

# REVIEW OF RURAL AND REGIONAL BUS FARES FROM JANUARY 2021

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## Tribunal Members

The Tribunal members for this review are:

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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 30 October 2020.**

We would prefer to receive them electronically via our [online submission form](#).

You can also send submissions by mail to:

**Review of rural and regional bus fares**

Independent Pricing and Regulatory Tribunal

PO Box K35

Haymarket Post Shop, Sydney NSW 1240

Late submissions may not be accepted at the discretion of the Tribunal. Our normal practice is to make submissions publicly available on our [website](#) as soon as possible after the closing date for submissions. If you wish to view copies of submissions but do not have access to the website, you can make alternative arrangements by telephoning one of the staff members listed above.

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



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# 1 Overview

The Independent Pricing and Regulatory Tribunal (IPART) is currently reviewing fares for public bus services provided by private bus operators in rural and regional NSW. We will determine the maximum fares to apply for 5 years from 1 January 2021 to 31 December 2025.

In rural and regional NSW, public transport's major purpose is enabling people with limited transport options to engage with their community, educational opportunities, the local labour market and essential services such as health care. To fulfil this function it is important that fares are not a barrier to using buses. However, the consultation we have done for the review has made it clear that for some people the cost of public transport is prohibitively high, which limits or restricts its use. The impact on use is likely to be greatest on those who are the most isolated and face the greatest levels of transport disadvantage.

Rural and regional areas tend to have higher unemployment, lower incomes and populations that are ageing faster than in Sydney. Local bus services in rural and regional areas are currently aimed at providing a basic transport service to people with limited transport options. A substantially higher proportion of fare paying passengers using these services travel on concession and pensioner fares compared with the Opal network in Sydney and surrounds.

Maximum fares for rural and regional bus services are higher than bus fares for the same distance in Sydney and surrounds, with the exception of very short bus trips occurring in peak periods. For longer distances, rural and regional bus fares also exceed coach fares for the Government funded TrainLink coach services and regional bus fares in Queensland, Victoria and the ACT.

Our draft report outlines a number of changes aimed at making fares more affordable and more consistent with those for similar services. We expect these fares to encourage greater use of existing rural and regional bus services, maximising their value to the community and making the services more cost effective. We have also made a number of other recommendations to change the way services are contracted and paid for in order to create room for greater fare equity across NSW. Accompanying this draft report are six information papers providing more detailed analysis on a number of issues.

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## 1.1 Our draft decisions

Our draft report proposes:

- ▼ Reducing maximum fares for regular route services over all distances – the largest reductions are for long distance travel. The proposed fares are up to 50% lower than the current maximums depending on the distance travelled. They could save passengers up to 30 cents a trip on shorter distance journeys and up to \$25 a trip on longer distance journeys.
- ▼ Cheaper, simpler daily tickets, with a \$5 daily ticket for short distance trips and a maximum daily fare of \$30.
- ▼ Bus operators will be able to apply to Transport for NSW for permission to charge around 40% more for peak services (ie subject to overcrowding) and up to \$5 more for flexible, on-demand services.
- ▼ Expanding availability of concessions to all people holding a Commonwealth Health Care Card and streamlining access to concession fares.
- ▼ That the NSW Government consider options for providing fare assistance to vulnerable people and making family travel more affordable.

We consider the main purpose of providing taxpayer-subsidised bus services in rural and regional areas is to ensure people with limited travel options have reasonable access to transport within their local communities. To do this, we used an approach for setting fares that places significant weight on people's willingness and capacity to pay for the services. We assessed this by examining a range of evidence - including feedback from surveys and stakeholder consultations, comparisons of the current fares with those in metropolitan NSW, NSW Trainlink coach fares and bordering jurisdictions, and analysis of the expected elasticity of travel with respect to fares.

Our proposed fares are more consistent with fares across other Government funded bus services and with interstate regional bus fares. They are set at around 70% of the maximum peak period bus fares for Opal services in metropolitan and outer metropolitan regions, recognising that rural and regional bus services are more like off-peak services in metro and outer metro areas, which are priced at a 30% discount to the peak period fare. Providing greater consistency across NSW brings fares in line with people's expectations, reduces barriers to expanding electronic ticketing and trip planning (using apps including Google) and encourages use of public transport across NSW.

We are also proposing draft recommendations for Transport for NSW to consider aimed at improving the delivery of bus services in rural and regional NSW:

- ▼ Improving information for passengers about services and fares.
- ▼ Promoting efficient delivery of services through changes to contracting.
- ▼ Undertaking future transport planning that fully considers the economy wide benefits of transport in enabling people to access essential services like employment and healthcare.
- ▼ Targeting improved services (such as, more flexible on-demand buses) to areas where the need is greatest.

- 
- ▼ Providing greater certainty to bus operators regarding coordination of electronic ticketing, customer interface and payment technologies which would provide a more seamless customer experience across the State.

### **Box 1      An overview of rural and regional bus services in NSW**

In rural and regional NSW, the NSW Government contracts private bus operators to provide public bus services. These bus operators provide 'dedicated school services' and 'regular passenger services'.<sup>a</sup> Some operators exclusively provide dedicated school services while others provide a combination of both school services and regular passenger services. Currently, 513 operators deliver rural and regional bus services through 663 contracts. Regional NSW has close to 4,000 bus routes; nearly 90% of these are school routes.<sup>b</sup>

Operators receive a regular contract payment from Transport for NSW as well as keeping any fare revenue collected. In the financial year 2019-20 the NSW government spent \$465 million on contract payments to rural and regional bus operators providing school bus and regular passenger services. The total fare revenue collected by operators was \$6 million; on average around 2% of the total revenue they received.

Regional bus transport is vitally important but significantly different from bus transport in metropolitan NSW and bordering jurisdictions. Around 1.8 million or 23% of the NSW population live in rural and regional areas.<sup>c</sup> We estimate that around 5% of the population in rural and regional areas use regular passenger services and many of these people have limited alternatives.

Some other key features in regular rural and regional bus services are:

- ▼ The services are infrequent in many regions and sometimes operate only on school days.
- ▼ The buses often have very low utilisation.
- ▼ Around 80% of the non-school passengers travel on a concession fare (either a half fare concession or a Regional Excursion Daily ticket).
- ▼ The ticketing and payment systems differ by operator with most requiring cash payment.

<sup>a</sup> Sydney, Central Coast, Newcastle, the Hunter, Wollongong and Blue Mountains are covered by the metropolitan and outer metropolitan bus service contracts and are part of the Opal network. Rural and regional bus services operate outside of these areas.

<sup>b</sup> AECOM, *Efficient costs of rural and regional bus operators – Final Report*, December 2017 pp 4-5. This report informed our 2017 fare review.

<sup>c</sup> NSW Parliamentary Research Service: *Regional NSW: A demographic and economic snapshot*, Briefing paper No 01/2020, Chris Angus.



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## 1.2 Key themes from consultation

At the release of our issues papers, we called for submissions and launched an online survey to find out what people felt about bus fares and bus travel in rural and regional NSW. We also consulted with interest groups, community groups, bus operators and Transport for NSW (TfNSW). We engaged a consultant to undertake a consumer survey on rural and regional bus fares and bus use and provide a report on findings. We have considered all feedback from our consultation in making our draft recommendations.

The major theme(s) from our consultation were:

### **Buses provide vital access to essential services for some people**

- ▼ There are people in rural and regional areas who rely on public transport to access essential services such as health, education, employment and medical care.
- ▼ Some groups including older people, Aboriginal communities, large families and isolated children and youth are particularly vulnerable to social exclusion.

### **Fares are not affordable for everyone**

- ▼ Long distance travel is too expensive.
- ▼ Not everyone who needs a discounted fare gets one.
- ▼ The \$2.50 Regional Excursion Daily (RED) ticket is good value.<sup>1</sup>
- ▼ It's expensive for a whole family to travel on the bus.

### **People would use buses more if the services were better**

- ▼ Services are not always frequent enough to rely on – eg, last bus back leaves too early, some services don't run in school holidays.
- ▼ Sometimes the bus stop is too far away or the bus isn't accessible for wheelchairs and prams.
- ▼ The level of service is the most important factor in determining whether and how much people use bus services.

### **There is support for electronic ticketing, contactless payments and improved information on services**

- ▼ Some bus users would like electronic ticketing and contactless payments.
- ▼ Information about services and fares is sometimes a barrier – some people don't want to phone an operator to check how much it costs or whether a bus is wheelchair accessible, some people prefer not to get information online, so different options need to be available.

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<sup>1</sup> The RED ticket provides unlimited local daily bus travel for \$2.50.

## There is a lot of support for flexible, door to door booked local bus services

- ▼ If they are well designed, these types of services can substantially increase the use of buses, particularly by people who find it difficult to use regular route services.
- ▼ People may be willing to pay more for these types of services, but for many people, higher fares would be a barrier to use.
- ▼ These services are more expensive to provide, even where they are well targeted and used.

## 1.3 Review process and timetable

Our review process to date has involved detailed analysis and public consultation:

- ▼ In July 2020 we released two Issues Papers which set out our proposed approach for the review. We received 16 submissions, which are available on the [IPART website](#).
- ▼ We have received 67 responses to our online survey, which will remain available until the end of October.
- ▼ We appointed Orima Research to undertake a survey of rural and regional areas to understand current demand for public transport as well as the use of more flexible, on-demand services. Orima's report is available on our website.
- ▼ We have consulted with 11 industry and consumer groups (via virtual meetings) over the course of our review.

### Timetable for the review

Key milestone	Timing
Release Issues Papers	7 July 2020
Submissions on Issues Papers due	7 August 2020
Analysis and informal consultation	July to September 2020
Release Draft Report	2 October 2020
Public hearing	20 October 2020
Submissions to Draft Report due	30 October 2020
Further analysis and informal consultations	October to December 2020
Provide Final Report to Minister	December 2020
New maximum fare determination commences	1 January 2021

## 1.4 How you can have your say

We are seeking written submissions on this Draft Report and the accompanying information papers. We encourage all interested parties to comment on the matters discussed, or any other issue relevant to the review. Page ii of this report provides more information on how to make a submission. Submissions are due by 30 October 2020.

The consumer survey is available on our website until 30 October 2020, and we encourage residents in rural and regional areas to respond, even if they do not catch the bus.

We will hold a public hearing on 20 October 2020. The public hearing will be online, which allows wider participation across rural and regional areas, and is consistent with social distancing requirements during the coronavirus pandemic. Further information on the hearing will be available from [IPART's website](#).

## 1.5 List of draft decisions and draft recommendations

### 1.5.1 Draft Decisions

- 1 Maximum (adult) fares for regular rural and regional buses be set at the values in Table 3.1. 12

**Table 3.1 Proposed maximum adult full fares for regular route services (inc GST)**

Fare band	Distance (sections)	Distance (kilometres)	Single fare (\$)	Daily ticket (\$)
1	1-2	0-3	2.30	5.00
2	3-6	3-8	3.30	
3	7-15	8-20	4.20	10.00
4	16-25	20-35	4.50	
5	26-37	35-65	5.90	
6	38-56	65-90	7.50	20.00
7	57-75	90-120	10.00	
8	76-100	120-160	15.00	30.00
9	101-125	160-200	20.00	
10	126+	200+	25.00	

- 2 Maximum (adult) fares for services deemed 'peak' services (where there is excess demand) be set at the values in Table 3.2. 13

**Table 3.2 Proposed maximum adult full fares for services deemed peak services (inc GST)**

Fare band	Distance (sections)	Distance (kilometres)	Single fare (\$)	Daily ticket (\$)
1	1-2	0-3	3.20	8.00
2	3-6	3-8	4.60	
3	7-15	8-20	6.00	13.00
4	16-25	20-35	6.40	
5	26-37	35-65	8.30	
6	38-56	65-90	10.70	23.00

- 3 Maximum fares for on-demand bus services be set at the values in Table 3.1 plus a maximum additional \$5 for a single adult fare (\$2.50 concession), determined as part of contract negotiations with TfNSW. 18

- 
- |   |  |    |
|---|--|----|
| 4 | The maximum fare for a daily ticket incorporating on-demand services be set at the values in Table 3.1 plus a maximum additional \$10 for a daily adult fare (\$5 concession), determined as part of contract negotiations with TfNSW. | 18 |
|---|--|----|

### 1.5.2 Draft recommendations

- |    |   |    |
|----|---|----|
| 1  | Transport for NSW undertake work to value the additional social inclusion benefits provided by on-demand services and use this to prioritise locations for new on-demand services via cost-benefit analysis.  | 18 |
| 2  | Transport for NSW expands the availability of concession fares to NSW residents holding a current Commonwealth Health Care Card.  | 21 |
| 3  | Transport for NSW simplifies the concession fare application process for rural and regional bus travel.   | 21 |
| 4  | Transport for NSW considers implementing additional measures to assist vulnerable people.   | 21 |
| 5  | Transport for NSW considers targeted options for making family travel more affordable.  | 21 |
| 6  | Transport for NSW consider using a competitive tender process when establishing permanent on-demand services, open to both bus operators and appropriate non-bus operators, in order to facilitate competitive neutrality, innovative service offerings and competitive pricing (and subsidy) offerings.  | 26 |
| 7  | Transport for NSW consider using a competitive tender process when bus operator contracts are renewed, open to both bus operators and appropriate non-bus operators, given potential benefits in terms of innovation and cost efficiencies.   | 26 |
| 8  | Transport for NSW consider revising the contract arrangements with bus operators to make them more consistent with those in metro and outer metro areas, with a view to moving to gross cost contracts in the future (with an incentive for increased patronage), rather than net cost contracts.   | 26 |
| 9  | Transport for NSW review contract provisions with bus operators to ensure they promote efficient delivery of services – for example that they reflect services that promote customer benefits (in terms of, eg, route and frequency); and that they encourage operators to provide these services in a cost effective way (eg, in terms of vehicle size, age, etc). | 26 |
| 10 | Transport for NSW enhance its review of operator performance over the course of operator contracts, when contracts are renewed - by developing additional indicators of comparative performance and publishing an annual review of bus operator performance for large and medium operators.   | 26 |
| 11 | Transport for NSW provide greater certainty to bus operators regarding coordination of electronic ticketing, customer interface and payment technologies which would provide a more seamless customer experience across the State.  | 26 |

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## 2 Why rural and regional bus services are important

Income and mobility related transport disadvantage is higher in regional NSW and the level of household income is lower, compared to Greater Sydney. With limited public transport options, the proportion of people's income that is spent on transport is higher for people in these regions.<sup>2</sup> Further, the population in regional NSW is ageing faster and the number of people needing assistance with core activities is high compared to Greater Sydney.

In rural and regional NSW, public transport's major purpose is enabling people with limited transport options to engage with their community, educational opportunities, the local labour market and essential services such as health care. The individuals using public transport gain benefits and the community benefits by improved educational and health outcomes, reducing levels of unemployment, reducing the need for welfare support and health services and ultimately improving productivity. These benefits - described broadly as social inclusion benefits - are important community benefits of rural and regional bus services.

This chapter outlines who uses rural and regional buses and for what activities. It also discusses the importance of accessible, affordable bus services in rural and regional areas in delivering these benefits. More information on the affordability and community benefits of bus services is provided in the information papers accompanying this draft report.

### 2.1 Rural and regional bus users are likely to have lower incomes and face greater transport disadvantage than the general population

Orima Research conducted a survey of rural and regional bus use for our review. While most residents in rural and regional NSW do not use local bus services, the survey conducted by Orima Research found that 5% of the survey respondents had travelled by bus in the past six months, and that those people typically had lower incomes and faced greater transport disadvantage than the general population.

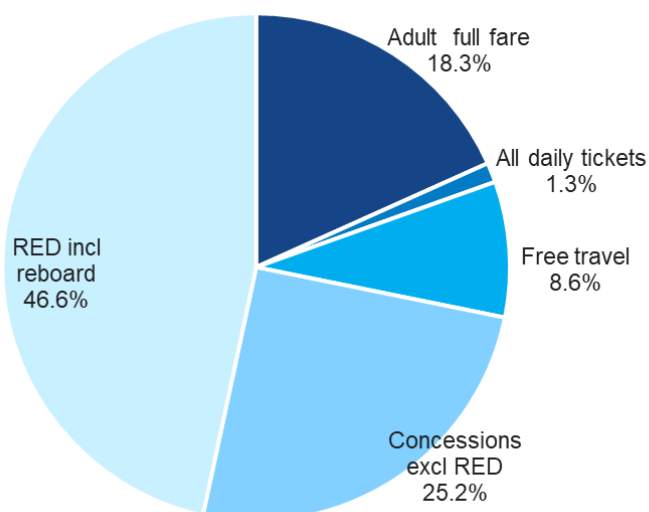
Full fare paying passengers account for around 20% of non-school student bus use in regional NSW. The remaining 80% of passengers are eligible for some sort of concession (primarily the \$2.50 regional excursion daily or RED ticket).

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<sup>2</sup> "The use of transport services is price sensitive among low income households with 40% of respondents indicating that they had forgone transport services due to financial constraints". NCOS submission to IPART issues paper, August 2020, p 4.



**Figure 2.1 Free and concession travel accounts for 80% of non-school student travel**



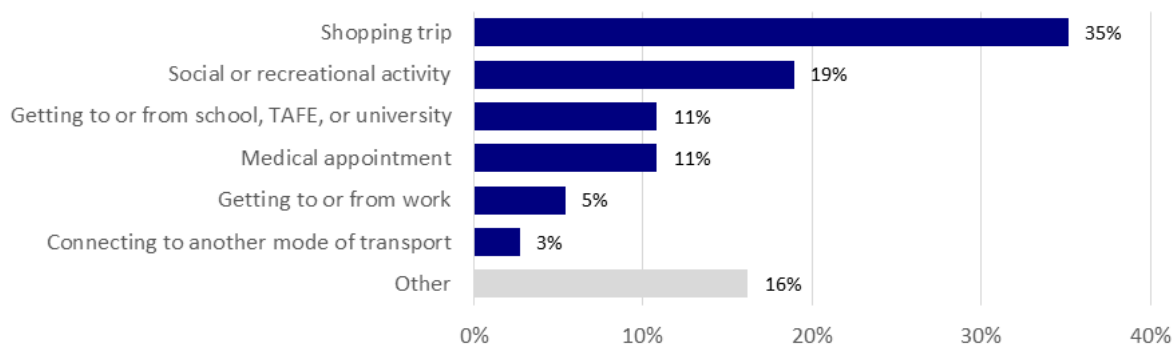
**Source:** Transport for NSW, rural and regional bus operator data for financial years 2019 and 2020 (average). Note that the data captured for each 'financial year' in this report refers to the equivalent financial reporting year data received per operator, as different operators have different reporting periods and frequency. We have ensured that we are comparing on a consistent base of data across the years.

The composition of ticket types in rural and regional areas is very different from buses in metropolitan and outer metropolitan regions (that is, within the Opal network), where, the majority of people pay the full fare and a substantial proportion of trips are commuting to and from work.

## 2.2 Rural and regional bus services are used for accessing essential services and connecting people to the community

The Orima survey found that across all bus users, shopping or social/recreational activities are the most common reasons for making bus trips across all bus users (Figure 2.2). For bus users receiving Centrelink or Department of Veterans Affairs (DVA) benefits, shopping and medical appointments were the most common purposes.

**Figure 2.2 What was the purpose of your most recent bus journey? (Q20, n=37)**



**Source:** Orima Research, *Survey of rural and regional buses and on-demand transport services*, August 2020, p 14.

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## 2.3 Bus services promote social inclusion in regional areas

Affordable, available and accessible public transport enables greater participation in society which benefits both the individual and society. For example, public transport enables individuals to access and build social capital, thus gaining a sense of satisfaction, positive emotions and mental health. Transport also enables access to education, health services and employment. The individuals using public transport gain benefits and society benefits from improved educational and health outcomes, reduced levels of unemployment, the need for welfare support and health services and ultimately improving productivity.

Public transport is important for low socio-economic or otherwise vulnerable groups to participate in society. This is particularly the case in rural and regional areas, where those without access to a car, or without the ability to drive, could be at risk of social exclusion or not being able to participate in society.<sup>3</sup> Older people, young people (especially those living in rural settings), people with a disability, people with language difficulties (eg, recent arrivals), those on low incomes, and those with little or no car access are groups most at risk of social exclusion due to poor transport opportunities.<sup>4</sup> In its submission to the Issues Paper NCOSS noted its finding that 40% of people on low incomes had forgone travelling in order to cover other costs.<sup>5</sup>

Unaffordable, unavailable or inaccessible public transport can:

- ▼ Prevent people from attending interviews, lead people to apply for jobs in a narrow geographical area, and potentially result in people turning down jobs. It can act as a key barrier to employment and result in job seekers remaining unemployed longer than otherwise might be the case. This, in turn, prolongs the time job seekers spend receiving welfare benefits. Inaccessible transport, as a barrier to work, may contribute to higher benefit payments, and reduced tax contributions.
- ▼ Mean that people miss health appointments and/or delay seeking treatment – both of which can impose significant costs on the individual and the community. This could occur across the range of services from general practitioners through local hospitals to major hospitals, medical specialists and allied health services such as dentistry and optometry. The costs to the individual include poorer health through missed appointments, late diagnosis or healthcare simply not being sought. Costs borne by the community include wasted resources through missed appointments and delayed discharge from hospital, unnecessary home visits and delayed treatment of illness in place of early intervention.
- ▼ Make it difficult for people to access reasonably priced food shops and supermarkets. This can result in poor dietary habits leading to poor health. Participation in social, cultural, leisure and sporting activities is very important to people's quality of life and can play a major part in improving health, reducing crime and building cohesive communities. Finally, it is important for people to be able to access welfare and related services (including Centrelink, aged and other residential care, and police services).

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<sup>3</sup> Hensher, D, *Bus transport, Demand, economics, contracting and policy*, 2020, p 403.

<sup>4</sup> Currie, G, Delbosc, A, *Transport disadvantage: a review*. In: Currie, G (Ed.), *New Perspectives and Methods in Transport and Social Exclusion Research*. Emerald Group Publishing Limited, U.K, 2011, pp 15-25.

<sup>5</sup> NCOSS submission to IPART Issues Paper, August 2020, p 4.

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### 2.3.1 Valuing social inclusion benefits assists in making decisions about services

The costs of contract payments made to rural and regional bus operators amounted to around \$465 million in 2019-20.<sup>6</sup> In 2019-20 around 43 million rural and regional bus trips were made, and so the average cost to taxpayers per trip was around \$11 (including both fare paying and non-fare paying trips).<sup>7</sup> In 2019-20, the average adult fare was around \$3.20, and the average concession fare was half of this; around \$1.60.<sup>8</sup>

Estimating the value of social inclusion benefits from rural and regional bus services is important. Given that taxpayers pay for these and other services, such estimates assist governments to know how and when to invest in services. Recent research in Victoria aimed to provide such an estimate. Based on an analysis of transport and social exclusion risks in regional Victoria, the authors of this study found that the social inclusion benefits of a regional bus trip for low-income households were \$19.53 per passenger.<sup>9</sup> The authors note that the bus service presents 'significant social value, to both users at risk of exclusion and the wider society in terms of savings in flow-on costs, such as crime, unemployment, adverse health outcomes, etc.'<sup>10</sup>

Encouraging the use of rural and regional buses will maximise the social benefits of the existing services. One way to do this is by setting fares to the appropriate level. Affordable fares encourage more people to travel by bus, which in turn generates benefits for society. We discuss the maximum fares we have set in the next chapter.

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<sup>6</sup> Transport for NSW, rural and regional contract payment data for financial years 2019 and 2020 (average). Note that the data captured for each 'financial year' in this report refers to the equivalent financial reporting year data received per operator, as different operators have different reporting periods and frequency. We have ensured that we are comparing on a consistent base of data across the years.

<sup>7</sup> This includes adult and concession tickets, RED tickets, SSTS trips and School Term passes.

<sup>8</sup> Calculated by dividing total adult fare revenue by the total number of adult trips, and total concession fare revenue by the total number of concession fare trips, respectively.

<sup>9</sup> The authors quote \$18.50 in 2016. This number has been updated for inflation. Hensher, D, *Bus transport, Demand, economics, contracting and policy*, 2020, p 413.

<sup>10</sup> Hensher, D, *Bus transport, Demand, economics, contracting and policy*, Elsevier, 2020, p 453.

### 3 Draft maximum fares for regular route services from January 2021

We consulted widely with members of the community, local council and bus operators. One of the main themes raised in consultation is that for many people who rely on bus services, fares are too high to enable connection with employment, health care and education. While many stakeholders considered that the fare for using buses was not as important as the level of service provided, we were given a number of examples, where people avoided bus travel as a result of the cost. Fares for longer distance journeys were a particular concern.

Our draft report proposes reductions to maximum fares to improve the affordability and equity of bus fares and make them more consistent with those of other Government provided transport services.

#### 3.1 Our draft decisions on maximum fares for regular route services

##### Draft Decisions

- 1 Maximum (adult) fares for regular rural and regional buses be set at the values in Table 3.1.

**Table 3.1 Proposed maximum adult full fares for regular route services (inc GST)**

Fare band	Distance (sections)	Distance (kilometres)	Single fare (\$)	Daily ticket (\$)
1	1-2	0-3	2.30	5.00
2	3-6	3-8	3.30	
3	7-15	8-20	4.20	10.00
4	16-25	20-35	4.50	
5	26-37	35-65	5.90	
6	38-56	65-90	7.50	20.00
7	57-75	90-120	10.00	
8	76-100	120-160	15.00	30.00
9	101-125	160-200	20.00	
10	126+	200+	25.00	

- 2 Maximum (adult) fares for services deemed 'peak' services (where there is excess demand) be set at the values in Table 3.2.

**Table 3.2 Proposed maximum peak adult full fares for regular route services (inc GST)**

Fare band	Distance (sections)	Distance (kilometres)	Single fare (\$)	Daily ticket (\$)
1	1-2	0-3	3.20	8.00
2	3-6	3-8	4.60	
3	7-15	8-20	6.00	13.00
4	16-25	20-35	6.40	
5	26-37	35-65	8.30	
6	38-56	65-90	10.70	23.00

## 3.2 How the proposed fares differ from current fares

For trips up to 56 sections (or around 90km), our proposed maximum fares for rural and regional buses have been set at 70% of the maximum Opal peak fares that applies in metropolitan and outer metropolitan regions. Maximum Opal fares apply to both peak and off-peak services, but in practice off-peak fares are charged at a reduced rate (70% of the peak time fare). While we support more consistent maximum fares, we consider that it would not be appropriate to set maximum fares for rural and regional bus services at the same level as maximum (peak) Opal fares. Setting rural and regional bus fares at 70% of maximum Opal fares recognises that rural and regional bus services operate more like off-peak services and ensures that their fares reflect this difference.

For longer trips, we have set fares at rates that are similar to regional coach services provided by Transport for NSW. As most services require cash payments on the bus, we have simplified the fares to make this easier for drivers and passengers.

While the costs of delivering bus services differ between metropolitan Sydney and rural regional NSW our draft fares balance the need to ensure affordable bus travel, the need to increase bus usage, the community benefits of social inclusion and the cost to taxpayers of providing the bus services. They also recognise that the majority of the buses are used to ensure school children get to and from school with fare paying passengers making up a very small proportion of users.

### 3.2.1 Single trip fares

Our draft report proposes:

- ▼ reducing the differences between fares in different towns.
- ▼ making fares more consistent with bus fares in the ACT, regional Victoria and Queensland.
- ▼ making fares more consistent with fares in Sydney and surrounds.
- ▼ longer distance fares that are more consistent with regional coach services provided by Transport for NSW.



These changes make fares more affordable, particularly for longer distance trips. They also make fares more consistent across NSW, bringing fares into line with those of similar services and reducing barriers to implementing state-wide electronic ticketing.

Our recommended maximum fares for single trips are set out below against current maximum fares (Table 3.3). The proposed fares are lower for every distance, with the largest reductions in place for long distance travel.

**Table 3.3 Maximum fares – current and proposed rural and regional bus fares (inc GST)**

Fare band (sections)	Distance (km)	Current maximum fare (\$)	Recommended maximum fare (\$)	Difference (\$)	Difference (%)
1-2	0-3	2.40	2.30	-0.10	-4.2
3-6	3-8	3.60	3.30	-0.30	-8.3
7-15	8-20	5.10	4.20	-0.90	-17.6
16-25	20-35	7.60	4.50	-3.10	-40.8
26-37	35-65	10.10	5.90	-4.20	-41.6
38-56	65-90	15.10	7.50	-7.60	-50.3
57-75	90-120	21.90	10.00	-11.90	-54.3
76-100	120-160	30.70	15.00	-15.70	-51.1
101-125	160-200	40.70	20.00	-20.70	-50.9
126+	200+	50.60	25.00	-25.60	-50.6

**Note:** Sections are an average of 1.6km over the length of a bus route, but may vary between 1.0km 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; IPART analysis.

### 3.2.2 Daily ticket fares

Daily tickets for rural and regional bus services were introduced by IPART in 2018. These tickets were set at twice the single trip fare plus \$2.40 (a 1-2 section fare). These tickets have not had significant uptake, accounting for only 1.3% of patronage of regular passengers.<sup>11</sup>

We propose to reduce the daily ticket fares to approximately twice the single fare, up to a maximum daily ticket price of \$30.00 and to reduce the number of tickets available by consolidating the distance bands.

Our recommended maximum fares for daily tickets are set out below against current maximum fares (Table 3.2). The proposed fares are lower for every distance, with the largest reductions in place for long distance travel.

<sup>11</sup> Transport for NSW, rural and regional bus operator data for financial years 2019 and 2020 (average).

**Table 3.4 Comparison of current and proposed daily ticket fares (inc GST)**

Fare band	Distance (sections)	Current daily ticket (2020)(\$)	Proposed daily ticket (2021-2025)(\$)	Difference (\$)	Difference (%)
1	1 to 2	7.20	5.00	-2.20	-30.6
2	3 to 6	9.60	5.00	-4.60	-47.9
3	7 to 15	12.60	10.00	-2.60	-20.6
4	16 to 25	17.60	10.00	-7.60	-43.2
5	26 to 37	22.60	10.00	-12.60	-55.8
6	38 to 56	32.60	20.00	-12.60	-38.7
7	57 to 75	46.20	20.00	-26.20	-56.7
8	76 to 100	63.80	30.00	-33.80	-53.0
9	101 to 125	83.80	30.00	-53.80	-64.2
10	126+	103.60	30.00	-73.60	-71.0

**Source:** IPART maximum fare determination for regional bus fares, 2018 and IPART analysis.

The aim of these changes is to make it simpler for passengers to identify whether a daily ticket would be good value for them. We consider that the current approach of having ten distance bands and both single tickets and daily fares rounded to the nearest ten cents may create a barrier to purchasing daily tickets as it is difficult to estimate which option is the most cost effective.

For trips under 5 sections (around eight kilometres), the recommended adult fare for the daily ticket is \$5. At a half fare concession value, the cost of travel is \$2.50 per day. While this would not cover longer distance travel, it should be sufficient to cover travel within a town. This concession fare is in line with the popular RED ticket, which stakeholders generally considered to be good value for the service.

The proposed daily ticket prices are between around 20% and 70% lower for different fare bands compared to the current daily ticket fares depending on the distance travelled (Table 3.4). Currently there are very few people who purchase daily tickets, with virtually no long distance tickets sold.<sup>12</sup> A cheaper, simpler range of daily tickets should be more attractive for bus users.

### 3.3 Ability to charge more for services with peak demand

Rural and regional bus services typically resemble off-peak services in their level of utilisation, which is one of the main reasons that we have determined maximum fares at a 30% discount to Opal maximum fares, consistent with the discount offered on off-peak Opal fares. However, under our draft determination, bus operators would be able to seek Transport for NSW's agreement to charge a fare equal to the maximum Opal fare applying in Sydney and surrounding areas for services that are subject to overcrowding.

If a service becomes overcrowded, then the alternative is for the Government to put on more services or to try to manage that demand by encouraging passengers who can shift their time of travel to move onto services where overcrowding is not an issue. Higher 'peak' service fares

<sup>12</sup> Transport for NSW, rural and regional bus operator data for financial years 2019 and 2020 (average).

is one way of encouraging this shift. Although we do not consider that any of the current services are likely to meet this criteria, the determination runs for several years and therefore, it is prudent to include this option. TfNSW would need to deem the service a 'peak' service before an operator could make use of this provision. To deem a service as 'peak' a bus service would need to demonstrate that buses on that service are at full passenger capacity for a sustained period (at least 6 months).

We recommend that only services below 56 sections (or around 90km) are eligible to be deemed peak services. Overcrowding on long-distance regular bus services suggests that services to transport passengers could be better provided by long-distance coach or rail services.

**Table 3.5 Comparison of current and proposed fares for services with excess demand**

Fare band	Distance (sections)	Current maximum fare (\$)	Proposed maximum fare (\$)	Current daily ticket (\$)	Proposed daily ticket (\$)
1	1 to 2	2.40	3.20	7.20	8.00
2	3 to 6	3.60	4.60	9.60	
3	7 to 15	5.10	6.00	12.60	13.00
4	16 to 25	7.60	6.40	17.60	
5	26 to 37	10.10	8.30	22.60	
6	38 to 56	15.10	10.70	32.60	23.00

**Source:** IPART maximum fare determination for regional bus fares, 2018 and IPART analysis.

### 3.3.1 Maximum fares should remain constant over the determination period

We are proposing that maximum fares remain constant over the next five years (for the period we are determining fares). This is to ensure that rural and regional bus fares remain consistent with off peak Opal fares. Our recent determination of maximum opal fares remain at the same level until June 2024.

The rural and regional bus determination will apply until December 2025, which is 18 months beyond the Opal determination. It is open to us to reference maximum fares beyond June 2024 to the new Opal fare determination but we do not propose to do this as there is too much uncertainty regarding what level of fares would apply (for example, if we were to return to a weighted average price cap for maximum Opal fares this would have implications for determining the appropriate maximum fare for the purpose of the rural and regional buses determination).

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### **3.3.2 Allowing the move to distance bands based on kilometres**

Aligning rural and regional bus fares with Opal fares facilitates the rollout of consistent payment methods. However, it also means a move from section based ticketing to kilometre based ticketing. We are proposing to include a maximum fare schedule in the determination that will allow TfNSW to move to charging on this basis during the determination period. In the absence of any change to the basis for charging fares, the current 10 section-based fare bands will continue to apply.

As part of last rural and regional bus fare review we proposed determining distance based fares however in response to our Draft Report, BusNSW and several operators raised concerns about implementing distance-based fares using existing ticketing systems.<sup>13</sup> Future systems may be better able to implement distance-based fares.

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<sup>13</sup> IPART, Maximum fares for rural and regional bus services from 5 March 2018, Final report, December 2017, p 1.

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## 4 Draft maximum fares for on-demand services

The Minister's referral asks IPART to consider the development of on-demand services in regional areas.<sup>14</sup> On-demand public transport (also known as demand-responsive) differs from traditional public transport in that some aspects of the service vary according to customer needs and demand – for example it could be flexibility in departure time, pick-up point and/or drop-off point.

The potential to improve transport services by offering on-demand services for competitive tender is discussed in section 6.2. On-demand services are discussed in more detail in the accompanying Information Paper on on-demand services. This includes a discussion of the on-demand trials that have been undertaken in rural and regional NSW since our last review.

### 4.1 Our draft decisions and draft recommendations for on-demand services

#### Draft Decisions

- 3 Maximum fares for on-demand bus services be set at the value in Table 3.1 plus up to a maximum additional \$5 for a single adult fare (\$2.50 concession), determined as part of contract negotiations with Transport for NSW.
- 4 The maximum fare for a daily ticket incorporating on-demand services be set at the value in Table 3.1 plus a maximum additional \$10 for a daily adult fare (\$5 concession), determined as part of contract negotiations with Transport for NSW.

#### Draft Recommendation

- 1 Transport for NSW undertake work to value the additional social inclusion benefits provided by on-demand services and use this to prioritise locations for new on-demand services via cost-benefit analysis.

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<sup>14</sup> See Appendix A.



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## 4.2 How the proposed fares differ from current fares

IPART's 2017 review recommended that operators be able to set an optional surcharge of between \$0 and \$5 (including GST) for on-demand services, on top of the maximum fare allowed for a regular route service for the distance travelled.<sup>15</sup> Our draft decision is to continue to allow this.

Our 2017 determination did not include a daily ticket for bus travel which includes on-demand services. Currently on-demand services are charged on a per-trip basis.

In most cases operators running the on-demand trials have not charged any surcharge for on-demand services above the fare that would have been charged for a regular route service of that distance. In some cases operators charge well under the maximum fare allowed for the distance travelled. The fares were negotiated with TfNSW as part of the design of the on-demand trials.

## 4.3 Reasons for our draft decisions for on-demand fares

On-demand transport benefits customers by responding more closely to their transport needs in terms of pick-up and drop-off locations, and in the timing of the service, reducing travel duration. Tailored pick-up and drop-off is of particular benefit to the elderly and others with limited mobility.

In many cases we do not think a higher fare for on-demand services will be appropriate. Where there is no traditional route service available as an alternative to an on-demand service, customers do not have the option of choosing a less convenient service for a lower fare. Nonetheless, we think it is appropriate to provide flexibility for operators to charge up to \$5 extra per trip for an on-demand service in some circumstances, given the additional service offered relative to a standard route service.

Fares for on-demand services should take into account the external benefits generated, in terms of social inclusion, as well as the willingness of customers to pay for on-demand services. Setting fares as part of the tendering and negotiation process for each on-demand service will allow TfNSW to take these factors into account given the bespoke characteristics of each on-demand service.

We have also made a draft decision to introduce a daily ticket for services that include on-demand services. We have proposed that the maximum daily adult fare be set at the equivalent maximum daily adult fare for a route-based service of the same distance, plus \$10.

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<sup>15</sup> IPART, Maximum fares for rural and regional bus services from 5 March 2018, Final report, December 2017, p 5.

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On-demand services may:

- ▼ increase the number of journeys made by customers (meeting latent demand for transport)
- ▼ replace journeys that would have been made on the pre-existing bus route service, or
- ▼ replace other forms of transport such as car, walking, or taxis and rideshare services.

The potential for subsidised on-demand services to replace (to some extent) non-subsidised forms of transport highlights the importance of considering competitive neutrality when introducing on-demand services. TfNSW has indicated that ongoing on-demand services will be offered for competitive tender, to allow other bus operators and transport providers to bid to provide the service, and we support this approach.

#### **4.4 Prioritising locations for on-demand services**

The Information Paper on on-demand services provides a more detailed discussion of the benefits and costs of on-demand services. It notes that some of the on-demand trials in rural and regional NSW have been more successful than others, in terms of patronage and cost.

Where the costs of existing route services are high (relative to an efficient benchmark), it may be possible to introduce on-demand services without significantly raising costs. Conversely, where an on-demand service generates significant benefits, this may more than offset any increase in the cost of service, and justify additional funding (subject to other funding priorities).

For these reasons we think it is important for TfNSW to undertake further analysis of the on-demand trials to understand why some have been more popular than others, and how they can be designed to offer the best value. Our draft recommendation is that TfNSW prioritise locations for the introduction of on-demand services by assessing the likely increase in benefits compared to the current service, and given any increase in costs.

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## 5 Draft recommendations on the availability of concession fares and discounts

There are some groups within regional NSW who face particular transport disadvantage. For these people, access to public transport is especially important to ensure that they can engage with their community, educational opportunities, the local labour market and essential services (such as food shopping and health care).

Concession fares in NSW are available to people with access to the full rate of Centrelink benefits, or who are in full time study or apprenticeship. While the same concession eligibility requirements apply across NSW, as fares increase with the distance travelled and there is no weekly cap on fares for rural and regional bus services,<sup>16</sup> concession fares could be much higher in rural and regional areas compared to the Opal network.

Our consultation for the review suggests that for some people who do not have access to concessional or discounted fares the cost of public transport is prohibitively high, which limits how much people use it.

Our draft recommendations on the availability of concession fares and discounts aim to make transport more affordable to targeted groups facing transport disadvantage.

### 5.1 Draft recommendations

#### Draft Recommendations

- 2 Transport for NSW expands the availability of concession fares to NSW residents holding a current Commonwealth Health Care Card.
- 3 Transport for NSW simplifies the concession fare application process for rural and regional bus travel.
- 4 Transport for NSW considers implementing additional measures to assist vulnerable people.
- 5 Transport for NSW considers targeted options for making family travel more affordable.

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<sup>16</sup> Noting that some operators do offer a weekly ticket, eg Busways in the North Coast region (see [Busways, Ticketing and Opal – Rural and regional](#), accessed 31 August 2020).

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## 5.2 Expanding concessions to NSW residents holding a Commonwealth Health Care Card

There are people who need assistance with the cost of public transport but who do not have access to concession bus fares.

This issue was also raised in our 2019-20 Opal fare review. In that review we recommended that, in addition to the existing concession fares, lower fares should be made available to Commonwealth Health Care Card holders. We considered that discounted travel should be offered to economically disadvantaged groups who find the cost of public transport prohibitive but are unable to access concession fares under the current system. We made our recommendation on the grounds that the existing system did not capture the full range of people who fall into this category (eg, people with sporadic employment).

The Issues Paper sought views on whether stakeholders would support similar recommendations for rural and regional bus services and what the impact on fare revenue and Government funding might be.

Most stakeholders support extending eligibility for discounted fares to Commonwealth Health Care Card holders.<sup>17</sup> In addition, a number of stakeholders have argued for extending the availability of the RED ticket to concession holders.<sup>18</sup>

Under the current concession arrangements, eligibility for Centrelink customers<sup>19</sup> is valid for 90 days only and some Centrelink customers move between 'eligible' and 'ineligible' within that period as their employment circumstances change. TfNSW undertakes routine checks for eligibility and removes concession entitlements if ineligibility is found. These aspects of the system impose costs on both TfNSW and the customers themselves.<sup>20</sup>

Aligning concession eligibility with a Health Care Card means that there will be fewer people becoming ineligible when their circumstances change slightly – eg, when they pick up casual or intermittent work. It also provides an opportunity to reduce administrative costs as a more stable concession population means fewer concession cancellations and subsequent re-applications (where a person moves in and out of eligibility), and fewer reapplications from people who remain eligible throughout the year.

We consider that eligibility for a Health Care Card is a good identifier for people who need access to discounted fares and note that the Health Care Card is used to access public transport discounts in other parts of Australia (see Information Paper on affordability). We also recognise the potential economic benefits from increasing opportunities for social inclusion in this way (see Chapter 2).

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<sup>17</sup> See, eg, Legal Aid NSW, Submission to IPART Issues Paper, August 2020, pp 2-3. Kempsey Shire Council, Submission to IPART Issues Paper, August 2020, p 1. BusNSW, Submission to IPART Issues Paper, August 2020, p 10.

<sup>18</sup> See, eg, NCOSS, Submission to IPART Issues Paper, August 2020, pp 6-7. Lismore City Council, Submission to IPART Issues Paper, August 2020, p 1.

<sup>19</sup> Eg, people receiving Job Seeker or Youth allowance payments.

<sup>20</sup> The 90-day validity was raised by Legal Aid NSW in its submission to our Issues Paper. See Legal Aid NSW, Submission to IPART Issues Paper, August 2020, p 3.

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We acknowledge the views of those stakeholders that support expanding eligibility for the RED fare to concession customers (as well as expanding concession eligibility to Commonwealth Health Care Card holders). However we consider that the lower fares we are recommending as well as an expansion in concession eligibility and a lowering of the price of daily tickets should be sufficient to address affordability concerns. For example, under our draft recommendations the daily fare for the first two fare bands is \$5, and the concession fare would be \$2.50, ie, commensurate with the current RED ticket fare.

### 5.3 Simplifying the concession application process

Currently, concession fares are available to Transport Concession Entitlement card holders. The card is applied for online or in person at a Service NSW centre and if the application is approved the card is then sent to the customer by mail. The Transport Concession Entitlement card is then shown to access concession fares (and apply for the Concession Opal card in metropolitan areas). We consider that this is a cumbersome process in metropolitan and outer-metropolitan areas and could be even more so in rural and regional areas.

Several submissions raised the issue of the length of time taken to apply for and receive a concession card<sup>21</sup> and one submission suggested a temporary or interim card could be issued by Service NSW whilst waiting for the card to arrive:

The major problem for rural areas is getting the half fare concession cards. You have to apply online, then wait 7-10 days. The most needy time for these concession cards is immediate. Is there a way they can be printed at Services NSW as an interim whilst waiting for the card to arrive? People being released from Prison or mental health need these cards immediately not in 7-10 days time. They are on limited income and already in financial trouble. Let alone being charged full price for bus fares because they have to wait for the concession card.<sup>22</sup>

Until customers are able to access consistent electronic ticketing in rural and regional areas, we have made a draft recommendation that consideration be given to simplifying the concession fare application process for rural and regional bus travel. This could be achieved by:

- ▼ Allowing Transport Concession Entitlement cards to be issued at Service NSW centres,<sup>23</sup> or
- ▼ Allowing the purchase of a concession ticket on presentation of a current Commonwealth Health Care Card and photo ID.

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<sup>21</sup> See, eg, Legal Aid NSW, Submission to IPART Issues Paper, August 2020, p 3. In particular Legal Aid NSW highlights access to concession fares in regional areas for people who are leaving prison. Inmates cannot make an application for a Transport Concession Entitlement card before their release because they do not have access to the internet. In addition, inmates often do not know what their postal address will be on release. Legal Aid NSW submits that changing eligibility for concession fares so that they are automatically available to people who hold Commonwealth Health Care and Pension Cards could overcome a significant barrier for inmates who already face enormous challenges post release. Many inmates are assessed for eligibility for Commonwealth income assistance prior to leaving prison so that they can receive payment once they leave, and a Health Care Card is provided to recipients of income assistance.

<sup>22</sup> Anonymous, Submission to IPART Issues Paper, July 2020, p 1.

<sup>23</sup> We envisage this would require staff at Service NSW centres to confirm eligibility (against a current Commonwealth Health Care Card) and confirm the applicant does not already have a card (by checking against the TfNSW database).



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We note that the second option is consistent with the current practice for obtaining a RED ticket, ie the passenger shows a card (eg, a NSW seniors card or pensioner concession card) on boarding a bus and purchasing a ticket.<sup>24</sup> It is also the practice in Victoria for access to concession fares on regional bus services that are not part of the Myki network (Myki is the Victorian equivalent of Opal).<sup>25</sup> It would also best address concerns raised in submissions (eg, the Legal Aid NSW submission referred to above, which notes that people being released from prison are assisted to get a Health Care Card before they leave but cannot apply for a Transport Concession Entitlement card). It also recognises that not every bus user may have easy access to a Service NSW centre, for instance, if they live in an isolated community that is some distance from a Service NSW centre.

This would reduce the time taken for eligible customers on the rural and regional bus network to access concession fares and it should be less costly to administer than current concession arrangements.

## **5.4 Additional measures to assist vulnerable people**

While our recommendations would expand eligibility for discounted fares, we recognise that there are still vulnerable people who cannot afford public transport. In our review of Opal fares we noted that some community service organisations and charities currently provide Opal cards (with credit) or Opal card credit to their clients and we recommended that the NSW Government trials a program whereby community service organisations and charities can purchase discounted public transport passes to be provided at no cost to vulnerable people (similar to the trial undertaken in Victoria).

In our consultation for this review stakeholders have raised similar issues and emphasised the need to provide free travel cards for people in crisis or experiencing difficult circumstances, such as vulnerable young people – particularly those experiencing homelessness or in the youth justice system - who have difficulty affording public transport.<sup>26</sup> We understand that some operators of rural and regional bus services currently provide discounted tickets to community service organisations and charities, at their own cost.<sup>27</sup> This suggests that similar issues exist for vulnerable people within the rural and regional bus network as for the Opal network.

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<sup>24</sup> NSW Government, [Regional bus tickets and fares](#), accessed 19 August 2020.

<sup>25</sup> Victorian Government, [Concessions and Free Travel](#), accessed 18 August 2020. For non-Myki regional bus services a customer is required to show the relevant card (eg Health Care Card or Pensioner Concession Card) to pay the concession fare.

<sup>26</sup> See, eg, NSW Office of Advocate for Children and Young People submission to IPART Issues Paper, August 2020, p 4.

<sup>27</sup> See, eg, Meeting with Sapphire Coast Buslines, 21 August 2020. We understand that this is up to the operator rather than a systemic approach across the rural and regional bus network.

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We have made a draft recommendation that TfNSW considers implementing targeted programs for assisting vulnerable people to access rural and regional buses. We consider that, in the long term, introducing other ticket options (ie, consistent with Opal) in rural and regional areas and then applying the same programs for vulnerable people across the state would be the best approach. However the different contractual arrangements for rural and regional bus services may impact how such programs are implemented. We encourage TfNSW to engage and collaborate with the relevant parties, such as the organisations that help support vulnerable people, in the development of any trials or programs, to negotiate a satisfactory way of addressing these issues in rural and regional areas.

## 5.5 Targeted options for making family travel more affordable

Large families and children, including pre-school aged children, are two groups that can face transport disadvantage and would benefit from more affordable bus services.

With our recommended maximum fares, the cost of using rural and regional bus services is likely to reduce substantially for children under 15 years, which should assist families with children. For example, a single trip fare of \$12.50 per child or a daily fare of \$15 is the maximum children would pay compared with the current fares applicable, which could be up to \$51.80.

In addition to the proposed fare changes, there are more targeted options that can assist families. We recommend that TfNSW consider options and undertake a cost benefit analysis to determine whether the benefits to society would outweigh the costs of providing the concessions. Options may include:

- ▼ Special child fares. Large families would benefit from more affordable family outings, visiting family and friends and engaging in recreational activities if school aged children can travel more affordably during school holidays. NSW TrainLink coach services (provided by TfNSW) allow children to travel at a \$1 fare when accompanied by a full fare paying adult.<sup>28</sup> As there appears to be some overlap between these services and rural and regional bus services – there may be benefit in extending this to rural and regional bus services.
- ▼ Free travel for all pre-school aged children. In NSW, free travel for children is available up to 3 years of age. This means that four year olds accessing pre-school on public transport need to pay a child fare. Like school aged children, pre-school aged children could also benefit from free travel if it enables them to engage in early learning opportunities. Research in regional South Australia found some regions had a high proportion of pre-school aged children with development delays. A significant contribution was the lack of mobility opportunities for pre-school participation.<sup>29</sup> Victoria and Queensland allow free travel for children aged four years and under.<sup>30</sup>

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<sup>28</sup> “The Child \$1 fare is available to children aged 15 years and under and entitles travel anywhere on the NSW TrainLink Regional network for \$1 each way. The \$1 fare can be booked for up to four children in any group when travelling with one or more adults who pay full (Adult Peak or Standard) fare. Adults and children need to be from the same household. Seats for additional children are charged at the current Child fare.” See TransportNSW, [Child and family fares bookings](#) accessed 28 September 2020.

<sup>29</sup> Hensher D, *Bus Transport Demand, Economics, Contracting, and Policy*, 2020 p 406.

<sup>30</sup> Public Transport Victoria website, [Concessions: Children](#) and Queensland’s Translink website [Concessions: Children](#), accessed 29 September 2020.

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## 6 Draft recommendations to improve transport services in rural and regional NSW

The efficient delivery of transport services includes providing services at efficient cost, and providing the right mix of services. Adopting new technology has the potential to improve both the level of service provided to customers, and the cost efficiency in delivering the same level of services.

This chapter discusses options to improve transport services in rural and regional NSW by:

- ▼ Introducing competition in the delivery of services or bus contracts (section 6.2)
- ▼ Reviewing the contracts between bus operators and TfNSW (section 6.3)
- ▼ Enhancing the monitoring of operator performance (section 6.4), and
- ▼ Facilitating innovation in payments, ticketing and customer interface (section 6.5).

### 6.1 Our draft recommendations to improve transport services in rural and regional NSW

#### Draft Recommendations

- 6 Transport for NSW consider using a competitive tender process when establishing permanent on-demand services, open to both bus operators and appropriate non-bus operators, in order to facilitate competitive neutrality, innovative service offerings and competitive pricing (and subsidy) offerings.
- 7 Transport for NSW consider using a competitive tender process when bus operator contracts are renewed, open to both bus operators and appropriate non-bus operators, given potential benefits in terms of innovation and cost efficiencies.
- 8 Transport for NSW consider revising the contract arrangements with bus operators to make them more consistent with those in metro and outer metro areas, with a view to moving to gross cost contracts in the future (with an incentive for increased patronage), rather than net cost contracts.
- 9 Transport for NSW review contract provisions with bus operators to ensure they promote efficient delivery of services – for example that they reflect services that promote customer benefits (in terms of, eg, route and frequency); and that they encourage operators to provide these services in a cost effective way (eg, in terms of vehicle size, age, etc).
- 10 Transport for NSW enhance its review of operator performance over the course of operator contracts, when contracts are renewed - by developing additional indicators of comparative performance and publishing an annual review of bus operator performance for large and medium operators.
- 11 Transport for NSW provide greater certainty to bus operators regarding coordination of electronic ticketing, customer interface and payment technologies which would provide a more seamless customer experience across the State.

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## 6.2 Introducing competition in services or contracts

Competitive pressure can lead to cost savings and innovative service offerings, by encouraging a focus on customer needs and efficient costs. The following sections discuss the potential for introducing competition in the rural and regional bus sector, either for discrete services (such as an on-demand service) or for bus operator contracts.

### 6.2.1 Competitive tendering of defined services

TfNSW has undertaken several on-demand trials across NSW, in association with local bus operators. To date TfNSW has decided to make one of these trials an ongoing service – the Moree on-demand service – and invited tenders to provide the service for a period of three years.<sup>31</sup> There was no restriction placed on who could tender.

Competitive tendering supports competitive neutrality by allowing a range of potential service providers, including local bus operators, taxi and ride-share companies, and bus operators from other areas. It also has the potential to facilitate innovative service offerings and competitive pricing (and subsidy) offerings.

We understand TfNSW will consider using competitive tenders when on-demand trial services are made permanent, unless there are identified operational efficiencies from having the same operator for on-demand and route services in the area. We support consideration of competitive tenders as there are likely to be significant potential benefits from increasing competitive pressure on bus operators.

One concern raised in our consultation process is the potential impact on the incentives for bus operators to innovate, if they know that any new services are likely to be put to competitive tender. BusNSW has suggested that innovation will be stifled if operators fear that any changes they propose will result in services being competitively tendered.<sup>32</sup>

Bus operators may incur substantial costs when they develop new services, which would arise from testing new services, undertaking research and development, and building up patronage on a new service. When these contracts are competitively tendered, subsequent operators competing for the contract could benefit from the work that has been previously undertaken, and would avoid incurring these costs.

Balancing these costs, the incumbent operator benefits from understanding the service to be provided, the cost of the service, and the customer profile. Furthermore, we would expect operators to recover the efficient costs of on-demand trials through payments from TfNSW, which reduces the risk borne by operators. It is important that payments from TfNSW for trial services accurately reflect the efficient costs of providing the service, so that the operator's efficient costs are recovered, and TfNSW does not face a "cost shock" if the new service is made permanent and competitively tendered.

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<sup>31</sup> NSW Government, [Request for Proposal – Moree On Demand Public Transport](#) viewed 10 September 2020.

<sup>32</sup> BusNSW submission to IPART Issues Paper, 7 August 2020, p 14

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## 6.2.2 Competitive tendering of bus operator contracts

Evidence suggests that there can be significant cost savings from an initial competitive tendering of publicly-owned transport.<sup>33</sup> The evidence is less conclusive if the incumbent is privately-owned - as is the case for rural and regional bus operators - and for subsequent tenders. In its submission to the Issues Paper BusNSW argued that the TfNSW procurement process, including the benchmarking of efficient costs, “ensured that the cost of providing services under current contracts is a fair market outcome”.<sup>34</sup>

A further rationale seen by some proponents of negotiated performance-based contracts is the belief that this contract form is most likely to support a trusting partnership between purchaser and provider, particularly for system planning.<sup>35</sup>

The challenges of competitive tenders include the specification of the service provided, and dealing with uncertainties – though these must also be addressed in negotiated contracts.

Our draft recommendation is that TfNSW actively consider the potential for competitive tendering of bus operator contracts when they are renewed in 2024-25. Rural and regional bus operators have not faced competitive pressures in the past, and it is likely that exposing them to competition could lead to cost savings.

Whether contracts are based on competitive tenders or are negotiated with incumbents, achieving benefits for customers depends on specifying the appropriate services to be provided, and ensuring that performance is effectively monitored during the contract period. This is discussed further below.

## 6.3 Reviewing contracts between TfNSW and bus operators

This section discusses two aspects of the contracts with bus operators – the form of contracting (‘net’ or ‘gross’), and ensuring contract provisions promote efficient delivery of services.

### 6.3.1 Form of contracting

Most of the revenue received by rural and regional bus operators comes from payments under their contracts with TfNSW. A relatively small amount (less than 2% on average) comes from fare revenue (the ‘farebox’), which operators retain.<sup>36</sup> This is known as a ‘net cost’ contract as contract payments are negotiated at the start of the contract period with an understanding that operators’ revenue will be ‘topped up’ by expected fare revenue. Operators are able to set their own fares subject to the maximum fares determined by IPART.

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<sup>33</sup> Hensher, D, *Bus transport, Demand, economics, contracting and policy*, Elsevier, 2020, p 9 and p 142.

<sup>34</sup> BusNSW submission to IPART Issues Paper, 7 August 2020, p 7.

<sup>35</sup> Hensher, D, *Bus transport, Demand, economics, contracting and policy*, Elsevier, 2020, p 9.

<sup>36</sup> Data from TfNSW, IPART analysis. Larger operators tend to earn a higher proportion of revenue from fares, but still only 4% on average.

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Net contracting effectively allocates patronage risk to bus operators – if fare revenue increases over the contract period, operators retain the revenue. If passenger numbers fall and fare revenue declines, then operators earn less revenue. In rural and regional bus contracts, the exception to this is where there is a ‘material’ reduction in farebox revenue resulting from a change in fare policy. In this situation the contracts between operators and TfNSW provide for an additional payment to be made to operators to compensate for this, as discussed section 7.2.

This type of contract contrasts with those between TfNSW and bus operators in metro and outer metro areas, who are paid a monthly contract payment which does not depend on the value of fares collected (known as ‘gross cost’ contracting). This effectively allocates the patronage risk to TfNSW rather than bus operators. One disadvantage is that gross contracts reduce the incentive for bus operators to grow patronage and to ensure passengers pay the correct fare (because they do not keep the fare revenue). However, this can be offset by adding a ‘patronage incentive payment’ that rewards operators for increasing patronage on their services. The Sydney metro and outer-metro bus service contracts include a patronage incentive payment, which TfNSW could consider for rural and regional bus services.<sup>37</sup>

Gross cost contracting gives TfNSW flexibility over fares and the ability to set fares to achieve social policy objectives, to reduce contract costs or to optimise service utilisation (eg. to vary the relativity between peak and off-peak fares or to integrate fares for different modes). It also recognises that TfNSW is responsible for network planning, so bus operators have limited ability to vary bus routes and frequency to increase patronage.

Moving to a gross cost contract regime for rural and regional buses would provide TfNSW with a greater ability to set consistent fares across NSW, which is important in facilitating a consistent electronic ticketing system.

In its submission to the Issues Paper BusNSW supported consideration of gross cost contracts when the current contracts are renewed, in order to reduce the impact on operators of changes to patronage from factors such as COVID-19; and to resolve disputes resulting from changes in Government fare policy.<sup>38</sup>

At the moment there is no centralised ticketing infrastructure, so it is difficult for TfNSW to ensure it receives accurate patronage and farebox information. This is a disadvantage for both net and gross contracting, since TfNSW does not have independently verified data on the level of fare revenue. This underlines the benefits that would flow from the roll-out of electronic ticketing.

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<sup>37</sup> See Transport for NSW, [Outer Sydney metropolitan bus contract](#), schedule 3, paragraph 4.6, viewed 17 August 2020.

<sup>38</sup> BusNSW submission to IPART Issues Paper, 7 August 2020, p 6.



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### 6.3.2 Reviewing contract provisions to promote efficient delivery of services

The specification of services in the operator contracts can have a significant impact on the customer benefits that are generated. Many rural and regional bus routes are infrequent, circuitous and poorly patronised. The on-demand trials undertaken by TfNSW and bus operators have demonstrated that there is potential to improve customer benefits by re-specifying the service provided.

Consultation with bus operators suggests that some contract provisions may unnecessarily limit cost efficiencies, for example, the prescribed replacement of buses. They also suggest that contracts are relatively inflexible in relation to proposed changes in services aimed at increasing patronage (such as routes or timetables), or changes to the bus fleet which may reduce costs.<sup>39</sup>

As part of contract negotiations when contracts are renewed, we recommend that TfNSW and bus operators review the terms of the contracts and consider opportunities to improve the efficiency of services provided. This could include issues that are bespoke to individual operators, such as bus routes and frequencies, as well as issues affecting all operators such as flexibility over bus renewals.

### 6.4 Developing indicators of performance for bus operators

Once a bus contract is established it is important that performance is monitored on an ongoing basis, to ensure contract requirements are met. Indicators of performance, including service standards, can also facilitate benchmarking across bus operators and over time.

The contracts between bus operators and TfNSW include key performance indicators (KPIs) to be met by the operator over the life of the contract. They are broken into 2 categories – breaches of class 1 KPIs require the operator to develop an incident report identifying remedial action, and operator performance is assessed against class 1 KPIs at governance meetings. Class 2 KPIs are measured and reported on a regular basis, and remedial action must be undertaken where necessary to continue to meet the KPI.<sup>40</sup>

The KPIs listed in the bus operator contracts vary by the size of the operator and include:

- ▼ Punctuality rates
- ▼ Cancelled and incomplete trips
- ▼ Customer complaint resolution
- ▼ Incidents due to failure of bus maintenance
- ▼ Contract bus maintenance - major bus defects
- ▼ Reporting and provision of information.

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<sup>39</sup> IPART meeting with BusNSW, 22 July 2020.

<sup>40</sup> For example, for small operators see TfNSW, [Rural and regional bus service contract \(small\)](#), schedule 4, clauses 4 and 8, viewed 30 September 2020.

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One difficulty is that many of these indicators are self-reported without independent verification (for example, punctuality rates). We see benefit in TfNSW continuing to develop meaningful performance indicators for bus operators, and publishing a regular comparative review for medium and large bus operators. Restricting publication to large and medium operators (at least in the first instance) will limit TfNSW's administration costs, and reduce problems of comparability which are likely to arise with operators of different size, operating in areas with different characteristics.

Over time, adopting new technology will enhance the potential for performance monitoring. For example, electronic ticketing will enable independent verification of patronage, and GPS tracking allows independent verification of on-time performance (which is currently self-reported).

In addition to technical performance indicators, performance could also be assessed through mechanisms such as customer surveys. While the trials of on-demand services included customer surveys, we understand there is no regular process for surveying rural and regional bus customers more generally. By contrast, customer satisfaction surveys are routinely undertaken and published for every mode of public transport in the metropolitan and outer metropolitan areas.<sup>41</sup>

## **6.5 Facilitating innovation in payments, ticketing and customer interface**

### **6.5.1 Contactless payments**

Regional NSW currently has a ticketing system based on 'sections', and most operators use paper tickets. Unlike the Opal system used in metropolitan and outer metropolitan areas, ticketing is not integrated across different operators, modes of transport or locations.

Many operators require cash payments and do not accept credit or debit cards. This is inconvenient for customers where fares are an odd amount of change, and for longer distances where fares involve significant amounts of money. Several submissions to the Issues Paper supported the rollout of contactless payments systems, for example:

- ▼ Action for Public Transport (NSW) submitted that "the COVID pandemic has shown that the option of contactless payment is a necessity for the sake of public health".<sup>42</sup>
- ▼ F Honeyball noted that "if payment by card can be done in market stalls by part time traders surely a bus company could have a credit card reader on a bus to pay a fare – not having the correct fare or a \$5 note is sometimes a disincentive to catching the bus".<sup>43</sup>

In 2019 TfNSW trialled Account Based Ticketing technology with Kiama and Ulladulla bus services, which allowed customers to pay with their debit/credit card (as well as tracking regional buses in real time, showing occupancy levels and providing school students with an Opal Student card).<sup>44</sup>

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<sup>41</sup> TfNSW, [Customer satisfaction index](#), November 2019, viewed 30 September 2020.

<sup>42</sup> Action for Public Transport (NSW) submission to IPART Issues Paper, August 2020, p 3.

<sup>43</sup> F Honeyball submission to the Issues Paper, 4 August 2020.

<sup>44</sup> TfNSW, [Annual Report 2018-19](#), volume 1, p 49, viewed 23 September 2020.

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While individual bus operators may introduce their own contactless payment mechanisms, there is benefit in more consistent technology being adopted across the State, and developing and purchasing technology is likely to offer economies of scale.

We recommend that TfNSW provide bus operators with more certainty about the nature and timing of any coordinated contactless payment technology. This will reduce the risk that individual operators invest in technology that becomes obsolete if more uniform technology is introduced.

### 6.5.2 Electronic ticketing

Consistent electronic ticketing would enable more ticketing options, frequent-use discounts, and facilitate integration across transport modes and across different geographic areas in the State. This would be more convenient for customers, and encourage higher patronage by offering customers a more seamless experience. Tourists and other travellers would not need to investigate ticketing arrangements in each new location. It could also reduce travel time by allowing pre-payment and pre-checking of concession eligibility.

The roll-out of electronic ticketing received wide support in submissions to the Issues Paper. For example:

- ▼ BusNSW states that a state-wide ticketing management solution “could dramatically improve the customer’s experience in regional NSW and provide rural customers with a seamless integration to the Greater Sydney public transport network”.<sup>45</sup>
- ▼ The Advocate for Children and Young People (ACYP) supports the introduction of electronic ticketing “to allow for innovation for vulnerable people to travel safely”.<sup>46</sup> ACYP suggests this could facilitate provision of travel vouchers for disadvantaged people, allow remote topping up by homelessness services or caseworkers.
- ▼ Action for Public Transport (NSW) support the extension of the Opal system across NSW “to produce a predictable and seamless payment system”.<sup>47</sup> Coffs Harbour City Council also supports introduction of the Opal system.<sup>48</sup>
- ▼ NCOSS submits there is community support for greater service integration and integration of fare arrangements to allow rural and regional customers to “access the benefits of the transport system integration currently enjoyed by their metropolitan counterparts”.<sup>49</sup>

Adopting electronic ticketing also incurs costs, which may be prohibitive for individual operators, especially smaller operators. A number of rural and regional bus operators currently have electronic ticketing technology and we understand they are having trouble securing ongoing support for their system, given that the dominant ticketing platform in NSW is Opal.<sup>50</sup>

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<sup>45</sup> BusNSW submission to IPART Issues Paper, 7 August 2020, p 3.

<sup>46</sup> NSW Office of Advocate for Children and Young People submission to IPART Issues Paper, 7 August 2020, p 1.

<sup>47</sup> Action for Public Transport (NSW) submission to IPART Issues Paper, August 2020, p 6.

<sup>48</sup> Coffs Harbour City Council submission to IPART Issues Paper, 7 August 2020, p 2.

<sup>49</sup> NCOSS submission to IPART Issues Paper, August 2020.

<sup>50</sup> IPART meeting with BusNSW, 22 July 2020.

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TfNSW has also conducted a ticketing trial for school students, where an electronic ‘bag tag’ on school bags can be automatically read as students board and leave the bus, allowing more rapid boarding than would occur with a ‘tap-on tap-off’ system. TfNSW is planning to expand this trial to other areas.<sup>51</sup>

Another potential innovation is the introduction of an account based digital ticketing platform, similar to Opal Connect. Opal Connect allows passengers to keep track of their public transport payments made through credit/debit cards or via the Opal card, and allows the operator to offer bundled services (for example, discounts for transferring from one transport mode to another). This would enhance the attractiveness of on-demand services offering ‘first and last mile’ links to trunk route services.<sup>52</sup>

Given the benefits to customers from a consistent transport experience, and the economies of scale available by co-ordinating procurement, we recommend that TfNSW investigate centralised procurement and roll-out of ticketing technology. We also recommend that TfNSW provide clear guidance to bus operators regarding their intention and likely timing of a consistent State-wide ticketing approach, so that individual operators do not invest significant amounts of money in technology which will be rapidly superseded.

### 6.5.3 Customer interface and information technology

Similar to the roll-out of consistent electronic ticketing, there are likely to be significant benefits to customers from adopting consistent customer interface technology across NSW. This would allow a more seamless customer experience and promote increased patronage due to the increased convenience of public transport. These technologies include journey-planning, booking and payment options, and on-time running.

Many of these technologies are available on the Opal network, while a number of trials are being undertaken in regional NSW. TfNSW has introduced the “Transport connected bus” program to deliver vehicle tracking and passenger counting technology across regional NSW, which will allow customers to view timetable information and real-time trip updates using the TfNSW Trip Planner tool (via website or app), including an indication of how full the service is.<sup>53</sup>

Several submissions to the Issues Paper commented on the need for improved trip information and journey planning in rural and regional areas. For example:

- ▼ Action for Public Transport (NSW) notes that information on local bus services is not always easy to find. They note:

APTNSW would like to see information about local bus services fully integrated with the TfNSW trip planner website. This should be the case for on-demand services (number and website for bookings and inquiries) as well as for scheduled services.<sup>54</sup>

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<sup>51</sup> TfNSW, *Ticketing solutions development, RFID Ticketing trial – stakeholder information deck*, unpublished TfNSW presentation, June 2020.

<sup>52</sup> See BusNSW submission to IPART Issues Paper, 7 August 2020, p 14 and p 16.

<sup>53</sup> [Transport Connected Bus Program](#), viewed 19 August 2020.

<sup>54</sup> Action for Public Transport (NSW) submission to IPART Issues Paper, August 2020, p 1.

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- ▼ NCOSS notes the ‘fragmentation’ of information on rural and regional bus services, and the need for investment in coordinated and centralised information provision, and the availability of real-time data, to support greater use of rural and regional buses.<sup>55</sup>
  - ▼ Coffs Harbour City Council suggests that timetable and route data is relatively accessible, but information on fares to get from one point to another is not, and it would be useful for trip apps to provide this information.<sup>56</sup>

At the same time, several submissions have noted that some passenger groups, such as the elderly, are not comfortable with accessing online information and booking services and prefer to pay in cash, and these preferences should be considered.<sup>57</sup>

Adopting consistent ticketing and journey-finding technology across the State offers scale benefits. Many bus operators are too small to develop their own ticketing and information services. Customers, including tourists would benefit from improvements in journey-planning information, and seamless ticketing and payment options across the State. This has potential to increase patronage in rural and regional areas.

For these reasons we support the further roll-out by TfNSW of customer interface and payment technology across rural and regional NSW, including journey-planning, real-time trip information, and payment technology. We also support a continuation of non-digital sources of information and payment for those groups that do not have access to, or are less comfortable with, credit cards, phone applications and the internet.

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<sup>55</sup> NCOSS submission to IPART Issues Paper, August 2020.

<sup>56</sup> Coffs Harbour City Council submission to IPART Issues Paper, 7 August 2020, pp 5-6.

<sup>57</sup> For example, Combined Pensioners and Superannuants Association submission to IPART Issues Paper, August 2020, pp 3-4; Council on the Ageing (NSW) submission to IPART Issues Paper, July 2020, p 3.

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## 7 Expected impact on operator revenue

While fare revenue is generally a small proportion of operators' total revenue, we have considered operators' ability to continue to recover efficient costs after the proposed reduction in maximum fares.

The service contracts provide a contract price adjustment mechanism which is triggered by material changes in fares. The mechanism provides that an operator and TfNSW will agree to an adjustment that reflects the impact of the change in fare revenue. Two conditions must be met before the parties are required to agree to an adjustment:

- a) TfNSW changes a fare (or fares) as a result of a change in Government Fare policy; and
- b) that change results in a material change in fare revenue received by the operator.

We understand that some operators have requested a contract price adjustment during the term of the current determination. BusNSW has advised that bus operators and TfNSW have not resolved adjustment requests arising from loss of fare revenue resulting from IPART's reduction in maximum fares in the 2017 review.<sup>58</sup>

We have modelled the expected impact of our Draft fare proposals on operators' total revenue and fare revenue. We have also proposed a framework to assist both bus operators and TfNSW with contract price adjustments that result from the proposed changes to maximum fares.

### 7.1 Impact of proposed fares on fare revenue varies by operator

Although we are proposing fare reductions for all trip distances, on the whole, we expect that our proposed fares will not have a substantial impact on total operator revenue. However, the impact on fare revenue is likely to vary for individual operators.

Under their service contracts with TfNSW, operators receive a regular contract payment for providing services. They also keep any revenue they collect from fares. In total, across all rural and regional bus operators, fare revenue collected in 2019-20 was around \$6 million – or less than 2% of the total revenue they received.<sup>59</sup>

The importance of fare revenue varies across operators and depends on their size and the particular mix of services they provide (see Box 7.1). On average, small and very small operators receive less than 1% of their revenue from fares (as they largely provide school- only services), while medium operators receive around 2% and large operators receive around 4%.<sup>60</sup>

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<sup>58</sup> BusNSW submission to the Issues Paper, 7 August 2020, p 2.

<sup>59</sup> Information provided by TfNSW.

<sup>60</sup> Information provided by TfNSW.



### Box 7.1 Rural and regional bus operator contracts

Currently, 513 operators deliver rural and regional bus services through 663 contracts.

The contract system with TfNSW includes four types of contracts – Large, Medium, Small and Very Small – based on the number of buses in the operator's contracted fleet.

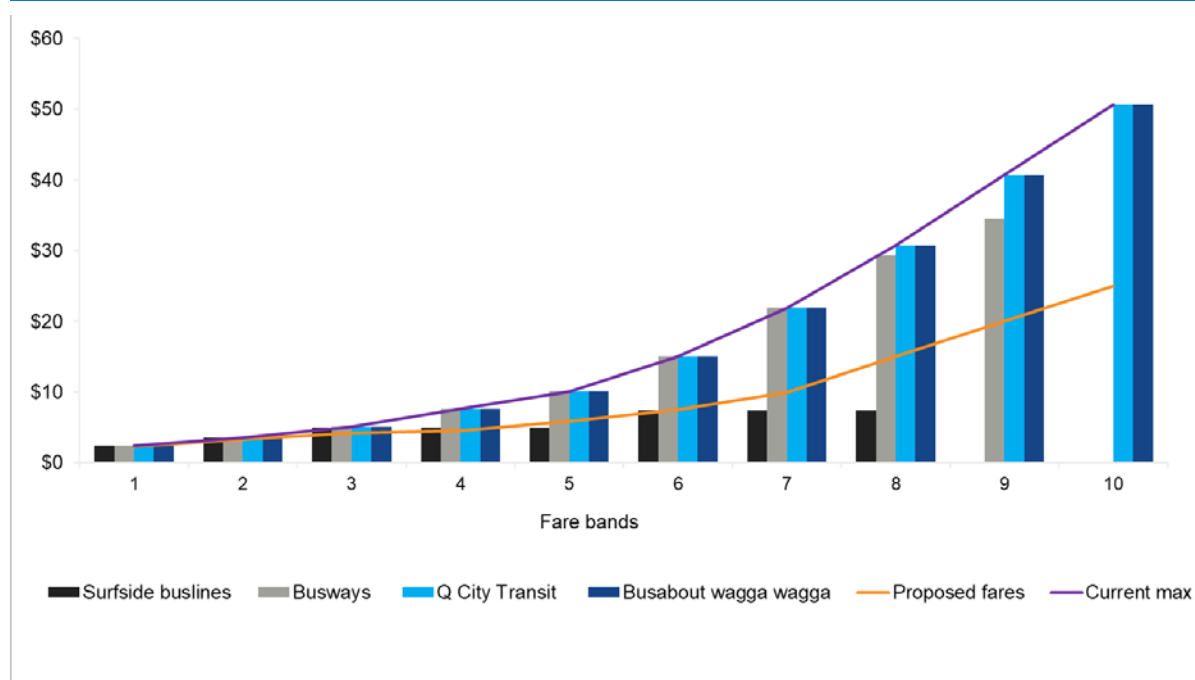
Around 94% of the contracts are either Very Small or Small contracts. The services provided under these contracts are predominantly dedicated school bus services.

Around 6% are Medium or Large contracts. Most of these contracts include both school services and regular passenger services. Medium and large operators are likely to be the most impacted by any changes in maximum fares for rural and regional bus services.

**Source:** Information provided by TfNSW, 16 June 2020.

In addition to variations in the total size of fare revenue collected, the revenue impact experienced by operators who are currently pricing below the maximum will be lower. Currently not all bus operators charge the maximum fare, particularly for longer distances. For example Figure 7.1 shows that one of the largest operators (Surfside Buslines), charges well below the maximum fares for longer trip distances with fares that are similar to our proposed maximum fares.<sup>61</sup>

**Figure 7.1 Comparison of current actual fares to proposed maximum fares and current maximum fares (2020)**



**Note:** Not all operators offer services across all fare bands.

**Data source:** Bus operator websites, IPART analysis.

<sup>61</sup> Surfside Buslines, [Tickets and Fares](#), accessed 3 September 2020.

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Another important factor is the mix of trips that are taken. Our fare proposals incorporate smaller reductions in fares for shorter distance trips and larger reductions in fares for longer distance trips (See Table 3.3). Most trips fall into the first two fare bands (less than 10km) with 97% of all trips being less than 40 kilometres. Very few people use rural and regional bus services to travel more than 90km. However, there is some variation among operators. Operators who currently sell more medium to long distance tickets are likely to see a larger reduction in their fare revenue than operators who sell mainly short distance tickets.

One of the other factors that will influence the impact on operators is the value of fare revenue that comes from tickets that are not set by IPART – around 40% of fare revenue collected is not affected by IPART's maximum fare determination. Most of this revenue comes from the Regional Excursion Daily (RED) tickets, which are priced at a flat daily rate of \$2.50. As we do not determine the price of RED ticket fares, and are not making any recommendations to TfNSW that would impact their pricing, having a larger proportion of passengers travelling on the RED ticket would reduce the revenue impact of any other fare changes.

We modelled the likely impact of lower fares on operators' revenue, both on average across all operators and individually for operators with a significant proportion of fare revenue. This analysis includes the likely impact on fare revenue of our proposed changes to concession fare availability (see Figure 7.2).

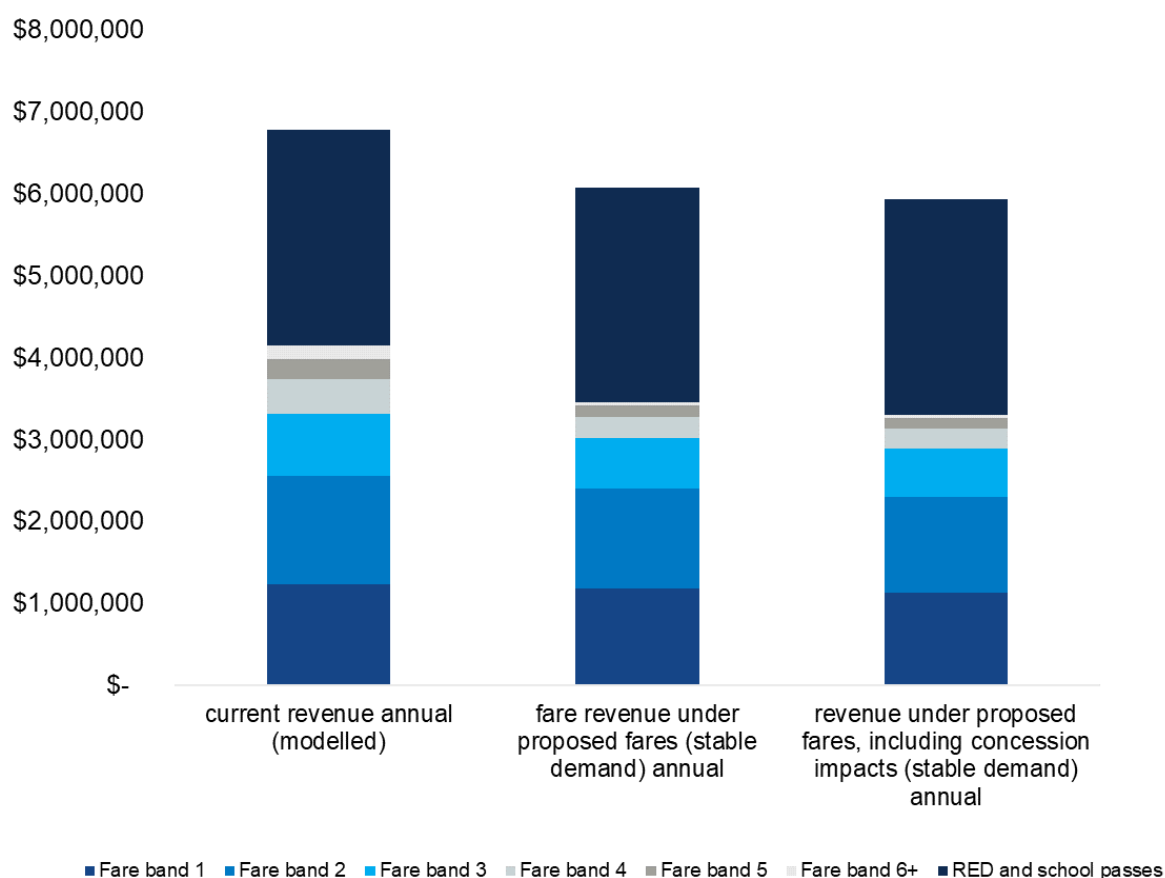
It is important to note that this analysis required us to make a number of assumptions which include:

- ▼ All operators currently charge the maximum fares, which we know is not the case particularly for long distance trips (where the largest fare reductions are). In practice, we expect that because many operators currently choose to set their fares below the maximum, the actual decrease in revenue to be less than our modelling suggests, particularly for the longer distance tickets. As such, we consider our modelled revenue impacts to be upper bound estimates of potential fare revenue losses to operators.
- ▼ We have assumed that around 45% of section based ticket sales are for adult fares, and 55% are for concession fares across all operators.<sup>62</sup> In practice the proportion of adult and concession tickets are likely to vary by operator.
- ▼ Because the uptake of daily tickets has been very low, and daily ticket sales contribute to a very small proportion of total fare revenue, we have excluded these fares from the analysis.

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<sup>62</sup> This is based on an average across all operators.

**Figure 7.2 Modelled annual total fare revenue impacts from our proposed fare determination – average across all operators**



**Note:** Revenue from RED tickets and school term passes will not be impacted by our determination. The analysis excludes daily tickets as daily tickets account for a very small proportion of fare revenue

Modelled annual revenue based on current maximum fares and proposed draft fares, and applied to 2019-20 patronage.

**Data source:** Operator reported patronage by section data provided by TfNSW, IPART analysis.

We also considered two scenarios with different responses in bus use as a result of the fare changes (shown in Table 7.1). We found that:

- ▼ If the level of bus use does not increase in response to the reduction in fares, total fare revenue collected by all operators would fall by around 13% per year on average (an upper bound estimate of total loss in fare revenue across all operators of around \$850,000 per year).
- ▼ If the lower fares encourage greater use of bus services and demand increased by 5% fare revenue collected by operators would fall by around 9% per year (a total decrease in fare revenue across all operators of around \$640,000 per year).<sup>63</sup>

Our analysis is based on patronage by section data reported to TfNSW by operators in accordance with their contracts. The quality of reported data is very poor, making it difficult to predict the impact on revenue with any certainty.

<sup>63</sup> We do not have a robust estimate of price elasticity of demand for buses in rural and regional areas. We have used 5% as a 'high' case on the assumption that demand is unlikely to increase by more than this amount.

Table 7.1 (below) summarises the modelled impact of our proposed fare changes both annually and over the four year determination period. It also separates the impact of our fare changes only, from the combined impact of our fare changes and recommendation to expand access to concession fares.

**Table 7.1 Impacts on total fare revenue under proposed fares and concession changes – total across all operators assuming all operators currently charge the maximum fares**

Fare Revenue	Impact of proposed fares only		Impact of proposed fares and concession changes	
	Assuming stable demand	+5% demand increase	Assuming stable demand	+5% demand increase
Annual change (\$)	-\$704,000	-\$483,000	-\$848,000	-\$636,000
Annual change (%)	-10%	-7%	-13%	-9%
4 year determination change (\$)	-\$2.8m	-\$1.9m	-\$3.4m	-\$2.5m
4 year determination change (%)	-10%	-7%	-13%	-9%
Contract revenue received by operators (\$2019-20)	\$464.9m			

**Note:** Based on modelled fare revenue for all operators. Patronage assumptions are based on data for 2019-20. We have excluded fare revenue from daily ticket sales, because this currently accounts for a very small proportion of fare revenue.

**Source:** TfNSW data, IPART analysis

We have also undertaken analysis for large contract operators who typically receive the greatest share of their revenue from fares. We consider that for some operators, the reduction in fare revenue resulting from the proposals in our Draft Report may be up to around 20%. However, when considering changes in total revenue for these operators (fare revenue and contract payments) we expect a much smaller reduction of around 1%.

## 7.2 Assessing adjustments to the contract price following changes in fare policy

We expect that TfNSW will receive applications from some operators for contract price adjustments as a result of our final determination (assuming fares are similar to those proposed in this Draft Report).

The contract provision for contract price adjustment does not include an explicit formula or mechanism to calculate the adjustment (Box 7.2).<sup>64</sup> In this context, we have set out some principles to assist the parties with this process. The following discussion provides IPART's advice on factors which could be taken into account in agreeing adjustments to contract payments, although it is not binding on the parties involved. Any adjustment is ultimately a matter for agreement between TfNSW and the operators.

<sup>64</sup> BusNSW submission to IPART Issues Paper, August 2020, pp 2, 5.

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### Box 7.2 Contract payment adjustment in the service contracts

The contract between TfNSW and bus operators includes a clause that provides that:

If TfNSW changes a Fare (or Fares) in the Fares and Ticketing Schedule as a result of a change in Government Fare policy, and the change results in a material change in the Fare revenue received by the Operator, the parties will agree an adjustment to the Annual Contract Price to reflect the impact of the change in the annual Fare revenue.<sup>a</sup>

Bus operators sought changes to contract payments from TfNSW under this clause when maximum prices were reduced in 2018, but to date the parties have been unable to reach agreement. The BusNSW submission notes that

A negative experience for the industry has been the inability for TfNSW and the affected operators to agree to an adjustment of their Annual Contract Price to reflect the impact of the change in annual fare revenue that resulted from the implementation of new fares in March 2018.<sup>b</sup>

As noted by BusNSW, while the contract provides for adjustments to the contract price, it does not include an explicit formula or mechanism to calculate the adjustment.

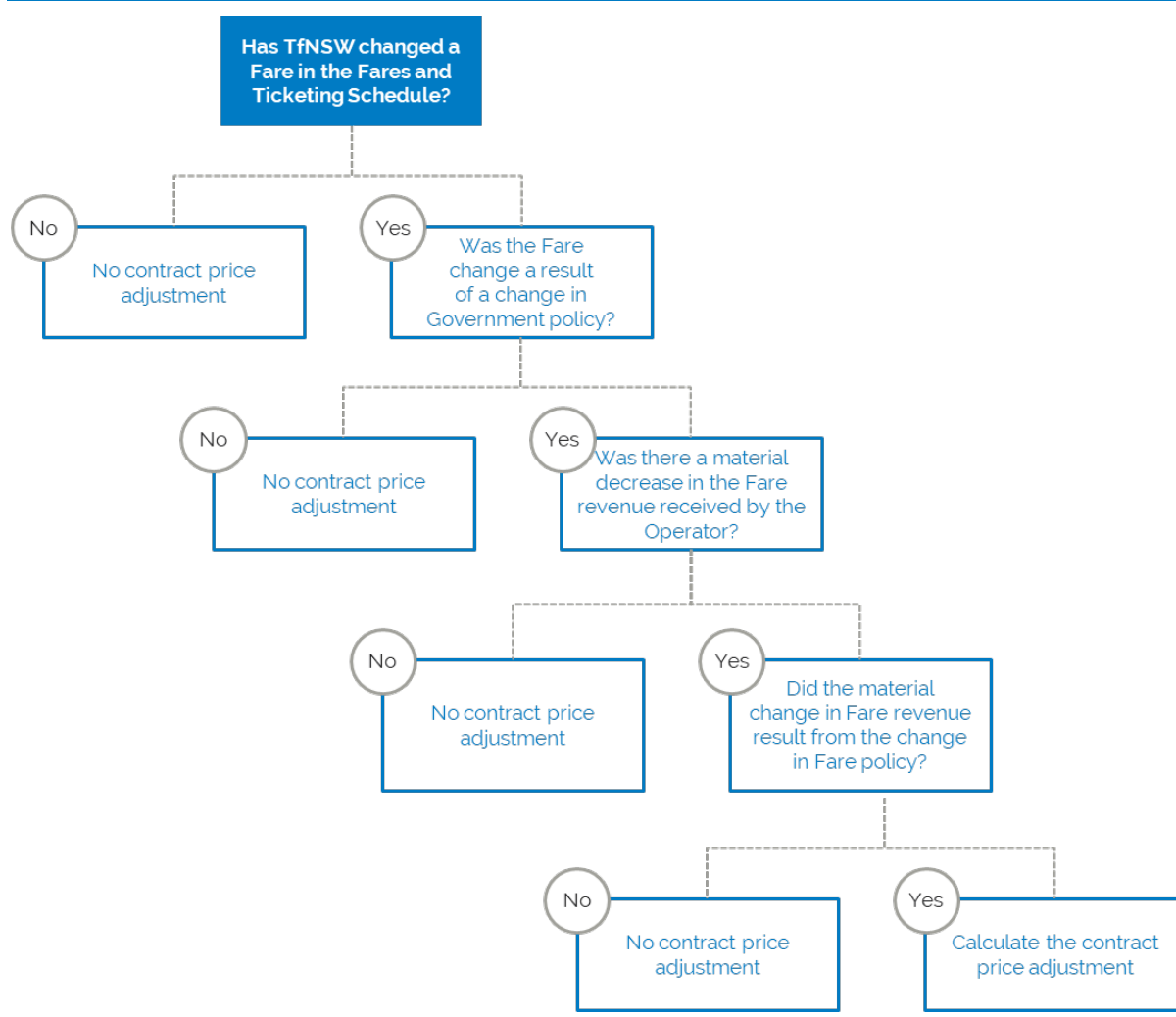
<sup>a</sup> TfNSW, [Rural and regional bus service contract \(small\)](#), schedule 3, clause 4.8, viewed 11 September 2020.

<sup>b</sup> BusNSW submission to the Issues Paper, 7 August 2020, p 2.

The elements of the contract price adjustment can be set out as a decision tree as shown in Figure 7.2. Note that a change in the fare schedule notified by TfNSW as a consequence of a change in Government Fare policy is a necessary pre-condition to the contract price adjustment.

The most substantive decision points are determining whether there has been a material reduction in fare revenue, and whether this was created by the change in policy.

**Figure 7.2 Deciding whether there should be a contract price adjustment**



Source: IPART analysis.

### 7.2.1 Determining what would constitute a material reduction in fare revenue

There is no definitive answer to what quantum of revenue reduction would be material. Generally a material change could be considered one that has a significant effect. TfNSW has indicated that its working assumption is that a 5% change in fare revenue would be considered 'material' for the purpose of this section.<sup>65</sup>

The clause refers to 'fare' revenue, rather than total revenue, even though fare revenue represents less than 2% of the total revenue of bus operators on average (the balance being contract payments from TfNSW). The implication is that the contract price adjustment will be triggered by a material decrease in fare revenue, even if this does not reflect a material decrease in total revenue.

<sup>65</sup> TfNSW, *Price adjustment due to a material change in fares*, 7 September 2020, in email from TfNSW, 8 September 2020.



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Australian Accounting Standards address what constitutes materiality and provide a useful starting point, but they no longer provide a quantitative value. They previously stated that materiality is subject to professional judgement, but that a change of less than 5% is presumed immaterial, and a change of greater than 10% is presumed material, unless there is evidence to the contrary.<sup>66</sup> The revised accounting standards define materiality in the context of omissions or misstatements in financial statements. They specify that these would be material if they could influence the decisions that users make on the basis of those statements. The size and nature of an item needs to be judged in the surrounding circumstances.<sup>67</sup>

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

Fare revenue reported by operators varies substantially from year to year with significant underlying variation in reported ticket sales. In our view, this underlying variation is relevant to the question of what constitutes a material change for the purpose of a contract price adjustment. We calculated average fare revenue for a sample of operators over time and found that annual fare revenue can fluctuate by up to around 25% (above or below the average).

Considering both the quantum of fare revenue in total and the underlying annual variation that occurs, we consider the threshold for a material change in fare revenue could likely be set somewhat higher than 5%. The materiality threshold could also be different for each operator recognising that the 'normal' variation in revenue that has been reported from year to year differs widely between operators. One option would be to consider any reduction in revenue outside the normal range of variation as material. For example, if an operator's revenue fluctuates by up to 15% from year to year, a reduction in revenue greater than 15% would be considered material.

### 7.2.2 Determining a 'base' in fare revenue

Another issue with determining whether a material change has occurred is the 'base' from which the change in fare revenue is measured. Operators are required to regularly report their ticket sales and fare revenue to TfNSW. While this should be an ideal base from which to analyse the change in fare revenue from year to year, the data provided to TfNSW shows significant fluctuations in annual revenue and substantial variation in the number of tickets sold by distance and category. For most operators the distribution of ticket sales across each fare band varies substantially from year to year and it is not clear whether these reported changes reflect actual differences in ticket sales and fare revenue or result from inconsistencies in the way data was collected and reported.

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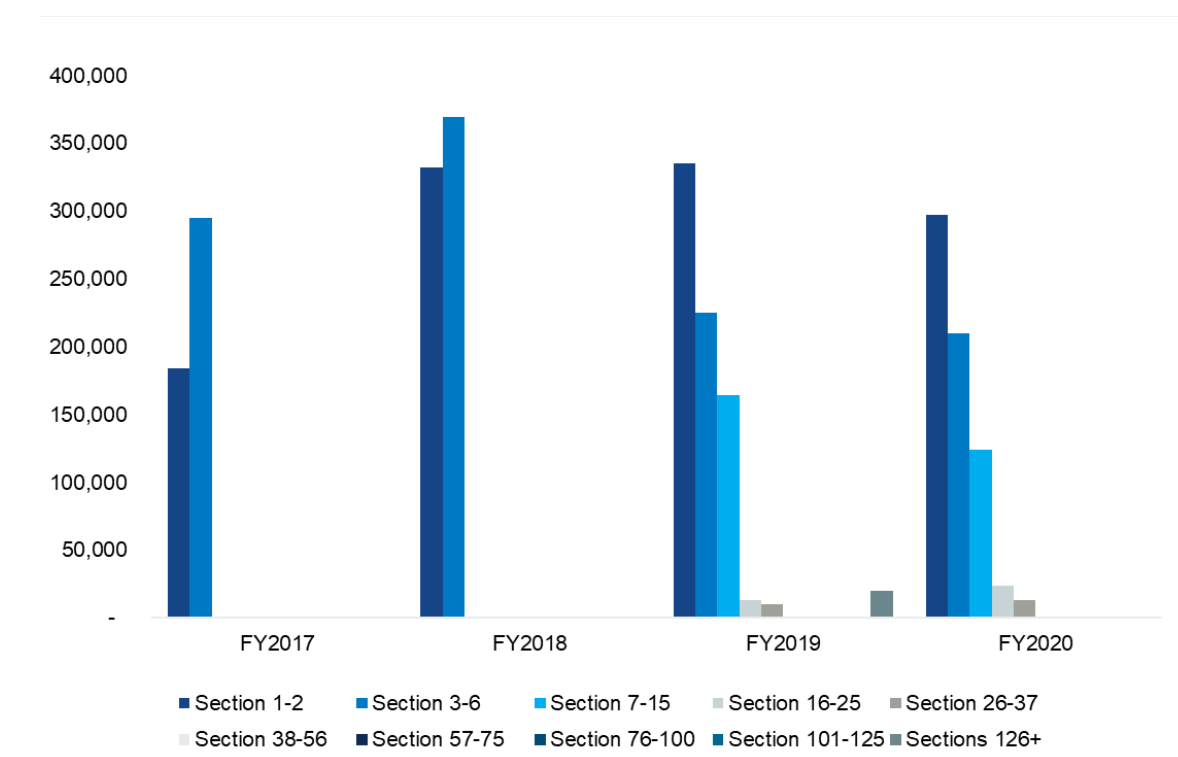
<sup>66</sup> Australian Accounting Standard AASB 1031, *Materiality*, 2004, clause 15. This standard has since been withdrawn to avoid duplication of international accounting standards (see AASB 1031, *Materiality*, December 2013).

<sup>67</sup> Australian Accounting Standard AASB 101, *Presentation of financial statements*, 31 December 2019, clause 7.

Because maximum fares for longer distance trips typically cost a lot more than trips for shorter distances and the maximum fares for longer distances are reducing by a greater amount, even a relatively small number of long distance trips can change the outcome significantly. Averaging ticket sales across several years is one way to deal with this variation. However, we have observed a general trend for most operators to report trips across a wider range of fare bands in more recent years.

Figure 7.2 shows the number of ticket sales across each fare band for all large operators, and that the distribution has changed substantially in the last two years. While 2018-19 and 2019-20 show a number of ticket sales in the mid-longer distance fare bands, 2016-17 and 2017-18 show none. As a consequence, applying an average distribution of patronage in each fare band over time, as opposed to a single year (eg 2019-20), is likely to lead to a substantially different estimate of revenue reduction.

**Figure 7.2 Distribution of patronage across fare bands – large operators**



**Note:** Based on aggregated data across all large operators.

Some sections showed no reported ticket sales in a given year, and so they are not shown on the chart.

**Data source:** TfNSW data, IPART analysis.

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### 7.2.3 Determining whether the reduction in fare revenue results directly from the change to fare policy

A reduction in fare revenue may be caused by a number of different events, some of which may be unrelated to the change in fares (for example, due to the drought, fires, or COVID-19). In order to qualify for a contract price adjustment, the decrease in fare revenue must result from the change to fare policy. The fluctuations in reported ticket sales suggest that there is likely to be significant variation in patronage as a result of other causes so it will be necessary to identify the reasons for a reported variation in revenue.

Some operators choose to charge fares below the maximum determined by IPART. Bus operators should not be compensated for any loss they suffer as a result of their own policy to charge fares below the maximum determined by IPART, either before or after a new fare determination. In the event that operators are not charging the maximum fares, it may be difficult for them to demonstrate that any change in revenue they have experienced results from the change in fare policy.

We understand that TfNSW has previously suggested there should not be any adjustment to contract prices if patronage has fallen following a reduction in fares. BusNSW considers the methodology proposed by TfNSW to calculate the adjustment, which includes a two-staged approach using boardings and revenue, does not meet the intent of the contract to compensate operators for a change to their fare revenue.<sup>68</sup>

We consider that even if operators' patronage has fallen, they may still meet the criteria for the contract payment adjustment as some of the fall in revenue may result from the fare change. However, by simply comparing fare revenue before and after the change, it is likely that not all of any observed reduction in revenue results from the change in fare policy. One way to ensure that these external impacts are excluded is to use the base year (eg 2019-20) patronage for both the before and after revenue estimation (as we have done for the indicative impacts in section 7.1<sup>69</sup>).

To the extent that 2019-20 patronage is lower than usual, using this data for both the before and after calculation (whether part of an average or on its own) runs the risk of undercompensating operators. However, our initial assessment of the data is that the 2019-20 data does not appear to be systematically lower than other years across the sample of operators we analysed given the wide variation in reported data.

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<sup>68</sup> BusNSW submission to IPART Issues Paper, August 2020, p 2.

<sup>69</sup> Our estimate in section 7.1 is an upper bound estimate as it assumes that all operators are currently charging the maximum fares.

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Using base year patronage to estimate future fare revenue may overestimate the impact of fare changes on operators if the reduction in fares stimulates additional bus use. This could be overcome by using actual revenue after the fare change as the comparator. However, if contract payments are adjusted to fully compensate operators for any reduction in fare revenue, operators have no incentive to promote the fare changes and raise patronage. The results of the Orima survey we commissioned on bus use suggests that awareness of the 2018 fare reductions was relatively low. We would like to see operators promote the fare reductions and to encourage this, it might be better to use base year patronage to estimate the revenue impact of the fare change. An expectation of the increase in demand based on the price elasticity could be added to the base year patronage to allow for a fare related change in patronage while retaining this incentive.

### 7.3 Summary of options for calculating material losses in fare revenue

We consider that the most appropriate options available for estimating the contract price adjustment involve decisions on the following:

**Materiality threshold** – this should take into account the underlying variation in reported data over time and as a result, may differ between operators.

**Base year fare revenue** – choice between actual reported revenue for 2019-20 or an average over the three years (2017-18, 2018-19 and 2019-20). The available data suggests that although 2019-20 is likely to be affected by a number of external events, anomalies in earlier data by fare band make 2019-20 the most appropriate option.

**Fare revenue after the fare change** – choice between using base year (historical) patronage to build up estimated fare revenue or using actual 2020-21 revenue. Our initial view is that the use of base year patronage for both the before and after calculation would ensure that external patronage drivers are excluded and has the added benefit of providing operators with an incentive to promote fare changes and mitigate their losses.

**Quantum of contract price adjustment** – TfNSW will need to consider whether the total value of the estimated change in fare revenue is used as the contract price adjustment. Other options include applying a demand elasticity to the base year patronage (so deducting an expected increase in fare revenue as a direct result of the fare changes).

We are interested in hearing from operators regarding their views on what the appropriate approach would be.

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## Appendix

## 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

## B Submissions received

We received 16 submissions in response to our Issues Papers. All non-confidential submissions are available on our [website](#).

**Table B.1 Submissions to our Issues Papers**

Submitter	Date received
Individual – B Stuart	8 July 2020
Ballina Shire Council	15 July 2020
Individual – Anonymous	15 July 2020
Individual – Anonymous	22 July 2020
Lismore City Council	4 August 2020
Individual – F. Honeyball	4 August 2020
Legal Aid NSW	4 August 2020
Kempsey Shire Council	5 August 2020
Individual – I Mondon	6 August 2020
Council for the Ageing NSW	6 August 2020
Combined Pensioners and Superannuants Association	7 August 2020
BusNSW	7 August 2020
Coffs Harbour City Council	7 August 2020
NSW Council for Social Services (NCOSS)	7 August 2020
Action for Public Transport NSW	7 August 2020
NSW Office of Advocate for Children and Young People (ACYP)	11 August 2020



## C Factors we must consider

What we must consider	Where this is addressed
The cost of providing the services	Draft report chapters 2 and 3 Information paper – The efficient costs of providing rural and regional buses
The need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers	Draft report chapter 6
The protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service	Draft report chapters 2, 3, 4 and 5 Information paper – Comparison of regional bus fares with similar services
The social impact of the determination or recommendation	Draft report chapters 2 and 5 Information Paper – Ensuring affordability of rural and regional buses Information paper – Maximising the community benefits of rural and regional buses
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	Draft report chapters 2, 3, 4, 5 and 6 Information paper – Maximising the community benefits of rural and regional buses Information paper – Impact of 2018 changes to maximum fares
Standards of quality, reliability and safety of the services (whether those standards are specified by legislation, agreement or otherwise)	Draft report chapters 2 and 6 Information paper – Comparison of regional bus fares with similar services
The effect of the determination or recommendation on the level of Government funding	Draft report chapters 6 and 7
The equity of current adult and concessional fares compared to Sydney metropolitan bus fares particularly for medium and longer distance journeys	Draft report chapters 3 and 6 Information paper – Comparison of regional bus fares with similar services
Number of fare bands and day capping and whether further simplification is recommended	Draft report chapter 3 Information paper – Comparison of regional bus fares with similar services Information paper – Impact of 2018 changes to maximum fares
Relativities between regional bus fares and coaches provided by NSW Trains taking into account service differences	Draft report chapter 3 Information paper – Comparison of regional bus fares with similar services
The development of on-demand services in regional areas	Draft report chapters 4 and 6, Information paper - On-demand transport services in rural and regional NSW
Customers' willingness and capacity to pay given demographics in urban and rural areas in regional NSW.	Draft report chapter 2 Information paper – Ensuring affordability of rural and regional buses