



Taxi, private bus and private ferry reviews Independent Pricing and Regulatory Tribunal

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Comments on Issues Paper, April, 2003

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Introduction

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) are required to take into consideration the following matters in relation to setting of fares for regular services regulated under the Passenger Transport Act 1990. Broadly speaking these areas include:

- i. The cost (both to Government and the operator) of providing the services concerned.
- ii. Relativities between private and government owned bus services.
- iii. Protection of consumers from monopoly power.
- iv. Need for greater efficiencies in the supply of services to reduce costs.
- v. Impact of pricing policies on capital requirements *and in particular* the impact of a need to renew or increase relevant assets.
- vi. Need to maintain ecologically sustainable development.
- vii. Social impact of recommendations.
- viii. Standards of quality and safety of the services provided.
- ix. Effects of pricing increases on the government funding provided to private bus operators.

In the issues paper of April 2003, IPART outlined the following “key issues” for consideration (p. 2):

- Should the current approach to setting fares be changed?
- Are current fares and fare structures appropriate?
- Is the quality of services provided adequate?
- What are the environmental implications of public transport fares and how should they be considered?
- What are the potential social impacts?

This paper attempts to address each of the key issues in turn, drawing in occasional observations involving items from the Terms of Reference (A1.2, p. 54). The writer’s comments are made specifically in relation to the Sydney metropolitan private bus industry and draw upon some 30 years of experience in that section of the industry.

Executive Summary

The private bus industry in New South Wales is experiencing declining passenger numbers, increasing costs and financial instability.

Following a somewhat rocky relationship with its' regulators over the past two years, the industry is seeking to renew its' partnership approach with government, put aside past differences and work towards mutually beneficial solutions for the industry, the government and most importantly, the community.

The current contract system is out of step with contemporary needs and the industry is out of step with it's market. Urgent overhaul of the system is needed against a backdrop of significant challenge for government as they address an already overburdened and under resourced transport system."Bus Reform" or perhaps better named "bus industry renewal" is overdue – the climate is ready for change.

The Government is faced with an expensive government owned bus operation that provides generous concessions and a failing metropolitan private bus industry partly cross subsidised by school student transport concessions. Coupled with this, they have a problematic rail system that is expensive to maintain and develop and are facing constantly increasing congestion costs.

Yet for sustainable growth and quality of city living, our public transport system is the vital arterial network for the body of Sydney's community. The current trends against public transport usage require urgent correction and the writer encourages IPART to recommend the need to actively promote a public transport culture in our city.

This paper explores the key issues raised by IPART and makes the following recommendations:

- That the current cost index model as proposed by the Bus and Coach Industrial Association (BCA) be accepted.
- That a careful review be made by IPART of the Indec Bus Industry Viability Consulting Report commissioned by government.
- That a more transparent reporting method be adopted by the State Transit Authority (STA) and be made available in the public domain.
- That serious consideration be given to introducing fare equity for the community across Sydney regardless of whether they use government or privately operated transport.
- That robust market research be carried out by government to identify desired service quality attributes for public transport to better inform strategic transport policy planning.
- That government be encouraged to take a committed approach to evaluating the externality impact of individual's decisions to use private car travel with a view to introducing congestion pricing and using it to fund public transport improvements.
- That consideration be given to providing special consideration for waiving tolls which are costs incurred by only a few operators that are not included in current pricing structure.

In addition, several items in IPART's terms of reference appear not to have been given emphasis in the issues paper and give rise to the following questions and challenges:

The cost of service provision¹ is important to ensure that subsidies are not excessive or used to fund service inefficiencies. This investigation should include the cost of service provision for both private *and government* operators. Under that requirement IPART should request and thoroughly review the Indec Consulting Report of financial viability of the private bus industry. In addition, IPART could consider requesting transparent and more meaningful management cost reporting accounts from State Transit Authority (STA). These documents could also assist IPART in reviewing the relativities between the private and government owned bus services, another term of reference. An objective review would pay particular attention to the funding differences for passengers between government and privately operated services.

The impact of pricing policies on capital requirements *and in particular* the ability to renew or increase relevant assets² is vital for future incentives for industry incumbents. Increasing regulatory requirements in terms of low emission vehicles, wheelchair accessible vehicles with resulting decreased carrying capacity and enhanced workplace practices bring with them significant levels of commercial investment. Customer expectations are also on the rise, with air conditioned vehicles now becoming a required standard. Coupled with current financial instability in the private bus industry and the recent collapse of the Kings Brothers³ operation in country NSW, further investment in the industry is far less attractive (and attainable) than previously. Investment in public transport provision is a long term strategy which cannot afford arrestment. It is in everyone's interest for Sydney to have a vibrant, well utilised, efficient and effective public transport industry.

¹ IPART issues paper, A1.2, p 54, item (i)

² IPART issues paper, A1.2, p 54, item (v)

³ "Kings for a day" Sydney Morning Herald weekend edition, May 10-11, p.43

Should the current approach to setting fares be changed?

There is some discussion of the merits and failings of the cost index approach that has been historically used and accepted for reasons outlined in the issues paper.

The cost index measures the percentage change in a basket of relevant industry costs over the time period and multiplies that change by a base weight figure said to represent the contribution of that cost to the overall cost structure of a typical commercial bus operation.

The base weights suggested by the Bus and Coach Industrial Association (BCA) have been arrived at by Price Waterhouse Cooper (PWC) whose calculations could be reasonably expected as arms length and reliable. However IPART remain concerned about the components and weightings used, citing two examples to illustrate their point – one being the inferred capital costs of running a (one bus) commercial bus operation and the other being inferred costs of annual greenslip and registration.

In making these observations, the issues paper attempts to derive a dollar cost by referring to (proven) values appearing under the costs columns headed “1 July 01” and “30 June 02”. Yet this analysis overlooks that these values are merely used to represent the change over time and may not even necessarily be reflective of absolute costs. Indeed the values of the monthly lease period could be \$10 and \$11.10 and the result would be the same.

Perhaps of more relevance are the stated disadvantages of the cost index approach as they appear in item 4.2.2:

Potential improvements are ignored. It is suggested the incentive may be for bus operators to mirror the cost index weights to reduce their risks rather than pursue better service or operating efficiencies. Drawing on the writer’s direct experience of the private bus industry culture it would be extremely unlikely to see operators behaving in such ways assuming they were capable of doing so. Indeed if they had such sophisticated appreciation of risk and reward it is more likely they would have exited the industry some years ago.

It is well documented that the private bus industry is in decline. In such environments operating efficiencies can be expected to be well developed and IPART can formally satisfy themselves of this once the Indec Study of bus industry viability is released.

Revenues are ignored. Again it is well documented that passenger numbers are decreasing and the Tribunal can have confidence that for this particular year at least that revenues would not have increased to a greater extent than costs. Furthermore the increases in costs are already established and the BCA application for a fare increase is for a recognition of established cost increases already incurred.

The IPART discussion in this section assumed that revenues for bus operators were increasing. However it is possible that revenues may have decreased and as such some revenue component being introduced into the model may help reduce commercial risk for private operators.

Ignores relationships between revenues and costs. In an environment where bus operators are earning negative returns on investments it is not likely that poor cost controls are practiced.

The Tribunal can also be confident that operating costs for buses are likely to continue to rise as they are linked to the time taken to travel a given distance and owing to congestion costs they are certain to rise over time. Perhaps one criticism to be made of the cost index model is that it does not adequately reflect the hidden costs of bus operations in terms of increased travel times and increasing competitive effects of private car travel.

Alternative fare setting approaches.

In sections 4.3.1. to 4.3.3 the issues paper considers three other approaches which the writer wishes to comment briefly upon.

Various ‘outside’ cost indices. This approach is considered relatively simple and accesses data from a government source, taking into account productivity gains. However using outside indices seems hardly as relevant as using actual industry indices and would therefore seem difficult to justify as a preferable method. For example, using the transportation index of the CPI makes no allowance for changes in bus vehicle design and reduced carrying capacities. Using the Sydney transportation index reduces the risk of productivity gains being ignored. However labour costs in buses per unit of output relate to the kilometres travelled over a given period of time. With increasing traffic congestion these units of output are increasing in cost, and productivity losses are therefore more likely than productivity gains.

Indexation with a productivity adjustment. Again, this requires the measurement of productivity growth which is difficult to achieve. It should also be recognised that bus operators currently have limited ability to apply efficiencies in view of contract requirements and government policies. Lastly, prices are not close to efficient in the industry and so this will not be corrected under this method.

Efficient costs or building block approach. In this example, the efficient cost = operating and financing costs plus a return on capital. It is possible that this method, whilst cumbersome, may be applied using the information provided from the Indec Consulting Study. It would be important to ensure that the demand forecasts in relation to expected revenues were accurate.

It is accepted that a fundamental concern of the Tribunal is to ensure that rigorous cost efficiencies be encouraged and their benefits captured and redistributed to the market in terms of service improvements or reduced fares. It should also be remembered that owing to requirements of the current contract system (boundaries and Minimum Service Level policies) the operator’s opportunity to control a number of costs is more limited than would be expected in a normal marketplace environment.

However it is also accepted that a fundamental concern of government should be the maintenance of a vibrant and well supported public transport industry for the benefits

of all. In the face of such a serious decline in the industry life cycle it may be futile for government to spend their resources on preponderances over the level and extent of cost efficiencies in the private bus industry and more advisable to turn their efforts into seeking joint solutions for a failing industry in serious financial circumstance.

The writer concludes that although the cost index approach may not be ideal, it may be the most appropriate from a cost/benefit perspective under the current contract regime. This is particularly so given that its main drawback, that of perpetuating the status quo and current profit margins, would be a low risk option for government considering the level of profits currently experienced in the private bus industry.

Are current fares and fare structures appropriate?

There are a number of differences between funding of government and private bus services and these have not been adequately disclosed in the issues paper. The writer looks forward to a more robust consideration of these differences that should be made more transparent in the public arena. “Taxes are levied in a uniform way but their benefits are localised”.⁴

The current fare structure is distance based which may not be the most appropriate medium given the increasing costs of traffic congestion.

Furthermore, the government’s stated intention has been to increase cross regional services to avoid modal changes that are a well documented disincentive to public transport usage. The writer’s own organization commenced three direct city services in 2002 from the Hills District (CityBus Direct). Although patronage growth on these services has been impressive, the costs of providing the service are high owed in part to the high cost of tolls (more than \$20 per journey) and the nature of the service which only carries loads in one direction and cannot pickup outside the operator’s contract region.

Traditionally private buses operated over short distances, designed to run to and from a transport attractor, generally a railhead. A flagfall was paid and a short distance travelled – on longer runs the seat was sometimes sold twice as passengers deboarded en route and others boarded.

The current pricing levels and fare structures do not allow for the high cost operation of long distance services commercially, even though there is a pressing need in the community for these services and an obvious benefit in terms of reduced traffic congestion, faster travel times and increased safety. Customers invariably compare the cost of such services with the alternative rail services and perceive the costs of city bus travel to be high in comparison. Nevertheless the benefits outweigh the costs in the minds of a large percentage of the market, including a significant body of new passengers switching from private car travel.

However the real test of acceptable fare structures and pricing is the level of acceptance in the marketplace. Continually falling passenger numbers may appear to

⁴ IPART, 1996

indicate that the cost of public transport relevant to other forms is less desirable. However from a body of research including some empirical work commissioned by the writer⁵, the cost of the bus fare is not the most important attribute in the customer's decision to use public transport, but is in fact about the 4th factor taken into consideration.

Whilst it is probably true that a dramatic reduction in bus fare would attract a segment of the market to switch to bus travel from other modes, the writer contends that a more holistic approach to the question about why public transport use is declining so rapidly is needed. Such research could identify the important service quality attributes and propose a strategy to deliver them, one factor in that service offering mix being price.

Is the quality of services provided adequate?

IPART has observed that a trade-off exists between service quality and price, however this paper contends that the (current and potential) market should be the real judge of what represents an acceptable standard of service quality.

Given that public transport use needs to increase, strategies should be adopted to deliver appropriate levels of service quality. Research indicates that the following attributes are important to the customer in determining travel choice:

Comparative travel times (related mostly to bus priority as buses are only superior in travel times to cars when bus priority is available)

- Reliability (related mostly to bus priority as reliability is heavily influenced by levels of traffic congestion⁶)
- Accessibility (travels to vicinity of desired destination, related to contract boundaries, urban street design and lack of incentives for cross regional operations)
- Frequency (related mostly to size of the market, heavily influenced by land use planning)
- Price (related to perceived value for money)

Interestingly the main catalysts for delivering on these service attributes is facilitated (or otherwise) by the regulator, and apart from voluntary fare discounting is largely outside the direct control of the individual operator. One significant measure of service quality therefore, may be the level of bus priority infrastructure spending and the level of government subsidies provided to operators.

The service quality index developed by Prof. David Henscher unfortunately measures the perception of existing users and would need to be developed to encompass the entire market. It is also somewhat complicated for the respondent and may be subject to inaccuracies as a result of misinterpretation or lack of interest.

⁵ Professor Glaser, Stan et al, Dec 2002, unpublished research based on 200 customer surveys.

⁶ See page 47 where Transport Data Centre results show that average trip duration for private buses travelling in outer Sydney have the same average duration as STA buses which operate largely in the inner city area. This supports the increasing congestion problems suffered in the private bus company contract areas which now approximate city congestion levels.

Another view is that the important global service quality measure is not how an individual operator performs on a specific set of attributes over time, but more a question of what network wide improvements are necessary to bring about a change of behaviour in the market and develop a true “public transport culture”.

One key to success will be to focus our efforts where they are likely to make the most difference. The writer suggests that consideration be given to a less quantitative and prescriptive view of service standards and measures in favour of a more empirically researched, qualitative and market driven model that will bring about a switch to encourage significant and sustained use of public transport, especially in metropolitan Sydney.

What are the environmental implications of public transport fares and how should they be considered?

The issues paper recognises that using public transport benefits everyone however fails to attempt any quantification of the true externality benefits of sustained public transport use. The writer contends that the question of ecologically sustainable transport should encompass a much broader umbrella than the marginal effect of price sensitivity on current public transport users who unfortunately represent a very small segment of the community as a whole.

“The environmental impacts of transportation can have serious implications for public health and our quality of life. Traffic in all modes produces air pollution, noise, community disruption and habitat destruction to varying degrees. Problems in urban areas are obviously greater and exacerbated by congestion.”⁷

Pricing could play a much broader role in addressing the environmental and social costs of transportation, particularly as large amounts of funding are likely to be needed to produce any significant shifts to public transport. Governments worldwide are recognising that a commitment to evaluating the impact of the environmental and social costs of transportation decisions (ibid).”The most direct way to ensure that they are taken into account is to require that users pay directly in transportation prices for all the costs they impose, including infrastructure costs, social costs and environmental costs”(ibid).

What are the potential social impacts?

Social justice and social equity should be a major issue on any government’s agenda.

The issues paper identifies that those residents in STA areas have higher incomes and enjoy more subsidised bus fares than those residing in the private operator’s contract regions. There are glaring inequities in the ways passengers are rewarded for using government operated public transport as opposed to those choosing privately operated public transport.

⁷ Straight Ahead- A Vision for Transportation in Canada, Transport Canada, www.tc.gc.ca/aboutus/straightahead

Whilst the government has been fortunate this issue has not reached major public debate, it remains a risk that it may do so whilst ever this inequity is unresolved. Competitive neutrality principals serve to reinforce this point.

It is also inequitable that those choosing private car over public transport do not face the real costs to the community of their decision and probably do not even understand the actual costs of running their personal vehicle. A public awareness program is needed to educate car drivers about the costs to the community of personal car travel. Cars and driving are a lifestyle decision and the image of public transport is poor and unlike the car industry, unsupported by commercial advertising. On important attributes public transport delivers less efficiently than its' competitor and is highly unlikely to deliver valued benefits (such as travel time savings) without significant government intervention.

Even in well populated countries it is a challenge to operate public transport commercially, and Australia has a lower and more sparsely distributed population than most. For public transport to be sustainable it needs to grow patronage that will enable it to fund further service improvements. The government has an imperative to introduce policies that will encourage public transport use and discourage private car travel.

Any discussion of social impacts of fare rises should also consider the concessional fares offered by private which are unfunded by government. Whilst they provide a buffer for low income earners they come at a cost to the operator concerned which is largely unacknowledged by any sector of government or the community. Yet there is a growing realisation amongst bus operators and other, that it is not the operator's responsibility to provide concession discounts, but that of the government. "Public transport delivers huge social benefits to the community. Yet it is true to say that most private bus operators in Sydney are subsidising the government."⁸

Concessions Provided by Private Bus Operators unfunded by Government
Free travel to Veterans
Free travel to Blind Persons (and attendants)
Half fare concessions to school children (usually to age 18 years)
Half fare concessions to TAFE, tertiary and university students (to age 30 years)

Table 1 – Concessions Funded by Private Bus Operators

Concessions and funding for Sydney Buses

During private research into publicly available documents about the cost to government of passenger concessions, the writer noted a number of anomalies contained in such documents which may be of interest to the Tribunal. These differences demonstrate the difficulties the community may face in understanding and quantifying the real costs of subsidies and revenues effecting Sydney Buses depending upon which set of public documents they happen to consult.

⁸ Professor David Hensher, Univesity of Sydney, Pers comment, delivered during his address to the Third International Conference on Smart Urban Transport, session 2, May, 27, 2003 Rosehill.

	Source: IPART Reports 2 and 3, 2002, p.56 Table A.3.4	Source: State Transit Authority Annual Report, 2001- 2002, p. 77
	\$000,000	\$000
Passenger Revenue	189	213,384
Government Revenue	146.1	165,640
Other	15.1	19,775
Total	350.2	398,799

Table 2 – Differences in reported revenues for Sydney Buses, 2000-2001

	Source: IPART Reports 2 and 3, 2002, p.56 Table A.3.4	Source: State Transit Authority Annual Report, 2001- 2002, p. 77
	\$000,000	\$000
Passenger Revenue	191.8	196,076
Government Revenue	158.2	179,252
Other	18.9	26,419
Total	368.9	401,747

Table 3 - Differences in reported revenues for Sydney Buses, 2001-2002

	Source: Transport NSW Annual Report 2002, p. 75	Source: State Transit Authority Annual Report, 2001- 2002, p. 61
	\$000	\$000
Community Service Obligation Payment	68,231	65,659
School Student Transport Scheme Payment	36,327	36,533
Total	104,558	102,192

Table 4 - Differences in reported subsidies for Sydney Buses, 2001-2002

These examples serve to highlight the recommendation made in the executive summary of this submission about improved reporting arrangements.

Concluding Comments – a medium term view

It is likely that government is fundamentally fearful to increase passenger fare subsidies as they recognise this will have a relatively small effect on patronage. They may also be concerned that any increases to subsidy will simply relate to a higher margin for bus operators rather than the delivery of service improvements to the community. Overlaid upon this concern is the imperative for social equity in fares and concessions across geographical areas.

Yet the financial reality is that revenues have fallen for private operators to a level where they no longer keep pace with costs. Productivity gains are not possible owing to the costs of increased traffic congestion and the strength of alternative transport choices for customers.

To extend already generous transport concessions may result in large budget increases for limited service improvements.

One alternative may be to reduce current STA concessions and begin to integrate fares and service conditions across the whole public transport network. Supporting STA fares with CSO and other payments sends mixed messages to the community who view government supplied services as better value for money, making them dissatisfied with other alternatives. Make car users aware and more personally responsible for the costs they generate, but provide a reasonable transport alternative for them to use.

Quantify the government's social responsibility for certain low patronage regions and make those areas non commercial with services which operate at lower frequencies and in line with current demand. Intensify spending on the areas of greatest demand. Invest in public transport infrastructure to allow the delivery of worthwhile travel time savings and introduce incentives and rewards (perhaps in the form of performance based contracts) to increase patronage levels and improve services.