



## NEW SOUTH WALES **PUBLIC TRANSPORT ADVISORY COUNCIL**

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The Chairman  
Independent Pricing & Regulatory Tribunal of NSW  
Level 2  
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Dear Professor Parry

### **2003 Fare Review for the Private Bus, Private Ferry and Taxi Services**

#### **Introduction & Background**

This timely review of the private bus sector needs to be commended. For too long, and despite government policy directions emphasising competitive neutrality, the private bus sector has not been the subject of IPART pricing reviews. (Unlike their government owned counterparts). This was clearly anomalous and required correction. The Public Transport Advisory Council was instrumental in providing advice to the Minister for Transport and the Department suggesting that this gap be closed. The Minister and NSW government should be commended for accepting this advice and issuing the IPART this important reference.

A key reason for why IPART needed to intervene in the private bus sector was to improve transparency and data collection. It is noted that the quality of data on the private bus sector remains poor and the sector lacks transparency overall. This view accords with the broad finding in the NSW Parliamentary Public Accounts Committee (NSW PAC) February 2002 review into the School Student Transport Scheme (SSTS). For example, Recommendations (1), (2), (3) (4) & (5) of the PAC Inquiry speak to the issue of transparency, accountability and the poor state of data systems in the private bus sector. IPART will be playing a vital role in subjecting the private bus sector to greater public scrutiny. To a large extent, IPART is filling the vacuum created by an absence of a rigorous performance assessment/accountability regime.

#### **Performance Assessment**

One of the most significant weaknesses of the private bus sector is its large-scale fragmentation and lack of transparency. According to the NSW Department of Transport, there are 145 private bus companies operating in NSW. Together they operate a fleet of just on 6000 buses. Of the 145 bus companies, nearly three-quarters run fleets of less than 30 buses.

There are more commercial contracts between the Department of Transport and private bus operators than there are private bus operators. The contracts are not open to public inquiry and scrutiny. The system lacks transparency and scrutiny, an opinion shared by the NSW Public Accounts

Committee. Little attempt has been made to remedy this situation. Unfortunately, there exists no rigorous performance assessment regime (PAR) for the private bus operators. The sector is not subjected to competitive tendering pressures. It operates according to historical practice. Users and the community are faced with the worst of both worlds – no competitive pressures and no substitute benchmarking or performance assessment system.

Despite repeated undertakings by Department of Transport officials, movement on the PAR is glacial at best. This situation can no longer continue or as has been suggested, conveniently obfuscated with suggestions of a wider bus reform program. The bus reform effort has so far produced nothing of meaning - nor is there anything in the offing in the medium to long term.

A firm commitment and timetable for change needs to be established, including if necessary, establishing a transitional Performance Assessment Regime prior to embarking on a broader program of reform. The IPART should not be tolerating any further delays in the establishment of a performance review process, particularly given that in the 2001 and 2002 reviews, similar claims for impending change were made. Failing the establishment of a Performance Assessment Regime the sector should be subjected to competitive tendering. The commuter/user must be confident that private bus contracts reflect contemporary needs and service expectations. This must be achieved either through competitive market forces or through a comprehensive benchmarking/performance assessment system. The lack of either is now unacceptable.

**Recommendation: That IPART intervene to set down a clear and precise timetable for the implementation of a comprehensive Performance Assessment Regime for the private bus sector. Failing the timely introduction of a PAR system, the private bus sector should be subjected to competitive tendering.**

### **School Student Transport Scheme**

Part Two of the IPART Inquiry Terms of Reference requires IPART to investigate the remuneration received from government and provided to the private bus sector for transporting school students (i.e. the SSTS). This funding clearly provides a major fillip to the private bus sector.

According to the Transport Data Centre, 30% of all bus trips on an average weekday on private buses are for school services. This compares to 6% on the government bus network. 55% of all users on private buses are school children and 44% of all fares used are school passes. (The comparable figures for the government network are 19% and 17% respectively). Clearly, the private bus sector is highly dependent on the school run and the cost of the school run is expensive for government.

According to IPART, the cost of SSTS to the private bus sector was \$331 million in 2001/02 . The PAC reported that the total cost of the SSTS was \$416 million in 2001/02, leaving 80% of all SSTS payments being awarded to the private bus sector.

The SSTS system is in desperate need of major reform, a conclusion also drawn by the NSW Public Accounts Committee. The NSW PAC found in relation to the SSTS, the following:

In 45% of non-commercial contracts, there existed variances between the contracted time and actual time taken to deliver students to and from school.

In 2% of non-commercial contracts there were differences between contracted distances and actual

distances travelled.

The likelihood that commercial contract bus operators are being paid for students in excess of actual usage – the phenomena of so called “phantom riders”.

A rise in private vehicle passenger trips to school from 41% in 1991 to 51% in 1999. Poor paper based systems and databases that inhibit effective cost management of the SSTS program. That evidence existed that the SSTS was a defacto subsidy of the less profitable routes of some bus operators.

The PAC also found that a key driver of the increased cost of the SSTA was the real increase in fares charged by commercial operators. This helps to explain the rise in the cost of the SSTS program from \$264 million in the early 1990's to \$416 million today. A vicious circle characterises the SSTS – as fares go up, so do the subsidies. The system punishes both the user and taxpayer. It is extraordinary that the system has been allowed to remain unchallenged for so long.

The IPART would be well placed to recommend sweeping reform of the SSTS. At a minimum, like the PAR, IPART should be setting down a precise timetable for reform. In the first instance, the IPART should recommend the suspension of SSTS payments to operators pending a formal commitment that they subject themselves to an audit of usage. Payments could then be reintroduced once such an audit has been completed. Fair and appropriate consideration for longer term reform could then take place, including evaluation of proposals such as scrapping the scheme altogether and replacing it with a top up to the back to school bonus to parents (ie a voucher system), or alternatively direct funding of schools to manage their own school transport contracts. Models are also evident from New Zealand where local communities are paid for promoting public transport and are given performance rewards for extra patronage.

Considerable savings are available to taxpayers from reform of the SSTS. According to the PAC, there is evidence to suggest that usage rates could be as low as 50%, compared with SSTS payments based on usage rates of 77% in metro areas and 79% in non-metro areas. This suggests savings up to 20% on current SSTS payments could be realised or about \$80 million based on 2001/02 figures. By anyone's measure this is a substantial saving that could be utilised by the NSW government in the public transport task.

**Recommendation: That the IPART set down a timetable of reform to the SSTS and that, in the transition, SSTS payments to operators be suspended pending a commitment to undertake an audit of usage.**

### **Pensioner Excursion Ticket**

The terms of reference for the inquiry required IPART to consider the ticketing products of the private bus sector vis a vis the government operators. Without a doubt, the greatest anomaly exists between the Pensioner Excursion Ticket (PET) (colloquially know as the “dollar dazzler”) available on STA services and the lack of a similar concession available on private buses. In the year 2002, the competitive neutrality principle has not extended to concessional travel on public transport served by non-government operators.

It is simply unfair and inequitable that a pensioner can travel from Pittwater to Parramatta or from

Mosman to Double Bay, at a cost of \$1.10. Contrast this with the pensioner travelling from Green Valley to Liverpool or Toongabbie to Blacktown who is required to pay half the adult ticket price. There can no longer be any excuse for this type of anomaly.

In Sydney's Greater West (the region largely covered by private buses), persons aged 65 years or over now make up just over 9% of the population. The profile of Sydney's Greater West is ageing at a rate greater than the Sydney metropolitan area as a whole. Between 1991 and 2001, in Sydney's Greater West the population aged 65 years or over grew by an average of 2.9% per annum, compared with 1.8% for the Sydney statistical division as a whole. In 1981, 24% of all Sydney residents aged 65 or over lived in Sydney's west. By 2001, this share had grown to 33%.

It is simply inexcusable to deny one third of Sydney's pensioner population concessional travel purely because they live in areas serviced by private buses.

Nor are the suburbs serviced by private buses wealthier in relative terms. The IPART discussion paper highlights the point that median household incomes in the STA catchment are well above those in the private bus catchments. Not only is the community in Sydney's West ageing faster it is also poorer. There can be no basis in welfare to the current PET arrangements.

It is recommended that the current PET be abolished and a flat \$2.20 PET (including GST) be introduced to cover the whole Sydney area, including those areas serviced by private operators. Further, usage of the PET would be restricted to operating hours outside the peaks. And, unlike the current arrangements, (which has seen the PET remain unchanged since 1988 other than for the GST), IPART would be given a mandate to review the fare on an annual basis as part of its fare review process.

Estimates undertaken by the Public Transport Authority suggest that a \$2.20 PET fare would be cost neutral to government (including implementation costs). It is also noted that the equivalent PET fare in Melbourne is \$2.55. A \$2.20 PET is widely supported by commuter and pensioner groups in Western Sydney, an observation noted by the Public Transport Authority during its consultations.

In order to avoid the type of problems faced with the SSTS, it is recommended that the systems supporting a wider PET be comprehensive and thorough. The implementation of Integrated Ticketing will assist, however, some type of transitional system should be introduced without delay. Delays in the commencement of Integrated Ticketing should not be held up as an excuse for why a \$2.20 PET can not be introduced sooner rather than later. Introduction of the PET should not fall into the same reform abyss as that of the Performance Assessment Regime.

**Recommendation: That the current \$1.10 Pensioner Excursion Ticket be abolished and replaced with a new \$2.20 fare that extends to all of greater Sydney and includes private bus and ferry operators. Usage of the PET would be restricted to non-peak periods.**

## **Conclusion**

The IPART review of private bus fares is welcomed. It provides an opportunity to open the private bus sector to greater scrutiny and to test the contract and fare system. The decision to hand private bus fare pricing to the IPART is a considerable advance on the previous process under which fare adjustments were the prerogative of Department of Transport officials. A greater level of transparency is ensured.

Nevertheless, the private bus system remains a muddled and tangled web. Several parts of the system require reform, namely the SSTS, Performance Review and concessional travel. These areas of policy are the products of history, rent seeking by industry players and regulatory capture. It is hoped that the IPART review will shine a light on these practices and trigger a process of much needed reform. This submission has been prepared with this in mind.

Alex Sanchez

A handwritten signature in blue ink, appearing to read 'A. Sanchez', with a stylized flourish at the end.

*Chairperson  
NSW Public Transport Advisory Council*