



IPART Draft Report – Review of Rural and Regional Bus Fares from January 2021

BusNSW Submission

30 October 2020

Review of Rural and Regional Bus Fares
Independent Pricing and Regulatory Tribunal
PO Box K35
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Dear Tribunal Members,

Thank you for the opportunity to comment on the Paper from the Independent Pricing and Regulatory Tribunal (IPART) on the **Review of Rural and Regional Bus Fares from January 2021**.

BusNSW is the peak body for the NSW private bus and coach industry. Our mission is to foster the efficient and sustainable growth of public transport in NSW and in doing so, to promote the benefits of bus and coach transport.

A significant portion of BusNSW's members operate regular passenger and school services in regional NSW under Transport for NSW (TfNSW) *Rural and Regional Bus Service Contracts (RRBSC's)*. These contracts include a schedule of services underpinned by an Annual Contract Price (established from efficient benchmark costs) and a performance regime to ensure that taxpayers receive value for money. The contracts include key performance indicators that require operators to meet targets relating to punctuality, customer service, bus maintenance and several other measures.

BusNSW members are also involved in providing on-demand transport via the TfNSW pilots and under bus contracts. Finally, BusNSW members are involved in the provision of regional coach services under NSW TrainLink contracts which operate along corridors where the railway line has been closed to passengers or as a supplement to rail services.

BusNSW made a detailed submission in August 2020 in response to IPART's Issues Paper on the Review of Rural and Regional Bus Fares. BusNSW also participated in IPART's recent public hearing on the issue. The comments in our current response reflect the views we outlined in the hearing.

BusNSW generally supports IPART's *draft decisions* to:

- **reduce maximum fares** – supported based on making fares more affordable and consistent with other government provided transport services, particularly for longer distance trips.

- **introduce higher maximum fares for “peak” services** – supported based on period applicable to determination, though it is unlikely that operators will use higher fares for peak services, given the complexity and other options available to manage demand.
- **reduce daily ticket fares and reduce the number of tickets available** – supported, though take up by customers is expected to remain low, unless the daily fare is less than a return fare for the respective fare band and this is marketed well.
- **reduce maximum fares for on demand services plus up to a maximum of \$5 for a single adult fare** – supported based on making fares more affordable, particularly for longer distance trips. Though it is unlikely that a premium could be charged where an on-demand service replaces a fixed route bus service. Given the higher cost to operate on-demand services there is likely to be an increase in government subsidy required to support the provision of on-demand services, though this may result in other benefits.
- **reduce maximum fares for daily ticket incorporating on demand services plus up to a maximum of \$10 for daily adult fare** – supported based on making fares more affordable, particularly for longer distance trips. The same issues applicable to a premium on a single fare apply.

The BusNSW support for reduced fares is based on a methodology being agreed with TfNSW that provides operators with fair and reasonable compensation for a material change (reduction) in fares.

The RRBSC includes clause 4.8 *“Price Adjustment Due to a Material Change in Fares”*, in Schedule 3, which requires that where a change in Government Fare policy results in a material change in 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. This clause is intended to address the material change in fares and subsequently fare revenue and does not mention the use of boardings to determine if an adjustment should be made.

Regular passenger boardings on RRBSC services have reduced significantly during the COVID-19 pandemic, which is obviously outside of an operator’s control. The current methodology proposed by TfNSW would mean the operator receives no compensation for reduced fares during the COVID period, whereas the methodology should allow operators to maintain the same fare revenue that they would have received if fares had not been reduced in March 2018, based on the lower level of patronage.

With the possibility of further changes to fares resulting from the current IPART review of maximum fares that bus companies can charge for services from January 2021 to December 2025, the difference between any new fares and the original fares could be multiplied by actual patronage to establish the material changes in fare revenue. The premise of this methodology is that operators should receive what fare revenue would have applied if there was no change to fares, based on any fluctuation in actual boardings.

BusNSW is seeking for TfNSW to review its proposed methodology and adopt a formula that determines a material change in fare revenue based on the “material changes in fares” and actual boardings. The agreed methodology should apply for fare changes from March 2018 and any future fare changes.

BusNSW’s responses to the 11 *draft recommendations* identified in the IPART Draft Report are outlined below.

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.

BusNSW supports this provision based on a proper cost-benefit analysis and a consideration of the operational efficiencies provided by having the same operator for on-demand and fixed route services in an area. The use of a transparent cost-benefit analysis and methodology to value social inclusion benefits would assist operators to identify new locations for on-demand services and ensure different communities are treated equitably.

Experience has shown that on-demand services require a degree of trial and error to find the right level of service and integration with other transport services in each community. As a result, on-demand services need to be considered in the context of a broader network review where existing transport services are taken into consideration. Failure to do so can cause considerable problems within the local community.

On-demand services should not be viewed in isolation, but as part of an integrated transport network. On-demand services could, for example, be considered for:

- First and Last Mile transport to/from transport hubs and customers' homes (or close to home)
- End-to-end journeys that are currently provided in a sub-optimal manner (in terms of service frequency, travel time, multiple interchanges etc.)
- Local trips that are currently not well serviced (e.g. shorter journeys to attractors)
- Regions or routes where off-peak services are sub-optimal (e.g. late evening services).

Existing rural and regional bus contracts provide an instrument for TfNSW to obtain efficiencies by utilising the existing fleet and to make variations to existing fixed route bus services to support on-demand services. TfNSW can achieve this using a service variation by way of written notice to the operator.

There is also a need to take ticketing, vehicles, and safety factors into consideration for on-demand transport. On-demand ticketing and fares must be considered in the context of existing ticketing and fares within the local area, to maximise the convenience for passengers transferring between different service types. Where an on-demand service is providing transfers to a fixed route bus service, coordination is generally most effective when the same operator is providing both services and there is communication between vehicles.

The significant school transport task in rural and regional areas also needs to be considered in this context. Many of the buses that provide school services in rural and regional NSW are larger than those generally used for on-demand transport. The current capacity to carry students to and from school would potentially be lost if smaller vehicles are used for on-demand transport. If the bus fleet used for school and fixed route bus services is not used for on-demand, it essentially means creating a duplicate on-demand fleet specifically for that purpose.

Finally, safety considerations should be paramount in the provision of on-demand services. As a condition of bus operator accreditation in NSW, operators are required to maintain stringent safety conditions including vehicle maintenance plans, safety management systems, twice yearly heavy vehicle inspections, bus drivers holding a specific authority, etc. These same conditions

should apply to on-demand operators using vehicles with more than 12 seats to ensure that the same level of safety is provided as TfNSW contracted fixed route bus services in regional areas.

2. Transport for NSW expands the availability of concession fares to NSW residents holding a current Commonwealth Health Care Card.

BusNSW supports this recommendation. People on low incomes who may be working infrequent or few hours are often eligible for Commonwealth Health Care Cards, which includes students, carers and people who are not well enough to work full time. People who are underemployed can also access Health Care Cards and enabling access to transport for those who are underemployed can assist with their continued participation in the workforce.

BusNSW does not have access to the data necessary to determine the impact of this measure on fare revenue, though operators would need to be compensated through an agreed process for any loss in fare revenue that occurs as a result of the broadening of concession eligibility. As outlined in IPART's Draft Report, some bus operators are still awaiting compensation for the loss of fare revenue that resulted from changes recommended by the 2017 IPART review of rural and regional bus fares.

3. Transport for NSW simplifies the concession fare application process for rural and regional bus travel.

BusNSW support this recommendation. BusNSW acknowledges that concession fares in NSW are largely available to people with access to the full rate of Centrelink benefits and that eligibility for concessions could be extended to target those people who are in the workforce but on low incomes, as these people can also be considered economically disadvantaged. Any improvements to the process whereby disadvantaged groups may obtain concession cards more easily are to be commended.

In its Draft Report, IPART suggests two possible ways the concession application process could be improved:

- a) Allowing Transport Concession Entitlement cards to be issued at Service NSW Centres, or
- b) Allowing the purchase of a concession ticket on presentation of a Commonwealth Health Care Card and photo ID.

BusNSW supports the most convenient option for the eligible customers to access concession fares. Option (b) provides a much simpler and more convenient path to achieving the desired goal.

4. Transport for NSW considers implementing additional measures to assist vulnerable people.

Again, we support this IPART recommendation aimed at improving the accessibility of public transport for those groups within society who find public transport unaffordable. As noted in the IPART Draft Report, many rural and regional bus operators already provide discounted tickets to community service organisations and charities, at their own cost. A broadening of this

individualised approach via formal government policy is supported, based on operators being compensated where there is a policy change that results in a loss of fare revenue.

If community organisations are involved in administering tickets for vulnerable persons, it will be important that they work with the local operator to ensure that there are no travel issues for the ticket holder or impacts on other customers. BusNSW recommends that travel training be provided for the user and drivers with the aim of providing a positive travel experience.

5. Transport for NSW considers targeted options for making family travel more affordable.

BusNSW supports this recommendation. Operators would need to be compensated through an agreed process for any loss in fare revenue that occurs as a result of the broadening of concessions to families.

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.

BusNSW does not support this recommendation. The framework outlined by IPART in the Draft Report assumes there are opportunities to improve patronage and reduce costs by adding on-demand components. The decision to provide permanent on-demand bus services in regional NSW is currently being determined as a result of a successful pilot.

In developing a proposal for an on-demand transport pilot and during the operation of a pilot, the bus operators involved have provided significant input and resources. BusNSW supports any on-demand service resulting from a pilot being incorporated into the operators rural and regional bus service contract, where their Annual Contract Price can be varied with consideration of the permanent on-demand service and any changes to existing fixed route services.

As outlined in our response to Q1, we believe that on-demand transport needs to be considered as part of an integrated network, and that the local bus operator, who understands the operating environment, the needs of the local community, has operational experience, and who is accredited to provide public passenger services, is best placed to deliver on-demand services. Existing rural and regional bus contracts provide an instrument for TfNSW to obtain efficiencies from utilising the existing fleet and to make variations to existing fixed route bus services to support on-demand.

Competitive neutrality is a critical issue. BusNSW has received reports that some transport providers have used volunteer drivers to provide on-demand services. Not only do bus operators pay their drivers the wage rates required under their contract, all bus drivers must, in addition to a Heavy Vehicle licence, hold a formal Bus Driver Authority issued by TfNSW as evidence that they are competent and of suitable character and fitness to operate a public passenger service.

Similarly, the *Bus Operator Accreditation Scheme* (BOAS) requires the operator to maintain stringent safety and bus maintenance standards. Under the Passenger Transport Act, BOAS only applies to operators of “buses”, defined as vehicles with more than 12 seats (including the driver). Any consideration of competitive neutrality and pricing between bus operators and

“appropriate non-bus operators” must take these legislative issues into consideration. Customers using on-demand services should be able to expect the same level of safety as that provided on a TfNSW contracted fixed route bus service.

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.

BusNSW does not support this recommendation. This view is based on an assessment of the pros and cons of using a competitive tender process for rural and regional bus service contracts.

The current TfNSW procurement process includes the benchmarking of efficient costs, which ensures that the cost of providing services under contracts is a fair market outcome. We also consider that the costs involved in tendering 663 contracts across rural NSW would be significant and with little real benefit. The majority of the 663 contracts relate to small school bus operators, often in remote areas. These operators are an integral part of their local communities and have generally been servicing these communities (and their local schools) over many decades.

In many remote areas, the current bus operator may be the only transport operator. Opening such contracts to tender may result in operators increasing their costs beyond that currently controlled by the contract (via benchmarking). The likely lack of competition for contracts in such areas could ironically increase the cost to Government of operating bus services in these areas.

There are academic studies and evidence from other jurisdictions around the world which demonstrate that governments can design and conduct a negotiated contract renewal process that maximises the opportunity for industry (representing incumbent operators) to respond in an innovative way. The provisions in the current contract, which give the operator a first right to negotiate a new contract, provide an opportunity to maintain stability for communities across regional NSW by contracting operators who have local knowledge and have made long-term investments that support their local communities.

Rural and regional contracts are of a different nature to Sydney metropolitan contracts. Rural and regional contracts have different end-of-term provisions for buses. For example, rural and regional buses procured before 2016 are controlled by the bus operator and not subject to transfer provisions. Some of these buses have TfNSW equipment used for the Transport Connected Bus program installed on them which could be problematic if a bus was not transferred following a tender. Further to this, some of these buses have had seatbelt retrofits at a significant cost to government.

There are also genuine safety concerns associated with public passenger services being operated by “appropriate non-bus operators”. Currently, under the NSW Passenger Transport Act, operators providing public passenger services in buses with more than 12 seats require formal accreditation with TfNSW. The principle purpose of the *Bus Operator Accreditation Scheme* (BOAS) is to ensure safe and reliable passenger bus services to the travelling public, and a rigorous process is applied to ensure bus operators meet the higher standards of safety for both passengers and drivers. BOAS requires the implementation of a range of safety and reliability

systems including drug and alcohol programs; safety management systems; driver health monitoring programs; and vehicle maintenance management systems.

BOAS is assured via stringent requirements including an independent audit within the first 12 months of accreditation and every three years after that date. It is essential that such requirements be maintained in NSW and BOAS should be a pre-requisite for operating public passenger services in NSW, including on-demand transport services.

- 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.**

BusNSW generally supports this recommendation. The current “net cost” contracts disadvantage bus operators who, due to the nature of rural and regional transport and the structure of the contracts, have very limited ability to influence patronage. Rural and regional bus operators are also disadvantaged by events beyond their control, such as the bushfires in early 2020, and the current COVID-19 pandemic which have both led to a decline in patronage and fare revenue.

As noted in the IPART Draft Report, many bus operators are still awaiting an adjustment to their Annual Contract Price by TfNSW for the decline in fare revenue arising from the 2017 IPART review. An equitable “gross cost” contract would go some way to remedying this situation.

- 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, e.g. route and frequency); and that they encourage operators to provide these services in a cost-effective way (e.g. in terms of vehicle size, age, etc).**

Under current RRBSC’s, operators are required to operate bus services “effectively and efficiently”. Notwithstanding this clause, it is acknowledged that TfNSW has effective control of service planning (route and frequency) under the contracts and any operator request for a service variation is subject to TfNSW’s approval, which may be withheld at TfNSW’s absolute discretion.

Current bus contracts are relatively inflexible when it comes to proposed changes in services, with operators required to apply to, and receive formal approval from, TfNSW for even minor changes to services. Often, such applications are rejected by TfNSW, particularly where there is an additional cost for government.

The RRBSC has provisions for service variations that facilitate for an operator to introduce changes including a new Bus Route, which is often supported by research and service development work. Unfortunately, there is little incentive for operators to consider service variations that provide customers benefits due to the low approval rate and the risk of any new Bus Route being put to tender after a short trial period.

A more effective and transparent method is needed to ensure that bus service changes are responsive to opportunities in regional areas. Any changes to the contract and network review process which promote shared responsibility between bus operators and TfNSW, and incentives relating to service delivery, would be welcomed.

TfNSW also controls the procurement and funding of buses, including the type of bus (School bus or One Door Urban Bus) and the size of the bus (Category 1, 2, 3 or 4).

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.

BusNSW supports this recommendation but only for KPIs where the operator has genuine control over the outcome. TfNSW collects data from operators based on the contract reporting schedule (Schedule 5) and could potentially publish an annual review of operator performance.

There are meaningful KPIs that could be compared and BusNSW would welcome the opportunity of working with TfNSW to develop such indicators of comparative performance.

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.

BusNSW strongly supports this recommendation. Operators currently use a number of third-party providers to supply and maintain electronic fare collection systems, and many of these systems are approaching the end of their lives. Suppliers of such systems have also advised that they will be ceasing support for such systems.

There are two ways of addressing this issue. TfNSW could either:

- a) Outline the specifications for a fare (ticketing) management solution and allow operators to install ticketing systems that meet these specifications, or
- b) Procure and roll-out a state-wide fare (ticketing) management solution

Regardless of whichever option is chosen, operators need urgent direction from TfNSW regarding a ticketing management solution before investing in a new company specific ticketing system. Further to this and depending on the government's position, operators need to understand how future contracts will allow them to amortise the substantial cost of a new ticketing system, should this be required.

A fare (ticketing) management solution for regional NSW that facilitates Contactless Transport Payments would provide greater flexibility with fare structures and the possible alignment of distance-based fares to those that apply in Greater Sydney (Opal network). The introduction of such a solution would also provide an opportunity to use standard fares, rather than maximum fares, which would ensure that all customers in regional NSW pay the same fare for the distance travelled.

Thank you for the opportunity to make a submission. Should you require further information on any part of our submission please do not hesitate to contact me on (02) 8839 9500.

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