A new methodology for setting public transport fares

IPART is currently reviewing the maximum fares to apply from July 2016 to June 2019 for all public transport services on which the Opal card can be used, including:

- train services operated by Sydney Trains and NSW TrainLink Intercity
- government and private bus services in Sydney, Newcastle, the Central Coast, Wollongong, the Blue Mountains and the Hunter regions
- ferry services operated by Sydney Ferries and the Stockton Ferry in Newcastle, and
- light rail services in Sydney.

This review is the first time we are reviewing fares for all modes of public transport together.

In July, we released an Issues Paper that mainly focused on whether changes should be made to the fare structure for Opal. (IPART, *Finding the best fare structure for Opal – Issues Paper*, July 2015.)

We have now released our Methodology Paper that focuses on how we are proposing to determine fares. We are seeking comment on our approach.

1 What objectives will we aim to achieve in setting fares?

We will determine maximum fares for each mode of public transport that:

- encourage the efficient use of public transport
- promote the efficient delivery of public transport
- encourage greater use of public transport
- minimise impacts on passengers
- are logical, predictable and stable over time, and
- increase farebox revenue or cost recovery.

Fares recover only a small proportion of the total cost of providing public transport services. NSW taxpayers pay the bulk of this cost through a Government subsidy. Given this, one of our key decisions in determining fares is how much of the total cost should be paid by public transport passengers (through fares) and how much by the NSW community (through the Government subsidy).

2 How do we propose to approach this task?

The first step in our proposed approach will be to use a mathematical model to estimate 'socially optimal' fares – that is, the fares that maximise the overall welfare (net benefit to both the individual and society as a whole) generated by the use of public transport services in Sydney and surrounds. This model requires a number of inputs and simplifying assumptions. While we will develop our best estimates for each of these inputs, there may be a degree of uncertainty associated with some of them and so the estimated socially optimal fares may involve ranges rather than point estimates of fares.

It is our view that fares should be set at the socially optimal levels. However, our estimates of socially optimal fares could be higher or lower than current fare levels and it may be necessary to apply a transition path towards the estimated socially optimal fares to minimise impact on passengers or on taxpayers. In addition we also need to consider options for more integrated fares across modes (to encourage greater use of public transport and be more logical and predictable).

Therefore, our second step will be to develop alternative fare options that assist with any transition as well as options for more integrated fares across modes to encourage greater use of public transport.

3 Where can you get more information on this review?

If you would like more information on our proposed approach for setting maximum fares in this review, or provide comments on this approach, please see our Methodology Paper, which is available on our website.