



NEWCASTLE SERVICES

**(A DIVISION OF THE
STATE TRANSIT AUTHORITY OF
NEW SOUTH WALES)**

2003 SUBMISSION

TO THE

**INDEPENDENT PRICING AND REGULATORY
TRIBUNAL**

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Executive Summary

This is a submission to the Independent Pricing and Regulatory Tribunal (the Tribunal) for its review of fares for Newcastle Bus and Ferry Services, one of three divisions in the State Transit Authority of New South Wales. Separate submissions have been prepared for Sydney Buses and Sydney Ferries.

The submission highlights the importance of Newcastle Services' broader objectives particularly its role in supporting urban transport objectives and in the implementation of Government's social policies.

Newcastle Services believes that it has been successful in ensuring that its performance meets and exceeds the expectations of its passengers and the community generally (see section 6 "performance measures").

Newcastle Services' aims to provide a safe, reliable, clean and convenient service. This requires a commitment to regular asset acquisition and maintenance programs. If Newcastle Buses is to arrest the decline in passenger numbers and seek to attract new public transport customers, it is essential that service quality is maintained. Moreover Newcastle Buses is required under its service contracts to maintain an average fleet age of not more than 12 years.

Newcastle Services is therefore committed to significant investment in quality service with the purchase of 30 replacement low-floor, air conditioned buses for Newcastle in 2003-04 and in the following years, 9 replacement buses a year. These buses are the same as those used by other operators in the Hunter .

Essentially, the Tribunal's determination will signal how much of the cash needs of Newcastle Services should be funded from passenger fares and how much from Government.

There is no intention to introduce major change to the structure of fares for Newcastle Services in this submission. Time based ticketing was introduced in January 1997 as part of a transport initiative to stimulate patronage growth. This has not been as effective as we would have expected¹ and Time-based ticketing may be a factor in this. This matter is under review and will be addressed in next year's submission.

As IPART is aware, a Ministerial Inquiry is being conducted into public transport funding and investment. Given this, State Transit seeks fare increases in line with CPI and asks that service improvements also be taken into account whilst longer term pricing paths are considered by the inquiry.

¹ (bus patronage in Newcastle has declined steadily since 1996/97 with an estimated nett loss of 2 million (15%) passengers over the past six years)

1 Introduction

Newcastle Bus and Ferry Services (Newcastle Services) is an integral part of the public transport network in the Hunter region and, in conjunction with private bus operators, has a key role to play in the transport requirements of greater Newcastle. Newcastle bus services extend from Caves Beach in the south to the Hunter River in the north and from the Newcastle CBD in the east to Sandgate in the west. Two Ferries operate a link across the Hunter River between Newcastle CBD and Stockton. Newcastle Bus and Ferry Services expects to carry 11.4 million passengers in 2002-03.

Newcastle Buses currently operates 182 buses on 30 routes and 150 school special services from the Hamilton and Belmont Depots. Bus patronage in the Newcastle region has declined steadily since 1996/97 with an estimated nett loss of 2 million (15%) passengers over the past six years. Bus kilometres travelled have fallen by 19% during the same period, resulting in efficiency gains.

The ferry service operates between Newcastle's Queen's Wharf and Stockton Wharf, across Newcastle Harbour, a distance of 700 metres. Alternative public transport is provided by Blue Ribbon Bus Company, operating from Stockton and Fern Bay to Newcastle via the Stockton Bridge, Kooragang Island and Mayfield, a trip distance of approximately 18 kilometres. Paid patronage on the Ferry Service is around 490,000 per year. In addition, students, using free student passes add a further 80,000 trips. Travel by students and concession holders represents 60% of boardings.

Residential and commercial areas are becoming more decentralised, a result of the impact of the 1989 earthquake, and the closure of major employment sites. In seeking to match service levels with demand and improve cost recovery, new bus services were introduced on 3 March 2002. After the first month of operation, Newcastle Buses timetabled additional services to meet demand and reintroduced a small number of local services. These revisions were consolidated into a revised timetable that was introduced in September 2002 following a six month monitoring period.

Despite this and previous attempts to improve commerciality, the size of the CBD, demographics and population density make it difficult to achieve cost recovery at current levels of service provision. These factors are compared in the following tables which demonstrate that population density is substantially higher in State Transit's operating area in Sydney. This results in boardings per revenue km, which are almost three times higher in Sydney than Newcastle. The Transport Data Centre's Household Travel Survey data shows that the State Transit bus trip rate per person in State Transit's Sydney region is three times higher than bus use in Newcastle region. It is also relevant that Newcastle is a very car-friendly city so that (unlike Sydney) only those people without cars use public transport.

Population density (people per square km)

Region	Population density
Newcastle LGA	754
Lake Macquarie LGA	276
Newcastle	382
Eastern region	3686
Warringah region	932
North West region	2646
South West region	2972
Sydney (STA area)	2327

Source: 2001 Census

Boardings per revenue km

Time Period	Sydney Buses	Newcastle Buses
Weekday - Early AM	1.60	0.52
- AM peak	3.07	1.47
- Midday	2.89	1.31
- PM peak	3.02	1.11
- Evening	1.92	0.32
Saturday	2.43	0.64
Sunday	2.33	0.55
Total	2.76	1.07

Source: State Transit EIS data weekly consolidation 10/03/02 to 02/03/03

Previously Newcastle Services' case was included in a consolidated State Transit fares submission to the Tribunal. However, this has made it difficult for the unique market characteristics and business dynamics of Newcastle Services to be appreciated by all stakeholders. Following the Tribunal-supervised 1998 Cost Efficiency Study of State Transit's Sydney Bus services and the recent comprehensive review of Newcastle bus routes, a new cost structure for Newcastle Buses has been established. The Tribunal should therefore now be able to consider Newcastle as a separate business and to determine how much of the cash needs of Newcastle Buses should be funded from passenger fares and how much from Government funding.

State Transit notes that the Minister for Transport Services has announced an independent inquiry into public transport funding and considers that, given this, the most appropriate course for this submission is to maintain a holding pattern and to increase fares by CPI plus any increment that the Tribunal considers appropriate to respond to the increasing cost base.

This modest fare increase for Newcastle Services will not have a significant impact on full-fare paying passengers or to the 80% of bus users receiving concession fares or free

travel. The free and concessionary fares policy for schoolchildren, pensioners, unemployed people and students ensures affordable access for lower-income users.

2 Fare setting framework

The principles of the Newcastle Services fare submission for 2003/04 are:

- Recognition of funding needs
- Recognition of other benefits of public transport in Newcastle

Funding

The cash required to operate Newcastle Services, including the needs for asset replacement, is \$39 M per year. With a patronage base of 11.4 M trips per year, passenger income is \$23 M per year. Other income of \$3 M brings total cash revenue to \$26 M per year.

The funding gap cannot be closed by fare increases alone as this would require a fare increase of over 100% (170% for Stockton ferries) which would lead to a significant loss of patronage, possibly be revenue negative in aggregate terms and inhibit the broader social benefits sought by Government. Fare increases need to be affordable if patronage is not to be adversely affected.

Other benefits

The financial performance of Newcastle Services over the past decade demonstrates that it is a non-commercial operation. However, standard financial measures do not account for the many benefits that accrue from Newcastle Services but cannot be captured by that operation. From a triple bottom line perspective, Newcastle Services provides significant environmental and social benefits.

For example Newcastle bus and ferry services make a key contribution to the high quality of life in Newcastle with associated health and social benefits. Newcastle Services provides accessibility for transport disadvantaged groups in the community including the young, aged, and unemployed people.

3 The fares proposal: What we are seeking

Significant cost efficiencies have now been realised and service network changes continue to be abounded to demand but the financial situation continues to decline. On this basis, there is clearly a case for a fares increase.

It is important that the Tribunal notes the fare level required to recover efficient costs, but it is a matter for the Tribunal to determine the path to this fare level. Without a real increase in fares, State Transit will require additional funding relief to meet its financial commitments. Alternatively, it would have to increase debt beyond the current level.

However, given the independent review of public transport funding that is about to commence, State Transit believes that a holding pattern is the most appropriate course and suggests a minimum rise to match CPI plus such increment as the Tribunal considers appropriate to respond to the increasing cost base.

For the Tribunal's information, a 1% increase in fares will yield additional revenue of \$45,000 p.a.

4 The fares proposal: Impact on customers

The modest increases proposed for Newcastle should not have any major impact on affordability or patronage especially given the passenger profile where 80% passengers travel at concession rates.

Key customer groups for Newcastle Buses include:

School children

The HTS data shows that the largest single group of Newcastle bus users is school children. Over one-third of bus users are children attending primary or secondary school. The single most common fare type, used for one third of Newcastle bus trips, is a school pass under the SSTS, while 40% of all Newcastle bus users are aged less than 20 years.

Pensioners and Seniors

The second largest group of Newcastle bus users is pensioners (and seniors) who receive concession fares including the \$1.10 Pensioner Excursion Ticket (PET). One-third of bus users are seniors or other pensioners or retired. After the school pass, the most common fare type in Newcastle is the full-day PET ticket, used for over a quarter of all bus trips. This is confirmed by the age profile of bus users, with over 20% of bus users aged over 60 years.

Tertiary students

Tertiary students (adults in full-time education) are another group of users entitled to concession fares, comprising 10% of bus users.

Full-fare adults

Only one in 10 Newcastle bus trips is by an adult in full-time work and less than one in five trips is by a full-fare paying passenger (17%). The proportion of full-fare paying passengers in Newcastle is substantially lower than in Sydney, where almost half of all State Transit bus users pay full fare (47%).

Characteristics of Newcastle which contribute to the low use of bus for the Journey to Work which is a significant part of the bus market in Sydney include:

- Employment dispersed throughout the region, and not concentrated in centres

- Ready availability of free or cheap parking
- Low levels of congestion on roads.

5 Performance measures

Key Performance Indicators (KPIs)

The table below shows Newcastle Services customer-related KPIs and performance against these targets over the past four years. The table shows:

- a high level of reliability and on-time running
- a high level of passenger safety as reflected in a significant decrease in safety incidents in the second year of incident reporting, a steady decrease in security incidents to near target levels, and a small decrease in personal injury claims in an increasingly litigious environment

Newcastle Services Customer-Related KPIs

KPI 2002-03 Target	1998/99	1999/00	2000/01	2001/02
Reliability				
On-time running (>95%)	97.9%	95.1%	95.5%	96.6%
Service reliability (>99%)	99.9%	99.9%	99.9%	99.9%
Mechanical reliability (<15 Bus Changeovers per 100,000 kms)	15.30	15.40	16.07	12.44
Traffic reliability (<4 changeovers per 100,000 kms)	2.14	2.13	2.02	1.62
Safety (per million passenger trips) ⁽¹⁾				
Safety Incidents (<1.4)	n.a.	n.a.	0.81	0.26
Security Incidents (<0.4)	0.54	1.18	0.81	0.43
Personal Injury Claims (<0.8)	0.62	1.42	1.06	1.02
Comfort				
Average Bus Age (<12 years) ⁽²⁾	12.8	13.3	13.7	14.1
Convenience				
Total kilometers ('000)	9685	9614	9868	9141
Passenger revenue kilometers ('000)	8139	8079	8293	7621

Customer Service				
Complaints per 10,000 trips (<1)	0.76	0.93	0.75	1.64 ⁽³⁾

Notes: n.a. not available

- (1) After allowances are made for an initial increase in reporting with increased operator awareness, Newcastle Services safety performance, as measured against safety, security and personal injury claims KPI's, has improved across the board. Room however remains for further improvements in Safety and Personal Injury claims to meet target levels.
- (2) Average bus age in 2003/04 will fall below 12 years with the delivery of 30 new air-conditioned, low floor, wheel-chair accessible buses by the end of 2003.
- (3) The increase in customer complaints in 2001-02 arose from the public consultation process prior to the introduction of "Better Buses" in Newcastle.

Customer satisfaction surveys are an important measure of service quality. Customer satisfaction surveys are currently underway in Newcastle and results will be provided to the Tribunal when available.

6 Passenger charter and service quality

A passenger service charter will be published for Newcastle Services in the second half of 2003. It will provide a framework whereby Newcastle bus and ferry services can provide a "guarantee of service" in areas such as on-time running, vessel presentation, and customer safety and security.

The strength of Newcastle Buses' processes for managing the delivery of customer service has now been recognised by Standards Australia through its certification of Newcastle Buses as a "quality endorsed" organisation in accordance with the requirements of the international standard, ISO 9001:2000. The certification is for three years from 2002, subject to verification of continuous improvement through six-monthly audits. The need to demonstrate ongoing ISO 9001:2000 compliance will ensure a high level of customer service, for both internal and external customers, is delivered in a reliable and consistent manner.

IMPLEMENTATION OF 2002/03 FARES DETERMINATION

Under section 18(4) of the Independent Pricing and Regulatory Tribunal Act, State Transit is required, where there has been a determination by the Independent Pricing and Regulatory Tribunal, to include in its Annual Report particulars of how any such determination has been implemented.

A change in State Transit's fare scale, in accordance with the determination of the Independent Pricing & Regulatory Tribunal made on 24 June 2002, was made by order published in Government Gazette No 106 of 26 June 2002 effective 1 July 2002.

The following table summarises the determination made by the Independent Pricing and Regulatory Tribunal and the fare changes implemented by State Transit.

TICKET	The Tribunal Determination	Implementation
Single ride bus and ferry tickets	Adult single journey bus fares will increase by up to 3.03%. Adult single journey ferry fares will increase by 10 cents per journey.	The adult bus fares for 6-9, 10-15 and 16+ sections increased by 10 cents per journey. The adult bus fares for 1-2 and 3-5 sections remained unchanged. All adult single ferry fares increased by 10 cents per journey. All changes to the single journey bus & ferry fares were within the Tribunal's guidelines.
TravelTens and FerryTens	The price of the adult TravelTen tickets will increase by between 30cents and 80 cents. The price of the JetCat Ferryten will increase by \$1.10 per ticket. The price of other FerryTen tickets will increase by between 20 cents and 50 cents.	All changes to TravelTen and FerryTen fares were within the Tribunal's guidelines.
TravelPasses	The price of the Purple TravelPass will decrease by \$6 to \$52. The price of other TravelPasses will increase by \$1 per ticket.	All changes to TravelPass fares were within the Tribunal's guidelines.
BusTripper	The price of the adult BusTripper ticket will increase to \$9.70.	The price of the adult BusTripper ticket increased to \$9.70.
DayTripper	The price of the adult DayTripper will increase to \$13.40.	The price of the DayTripper increased to \$13.40.
Time-based tickets - Newcastle	The prices of the adult Four hour and Daily tickets will increase by 10 cents and 20 cents respectively. The price of the adult TimeTen ticket will increase by 40 cents. The prices of the adult one hour bus and the Stockton ferry single ride tickets will remain unchanged.	All changes to bus and ferry fares in Newcastle were within the Tribunal's guidelines.
School Term Pass	The price of the School Term Pass will increase by \$1 to \$38.	The price of the School Term Pass increased to \$38.