

Independent Pricing and Regulatory Tribunal
New South Wales

Review of rural and regional bus fares

From January 2021

Issues paper
Transport

July 2020

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Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

Submissions are due by Friday 7 August 2020

We would prefer to receive them electronically via our online submission form <www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission>.

You can also send comments by mail to:

Review of rural and regional bus fares from January 2021

Independent Pricing and Regulatory Tribunal

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We may choose not to publish a submission - for example, if it contains confidential or commercially sensitive information. If your submission contains information that you do not wish to be publicly disclosed, please indicate this clearly at the time of making the submission. However, it could be disclosed under the *Government Information (Public Access) Act 2009* (NSW) or the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW), or where otherwise required by law.

If you would like further information on making a submission, IPART's submission policy is available on our website.

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1 Introduction

IPART is reviewing fares for rural and regional bus services in NSW and will determine new maximum fares to apply from January 2021.

Bus services in rural and regional NSW are run by private bus operators, who have contracts with the NSW Government. These contracts, administered by Transport for NSW (TfNSW), determine the services provided and the payments made to bus operators.

Bus operators also retain the revenue from bus fares, though this is a relatively small proportion of their total revenue. Maximum fares are determined by IPART. Bus operators can, and often do, set fares below the maximum.

IPART's current fare determination runs from 5 March 2018 to 31 December 2020. This Issues Paper forms part of our review to determine maximum prices to apply from 1 January 2021 to 31 December 2025. It explains how the review will be undertaken, the issues we will consider, and requests input and comments from stakeholders.

We are publishing a summary Issues Paper at the same time as this one, which is directed at current and potential bus users and those with less detailed involvement in the industry. It also seeks input from stakeholders.

1.1 What matters are we required to consider?

When IPART last reviewed these fares, in 2017, we reduced maximum fares, simplified the fare structure, and made recommendations about on-demand services.¹ This review will assess the impact of those decisions, experience in the sector since that time, and consider likely future developments.

We are required to take account of the matters set out in section 124(3) of the *Passenger Transport Act 2014* (the Act), including:

- ▼ the cost of providing the services
- ▼ the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- ▼ the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- ▼ the social impact of the determination or recommendation
- ▼ the impact of the determination or recommendation on the use of the public passenger transport network and the need to increase the proportion of travel undertaken by sustainable modes such as public transport

¹ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017.

-
- ▼ standards of quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise)
 - ▼ the effect of the determination or recommendation on the level of Government funding, and
 - ▼ any other matter IPART considers relevant.

In addition, the Minister's reference for this review (attached in Appendix A) requires us to consider the:

- ▼ equity of current adult and concessional fares compared to Sydney metropolitan bus fares, particularly for medium and longer-distance journeys
- ▼ number of fare bands and day capping, and whether further simplification is recommended
- ▼ relativities between regional bus fares and coaches provided by NSW Trains taking into account service differences
- ▼ development of on-demand services in regional areas, and
- ▼ customers' willingness and capacity to pay given demographics in urban and rural areas in regional NSW.

The reference also requires IPART to publicly consult on a draft report as soon as practicable.

1.2 How will we conduct this review?

An important part of our review will be assessing experience with the changes made following our 2017 review. For example, any changes to patronage and revenue following the reduction in maximum fares introduced in 2018; and experience with on-demand services in the trials that were undertaken in a number of areas. We will seek to understand whether further changes could increase customer benefits and improve efficiency, and their likely impact on fare revenue and Government funding.

As part of the review we will undertake research and analysis, seek expert advice, and consult with stakeholders. We will also update the analysis undertaken as part of the 2017 review on customer willingness and capacity to pay.

We will consult widely with stakeholders including bus operators, customers, and representative groups. In addition to written submissions to our papers, we will develop online surveys for bus operators and customers to express their views. In light of the current coronavirus pandemic, we will develop other forms of consultation consistent with health guidelines. This may mean meetings with small focus groups together with public hearings, held either in-person in regional areas or via virtual technology.

Since our last review of rural and regional bus fares, we have also reviewed Opal fares for public transport services in metropolitan areas. We will be incorporating lessons from the Opal review into this review, where they are relevant in this context. This will include comparing fares in rural and regional areas to those in metropolitan areas, as required by the Minister’s referral (see section 5.5).

We will also consider how technological change will continue to have an impact on the way transport services are provided. This includes ticketing options such as electronic ticketing, and the potential for innovation such as on-demand services.

1.3 Indicative timetable for the review

Table 1.1 sets out an indicative timetable for the review. We will update this timetable on our website as the review progresses.

Table 1.1 Indicative timetable for the review

Key milestone	Proposed timing
Release Issues Papers	7 July 2020
Submissions on Issues Papers due	7 August 2020
Analysis and informal consultation	July to October 2020
Release Draft Report	October 2020
Public hearing (in person or virtual)	November 2020
Submissions to Draft Report due	November 2020
Provide Final Report to Minister	December 2020
New maximum fare determination commences	1 January 2021

1.4 Structure of the paper

The remainder of the paper is set out as follows:

- ▼ Section 2 summarises the characteristics of the rural and regional bus sector in NSW, the current approach to their bus fares, and the issues on which we are seeking comment
- ▼ Section 3 discusses the assessment criteria we propose to guide our decision-making
- ▼ Section 4 discusses emerging developments in the transport sector, and implications for rural and regional buses
- ▼ Section 5 discusses our proposed approach to determining maximum fares
- ▼ Section 6 discusses experience with on-demand services in rural and regional NSW, and the options for further development of on-demand services
- ▼ Appendix A provides the Minister’s referral for this review.

1.5 Issues we seek comment on

We are seeking stakeholder submissions on this Issues Paper. Information on how to make a submission is included at the front of this paper. Submissions are due by Friday 7 August 2020.

Throughout this paper we raise questions seeking input from stakeholders, which are summarised below. We also encourage stakeholders to raise other issues which we may not have covered in this paper that are relevant to the review.

IPART seeks comment on the following:

- 1 What has been your experience of the fare structure introduced in 2017? What are the positives and negatives of the current approach? 10
- 2 Have cross-border issues been adequately addressed? 10
- 3 Have there been any challenges implementing the new fare structure given the current ticketing technology used by bus operators? 10
- 4 How have recent events (drought, bushfires and the coronavirus pandemic) impacted rural and regional bus services, and what are the likely future implications? Are there any implications for the setting of maximum bus fares? 10
- 5 Do you agree with the criteria proposed to guide the review? Are there other criteria which should be considered? 11
- 6 How should IPART prioritise the different objectives for its review of maximum prices? Do you agree with the main purpose and priorities established in the 2017 review? 15
- 7 How should regulation of rural and regional buses respond to developments in the transport sector, including emerging technologies and innovation in service provision? How can innovation be facilitated? 20
- 8 Do you support the suggestions aimed at improving the accessibility of public transport for those groups within society who find public transport unaffordable? For example, extending concession fares to a broader group, such as those who qualify for the healthcare card? What would be the impact on fare revenue and Government funding? 26
- 9 What is your experience with the current maximum fares? Would you support further simplification, or additional frequent-use tickets? 27
- 10 What are the technical challenges involved in changing the current fare structure or adopting particular types of fare structures? As an operator, to what extent is your ticketing technology a constraint on fare structures? 27
- 11 What has been the experience with the use of single or daily tickets across operators? Has this been successful? What is your view on introducing return tickets that can transfer across operators, or tickets that can transfer between rural and regional buses and metropolitan transport? 28

12	Do you think there would be any benefit in differentiating fare structures across different operators or in different locations?	28
13	Do you think aspects of the fare structure in rural and regional areas are inequitable compared to Opal fares in metropolitan Sydney, or compared to coach services offered by Trainlink?	33
14	Do you agree with the framework outlined in section 6.1 for procuring new transport services, including on-demand services?	35
15	How can different types of on-demand services, for example community transport and other on-demand services, be co-ordinated in the most effective and cost-efficient way?	38
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2 Context for this review

The area covered by this review includes all areas of NSW except the Sydney metropolitan area, and the outer metropolitan areas including Newcastle, Wollongong, the Hunter region and the Blue Mountains.

2.1 Who uses rural and regional bus services?

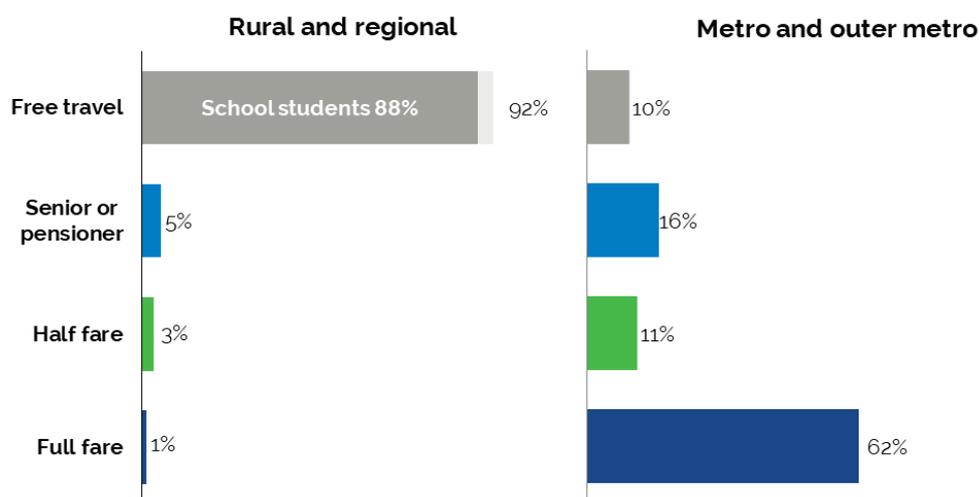
While there is a range of transport options in rural and regional areas (including buses, in some areas trains, taxis and community transport), the vast majority of trips are made by private vehicle. The ease of car travel and the availability and low cost of parking means that public transport services are generally used by those that are unable to drive or do not have a vehicle (often because the cost of a vehicle is prohibitive).

The largest users of rural and regional buses in NSW are:

- ▼ school students who travel free under the School Student Transport Scheme (SSTS) (around 88% of bus trips as shown in Figure 2.1 below), and
- ▼ concession passengers who pay half fare, use the Regional Excursion Daily (RED) tickets or travel free of charge.

In fact, full fare paying adults represent only around 1% of bus trips in rural and regional NSW, as shown in Figure 2.1. This is in sharp contrast to Opal bus trips in metropolitan and outer metropolitan areas, where around 62% of bus journeys in these areas are undertaken by full fare paying adult passengers. This provides important context for rural and regional buses.

Figure 2.1 Users of bus services across NSW



Note: Totals may not add due to rounding.

Data source: TfNSW; Opal data for a 'typical week' (20-26 May 2019).

In addition to current bus users, there may be latent (or unmet) demand. For example, some potential customers may not catch buses because they don't have any information about routes, timetables or fares; or they may be less inclined to use buses because the service is infrequent or inconvenient. In the future, the demand for bus travel could increase from other consumer groups such as tourism (if bus services meet their needs); or an increase in residents who move to regional areas for lifestyle reasons and prefer public transport where it is available.

2.1.1 Who provides rural and regional bus services?

Rural and regional bus services in NSW are provided by private operators under contracts with the NSW Government, and administered by TfNSW. The contracts specify the services the operator will provide (routes, timetables and service levels) and the payments from the Government. In total, these payments cost taxpayers \$466 million per year.² Operators can choose to charge below the maximum fare determined by IPART.

Currently, 513 operators deliver rural and regional bus services through 663 contracts, as shown in Table 2.1.³ The contract system with TfNSW includes four types of contract – Large, Medium, Small and Very Small – based on the number of buses in the operator's contracted fleet. As shown in the following table, around 94% of the contracts are either Very Small or Small contracts, and only 6% are Medium or Large contracts. The Very Small and Small contracts are predominantly dedicated school bus services, while most Medium and Large contracts provide both school services and regular passenger services.

Table 2.1 Rural and regional bus operators by the size of their bus fleet, 2020

Contract type	Number of buses in contracted fleet	Number of contracts by contract type	% of contracts by contract type
Large	More than 40	7	1%
Medium	16 to 40	35	5%
Small	6 to 15	83	13%
Very Small	5 or less	538	81%
Total		663	100%

Source: TfNSW, Email correspondence, 16 June 2020.

² Source: TfNSW. Email correspondence, 16 June 2020.

³ We understand that some long distance bus services are also provided by privately-owned bus companies under a special Funding Agreement with TfNSW. Other long distance services that are provided commercially (eg, Greyhound/Firefly) are not affected by this review.

2.2 Current approach to regional and rural bus fares and the 2017 review

Currently, the structure of maximum bus fares is the same across all rural and regional bus operators in NSW, across all locations. However, operators have flexibility to set fares below the maximum fares set by IPART.

Fares are based on the number of sections travelled, with sections based broadly on distance (sections are an average of 1.6km over the total length of a bus route, but may vary between 1.3km and 1.9km). IPART's 2017 decision simplified the fare structure from 220 fare sections into just 10 bands.⁴ As part of this review we will consider whether there is an opportunity for further simplification of the fare structure (as discussed in section 5.4).

IPART's 2017 determination also reduced the maximum level of fares for almost all single journeys, resulting in an average decrease in the adult fare for a single journey of around 29%.

In addition, we introduced a section-based daily ticket, where the daily ticket was priced equal to the total of the return fare for the longest trip the passenger makes on the day (two times the single fare), plus a single 1-2 section fare (\$2.30 in 2018).

IPART took these decisions in 2017 in light of:

- ▼ the main purpose of providing taxpayer-subsidised bus services in rural and regional areas, which we considered was to ensure people with limited travel options – such as those who can't drive or can't afford a car or taxi services – have reasonable access to transport within their local communities.
- ▼ people's willingness and capacity to pay for the services, assessed by examining a range of evidence - including feedback from surveys and stakeholder submissions, comparisons of the current fares with those in metropolitan NSW and bordering jurisdictions, and analysis of the expected elasticity of travel with respect to fares.⁵

We also made recommendations to remove barriers to travel in cross-border areas, including:

- ▼ in the Tweed area, introducing a pilot on-demand service, with a view to deciding whether this should replace fixed route services
- ▼ in the Albury/Wodonga area, to allow passengers to purchase a single ticket for their entire journey, including across the border (with associated revenue sharing), and
- ▼ concessional travel for NSW residents studying within 50km of the border (and associated funding arrangements).

As part of the current review we will be gathering information on and analysing the impact of the changes made in the 2017 review, including whether the reduction in fares resulted in an increase in patronage. We will also seek stakeholder input regarding their experience and views. We consider these issues further in section 5.

Our 2017 review also recommended that in the longer term, at the end of the current bus contract period, TfNSW seek proposals from the market to provide transport services in each area, including on-demand services. This is discussed further in section 4.

⁴ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017.

⁵ The elasticity of travel with respect to fares means the expected increase (or decrease) in demand for travel resulting from a reduction (or increase) in fares.

2.3 Introduction of on-demand services

The 2017 review also developed a framework for the targeted introduction of on-demand services. These services differ from traditional public transport in that some aspects of the service vary according to customer demand – such as departure time, route, pick-up or drop-off points.

Our 2017 review suggested that TfNSW negotiate with bus operators to vary existing high cost, low-patronage fixed route bus services to deliver a better service to customers, potentially by adding on-demand components, without increasing the existing Government subsidy. We recommended that operators be able to set an optional surcharge of up to \$5 (including GST) on top of the fixed route fare for on-demand components.

A number of on-demand pilot programs have been introduced in rural and regional NSW. As part of this review we will be gathering information on and analysing the impact of on-demand services to date, as well as seeking stakeholder input regarding their experience and views. We consider these issues further in section 6.

2.4 The impact of natural disasters and the coronavirus pandemic

Recently NSW has been impacted by bushfires, drought and the coronavirus pandemic. We are interested in understanding the extent to which these events have impacted on the rural and regional bus sector and the likely future implications. We are focused on future impacts because our review will determine future maximum prices, from 2021 to 2025.

For example, these events are likely to lead to loss of employment and income, at least in the short term, reducing both the demand for transport and the capacity of customers to pay fares. The downturn in tourism following these events also likely affected bus patronage. We note that if patronage falls, the financial impact on rural and regional bus operators will be more muted than many other businesses because they continue to receive contract payments from TfNSW, and these reflect a high proportion of their revenue.

Other impacts of coronavirus could include:

- ▼ Reduced patronage while customers are in 'lock-down' or choosing to socially isolate
- ▼ Reduced bus capacity due to social distancing requirements, though the impact may be ameliorated where:
 - current bus utilisation is low (as is the case on many rural and regional bus routes), or
 - social distancing requirements are relaxed for school bus services.
- ▼ An increase in fixed costs (for example plastic shields for bus drivers) or variable costs (for example additional cleaning costs), and
- ▼ Any offsetting reductions in costs that may have occurred (for example, fuel costs), or offsetting increases in local travel while state and national borders are closed.

In the longer term the impact of these events will depend on a range of factors including how quickly the economy recovers; when state and national borders reopen; and whether there are structural changes which affect the regional and rural economy (eg, potential benefits from an increased reliance on local manufacturing).

IPART seeks comments on the following

- 1 What has been your experience of the fare structure introduced in 2017? What are the positives and negatives of the current approach?
- 2 Have cross-border issues been adequately addressed?
- 3 Have there been any challenges implementing the new fare structure given the current ticketing technology used by bus operators?
- 4 How have recent events (drought, bushfires and the coronavirus pandemic) impacted rural and regional bus services, and what are the likely future implications? Are there any implications for the setting of maximum bus fares?

3 Proposed assessment criteria

We propose to use the following objectives to guide our approach and decision-making in this review:

- ▼ Maximise the benefits of public transport use to the community
- ▼ Ensure fares are affordable for people with limited transport options
- ▼ Ensure fares are logical, predictable and stable over time
- ▼ Facilitate innovation in transport services
- ▼ Enable operators to recover the efficient costs of providing rural and regional bus services, and
- ▼ Promote the efficient delivery of transport services.

These criteria, which reflect the matters we are required to consider under the Act and in the Minister's referral, are described further below. An important part of our assessment is how best to prioritise or balance these criteria, which is also discussed below.

IPART seeks comments on the following

- 5 Do you agree with the criteria proposed to guide the review? Are there other criteria which should be considered?

3.1 Maximise the benefits of public transport use to the community

TfNSW has a target for regional NSW over the next decade, to increase the use of public transport (including buses) as a proportion of all modes of transport from 3% to 5%.⁶ The benefits of rural and regional bus services to the community include the ability to access school, employment, and services (such as shops and health services), as well as access to social activities and entertainment. Public transport can also provide benefits to tourists, by improving access to regional areas. This in turn can provide additional benefits to those communities.

The benefits of bus services will be impacted by their convenience (routes, frequency, etc), as well as features such as ticketing options, payment methods, and the use of technology such as phone apps to provide information such as routes, timetables and on-time status.

Assessing the benefits of different services to the community (and their relative costs) is also important when comparing different options for providing services, for example timetabled buses versus on-demand services (discussed in section 6).

⁶ Transport for NSW, *Regional NSW Services and Infrastructure Plan*, November 2017 released as a supporting plan for 'The Future Transport 2056' plan for NSW, p 49.

Fares can also have a significant impact on the efficient *use* of bus services by customers. For example, if lower fares encourage more passengers to use existing bus capacity, this can increase benefits to the community without significantly increasing costs (if at all). This represents an improvement in short-run efficiency.

3.2 Ensure fares are affordable for people with limited transport options

The role of buses in rural and regional areas is particularly important for those customers who cannot afford an alternative form of transport (such as a private vehicle or taxis).

The Act specifically requires us to consider the social impact of our determination. The Minister's referral (see Appendix A) also requires us to have regard for customers' willingness and capacity to pay given demographics in urban and rural areas in regional NSW.

The Minister's referral has asked us to consider the equity of current adult and concessional fares compared to Sydney metropolitan bus fares, particularly for medium and longer-distance journeys. We note that the concept of equity involves discretion and balancing different factors. There may be valid reasons for fares to vary between rural and metropolitan areas, or between buses and coaches provided by NSW Trains. These include differences in the services provided (for example, trip duration or comfort); or differences in direct or indirect costs (such as fuel costs, labour costs, or the reduction in indirect costs such as pollution or congestion). There may also be differences in the capacity of customers in different locations to pay for bus services.

3.3 Ensure fares are logical, predictable and stable over time

Fares that are logical, predictable and stable allow customers to estimate their fare easily, both now and into the future. They may also simplify ticketing solutions for bus operators. We consider it important that:

- ▼ people can understand how fares are calculated and work out whether they are being charged the correct fare
- ▼ fares are in line with expectations when compared with fares for similar services, and
- ▼ operators know what fares they can charge and how they will change over the determination period.

Our 2017 review reduced maximum fares for almost all single journeys, and simplified the fare structure from 220 fare sections down to 10 fare bands. The Minister's referral for this review asks us to consider the number of fare bands as well as the daily capped rate, and whether further simplification is recommended.

In line with the Minister's reference, our review will include the consideration of the relativities between regional bus fares and coaches provided by NSW Trains, taking into account service differences.

3.4 Facilitate innovation in transport services

The regulatory framework can have a significant impact on the scope and incentives for transport providers to innovate, which over time can benefit customers through providing a better quality of service in a cost-effective manner. Innovation can also attract new customers by offering new types of services, and by providing greater ease of access to services, eg, by providing more information or more convenient payment systems.

Innovations in the transport sector include:

- ▼ The types of services offered – such as ride sharing and on-demand services
- ▼ New types of bus infrastructure – including electric and driverless vehicles
- ▼ Electronic ticketing technology, and
- ▼ Emerging technologies for customer interface and payment options – such as mobile and internet payment methods; and phone applications which provide timetable, route and ticketing information.

Individual bus operators may not have the scale and capability to develop some new technologies, such as phone applications. Further, there is likely to be significant benefit in a consistent State-wide approach so that tourists and other travellers are able to access information across the State using the same application. For these reasons there may be opportunities for some technology to be developed jointly and funded by either bus operators or Government.

Offering subsidised fares to some forms of transport, such as rural and regional buses, may reduce the incentive for other (non-subsidised) transport operators to enter the market and offer innovative transport solutions, since they are not competing on a level playing field. It may also reduce the incentive for subsidised bus operators to seek innovative solutions. This is considered further in section 4.

3.5 Enable operators to recover the efficient costs of providing rural and regional bus services

The level of fares determined by IPART, together with the contract payments made by TfNSW, should enable operators to recover the efficient costs of providing rural and regional bus services. The Act requires us to consider the cost of providing the services, as well as the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers.

The ability of operators to recover efficient costs may also be affected by changes to farebox revenue as a result of the number and type of passenger journeys made. While farebox revenue is generally a small proportion of their total revenue, any material change could lead operators to request an adjustment in the annual contract payments from TfNSW to offset any reduction in fare revenues. As a result, Government funding for rural and regional buses could be affected by changes to:

- ▼ maximum fares determined by IPART, and
- ▼ changes to passenger journeys as a result of factors such as economic recession, natural disasters (bushfires, drought) or the coronavirus pandemic.

3.6 Promote the efficient delivery of transport services

The efficient delivery of bus services includes the provision of services at efficient cost, and the provision of the right mix of services. The contracts between TfNSW and bus operators define the services provided and the payments for those services. As a result, the contracts can have a significant role in promoting the efficient supply of bus services.

In addition to direct costs (and benefits), different modes of transport can also impose indirect costs (and benefits), known as externalities. These should be taken into account in determining the efficient delivery and use of public transport. Indirect impacts could include the effect of different transport options on pollution and congestion, or the impact on community cohesion through reducing isolation. The Act requires us to consider the impact of our determination on the use of the public passenger transport network, and the need to increase the proportion of travel undertaken by sustainable modes such as public transport.

There is a spectrum of transport options, including point-to-point services such as taxis, ride share services, community buses, coaches, rail and buses. While the characteristics of these options differ, they also offer some overlapping features. The regulatory framework, including fares, should encourage the provision of services that maximise benefits to the community in the most cost-effective way.

The way different transport options are funded can have a significant impact on whether an efficient mix of services is provided. For example, subsidising on-demand services provided by rural and regional bus operators could displace demand for non-subsidised alternatives such as taxis or ride share services.

3.7 Balancing the objectives

Making a determination on maximum fares requires a balancing of priorities and objectives, in light of the requirements of both the Act, and the referral from the Minister for this review. For example, lower fares (which make bus travel more accessible to those with limited transport options) may reduce incentives for innovation. Similarly, maximising the benefits to the community (eg, via increased service levels or use of technology) will impact on the cost of service and the level of either fares or Government funding.

In our 2017 determination we concluded that:

“The main purpose of providing taxpayer-subsidised bus services in rural and regional areas is to ensure people with limited travel options – such as those who can’t drive or can’t afford a car or taxi services – have reasonable access to transport...the fares should be set to meet this purpose.”⁷

Given this purpose, our 2017 review of fares placed significant weight on people’s willingness and capacity to pay. It also considered options to improve the value for money of bus services (for customers and Government) by improving cost-effectiveness over time. As part of our review we will assess whether the reduction in fares following our 2017 review has led to increased use of regional and rural bus services. We will also consider whether this continues to be the main purpose of taxpayer-subsidised bus services in rural and regional areas, or whether other customer groups or objectives should also be given priority.

[IPART seeks comments on the following](#)

- 6 How should IPART prioritise the different objectives for its review of maximum prices? Do you agree with the main purpose and priorities established in the 2017 review?

⁷ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 3.

4 Future developments in rural and regional transport

The transport sector is evolving over time, with the emergence of new technologies, innovation in the way transport services are provided, and changes to the mix of transport options available to consumers. This section considers some of the changes affecting rural and regional transport, and whether there are opportunities to modify current regulatory arrangements to promote greater customer benefits in a more cost-effective way.

4.1 Technological change and innovative service delivery in the transport sector

Technological changes affecting the bus sector include:

- ▼ New and emerging technologies for customer interface and payment platforms, utilising online and phone applications
- ▼ Electronic ticketing which allows more sophisticated ticketing options and integrates with online and phone applications, and
- ▼ New bus infrastructure such as electric vehicles and driverless vehicles.

4.1.1 Electronic ticketing, customer interface and payment platforms

Regional NSW currently has a paper ticketing system based on 'sections'. Unlike the Opal system used in metropolitan and outer metropolitan areas, ticketing is not integrated across all modes of transport. While electronic ticketing would enable more ticketing options and convenience for customers, it would also incur additional costs in ticketing infrastructure, which may be prohibitive.

Another potential innovation is the introduction of an accounts based digital ticketing platform, similar to Opal Connect (see Box 4.4.1). Opal Connect allows passengers to keep track of their public transport payments made through credit/debit cards or via the Opal card, and the operator to offer bundled services.

Box 4.1 What is Opal Connect?

The NSW Government recently introduced a new account based ticketing product for public transport called Opal Connect. Opal Connect is currently being offered on a trial basis for passengers who use certain on-demand transport services. The Opal Connect on-demand trial provides passengers with a \$2 credit when they switch between an on-demand service and another mode that can be used to reduce the cost of future on-demand travel.

Under the Opal Connect on-demand trial passengers are required to sign up to an account with Transport for NSW, register an Opal card to that account and link a credit/debit card to their account. Travel credits earned sit in the account balance. The cost of future on-demand trips is deducted from the account balance. If the account balance is not sufficient to cover the cost of the trip, the remainder is deducted from the linked credit or debit account.

Source: IPART, *Opal fares 2020-2024, Technology and ticketing*, Information Paper, December 2019, p 1.

4.1.2 Electric vehicles and driverless vehicles

The NSW Government is trialling electric buses in Sydney to understand the cost savings and other benefits which might be available. These trials suggest the benefits of electric buses include lower running and maintenance costs.⁸ However, expanding the electric bus fleet into regional NSW would require investment in new buses as well as supporting charging infrastructure. Further issues include whether electric buses would be compatible with unsealed roads and whether battery life is sufficient for longer distance routes.

During 2018 TfNSW initiated driverless vehicle trials for passenger transport in Armidale and Coffs Harbour, in partnership with the private sector, using connected autonomous vehicles (CAVs). Both trials involved fully automated vehicles with a capacity to carry 12 passengers. A wider roll-out of CAVs would require infrastructure and supporting technology, to ensure communication between other vehicles, pedestrians and traffic control systems.⁹

4.2 Innovation in the mix of transport services

TfNSW has been making changes to the delivery of traditional subsidised public transport services in rural and regional areas – including trials of on-demand services and automated vehicles (as noted above), and an increase in the network of coach services provided by NSW Trains (discussed further in section 5.6).

At the same time, there is range of non-subsidised transport options including traditional taxi services and coach services, as well as more recent innovations such as ride share services.

⁸ TfNSW submission, *Inquiry into electric buses in regional and metropolitan public transport networks in NSW*, Legislative Assembly Committee on Transport Infrastructure, November 2019, p 5.

⁹ <https://www.transport.nsw.gov.au/projects/programs/smart-innovation-centre/regional-automated-vehicle-trials>, viewed 2 July 2020.

4.3 Implications for the rural and regional bus sector

It is important to ensure the regulatory framework remains fit-for-purpose given the changing environment for transport services. The regulatory framework should not be a barrier to innovative services and new technologies, where these are cost effective.

We are interested in considering whether changes to the current arrangements could improve the incentives for innovation, the efficiency of rural and regional bus services, and their value for money for taxpayers or customers (and would-be customers). These changes could include the following (discussed further below):

- ▼ improving the incentive properties of existing contracts
- ▼ moving from net contracting (where operators retain farebox revenue) to gross contracts (where farebox revenue is transferred to the Government), or
- ▼ addressing concerns about competitive neutrality in Government procurement of services.

4.3.1 Improving the incentive properties of existing contracts

The existing contracts with bus operators establish the services to be provided and the payments to be made by the Government. There are also set out various other requirements including, for example, the need for seat belts, the type of bus that can be purchased, bus replacement policies and so on.

IPART's review does not extend to a review of the contracts between TfNSW and bus operators - TfNSW is responsible for managing these contracts and initiating any potential improvements. While IPART's determination of maximum fares influences the rural and regional bus sector, the structure and terms of the operator contracts also have a significant impact on the ability of, and incentives for, bus operators to innovate, to operate efficiently and to reduce costs while providing a given level of services.

4.3.2 Gross versus net contracting arrangements

Contracts with bus operators are currently undertaken on a 'net' basis. Under this arrangement bus operators retain any revenues received from fares (the 'farebox'). An alternative approach would be to contract on a 'gross' basis - where contract revenues are designed to cover the total efficient costs of service, and fare revenues are returned to TfNSW.

The form of contracting adopted is likely to impact on the incentives of the bus operator. For example, the current approach, which allows operators to retain farebox revenue, will encourage operators to maximise their farebox. They will be constrained in their ability to maximise this revenue, given the maximum fares prescribed by IPART, but within this constraint they have an incentive to set fares to maximise their farebox revenue.

One advantage of the current ‘net’ approach is that operators have an incentive to collect fares. If they do not retain any fare revenue then they do not have an incentive to ensure passengers pay the correct fare for their journey.¹⁰

Conversely, one advantage of the ‘gross’ form of contracting would be to clarify the role of contracts as a cost recovery mechanism, and the role of fares in social policy. In metropolitan and outer metropolitan areas, the Government has taken advantage of the fare flexibility in the gross cost contract model to impose caps on the price of travel for passengers and to reduce long distance fares - for example, passengers pay the same amount for all bus journeys over 8 kilometres.

The contracts with rural and regional bus operators have a ‘top-up’ provision which allows operators to negotiate an increase in contract payments in some circumstances, if TfNSW reduces fares. However, it is unclear whether this provision provides significant flexibility because operators must show that there has been a material decline in revenue due to the impact of fare changes, rather than a decrease in patronage for other reasons (such as economic recession).

4.3.3 Competitive neutrality and introducing competition

While there is a range of transport options in rural and regional areas, only some of these services are subsidised by the Government. Others are privately funded, including taxis, ride share services and some private coach routes. This raises the potential for Government-subsidised services to ‘crowd-out’ non-funded private sector businesses that provide overlapping services, and may act as a barrier to innovation and more efficient provision of services to customers. In other words, there is a lack of competitive neutrality where subsidised services compete with businesses that are not subsidised.

Our final report for the 2017 pricing review noted that we consider there is an opportunity to significantly improve the value for money that public transport services provide in rural and regional areas of NSW.¹¹ In the longer term - when the current contract period ends - we recommended that TfNSW procure all transport services through a competitive tendering process, including inviting proposals for innovative transport services (across all transport modes).

We note that this is a matter for the NSW Government to consider and implement. Nonetheless, in the context of IPART’s role in determining recommend maximum fares which take into account their efficiency and their value for money, we note that these contracting arrangements play a central role. As a result we are seeking stakeholder feedback on the potential to competitively tender bus contracts in the future.

¹⁰ Under the Opal contract a small amount of the contract payment is based on increasing patronage.

¹¹ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, pp 85-94.

Alternatively, competitive tendering could be introduced for elements of service provision, such as on-demand services, rather than the bus contract as a whole. As part of our review we will consider options to introduce competition in the provision of on-demand services, where there is potential for this to improve services or reduce costs (on-demand services are discussed further in section 6).

Another option would be to provide funding direct to customers rather than specific services, by giving targeted customers 'vouchers' towards travel on a range of services. This would enable customers to choose which service best suits their needs. It would also, however, incur administration costs, and potentially could lead to the demise of some scheduled bus services (if private operators did not receive enough vouchers to make their services viable).

[IPART seeks comments on the following](#)

- 7 How should regulation of rural and regional buses respond to developments in the transport sector, including emerging technologies and innovation in service provision? How can innovation be facilitated?

5 Determining maximum fares

This section sets out the issues we intend to consider in determining maximum fares for regional and rural bus services over the period 2020-2025:

- ▼ The efficient costs of providing services
- ▼ The efficient use of bus services
- ▼ Maximising benefits to the community
- ▼ An appropriate fare structure, including the number of fare bands and daily capping of fares
- ▼ The equity of bus fares in regional and rural areas compared to those in metropolitan areas, and
- ▼ Relativities between regional bus fares and coaches provided by NSW Trains.

These issues reflect the criteria we set out in section 3 and the issues we are required to consider.

5.1 Efficient costs of providing services

Bus operators mainly rely on payments under their contracts with TfNSW to recover the costs of their operations. Unlike many other regulated businesses (such as electricity networks), IPART does not determine maximum fares to recover the efficient costs of providing the service (for example by using a 'building block' approach).¹²

While efficient costs are not a primary driver of maximum fares, they remain an important consideration for several reasons, because they indicate:

- ▼ whether taxpayers and customers are getting 'value for money' for bus services, and therefore whether there is value in considering changes to contracting arrangements (discussed in section 4), and
- ▼ whether services could be provided more cost-effectively through alternative means, such as on-demand services.

We undertook an analysis of the efficient costs (on both a unit cost and marginal cost basis) of service provision as part of our 2017 review, where we concluded that on average the efficient costs of providing rural and regional bus services were 20-25% lower than the contract costs of providing school only services and 28-32% lower than the contract costs for school and regular services.¹³ We are interested in understanding whether there have been changes since that time which have impacted this conclusion.

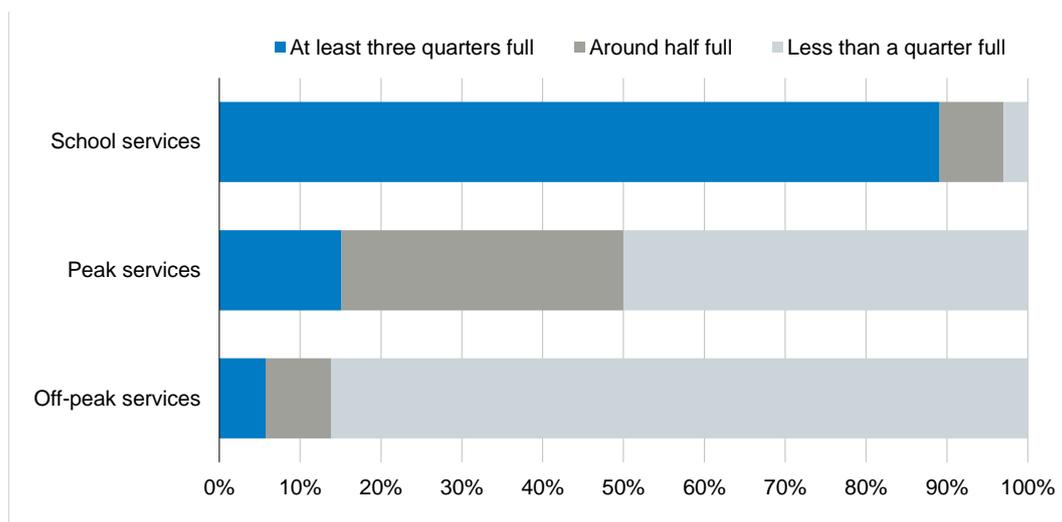
¹² Under the building block model allowed revenue is equal to the sum of underlying components or building blocks consisting of the return on capital, the return of capital (also known as depreciation), operating expenditure, and various other components such as taxes and incentive mechanisms.

¹³ IPART, *Maximum fares for rural and regional bus services from 5 March 2018, Final Report*, December 2017, p 47.

5.2 Efficient use of services

As noted in section 2.1, around 88% of rural and regional bus journeys are made for school travel. Average capacity utilisation is highest for school buses, and significantly lower for regular bus services - even at peak times - as shown in Figure 5.1 below.

Figure 5.1 Bus utilisation for different services



Data source: Approximation based on data from the 2017 review. Services that did not report utilisation were excluded.

This analysis suggests that available bus capacity (including the size of buses in the fleet) is likely to be driven by the capacity needed for school services.¹⁴

Once the size of a bus is given, the additional costs of carrying an additional passenger are likely to be small, at least until the bus is at full capacity and a larger bus (or a more frequent service) is required. For this reason there is an argument that at non-peak times of the day, where there is significant spare capacity, bus fares could be substantially discounted to encourage higher capacity utilisation and therefore promote short-term efficiency.¹⁵ This will be efficient as long as fares cover the marginal costs of operation – which are likely to include fuel, and potentially an element of labour costs (if these could otherwise be avoided).

Similarly, there could be an argument for running more frequent services during non-school times, if this promotes customer benefits, and existing buses can be used more intensively at a relatively low cost. Even if marginal costs exceed fare revenue, there may be an argument for increased services on the basis of customer benefits (discussed below). When considering whether to increase services, the marginal cost of bus services should also be compared to the cost (and relative benefits) of alternatives, such as on-demand services.

¹⁴ This may vary where there are restrictions imposed during the coronavirus pandemic.

¹⁵ Spare capacity may be substantially reduced during the coronavirus pandemic due to distancing measures.

Our 2017 review reduced maximum fares for most journeys (apart from the shortest) – the adult fare for a single journey decreased by an average of around 29%. We expected this decision to result in increased patronage, because our analysis had shown that most fares existing before that review were “higher than people were willing and able to pay, particularly those who are ineligible for concession fares”.¹⁶

As part of this review we will be analysing the impact of the fare reductions from the 2017 review on patronage. This will provide an indication of the potential role of fares in promoting the efficient use of buses by increasing capacity utilisation.

We will also be examining the impact of social distancing requirements (resulting from the coronavirus pandemic) on the *effective* capacity of the existing bus fleet. Social distancing requirements do not need to be enforced on dedicated school bus services, but do need to be followed on regular bus services. This will reduce the effective capacity of these bus services. Somewhat offsetting this impact, the coronavirus is also likely to have reduced the number of passenger journeys made, as people increasingly work from home, and reduce travel for non-essential purposes.

5.3 Maximising benefits to the community

As noted previously, our 2017 review concluded that the main purpose of providing subsidised bus services in rural and regional areas is to ensure people with limited travel options have reasonable access to transport. This is confirmed by an earlier assessment by TfNSW which identified that in rural and regional areas the ‘origin generators’ - that is, the demand generators – for buses include:¹⁷

- ▼ the population that is aged 11-20 years, or 60 years and older
- ▼ student numbers
- ▼ the proportion of the population without a driver’s licence
- ▼ the percentage without car ownership, and
- ▼ the index of social disadvantage.

We will consider whether other groups may also generate demand for buses in rural and regional areas over time, including tourists and those migrating from urban areas for a ‘tree-’ or ‘sea-’ change.

To ensure that customers can benefit from the provision of bus services in rural and regional areas, we will update the analysis of customer willingness and capacity to pay we undertook in the 2017 review. We assessed this by examining a range of evidence – including feedback from surveys and stakeholder submissions, comparisons of fares with those in metropolitan NSW and bordering jurisdictions, and analysis of the expected elasticity of travel with respect to fares.

¹⁶ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 3.

¹⁷ TfNSW, *Public transport service planning guidelines, Rural and regional NSW*, October 2015, p 19.

Our analysis of bus patronage following the reduction in fares in the 2017 review will also provide an insight into whether bus fares have become more affordable for customers.

In addition, we will consider customers' willingness and capacity to pay given demographics in urban and rural areas in regional NSW, as required by the Minister's referral. These demographics will include factors such as age distribution and income distribution in rural areas compared to urban areas.

Figure 5.2 shows that many regional areas have a socioeconomic index below 50, indicating a relative disadvantage in access to economic resources, educational levels and occupational types compared to metropolitan areas.¹⁸

Figure 5.2 Socioeconomic index for areas of NSW (SEIFA) 2011



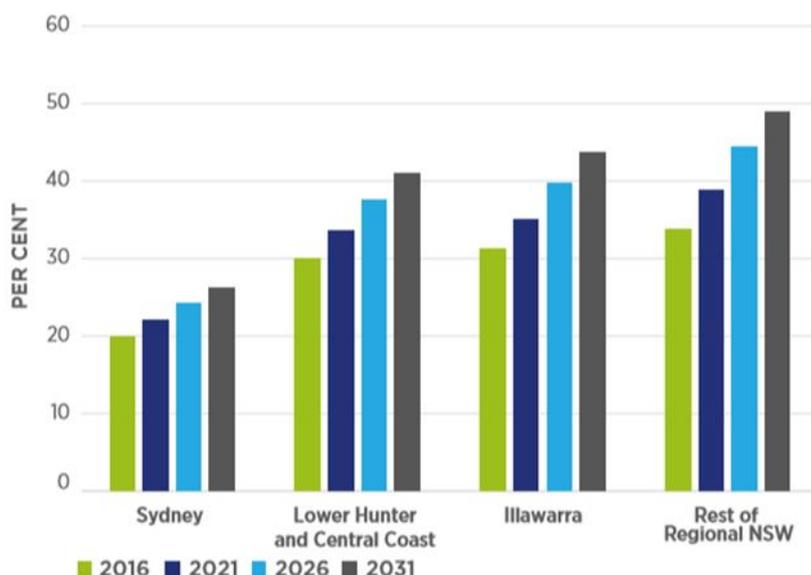
Source: Transport for NSW, *Future Transport 2056, Regional NSW Services and Infrastructure Plan*, p 27.

¹⁸ ABS data for Socioeconomic Indexes for Areas (SEIFA) based on 2011 census, state suburb Indexes for NSW.

Further, the population in regional areas is ageing more rapidly than the Sydney region (see Figure 5.3), and the population in some regional inland areas is thinning due to the migration of some residents to urban areas (particularly young people seeking employment and educational opportunities). Population projections also indicate that:

- ▼ Border and coastal regions are popular with retirees, and
- ▼ Significant growth is expected in regional hubs.¹⁹

Figure 5.3 Aged dependency ratio^a is high in regional NSW



^a The ratio of people aged 65 and over to those between 15-64 years.

Source: NSW Intergenerational Report, Budget Paper No 5, Budget 2016-17, May 2016, p 22.

Our review of Opal fares included a number of recommendations aimed at improving the accessibility of public transport for those groups within society who find public transport unaffordable. We recommended that the NSW Government:²⁰

- ▼ Provide discounted fares to NSW residents that hold a Commonwealth Health Care Card
- ▼ Trial a program where community service organisations and charities can purchase discounted public transport passes to be provided at no cost to vulnerable people, similar to a trial being undertaken in Victoria, and
- ▼ Consider expanding free travel for passengers with a permanent disability, cognitive condition or mental illness that prevents them from using the Opal system.

Our initial view is that these recommendations could apply for rural and regional bus concessions (with the possible exception of the last point above, in the absence of an Opal-style system).

¹⁹ <https://www.planning.nsw.gov.au/Research-and-Demography/Population-projections/Projections>, viewed 25 June 2020.

²⁰ IPART, Opal fares 2020-2024, *Ensuring affordability*, Information paper, December 2019, p 1.

IPART seeks comments on the following

- 8 Do you support the suggestions aimed at improving the accessibility of public transport for those groups within society who find public transport unaffordable? For example, extending concession fares to a broader group, such as those who qualify for the healthcare card? What would be the impact on fare revenue and Government funding?

5.4 Fare structure, bands and daily capping

5.4.1 Fare structure

Our 2017 review of rural and regional bus fares simplified the fare structure from 220 fare sections into just 10 bands, on the basis that the benefits of simplification outweighed the costs.²¹ The benefits include that fares are easier for users to understand, and simpler and more efficient for bus operators to administer. The simpler fare structure is also more consistent with those in bordering jurisdictions.

We also considered a smaller number of bands, such as three Opal fare bands (0-3km; 3-8km; and 8km+), or a flat fare structure in town (say a flat fare for all journeys less than 10km), but concluded that:

- ▼ Opal bands are not appropriate for rural and regional bus fares as trip characteristics are significantly different in rural and regional areas. For example around 40% of passenger journeys in rural and regional areas are greater than 8km, compared to only 14% in Opal areas,²² and
- ▼ A flat fare structure in town would have meant that fares for the shortest distance band would have increased substantially.

We are interested in understanding the experience of both customers and bus operators under the new fare structure introduced in 2018. We are also interested in stakeholders' views as to whether there is an opportunity to further simplify fares. For example, our previous review noted that there may be a higher willingness to pay for some very short distance journeys, so one fare band in town may be appropriate. We indicated that we would consider this issue in more detail in our current review.

We are also interested in the impact of technology on ticketing options in rural and regional NSW. In 2017 our draft report recommended distance-based (kilometre) fares.²³ Our final recommendations maintained section-based fares, because stakeholders raised concerns about implementing kilometre-based fares and a daily distance-based ticket using existing ticketing systems. We are interested in understanding whether bus operators have updated their ticketing systems since our last review, and whether the cost of new ticketing systems is prohibitive.

²¹ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 34.

²² Data for rural and regional services from IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 35; Opal data from *Opal ticketing data, Opal data averaged across two standard weeks: week 1 in Jan-Jun 2019, and week 2 in Jul-Sep 2019*, TfNSW.

²³ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 36.

IPART seeks comments on the following

- 9 What is your experience with the current maximum fares? Would you support further simplification, or additional frequent-use tickets?
- 10 What are the technical challenges involved in changing the current fare structure or adopting particular types of fare structures? As an operator, to what extent is your ticketing technology a constraint on fare structures?

5.4.2 Tickets for more frequent trips, and transfer between operators

The 2017 review also introduced a new daily ticket, set at a level which aimed to encourage additional discretionary journeys to create more fare paying trips and revenue, while minimising the risk of further reducing fare revenue from current levels.²⁴ We considered the daily caps should be set at more than the fare for a return journey, allowing any subsequent journey to produce additional fare revenue.

Our decision was to set the daily cap equal to the return fare for the longest journey taken (two times the single fare), plus one 0-2km fare. This aimed to encourage customers to make greater use of public transport across a day, because the second leg of any additional return journey is free.

The daily ticket could also overcome the ‘transfer penalty’ that arises from changing operators to complete a bus journey, because we required that daily tickets bought in one region must be accepted in other regions. Also, passengers making journeys that involve switching operators within 60 minutes can buy a single ticket covering the length of their journey. However, we did not introduce a maximum fare for return journeys valid across operators. We considered that current ticketing systems may not cope with the different fare levels and structure that existed across different operators.

The current review will consider experience with the daily ticket and whether it has been successful. We will also review whether there should be a maximum fare for return tickets that is valid across operators. A further issue is the potential for ticketing options that are valid across both rural/regional areas, and metropolitan/outer metropolitan areas. This would remove the current ‘transfer penalty’ between rural/regional buses and metropolitan/outer metropolitan transport.

We will also review our decision in the 2017 review not to introduce weekly tickets. This was decided in recognition that because we significantly reduced the maximum fares for single tickets, most customers that travel regularly during the week would realise significant cost reductions for weekly travel, compared to what they had paid previously. We also noted that trips for work or education tend to be less price responsive than journeys made for discretionary travel because they are more likely to be made regardless of price.²⁵

²⁴ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 40.

²⁵ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 40.

IPART seeks comments on the following

- 11 What has been the experience with the use of single or daily tickets across operators? Has this been successful? What is your view on introducing return tickets that can transfer across operators, or tickets that can transfer between rural and regional buses and metropolitan transport?

5.4.3 Consistent fare structures across different operators and locations

Maximum fares and fare structures are currently the same across all operators and all areas of regional and rural NSW (though actual fares and fare structure differ within the constraints set by IPART's determination). We intend to review whether there are valid reasons to differentiate fares charged by different operators or in different locations.

This could be justified on the basis that the characteristics of customers or bus services differ significantly in different areas, so that the relative priority given to the various criteria for setting maximum fares differs. For example, in areas where buses have excess capacity and customers (or would-be customers) fall into the 'vulnerable' categories, there may be greater reason to offer lower fares. By contrast in larger regional towns which experience higher peak demand and capacity utilisation, the same arguments would not hold. As shown in Figure 5.2, socioeconomic conditions vary across rural and regional areas.

Against these reasons, introducing differential fares or fare structures would increase complexity for customers and operators, and would increase the complexity of IPART's fare-setting responsibilities. Further, there are vulnerable people in every area, and it can be argued they should have similar access to subsidised public transport regardless of the 'average' socioeconomic status of people living in their area.

IPART seeks comments on the following

- 12 Do you think there would be any benefit in differentiating fare structures across different operators or in different locations?

5.5 Equity of fares compared to Sydney metropolitan buses

The Minister's referral asks us to consider the equity of current adult and concessional fares compared to Sydney metropolitan bus fares, particularly for medium and longer-distance journeys.

The following tables compare current rural and regional bus fares to Opal fares for metropolitan buses.

Table 5.1 Regional and rural buses - Maximum adult fares in 2020 as determined by IPART

Fare band	No. sections	Distance (km)	Maximum fare single journey	Maximum fare daily ticket
1	1-2	0 to less than 2km	\$2.40	\$7.20
2	3-6	2 to less than 10km	\$3.60	\$9.60
3	7-15	10 to less than 25km	\$5.10	\$12.60
4	16-25	25 to less than 40km	\$7.60	\$17.60
5	26-37	40 to less than 60km	\$10.10	\$22.60
6	38-56	60 to less than 90km	\$15.10	\$32.60
7	57-75	90 to less than 120km	\$21.90	\$46.20
8	76-100	120 to less than 160km	\$30.70	\$63.80
9	101-125	160 to less than 200km	\$40.70	\$83.80
10	126+	200km or more	\$50.60	\$103.60

Note: Sections are an average of 1.6km over the length of a bus route, but may vary between 1.3km and 1.9km.

Source: IPART, *Maximum fares for rural and regional bus services from 5 March 2018, Final report*, December 2017, pp 7-8; IPART, *Maximum fares for rural and regional bus services, 1 January 2018 to 30 December 2020, Draft determination*, October 2017, p 9.

Table 5.2 Adult Opal fares for buses – from July 2020

Fare band	Distance	Proportion of Opal journeys	Adult single journey		Discounts and price caps
			Peak	Off peak ^a	
1	0-3km	45%	\$3.20	\$2.24	50% discount off the fare once 8 trips have been made in a week. \$50 weekly cap on fares. Weekend day cap of \$8.05 full fare (\$4.00 concession).
2	3-8km	38%	\$3.73	\$2.61	
3	8+km	17%	\$4.80	\$3.36	

Note: Peak fares apply 6.30am-10am and 3pm-7pm weekdays. Off-peak fares reflect a 30% discount on peak fares – from July to September 2020 this discount is increased 50%.

Source: TfNSW, *2020 Public transport fares, Pricing proposal for 2020*, pp 2-3; TfNSW, *Opal ticketing data, Opal data averaged across two standard weeks: week 1 in Jan-Jun 2019, and week 2 in Jul-Sep 2019*.

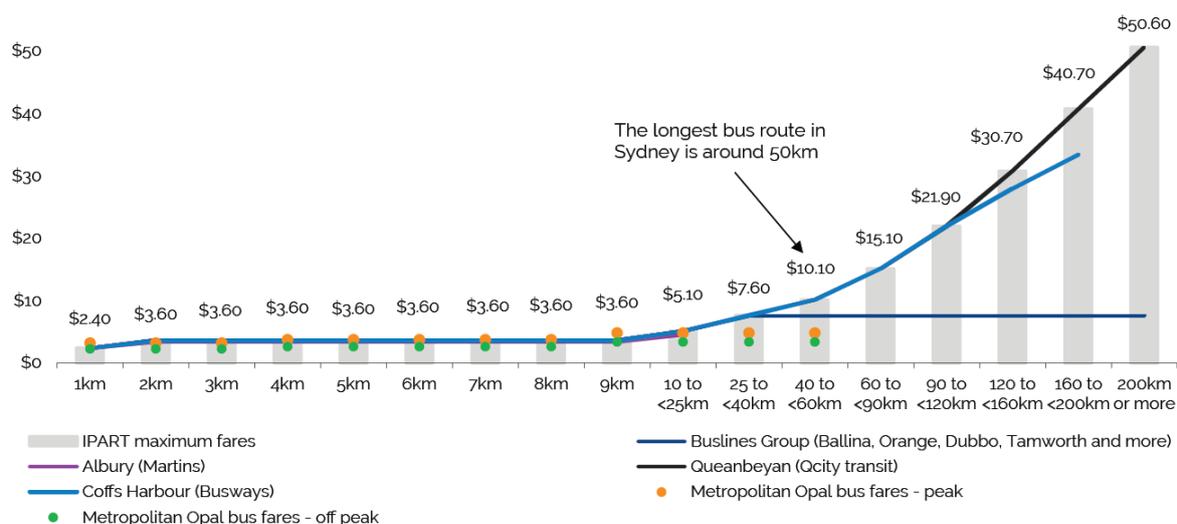
It is not possible to directly compare the two fare structures, given that Opal fares are distance-based while rural and regional fares are based on sections, which vary somewhat in their length. Further, rural and regional bus operators may choose to charge less than these maximum fares. Nonetheless, we can make the following observations:

- ▼ Opal fares have 3 bands while rural and regional fares have 10 bands.
- ▼ Fares for the shortest journeys (up to 2km for rural and regional services) are similar during off peak periods, but significantly higher in Opal areas during peak times (rural and regional buses do not currently have a peak/off peak structure). Almost 45% of Opal journeys are less than 3km.

- ▼ For the next fare band (distances up to 8km in metro areas and 10km in rural and regional areas), rural and regional fares are similar to Opal fares at peak times, and almost 40% higher than off peak Opal fares.
- ▼ For travel between 10km and 25km, rural and regional fares are around 6% higher than peak Opal fares and 52% higher than off peak Opal fares.
- ▼ For travel between 25km and 60km (the longest bus route in Sydney is around 50km), fares in rural and regional areas are substantially higher than Opal fares (between 58% higher to about triple at off peak times for the longer distances). However, very few Opal journeys of this length are undertaken – less than 2% of all Opal journeys.²⁶
- ▼ The maximum fare for a single journey on an Opal card is \$4.80, compared to \$50.60 in regional and rural areas. However, this comparison is not very meaningful because rural and regional journeys can be much further. As noted, the longest bus route in Sydney is around 50km, while rural and regional fares apply to journeys of 200km or more.

In practice many operators charge less than the maximum fare allowed, particularly for longer distance journeys. Figure 5.4 shows the fare structure for a selection of bus operators compared to IPART’s maximum fares, as well as Sydney metropolitan Opal fares.

Figure 5.4 Current rural and regional bus fares compared to IPART maximum fares (\$2020)



Note: The peak hours for Sydney metro Opal bus fares from 6 July 2020 are defined as: 6.30am-10am and 3pm-7pm on weekdays. All other times are considered off-peak. The off peak Sydney metro bus fares above are based on the standard discount rate of 30 per cent.

Source: Rural and regional bus operator websites, TfNSW, IPART analysis.

²⁶ Opal ticketing data, Opal data averaged across two standard weeks: week 1 in Jan-Jun 2019, and week 2 in Jul-Sep 2019, TfNSW.

There may be good reasons why fares in urban areas differ from those in rural and regional areas. As noted in section 5.4, in 2017 we decided on section-based maximum fares for rural and regional buses rather than the distance-based fares used for Opal because some ticketing systems could not adapt to distance-based fares. Further, we decided Opal bands are not appropriate for rural and regional bus fares as trip characteristics are significantly different in rural and regional areas - around 40% of passenger journeys in rural and regional areas are greater than 8km, compared to only 17% in Opal areas.²⁷

There are other reasons why fares in rural and regional areas may differ from those in the metropolitan area. For example, the Opal fares introduced in July 2020 focus on shifting usage from peak to non-peak times in order to reduce congestion and assist in social distancing at peak times. They may also be designed to encourage the use of public transport rather than cars, to reduce road congestion, which is not as relevant in rural and regional areas. In addition, while Opal fares reach a maximum at distances above 8km, higher fares may be justified in rural areas because they can cover much longer distances than the maximum distance of a bus journey in metropolitan areas.

Nonetheless, it could also be argued that fares should not vary widely between rural and urban areas, since this could be considered inequitable. In particular, we have identified the main purpose of rural and regional bus fares is to provide a means of transport for those who cannot afford an alternative, and to encourage community cohesion. We are interested in stakeholders' views on the current fare structure in rural and regional areas, and whether all or some fares are excessive given these objectives, particularly when compared to the fare structure in the metropolitan area.

As observed in section 5.3, the recent review of Opal fares included a number of recommendations aimed at improving the accessibility of public transport for those groups within society who find public transport unaffordable. Our initial view is that similar arguments could be put forward for customers in rural and regional areas.

5.6 Relativities between regional bus fares and coaches provided by NSW Trains

The Government funded coach network aims to connect regional towns and city hubs. This network continues to expand into new regional locations, as Trainlink trials new 'hub and spoke' services designed to connect people and places in regional NSW. There is some overlap between the routes offered by coaches and those serviced by rural and regional buses. Compared to regular bus transport, the coaches offer better on-board facilities such as reclining seats, foldaway arm rests, footrests, lap sash seatbelts, toilets and space for luggage and prams. Seats on regional services must be booked before travel.

²⁷ Data for rural and regional services from IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, p 35; Opal data from *Opal ticketing data, Opal data averaged across two standard weeks: week 1 in Jan-Jun 2019, and week 2 in Jul-Sep 2019*, TfNSW.

NSW Trains reports that during 2018-19 eight new coach trials were started; a further four trials were extended, and three trials were cancelled due to low patronage.²⁸ When determining the viability of a new coach service, NSW Trains considers a range of factors including patronage and the broader economic benefit to communities, as well as the social benefit of connecting regional communities with education, medical and other facilities.

NSW Trains reports that in the first 16 months of the trial coach services NSW Trains provided more than 4,300 additional coach trips (more than 180,000 seats). More than 20,000 customers used the services, with up to 30% utilisation per route.²⁹

Table 5.3 compares the maximum fares for rural and regional buses (as determined by IPART) to the Trainlink coach fare schedule. Fares on the Trainlink coach network are seasonal - standard fares are available through much of the year, while peak pricing is charged during busier times such as school holidays.

Other various concessions and discounts are offered on the regional train and coach network, including a \$2.50 pensioner excursion fare which is available for intrastate travel outside of the Greater Sydney boundaries.

Table 5.3 Comparison of maximum fares – buses versus Trainlink coaches

Rural and regional buses		NSW TrainLink coach fares		
Fare band (and km)	Maximum adult fare	Fares for travel up to (in km):	Adult fares Peak seasonal fares Full price	Adult fares Standard seasonal fares 20% off full price fares
1 (0 to less than 2km)	\$2.40			
2 (2 to less than 10km)	\$3.60			
3 (10 to less than 25km)	\$5.10			
4 (25 to less than 40km)	\$7.60	46	\$6.92	\$5.54
5 (40 to less than 60km)	\$10.10	56	\$9.22	\$7.38
6 (60 to less than 90km)	\$15.10	66	\$11.53	\$9.22
		75	\$13.84	\$11.07
		84	\$14.98	\$11.98
		99	\$16.14	\$12.91
7 (90 to less than 120km)	\$21.90	109	\$18.45	\$14.76
		119	\$19.60	\$15.68
8 (120 to less than 160km)	\$30.70	129	\$21.90	\$17.52
		149	\$26.51	\$21.21
9 (160 to less than - 200km)	\$40.70	169	\$29.98	\$23.98
		189	\$33.43	\$26.74
10 (200km or more)	\$50.60	209	\$35.74	\$28.59
		229	\$40.35	\$32.28
		249	\$44.96	\$35.97

²⁸ NSW Trains, *Annual report, 2018-19*, p 27.

²⁹ NSW Trains, *Annual report, 2018-19*, p 27.

	269	\$47.27	\$37.82
	289	\$49.57	\$39.66
	309	\$53.03	\$42.42
	329	\$56.49	\$45.19
Numerous additional fare bands apply for distances greater than 329km (up to 2,599km).			

Note: For NSW Trainlink, standard fares apply for 246 days in 2020 and peak fares apply for 109 days.

Source: TfNSW, Email correspondence dated 15 June 2020; IPART, *Maximum fares for rural and regional bus services from 5 March 2018, Final report*, December 2017, p 7.

Table 5.3 shows that for short journeys (up to 25km), the maximum fare for rural and regional buses is lower than the fare for Trainlink coaches (though as noted previously, actual bus fares may be less than the maximum allowed). For distances greater than 25km up to 290km, the Trainlink coach fare is generally less than the maximum fare determined by IPART for rural and regional buses. For journeys greater than 290km, buses again become a cheaper option (where buses are available for this distance).

As part of our review we will be seeking more information about the characteristics and fares of coach services provided by Trainlink, compared to the services and fares offered by rural and regional bus operators.

IPART seeks comments on the following

- 13 Do you think aspects of the fare structure in rural and regional areas are inequitable compared to Opal fares in metropolitan Sydney, or compared to coach services offered by Trainlink?

6 The development of on-demand services

The Minister's referral asks IPART to consider the development of on-demand services in regional areas. On-demand services differ from traditional public transport services in that some aspects of the service vary according to customer needs and demand – for example, it could be flexibility in the departure time, route, pick-up and drop-off points, or type of vehicle. The customer experience of on-demand services sits somewhere between travelling by private car and catching a traditional, fixed-route timetabled public transport service.

On-demand services have the potential to reduce the need to run more expensive fixed-route services, or provide a 'first and last mile' public transport solution to replace car use and improve connectivity of the public transport system.

This section considers issues related to on-demand services, including:

- ▼ IPART's previous determinations relating to on-demand services;
- ▼ Current trials of on-demand services in rural and regional NSW;
- ▼ Pricing of on-demand services; and
- ▼ Options to improve on-demand services.

6.1 IPART's determinations regarding on-demand services

In our final report for the 2017 pricing review, we noted there is an opportunity to significantly improve the value for money of public transport services in rural and regional areas of NSW.³⁰ In the shorter term (during the current contract period), we recommended a framework for procuring new transport services, including on-demand services. In summary, this framework involves:

1. Assessing community needs for public transport services (including unmet needs) against current services.
2. Identifying high priority bus services for improvement - those routes where the actual cost per passenger journey is at least 25% higher than the efficient cost per passenger journey.
3. Assessing high priority services to identify opportunities for improvement - for example reducing costs by changing routes, timetables, bus sizes, etc, or by adding on-demand components to improve patronage and reduce cost per passenger.
4. Negotiating to implement opportunities for improvement through variations to the contract.
5. Setting fares for on-demand bus service components.

³⁰ IPART, *Maximum fares for rural and regional bus services from 5 March 2018*, Final Report, December 2017, pp 85-94.

IPART recommended that where the improved service includes an on-demand component, the bus operator should propose a fare surcharge for this component, up to a maximum of \$5 (including GST). The surcharge would be applicable to booked customers using the on-demand service, and would be charged in addition to the fare for the fixed route component.

IPART also reviewed on-demand bus fares for metropolitan and outer metropolitan areas as part of our recent review of Opal fares.³¹ IPART's recommendation in these areas is that maximum fares for on-demand services are set at the same level as maximum single fares for the relevant mode of transport. We based this decision on several considerations, including:

- ▼ High-cost, low-patronage fixed route services should not simply be replaced by even higher-cost on-demand services – allowing Government to determine the best type of public transport within the bounds of a single maximum fare.
- ▼ Where on-demand services replace fixed-route services, passengers should not be penalised by higher fares when fixed route services are not available, and taxpayers should not subsidise more expensive on-demand services where providing fixed routes may be cheaper.
- ▼ Subsidising on-demand services too much could crowd out innovation in private transport services – such as commercial car share, ride share and bike share services.
- ▼ Pricing on-demand buses consistent with fixed route bus services would encourage seamless integration of the public transport network.

Our review will consider these issues for on-demand services in rural and regional areas. We note that differences in the context of rural and regional buses compared to metropolitan buses, their purpose, and characteristics of both the services and their customers, could result in IPART reaching different conclusions in rural and regional areas versus metropolitan areas.

IPART seeks comments on the following

- 14 Do you agree with the framework outlined in section 6.1 for procuring new transport services, including on-demand services?

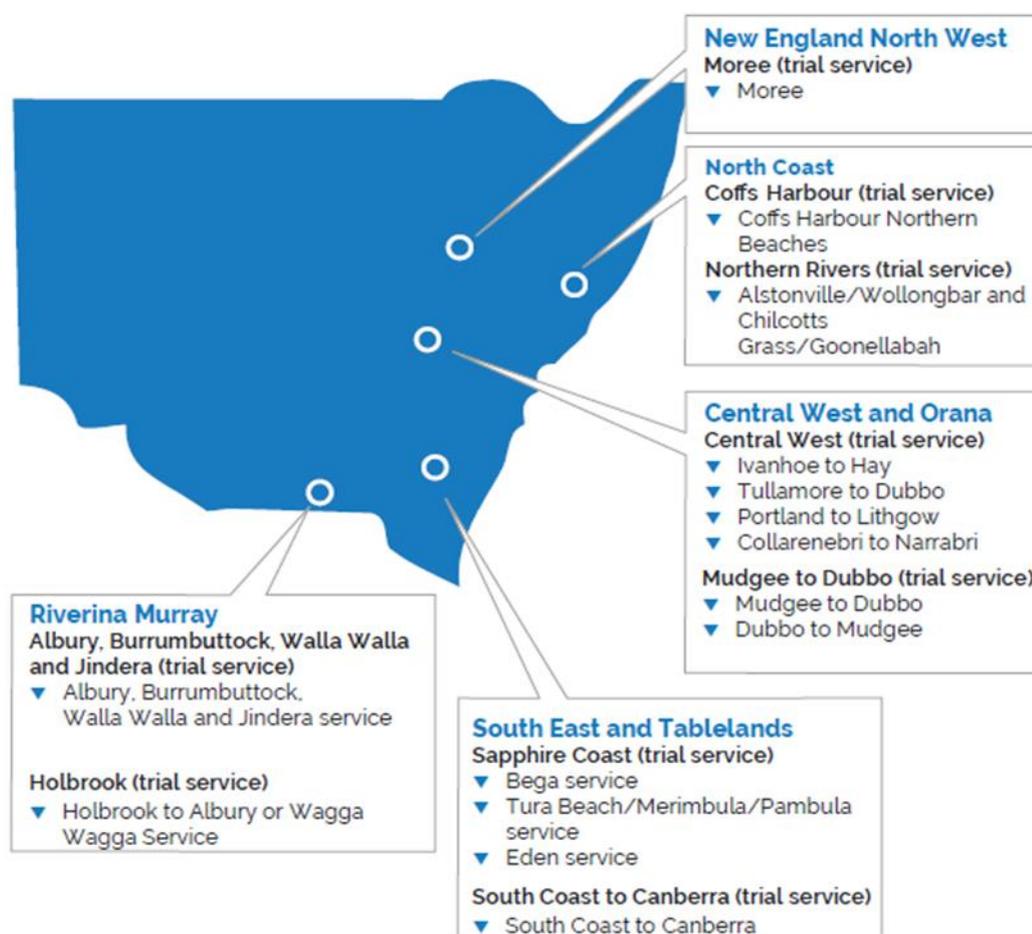
³¹ IPART, *Opal fares 2020-2024, On-demand bus fares*, Information paper, December 2019.

6.2 Trials of on-demand services in rural and regional NSW

Before on-demand services were trialled, the Government already provided funding for one type of on-demand transport through contracts with 92 community transport organisations, which provide support to those aged 65 years or older, young people with disabilities and their carers, as well as financially disadvantaged people or those living in remote or isolated areas of NSW.

In addition, a number of trials of on-demand services have been running across regional and rural NSW, as shown in Figure 6.1.

Figure 6.1 On-demand services operating in NSW as part of a trial



Source: Transport for NSW, On Demand public transport, <https://transportnsw.info/travel-info/ways-to-get-around/on-demand#:~:text=On%20Demand%20is%20a%20flexible,as%20part%20of%20a%20trial>, accessed 2 July 2020.

Source: TfNSW, *On demand public transport*, <https://transportnsw.info/travel-info/ways-to-get-around/on-demand>, viewed 3 July 2020.

In some areas these trials involve a door-to-door service but in others they act as a feeder service to the main transport services, as shown in the examples below.

Table 6.1 Examples of on-demand trials in regional NSW

Region and service	Hours of operation	Bookings can be made via	Pick up/ drop offs points
Central West and Orana			
Ivanhoe to Hay	Fortnightly every Thursday	Phone	Pick up at or near home / drop off at a predefined place of interest
New England North West			
Moree on-demand service	7 days a week (excluding public holidays) 7am to 7pm	Phone or text	Pick up at or near home / drop off at desired destination within Moree
Moree route service	7 days a week - 7.35am to 6.05pm to meet the morning and evening train		Connects Moree station with selected points within Moree
North Coast			
Zone1 suburbs of Woolgoolga, Safety Beach and Mullaway	Monday to Friday 7am to 7pm	Phone, online via website or through Woopi Connect app	Pick up at or near home / drop off at any destination within zone
Zone 2 – suburbs of Ararwa, Ararwa Headland and Corindi Beach	Saturday – 8am to 2pm (No service on Sunday and public holidays)		Allows travel across zones at a slightly higher fare
South Coast			
Bateman's Bay (BB) to Canberra Airport (CA)	Six days - Sunday to Friday (including public holidays, except Christmas Day) Departs BB at 7.30am to reach CA at 9.45am Leaves CA at 4.45pm to reach BB at 6.45pm	Call or via website	Pick up and drop off at coastal locations along the way to and from CA

Source: TfNSW website, <https://transportnsw.info/travel-info/ways-to-get-around/on-demand>, viewed 3 July 2020.

As part of our review we will be analysing experience with on-demand services in rural and regional NSW, including the:

- ▼ characteristics of the on-demand services (for example, point to point, point to hub, etc)
- ▼ prices charged for on-demand services
- ▼ patronage of these services, and any impact on the patronage of scheduled bus services (assuming these have continued unchanged during the trial period)
- ▼ characteristics of customers using the on-demand service (where available) – such as adult fares, concession fares, etc
- ▼ feedback from operators and customers on the value of the services, and
- ▼ the impact on other transport services, eg, taxi services, community buses, ride sharing services.

IPART seeks comments on the following

- 15 How can different types of on-demand services, for example community transport and other on-demand services, be co-ordinated in the most effective and cost-efficient way?
- 16 What has been the experience of on-demand services in the trials that have been conducted in rural and regional areas? How have they impacted scheduled bus services and other transport services (such as taxis)?

6.3 Pricing on-demand services

Our review will also consider the pricing of on-demand rural and regional bus services.³² There may be an argument for setting the maximum price for these services above the standard price for scheduled bus services, given the on-demand component offers a higher level of service for the customer. However, where on-demand services replace (rather than enhance) scheduled services, there is a risk that customers will be forced to pay more than their current fares. While they may enjoy a higher level of service, some customers may not be able to afford the additional cost.

For this reason we consider it important that, particularly where on-demand services replace scheduled services, concession fares be available to vulnerable customers, so they are not worse off than their current situation. As observed in section 5.3, our initial view is that access to concession fares should be broadened in line with our recommendations for Opal card users.

As noted in section 6.1, our recent review of Opal fares recommends that on-demand fares should not exceed fares for scheduled services. We are interested in understanding whether we should take a consistent approach in rural and regional areas. Alternatively, whether differences in the purpose of rural and regional bus services, and the characteristics of both the services and their customers, suggest that our conclusions may differ to those reached in the Opal fare review.

IPART seeks comments on the following

- 17 How should IPART determine a maximum price for on-demand services?

³² Under the Act, IPART is empowered to determine appropriate maximum fares for on-demand bus services that involve the transport of passengers, by bus (being a motor vehicle that seats more than 12 adults), within or partly within NSW; and are operated by a corporation constituted under the Transport Administration Act 1988, or provided by an operator under a passenger service contract (unless the contract expressly provides that Division 2 of Part 7 of the Act does not apply to the service).

6.4 Options to improve on-demand services

IPART is interested in opportunities to improve transport services in rural and regional NSW through the introduction or expansion of on-demand services, where they have the potential to improve services (including meeting unmet demand) or to reduce the cost of providing existing services.

6.4.1 Replacing high-cost services

The framework we proposed in our 2017 review was to focus first on potential improvements to those services which are high cost per passenger, relative to efficient costs. Many rural and regional bus routes have low patronage, and there may be opportunities to replace scheduled services with a form of on-demand or ride sharing service. This service could involve booking ahead, so that passengers could be aggregated into groups according to their origin, destination and desired timeframe, and the resulting ride sharing route and timing could be optimised.

If the objective is to reduce costs relative to the current situation, then on-demand services will need to replace some existing scheduled bus services. Further, it is important to consider which costs to compare. Where the fleet of buses is already required to run school bus services or peak services, the additional cost of running regular scheduled services during other times may be relatively low (fuel, additional maintenance, and possibly an element of additional labour costs). Similarly, the cost of on-demand services will depend on the additional costs they impose.

We also note that there may be some customer groups who find it difficult to access on-demand services, particularly if it requires pre-booking or use of a phone app. Replacing scheduled services with on-demand services could reduce the service available to these customers.

6.4.2 Maximising customer benefits

The objective of on-demand services may also focus on improving customer benefits, rather than necessarily reducing the cost to taxpayers. In rural and regional areas, scheduled bus services tend to be infrequent and involve circuitous routes, which take much longer than direct car travel. There is likely to be latent or unmet demand for transport services in some areas at the moment because existing bus services are inconvenient.

Introducing on-demand or ride sharing options could increase customer benefits and overall patronage by improving the convenience of travel, through closer pick-up and drop-off points, more flexible timing and shorter travel times.

Given the demographics of rural and regional areas, the take-up of on-demand services may be affected by the technology used for bookings (eg, telephone versus online). Our survey results for the 2017 review found that older cohorts prefer services to be delivered other than through digital channels.³³

³³ Orima Research, *Survey of rural and regional buses and on-demand transport services*, August 2017, p 33.

6.4.3 Reducing barriers to on-demand services

There may be barriers to the development of on-demand services in rural and regional areas. For example, where there are costs involved in developing and administering booking services (either via telephone, online or app-based), or developing algorithms to optimise routes for customers, these costs may be a barrier for smaller bus operators.

These barriers may inhibit the development of on-demand services, even if they are beneficial to customers in the long run. One option would be to seek to reduce these cost barriers through the joint development of technology needed to support on-demand services – either funded by a group of operators, or subsidised by Government.

6.4.4 Competition in on-demand services

As noted in section 4.3.3, competitive tendering could be introduced for elements of service provision, such as on-demand services, rather than the bus contract as a whole. One of the concerns we noted in our Opal review is that subsidising on-demand services too much could crowd out innovation in private transport services.³⁴ These services include car share, ride share and bike share services such as taxis, Uber and GoGet, which may be alternatives to on-demand services provided by bus operators.

We note that the potential for commercial on-demand services in rural and regional areas is likely to differ from metropolitan areas, given the smaller and more dispersed population outside metropolitan areas, as well as the predominant use of cars.

Figure 6.2 summarises results from a survey undertaken on behalf of IPART in late 2019, analysing the use of point-to-point services in different parts of NSW. It shows that 49% of Sydney respondents had used taxis in the previous 6 months, compared to 35% for respondents from other urban areas and 34% for non-urban areas.

The contrast between urban and other areas is even greater for the use of ride share services. While 51% of Sydney respondents had used ride share services in the 6 months prior to being surveyed, only 29% of respondents in other urban areas had used them. In non-urban areas the use of rideshare services in the previous 6 months was even lower, at 14% of respondents. These differences are likely to reflect differences in the availability of ride share services in non-urban areas, their cost, and alternatives such as the use of private cars.

³⁴ IPART, *Opal fares 2020-2024, On-demand bus fares*, Information paper, December 2019, p 3.

Figure 6.2 Use of point-to-point transport services in different parts of NSW, 2019

Use in the last 6 months		Taxis			Rideshare Services			Limousines or Other Hire Vehicles		
		Sydney	Other Urban	Rest of NSW	Sydney	Other Urban	Rest of NSW	Sydney	Other Urban	Rest of NSW
Used in last 6 months (Base = <u>all</u> respondents)	2019	49%	35%	34%	51%	29%	14%	10%	10%	6%
	<i>Sample size</i>	2095	522	446	2095	522	446	2095	522	446
	2018	52%	37%	29%	48%	28%	15%	13%	13%	5%
	<i>Sample size</i>	2147	533	478	2147	533	478	2147	533	478
	2017	51%	35%	32%	36%	10%	8%	11%	8%	4%
	<i>Sample size</i>	2048	501	453	2048	501	453	2048	501	453
Used in last 6 months (Base = <u>aware</u> of service)	2019	51%	36%	37%	54%	36%	31%	13%	13%	11%
	<i>Sample size</i>	2040	497	415	1968	420	197	1626	396	227
	2018	53%	38%	32%	51%	36%	35%	15%	16%	10%
	<i>Sample size</i>	2104	523	438	2015	409	205	1784	432	247
	2017	52%	36%	35%	41%	17%	27%	14%	10%	9%
	<i>Sample size</i>	2009	487	146	1825	297	131	1686	374	202

Source: Orima Research, *IPART 2019 Point-to-point transport survey report*, 25 November 2019, p 6.

If the Government wants to provide on-demand services as part of its subsidised public transport policy in rural and regional areas, these services should be provided at lowest cost. Our initial view is that there may be benefit in introducing competition into the provision of on-demand services, where this is feasible. Competition could take different forms, such as:

- ▼ competitively tendering on-demand services, or
- ▼ giving targeted customers discount vouchers which they can use for on-demand services from different providers, such as taxis, Ubers, or bus operators. This would also allow customers to respond to their preferred service offering.

[IPART seeks comments on the following](#)

18 What options should be considered for improving on-demand services in rural and regional NSW?



Appendices

A Referral from the Minister

**Passenger Transport Act 2014
Section 123(1)(a)**

Referral

I, the Hon Paul Lawrence Toole MP, Minister for Regional Transport and Roads, with the approval of the Hon Victor Dominello MP, Minister for Customer Service and Minister administering the *Independent Pricing and Regulatory Tribunal Act 1992*, under section 123(1)(a) of the *Passenger Transport Act 2014*, refer to the Independent Pricing and Regulatory Tribunal (IPART) the following matter for investigation and report:

The determination of appropriate maximum fares for rural and regional bus services from 1 January 2021 to 31 December 2025.

In addition to the matters contained in s124 of the *Passenger Transport Act 2014*, in undertaking this investigation, IPART is, under s123(2)(b) of the *Passenger Transport Act 2014*, to consider:

1. The equity of current adult and concessional fares compared to Sydney metropolitan bus fares, particularly for medium and longer-distance journeys
2. Number of fares bands and day capping, and whether further simplification is recommended
3. Relativities between regional bus fares and coaches provided by NSW Trains taking into account service differences
4. The development of on demand services in regional areas
5. Customers' willingness and capacity to pay given demographics in urban and rural areas in regional NSW

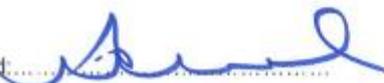
IPART is to publicly consult on a draft report as soon as practicable.

IPART is to submit its final report and determination under this referral to the Minister for Regional Transport and Roads as soon as practicable but no later than 4 December 2020, or such later date as notified in writing by the Minister for Regional Transport and Roads.

Signed: 

**The Hon Paul Toole MP
Minister for Regional Transport and Roads**

Date: 15/4/20

Signed: 

**The Hon Victor Dominello MP
Minister for Customer Service**

Date: 17.4.20