

**OPAL FARES**  
2020-2024  
**ON-DEMAND BUS FARES**

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Information Paper

Transport

December 2019

IPART has been asked to determine maximum fares and recommend appropriate pricing arrangements for on-demand transport services across NSW. This includes on-demand bus services within the metropolitan and outer metropolitan areas.<sup>1</sup> We will consider fares for regional on-demand bus services as part of our rural and regional bus fare review in 2020.

On-demand bus services allow passengers to book transport by bus from their home or a nearby collection point to a local transport hub or community centre. On-demand services could reduce the need to run more expensive fixed route services, and provide a ‘first and last mile’ public transport solution to replace car use and improve connectivity of the public transport system. This could promote greater use of public transport, which would contribute to revenue recovery across the network and reduce external costs, such as congestion and car pollution.

On-demand buses are a new initiative for the Government, which is currently conducting trials throughout the metro and outer metro bus regions. The trials allow the Government and operators to test service models, develop new booking technologies, procure and optimise fleet and market on-demand bus services to customers to build a passenger base. At this time, the Government is still reviewing the results of the trials and changing the scope and mix of on-demand services accordingly.

We recommend that maximum fares for on-demand services are set **at the same level** as the maximum single fares for the relevant mode of transport.

Currently there are a number of on-demand bus services. These services are charged a range of different fares depending on the services. Table 1 shows how our draft recommendations compare with the current fares for these services.

**Table 1 Draft maximum single fares for on-demand buses (\$)**

Distance (km)	Current Min (\$)	Current Max (\$)	IPART draft recommendation (\$)	Min. change (%pa)	Max. change (%pa)
0-3	\$2.60	\$3.20	\$3.20	0%	6%
3-8	\$2.60	\$4.60	\$4.60	0%	19%
8-20	\$2.60	\$6.00	\$6.00	0%	33%
20+ <sup>a</sup>	\$2.60	\$6.00	\$6.40	2%	37%

<sup>a</sup> Given the limited geographic area in which on-demand bus services operate, passenger trips are unlikely to exceed 20km.

Travel credits for multi-modal journeys are currently provided on a trial basis through the Opal Connect system, rather than introducing a \$2 transfer rebate for multi-modal journeys with an on-demand leg. We support this approach.

We recommend that on-demand bus fares are set consistently across regions and services for simplicity; however, there may be areas where on-demand buses are not the best transport solution.

<sup>1</sup> This does not include fares for the Government's Bykko electric bike share service operating in Newcastle. On 14 October 2019, the Government started an on-demand ferry service. Draft maximum fares for on-demand ferry services are the same as fares for other ferry services (see Draft Report).

## How we made our draft recommendations

In response to our Terms of Reference, we considered whether on-demand services should:

- ▼ be price regulated
- ▼ attract a premium over maximum fixed route bus fares
- ▼ be included in any public transport subscription-type packages
- ▼ be incorporated into the Opal payment system and whether they should be eligible for transfer rebates
- ▼ be priced differently depending on the type of service or purpose.

In making our draft recommendations, we aimed to provide the right incentives to government, operators and passengers to achieve the Premier's priorities and the objectives of our review. In line with these objectives, we have also developed criteria for the Government to consider when determining the appropriate mix of on-demand and fixed route transport services.

## Why should on-demand bus fares be set at the same level as fixed-route bus fares?

We consider that high-cost, low-patronage fixed route services should not simply be replaced by even higher cost on-demand services. Allowing the Government to determine the best type of public transport service within the bounds of a single maximum bus fare meets our objectives of ensuring fares remain affordable for public transport customers, remain predictable and transparent over time and encourage people to use public transport. It could also help integrate on-demand services within the broader public transport network and encourage passengers to view them as complementary services.

## Passengers and taxpayers should not pay more than necessary for public transport services

Basic on-demand services are a substitute for fixed-route services, where such services don't exist or are not meeting the needs of passengers currently. They often provide first and last-mile transport from trunk route hubs (such as train stations or bus interchanges), or points of interest (such as central business districts). The Government has found that many on-demand passengers have access to a car and would otherwise use a car (as driver or passenger) or fixed route services to get to their destination.

Where the Government identifies a public transport gap, the service should be provided at least cost to passengers and taxpayers:

- ▼ **Passengers** should not be penalised by paying higher on-demand bus fares when lower priced fixed route services are not available
- ▼ **Taxpayers** should not have to subsidise more expensive on-demand services, where providing fixed routes services may be cheaper. In particular, taxpayers include a large number of NSW residents living in rural and regional NSW that do not have the opportunity to use these services.

In addition, the external benefits specific to on-demand bus services are low. While some services are likely to replace cars on the road, congestion may not be as prevalent in suburban areas in which the services operate, as it is through more central areas. And car parking at stations is mostly a private cost. It may also disincentivise active transport, like walking or cycling, which has positive health benefits.

In 2017-18, the average cost recovery for metro and outer metro bus regions was around 34%, although this varies significantly between regions and within regions by route.<sup>2</sup> On-demand cost recovery varies currently between 4% to 21%, while the cost per trip varies from \$9 to \$63. We note that the trials include additional start-up costs associated with developing new technology, procuring fleet and marketing that would not necessarily be ongoing operating costs. However, for an on-demand bus service to be sustainable, its ongoing costs should be on par with, or less than, the cost of providing alternative services.

## Subsidising on-demand services too much could crowd out innovation in private transport services

While on-demand bus services are a substitute for driving in some cases, they are also a substitute for car share, ride share and bike share services. Since 2003, when car share company Goget first launched in Sydney, there has been a steady stream of car/ride/bike share disrupters providing first and last mile passenger transport solutions. These industries have mostly proven to be commercially viable and are growing. They may be better placed than government to provide more customised transport services for which customers are willing to pay more.

Where private providers are able to make a commercial return from offering passenger transport solutions that meet their needs, this innovation should be encouraged in line with our review objective of supporting innovation. Heavily subsidised on-demand services may discourage investment from private operators, which do not rely on government subsidies to be commercially viable. On-demand services should only be provided under Passenger service contracts where they are part of the public transport network. Other types of on-demand services that provide a premium service or an innovative solution to a gap in the transport network should not be provided as on-demand services under contract with the NSW Government and therefore fall outside Opal fares. **Appendix A** compares these services with on-demand and fixed route public transport services.

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<sup>2</sup> Information provided to IPART by TfNSW, May 2019.

## Pricing on-demand buses consistent with fixed route bus services would encourage seamless integration of the public transport network

Consistent and simplified bus pricing would help market on-demand services to customers as an extension of the current public transport network, rather than a service that competes with other car or ride share or bus services. This could encourage greater take up of on-demand services and is consistent with our review objectives of encouraging public transport use and ensuring fares are stable and predictable over time.

## Why should multi-modal discounts be offered through the OpalConnect system?

Allowing passengers to use Opal to pay for on-demand trips would encourage greater take-up of the services. This would assist in creating a seamless public transport network and promoting on-demand services as an extension of the current fixed route public transport system. This could encourage more patronage and greater cost recovery for Government. We consider that applying a transfer credit for multi-mode journeys made combining on-demand services with other public transport services would also encourage patronage and cost recovery.

## Transfer discounts for multi-modal journeys incorporating on-demand should apply through the Opal Connect system only

The Government does not currently apply the \$2 transfer rebate to the on-demand leg of multi-modal journeys. We recommend maintaining this approach.

Given the additional start-up costs associated with on-demand services, and that the Government is in the early stages of making these services viable, it seems counter-intuitive to offer a transfer rebate. Most on-demand services are currently priced at around \$2.60 to \$6.00 per journey, compared to \$2.24 to \$4.80 for an adult Opal card fare, or \$2.90 to \$6.00 for a single, adult ticket. Offering a transfer rebate would mean that passengers were barely contributing to the costs of the service, which would make it difficult for the Government to scale up these services to become viable.

However, we consider that transfer credits should be allowed for multi-modal journeys made in conjunction with on-demand services through the OpalConnect account-based system. This is consistent with our draft recommendation for fixed-route fares, and the Government's current policy of providing transfer credits through OpalConnect, where it is enabled for use on on-demand services. OpalConnect allows for accurate point-to-point journey pricing to be calculated and applied after completion of the whole journey. Where a passenger makes a multi-modal journey, a credit is applied to the account on reconciliation to be used towards future trips. Passengers would not be penalised for their mode choice, while contributing a fair and reasonable amount to the cost of the service.

## What are the customer and revenue impacts of our draft recommendations?

Currently, on-demand bus fares differ by trial area, but fares for the minimum distance band (0-3km) generally range between \$2.60 and \$3.20. Some regions have distance-based fare bands, while others have a flat fare for all distances. In regions that have distance-based fare bands, on average, around 50% of trips taken are less than 3km.<sup>3</sup> By the nature of the service, the maximum point-to-point distance that passengers are likely to travel ranges between 4km to 13km, except for the Northern Beaches, where it could be up to 15km.

Our draft recommendation gives the Government flexibility to leave fares constant or increase fares up to the maximum determined level. If the Government adopted the maximum fare allowable, most passengers travelling shorter distances (0-3km) would pay the same or marginally more. Passengers travelling longer distances would face higher maximum fares than their current fares. However, they would be no worse off, compared to catching a fixed route bus service. It would also allow the Government flexibility to market more customised products to customers as part of a travel pass system.

Table 2 analyses the impact of our maximum fare determination. **Appendix B** shows the impact of moving from current fares to maximum bus fares in each region.

**Table 2 Impact of our fare determination if maximum fares were charged**

Distance	Current Min	Current Max	IPART	Min change (%pa)	Max change (%pa)
0-3	\$2.60	\$3.20	\$3.20	0%	6%
3-8	\$2.60	\$4.60	\$4.60	0%	19%
8-20	\$2.60	\$6.00	\$6.00	0%	33%
20+ <sup>a</sup>	\$2.60	\$6.00	\$6.40	2%	37%

<sup>a</sup> Given the limited geographic area in which on-demand services operate, passenger trips are unlikely to exceed 20km.

## Are on-demand buses the best solution for all areas?

Where the Government has identified a public transport gap, there are a range of transport solutions it could implement, including on-demand, fixed route or community transport (services that transports passengers from their homes to community points of interest throughout the day). Which is the best service to suit the needs of passengers and taxpayers depends on a number of factors including the characteristics of demand, supply, geography and demographics of the area.

<sup>3</sup> IPART calculations based on TfNSW information, May 2019.

The Government has been evaluating its on-demand trials based on a range of criteria including:

- ▼ Service model
- ▼ Customer satisfaction
- ▼ Contract management
- ▼ Value for money
- ▼ Scalable delivery
- ▼ IT/software
- ▼ Safety.

Based on our analysis, on-demand bus services tend to be most successful where:

- ▼ They provide a 'point-to-hub' service – that is, they convey passengers to a high frequency trunk line through to a central business district, as opposed to various points of interest within the service area
- ▼ The service area is narrowly defined to be able to congregate passengers – reducing the number of rejected bookings and dead running kilometres
- ▼ The service is used mostly by full-fare commuters as a substitute for driving/parking or using a fixed route service
- ▼ The service is concentrated in peak times and can be scaled down (or not run at all) at other times.

For example, the Northern Beaches trial has higher levels of patronage and higher cost recovery (Box 1). In May 2019, the Northern Beaches trial was granted an extension to continue to build patronage and refine the service model with a view to establishing a sustainable on-demand bus service.

On the other hand, the Sutherland Shire service is frequented by a large proportion of concession passengers, including a large number of school children who use the service to get to extracurricular activities (Box 2). It serviced a broader area and transported passengers to various points of interest throughout the day. TfNSW recently announced the end of the Sutherland Shire on-demand trial.

### Box 1 Case study – Northern Beaches

On-demand services began for the Northern Beaches area in November 2017, coinciding with the launch of the ‘B-Line’ trunk route bus services. The service operate in two zones from Palm Beach, south to North Narrabeen and west to Chiltern Road in nearby transport hubs including Warriewood and Mona Vale. Keolis Downer runs the service under the brand ‘Keoride’ under a contract with TfNSW. Bookings are made using the Keoride App or over the phone. In February 2019, Opal Pay was introduced as a method of payment.



#### Current one-way fares (flat rate):

- ▼ Standard adult \$3.10 (65%)
- ▼ Concession \$1.55 (35%)

#### Hours of operation:

- ▼ Mon to Wed: 6am to 10pm
- ▼ Thu to Fri: 6am to 11:30pm
- ▼ Sat: 7am to 11:30pm
- ▼ Sun: 7am to 9pm

#### Patronage

- ▼ 25 trips per operational hour

Keoride Northern Beaches customers generally travel between their home and a transport hub, between peak hours of 6am to 9am and 4pm to 7pm on weekdays for the purpose of recreation/entertainment and work. If Keoride was not available, most customers would take the bus or a car (as passenger or driver).

Keoride passengers are primarily female, aged 30 to 59 and a mix of working full-time or retired. Two-thirds of passengers pay the full fare. 90% have access to car, and two-thirds are regular public transport users. TfNSW estimates that in 35% of trips result in a car not being driven.

In May 2019, additional vehicles were added to the fleet to meet growing demand and the operator was granted an extension to build patronage and adapt its software and fleet mix to optimise service.

**Source:** Information provided to IPART by TfNSW, May 2019; <https://transportnsw.info/travel-info/ways-to-get-around/on-demand/northern-beaches>, accessed November 2019.

### Box 2 Case study – Sutherland Shire

On-demand services began for the Sutherland Shire area in November 2017. They began in four distinct geographical areas around the Sutherland Shire district, including Jannali West, Sylvania, Caringbah and Gymea as a point-to-point service. However, in January 2019 this was aggregated to one large zone and the delivery model was changed to point-to-hub. In November 2019, the trial ended. Transdev Link ran the service under contract with TfNSW. Bookings were made using an App or over the phone.



#### Current one-way fares:

- ▼ Standard adult: \$2.60 (26%)
- ▼ Concession \$1.30 (74%)

#### Hours of operation:

- ▼ Weekdays: 7am to 7pm

#### Patronage:

- ▼ 9.4-10.9 trips per operational hour

Transdev Link on-demand customers travelled mainly between their home and a transport hub, throughout 9am to 6pm weekdays. Trips were largely for recreation/entertainment purposes. A high proportion of trips are concession, including school children using the service to get to extracurricular activities. If the service was not available, most passengers would walk to their destination. A third of trips were part of a multi-mode journey.

**Source:** Information provided to IPART by TfNSW, May 2019; <https://transportnsw.info/travel-info/ways-to-get-around/on-demand/sutherland-shire>, accessed November 2019.

## Appendix A – Comparison of public and private transport alternatives

**Table 3 Comparison of public and private transport alternatives**

Category	Name	Start date	Industry outlook	Ave cost per 5km trip <sup>f</sup>
On-demand bus	Eg, Keoride, BRIDJ, Transdevlink,	2017	n/a	\$3.10-\$4.30
Fixed route bus	-	-	Industry revenue forecast to rise at an annualised 2.4% to 2024-25 <sup>a</sup>	\$3.73
Ride share	Eg, Uber, UberPool, Ola, Lyft, Taxify, taxis	2012	Industry revenue forecast to rise at an annualised 15.0% to 2024-25 <sup>b</sup>	\$16.00
Car share	Eg, Goget, Car Next Door, Flexicar, Popcar, Drive My Car	2003	Industry revenue forecast to rise at an annualised 15.0% to 2024-25 <sup>c</sup>	\$16.98
Bike share	Eg, Lime, Mobike	2018	n/a	\$9.10
Taxi cabs	Eg, 13Cabs, Silver Service	-	Industry revenue forecast to rise at an annualised 1.6% to 2024-25 <sup>d</sup>	\$21.86
Car park/Park share	Eg, Divvy	-	Industry revenue forecast to rise at an annualised 6.2% to 2024-25 <sup>e</sup>	\$20

<sup>a</sup> IbisWorld, *Industry report X0024, Public Transport in Australia*, October 2019.

<sup>b</sup> IbisWorld, *Industry report OD5440 – Ridesharing Services in Australia*, October 2019.

<sup>c</sup> IbisWorld, *Industry report OD5063 – Carsharing Providers in Australia*, January 2019.

<sup>d</sup> IbisWorld, *Industry report I4626 – Taxi and Limousine Transport in Australia*, May 2019.

<sup>e</sup> IbisWorld, *Industry report S9533 – Parking Services in Australia*, January 2019.

<sup>f</sup> Based on a 5km trip ending at Chatswood CBD.

## Appendix B – Maximum fare impact table

Table 4 shows the annual average impact of transitioning on-demand fares in each current, trial region to the maximum level as at year 4 of our determination.

**Table 4 Maximum fare impact by current trial region**

Region (approx. max. trip distance)	Distance (km)	Current on- demand fare (\$)	Year 4	
			Our maximum bus fare (\$)	Average annual change (%pa)
Eastern suburbs (5km), Northern Beaches (15.5km), Inner West (5km)	0-3	\$3.10	\$3.20	0.8%
	3-8	\$3.10	\$4.60	12.1%
	8-20	\$3.10	\$6.00	23.4%
	20+	\$3.10	\$6.40	26.6%
Macquarie Park (13km)	0-3	\$2.60	\$3.20	5.8%
	3-8	\$4.30	\$4.60	1.7%
	8-20	\$5.60	\$6.00	1.8%
	20+	\$5.60	\$6.40	3.6%
Sutherland Shire (14km) <sup>a</sup>	0-3	\$2.60	\$3.20	5.8%
	3-8	\$4.30	\$4.60	1.7%
	8-20	\$4.30	\$6.00	9.9%
	20+	\$4.30	\$6.40	12.2%
Edmondson park (4km)	0-3	\$2.60	\$3.20	5.8%
	3-8	\$2.60	\$4.60	19.2%
	8-20	\$2.60	\$6.00	32.7%
	20+	\$2.60	\$6.40	36.5%
Central Coast (Woy Woy) (6km)	0-3	\$3.10	\$3.20	0.8%
	3-8	\$4.10	\$4.60	3.0%
	8-20	\$4.10	\$6.00	11.6%
	20+	\$4.10	\$6.40	14.0%
Illawarra (13km)	0-3	\$2.90	\$3.20	2.6%
	3-8	\$4.60	\$4.60	0.0%
	8-20	\$6.00	\$6.00	0.0%
	20+	\$6.00	\$6.40	1.7%
Lake Macquarie (12km)	0-3	\$3.20	\$3.20	0.0%
	3-8	\$3.20	\$4.60	10.9%
	8-20	\$3.20	\$6.00	21.9%
	20+	\$3.20	\$6.40	25.0%

<sup>a</sup> The Sutherland Shire trial ceased operating on 17 November 2019.

Source: TfNSW; IPART calculations.