

Action for Public Transport (NSW)
www.aptnsw.org.au

PO Box K606
Haymarket NSW 1240
actionforpublictransport@hotmail.com

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The Chairman
Independent Pricing and Regulatory Tribunal of NSW
Level 8, 1 Market St,
Sydney NSW 2000
PO Box Q290
QVB Post Office NSW 1230
Ph. 9290 8400
Fax 9290 2061
ipart@ipart.nsw.gov.au

Dear Mr Boxall,

Supplementary Submission
Review of fares for metropolitan and outer metropolitan bus services
from January 2014

Thank you for allowing us the extension of time to prepare a Supplementary Submission on the Bus Fares Issues Paper for the above review. Our submission is attached. These comments are in addition to those presented in our earlier submission dated 8th June 2013, and our two submissions should be read together..

The current regime of bus fares dates from late 2009 when IPART set a four-year pricing path for fares covering the years 2010 to 2013. This was a rather challenging period during which the MyZone fare system was introduced (April 2010) and there was a change of government (March 2011). The current determination expires in December 2013.

We have no objection to this submission being made public.

Yours faithfully,

Allan Miles
Secretary
Action for Public Transport (NSW)

Action for Public Transport (NSW)

Supplementary Submission: response to IPART's Issues Paper on review of bus fares for metropolitan areas.

Issue 1 - seeks confirmation that IPART base its determination of fares on an assessment of costs and benefits of providing bus services in the four largest contract regions (STA regions)?

This Issue captures IPART's proposed approach¹ (p.13); it has two parts:

- (i) apportioning the share of costs to be met through the farebox following its assessment of costs and benefits; and
- (ii) deriving the above assessment from the four contract regions.

APT's first submission confirmed its support for using the four contract regions (ii). It treats all contract regions in the same way - the providers servicing many routes in a high density and congested part of Sydney and providers operating a few routes and services in relatively uncongested urban areas.

As a supplementary point, APT now comments on the first part (i) of this Issue.

APT considers that the crux of this issue is the efficient and effective use of road space rather than merely the flow of vehicles, and the ability of people (and freight) to gain access and connect with places and other people, as described in the Draft Metropolitan Strategy for Sydney, Chapter 7 and Objective 24). Access to other places translates, of course, to access to jobs and services. The consequences for productivity, for the health of regional and local economies, and the well-being of individuals, the community and the environment, are profound.

These factors fully justify a long-term policy commitment to modal shift, from private car use to other modes. This can be achieved by integrated land use and transport planning, pricing, education, and taxation reform.

Given IPART's report that there has been an overall decline in the proportion of costs recovered through the farebox (p.23 and Table 5.1 p. 24), readers expect IPART to be justifying a fare increase plus the political intentions (Saulwick 2012).

APT considers that there is no basis for deciding a priori what proportion of total contract costs should be met through the farebox and what proportion through taxation transfers; this view is supported by the PROCEED Guidelines (2007). Something of the order of 25- 40:75-60 seems to be a pragmatic likelihood on the

¹ IPART (2013), *Review of fares for metropolitan and outer metropolitan bus services from January 2014. IPART's proposed fare setting approach. Transport - Issues Paper.* www.ipart.nsw.gov.au

history of Sydney's bus fares and a few comparisons with other cities. This relates to the pricing principle of 'consistency with existing fares' (p.30). It seems that the endeavour is driven by IPART's assumption that the benefits of public transport accrue largely to its passengers, and its limited recognition of the external benefits of moving people on shared services (mass transit) rather than individual vehicles. This point is discussed later.

Before raising fares, APT urges IPART to consider the practical effects of fare increases so as to retain the affordability of bus travel (in the short- and longer-term) across the contract regions, and enable promotion of an increase in mode share of bus (and public transport) travel to be effective. There is a strong public policy case for government funding of bus services in the metropolitan area.

The section headed "IPART's proposed approach" (p.13) refers to ". . . drawing lessons from IPART's CityRail and Sydney ferries' fare decisions". First, we ask, what lessons did IPART draw? Perhaps they could be spelled out in its draft report.

Secondly, APT notes that bus services differ from rail and ferry services. Particularly in outer metropolitan areas where no other public transport is available, bus services overcome the barriers of geographic accessibility by being routed through industrial and residential developments that are not within easy walking distance of a train or railway station or ferry stop. In fact, some services provide a level of demand-responsive service in picking up and setting down along the route in accord with the service planning guidelines for contract regions. The very dispersal of the bus network enables people to gain access to places (trip generators) or to interchange with other modes of transport. This distinctive characteristic of buses - their greater route flexibility - may limit the suitability of IPART's inference that the approach for rail and ferry fare determinations is suitable to the current bus fare determination, at least without some modification. Perhaps such modification is achieved by the use of the four bus contract regions, despite the spread of contract costs shown in Table 3.1 (p.15, and p.14) - is that the case? Later, we comment that such higher contract costs may be offset by external benefits not currently recognised in this Issues Paper.

Issue 5 - We propose to allocate the efficient costs to be recovered from passengers and taxpayers on the basis of the external benefits of bus services in the 4 largest contract regions. Do stakeholders agree with this approach? (p. 24-25)

APT's submission responded affirmatively to the use of the four largest contract regions as the study area, but does not agree with IPART's approach to the identification and assessment of external benefits of bus services.

As a supplementary point, APT notes that the external benefits of bus services are greatly underestimated by IPART and its consultants.

APT is aware that over many years IPART has faced criticism of its approach to external benefits of public transport, including bus services, and has endeavoured to respond. The criticisms are of several kinds:

- a) How IPART estimates additional private car trips in the hypothetical case of excluding bus services
- b) That IPART unduly limits the range of external benefits of urban bus services, resulting in their under-valuation and use as a flawed rationale for a higher share from the fare box
- c) That IPART excludes social benefits (and its rationale about concessions is inadequate), and other benefits, notably: the avoidance of traffic accidents (vehicle damage and delay time, injuries and fatalities) and health benefits from walking to the bus stop.

Section 5.2, backed by the commissioned report by LECG (2009), identifies the factors accepted as contributing to external benefits of bus services and provides a monetised cost. The analysis commences, in the Executive Summary of the LECG (2009: 1) report, with two assumptions in conventional economics: travel by bus or car ("private automobile transport") is a matter of consumer choice, as if car travel is available to all and the choice informed by private valuation, as if it were rational (without acknowledgment of how the fixed cost of car ownership and subsidised car parking and taxation (NB Henry report) all distort true cost pricing of urban transport). Empirical research in Australia (McKenzie & others) has amply demonstrated the fallacy of presuming that the private valuation of the cost of driving, including the comparative travel times, is rational - contrary to the presumptions being made in the LECG 2009 report (e.g. p.1,3).

To meet the needs of people for mobility and accessibility in urban areas, public transport needs to be provided as a universally available service rather than seen as a residual service for the poor and car-less. In fact, over the last decade within inner Sydney the advent of car-sharing services has enabled more households to become 'car-free' and rely more heavily on public transport, walking and cycling.

The LECG Executive Summary (p.1-2) suggests that a 'road pricing system' would theoretically solve the transport efficiency problem. For urban areas, however, the allocation of land is more critical than use of the actual road reservation - something like 35% or more of the urban area was estimated to be allocated to roads and surface car parking areas. These areas add to the energy costs of cities. Further, car parking is incorporated into buildings and car parking facility costs are not funded through user fees. Thus in addition to 'road' pricing Sydney would also need a metropolitan wide parking policy that starts to reflect efficient pricing

principles. And of course, we would need to also work toward economic neutrality if we were committed simply to market principles.

Todd Litman (2007), a Canadian transport economist, concurring with an EU report (1996) on fair and efficient transport pricing, wrote: "*More optimal transport markets, with efficient road and parking pricing and more neutral planning practices are likely to increase total benefits while reducing total vehicle travel*". This approach seems to be informing the chapter on transport in the Draft Metropolitan Strategy for Sydney (2013).

We note the LECG cites (p.54) an earlier paper of Litman as co-author (Maddison & others 1997) and commend Litman's commentary on standard models in transport economics and how they overlook some significant costs or cost savings

Turning to the contribution of buses to the **range of externalities** - costs or benefits - to other than the user of bus services (LECG 2009:1), the usual example is 'traffic congestion' (motor traffic congestion of road space). Mass transit on roads, such as buses and trams, achieve a more efficient use of space than private cars, particularly at centres that serve as origin and destinations for people. Thus were attention being given to use of space rather than to flow of vehicles (LECG 2009: 2), parking facilities (storage space for private cars and even for buses) as an externality would probably have not been overlooked.

In discussion of **emissions externalities** (LECG 2009:3-4), APT supports the inclusion of air pollution and greenhouse gas emissions, and appreciates the valuations for each. However, the discussion implies that air pollution has human health risks whereas greenhouse gases have environmental risks. Air pollution also causes damage to buildings and the wider environment (aquatic systems), and the climate change consequences of greenhouse emissions also cause flow-on economic harm (agricultural loss) and adverse health effects (reported by NH&MRC, for example).

Discussion of **Traffic accident externalities** (LECG 2009:4) decides "there is no external accident cost" while acknowledging that "this counterintuitive conclusion is dependent on the assumption..." Such a finding is brought into IPART's Issues Paper at Table 5.2 (p.25) that shows no benefit in avoided road accident costs from the provision of bus services. It appears to assume that the true cost of accidents have been internalised. That result is hard to believe.

From an insurance perspective, US researchers Edlin and Karaca-Mandic (2003) studied a question relevant to a hypothetical substitution of bus trips with car trips, asking:

"Does a one percent increase in aggregate driving increase accident costs by more than one percent?"

These researchers considered the effects of traffic speed and density on the rate and severity of accidents in different US States. In their draft seminar paper, they concluded: *“Substantially more research on accident externalities from driving seems appropriate, particularly given the apparent size of the external costs.”*

In 2011, the Australian Bus Industry Confederation (BIC 2011: Table 1) estimated external costs of road use and put the external costs of road accidents on a par with congestion costs. Like Litman (2007), the BIC concluded:

“The BIC believes failing to properly price externalities makes car use cheaper and disadvantages buses, coaches and rail based public transport in their efforts to attract people from cars. This leads to the perverse and undesirable outcome of encouraging excessive road use by light vehicles and tilting the modal balance in favour of cars and against public transport.” (p.4)

This view is also expressed in the PROCEED Guidelines which provide a typical list of externalities used in transport cost-benefit analyses; the list includes traffic accidents and a range of social (and environmental) benefits. It noted that although some benefits are hard or too difficult to quantify they can at least be recognised.

In late 2010, for the Victorian bus industry, Professor John Stanley (2010) undertook a valuation of Melbourne’s route bus services “ . . . based primarily on estimating the benefits to bus users and the external costs of personal travel in the city that are avoided because of the existence of bus services.” He concluded that it produced new evidence of the value of bus: bus route services contribute to supporting mobility as a means of reducing risks of social exclusion.

IPART’s Issues Paper does not describe the scope of ‘social benefits’. It states that it had not included any value of social benefits because it considered they are compensated by government-funded concessions programs. This reasoning does not appear adequate to the scale of the benefit to be excluded, particularly because the Paper has not considered people at risk of ‘transport disadvantage’ or ‘transport poverty’ who are not entitled to a concession.

More recently, ‘health benefits’ of public transport are being demonstrated as a result of the significant effect of walking to public transport links (hence the term ‘active travel’) on the physical activity levels of the population (and listed as a benefit in the PROCEED Guidelines). Empirical studies have demonstrated this effect in England, Australia, India (Bhaumik 2013), and the USA. For example, Besser (2005) showed that Americans who use transit, especially in high-density urban areas, were more likely to spend 30 minutes or more (the recognised desirable ‘dose’) walking to and from transit daily.

By achieving this level and frequency of physical activity, health benefits internal to the individuals accrue. But there are sizable external benefits to be gained from

reducing levels of chronic disease associated with insufficient physical activity. These come in the form of cost savings associated with a healthier workforce and reduced costs to the health system.

Issues 6 & 8 and 7 -

Issue 6 - Should we determine the **average change in fares** rather than determine **maximum** individual fares for bus services? 29

Issue 8 - Should we apply additional **price limits** to any **individual fare type(s)**? 29

Issue 7 - Should we allow a **'catch up' factor** so that if fares increase by less than the maximum allowed amount in one year, the foregone revenue can be recovered in subsequent years? 29

APT's initial submission supported the proposals in both Issues 6 and 8 but did not support the allowance of a "catch up" factor.

Our agreement to Issue 6, the average change in fares, is contingent upon Issue 8 - IPART applying additional price limits (called 'additional constraints' or 'side constraints' p. 27-28) to achieve what appears to be the purpose of the legislation in consumer protection, the Passenger Transport Act 1990 s28J.

IPART's Issues Paper also plans to allow a "catch up" factor (p. 27 Section 6.2) - i.e. such that any difference between the maximum fare allowed and the actual increase in fare in any one year can be brought forward as an additional charge in subsequent years. The technique of 'catch up' and certainly calling it "foregone revenue" seem to undercut the legislative purpose of consumer protection and IPART's review to promote transparency and fair dealing for the consumer, not only for the government service provider.

IPART states that it made this allowance, as well as relaxing other aspects of the fare regulation, for the introduction of the Opal card for City Rail and Sydney ferries. Certainly it granted the Government greater flexibility on fare structures and levels. Greater flexibility for government can readily be achieved at the expense of consumer protection. Greater flexibility could also cause burdens in some geographical areas.

At this juncture, the Issues Paper is unclear how the so-called catch up factor is to be used in bus fare determination. IPART says it proposes to adopt a similar approach with a 'catch up' allowance under the "the similar circumstances we face in setting bus fares" (p.27). Does this mean simply that IPART will permit fares to increase in line with this 'catch up' allowance as a temporary measure in regions or on routes when and where the transition to electronic ticketing is made? Or, does IPART intend to also allow fares to be increased more than once a year and would that be on a temporary basis only? Surely, this regime would appear to the people travelling or thinking of travelling by bus as a system complexity?

Issue 10 Are our proposed pricing principles relevant to determining fares for buses?

Are there any other factors that we should take into account? 31

APT supports adding the principle of **simplicity** as a pricing principle. Through applying that principle it would be desirable to review the continuing use of “sections” which are often a mystery to bus travellers and at times even to bus operators.

Simplicity (p.30) would seem to be compromised by the ‘flexibility’ adjustments being proposed by IPART, discussed above. Were IPART’s proposal - particularly the odious “catch up” - to be adopted, the changes are likely to confuse and annoy people who currently use buses and deter people already wary of the poor legibility of bus services.

Cost reflectivity picks up on travel distance, appropriately to correct some of the distortions that have grown over the years. This principle is consistent with urban regeneration, and the social and environmental consequences of lengthy motorised travel. Travel distance being reflected in fare pricing is appropriate (subject to a daily cost cap) and, as the Issues Paper notes (p.30), relates to revenue sufficiency and price signalling as well as to urban sustainability and ultimately to greater equity in urban development.

Proposals for **peak pricing** would need to be carefully determined so that passengers travelling during peak periods are not penalised for travelling against the principal flow (out of the Sydney CBD, for example). Also travel time is often determined by the trip generator - such as hospitals - and older people may be penalised for travelling during peak - hence the proposed Opal cap is a useful one.

The principle of ‘**equity**’ (p.30-31) is described very briefly. In the Draft Report it would be helpful to elaborate how IPART interprets this principle. Because public transport services are analogous to health services - supply-driven demand, rationing, part of urban civilised societies - some insights may be gained about the practical application of the equity principle.

The principles listed under 6.3 (p.30) dwell on efficient pricing and omit effective pricing to achieve the accessibility and connectivity goals of the bus services and to enable a mode shift.

Issue 11 Are there any other factors we should consider when determining forecast patronage growth over the next 3 to 5 years?

32

Yes, patronage and patronage growth is a reflection of the supply of bus services, and the level of service, particularly frequency. Bus services are similar to health services in that the supply of the service generates demand.

Land uses that generate trips could be a factor that could influence patronage growth, particularly at the level of the contract region. Medium density development in outer regions may be accelerating at a greater rate than projected given the recent experience in Thornton (north Penrith) by UrbanGrowth NSW (Nikas 2013).

While the Issues Paper (p.32) describes what it plans to use and to consider for the forecasts, APT notes the change in population structure and variability across the contract regions. While the population overall is aging, some regions have considerably older cohorts and this may well affect the demand, and even latent demand, for off-peak services.

Other factors can be drawn from the Draft Metropolitan Strategy - particularly the significant goal of mode shift, away from reliance on private motor vehicles.

Earlier in the year, the media carried stories of a growing trend among young people to defer the purchase of a car, due to their preference to spend time on their electronic devices while travelling on public transport (Campbell 2012). Therefore, the travel preferences of population groups seem to be changing, toward some favouring of public transport over car travel.

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Table 1: External costs of road use in Australia

Road costs including externalities \$A pa

Road Infrastructure \$14 B

Congestion \$10 B

GHG Emissions \$ 5 B

Costs of road accidents (external costs only) \$10 B

Noise and air pollution \$ 4 B

Obesity (inactivity cost = \$14 B) ?

Social exclusion ?

Agglomeration benefits ?

Total Costs About \$40+ Billion annually

Source: Estimated by Professor John Stanley, ITLS, University of Sydney, for BIC, 2010.

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