
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	6.7%	Jul 01	5.0%
		Jul 02	2.0%

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 to July 2001.

<sup>86</sup> 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.

This variance in fare increases may indicate a lag in fare increases relative to cost increases for private ferries. Reflecting that some degree of 'catch up' may be warranted for past cost increases, the Tribunal during last year's review recommended a fare increase for private ferries that was at the higher end of the range suggested by the cost index analysis at that time.<sup>87</sup>

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.

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<sup>87</sup> IPART, *Report to the Minister for Transport: report on fares for private ferries*, p 27.



## 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.