

IPART

More efficient, more integrated Opal Fares

Transport – Draft Report

December 2015



February 2016

About NCOSS

The NSW Council of Social Service (NCOSS) works with and for people experiencing poverty and disadvantage to see positive change in our communities.

When rates of poverty and inequality are low, everyone in NSW benefits. With 80 years of knowledge and experience informing our vision, NCOSS is uniquely placed to bring together civil society to work with government and business to ensure communities in NSW are strong for everyone.

As the peak body for health and community services in NSW we support the sector to deliver innovative services that grow and evolve as needs and circumstances evolve.

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Overview

The Council of Social Services of NSW ('NCOSS') welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal's ('IPART' or 'the Tribunal') review of public transport fares in Sydney and surrounding areas. We note the Tribunal's Draft Report, *More efficient, more integrated Opal fares* ('the Report'), deals with proposed maximum public transport fare increases as well as fare structure reform.

NCOSS' fundamental concern with the Report is that its recommendations would see a substantial increase in fare prices, such that by 2018, passengers would pay an average of 8% more in real terms per journey.

Such an increase would have a disproportionate and unfair impact upon lower-income people. It would make it harder, if not impossible, for many to access transport services, causing further difficulties for lower income people in gaining or maintaining employment, accessing essential services and engaging with the community.

The proposed 8% average real increase is the cumulative result of a number of recommendations, including those relating to fare price determinations, as well as those concerning fare structure.

NCOSS' concerns with many of these recommendations relate not just to their end result. In many instances, we believe the Tribunal has not given proper consideration or weight to the positive social and economic outcomes of having an affordable and accessible public transport system. Conversely, inadequate consideration has been given to the social and economic costs of reducing access by setting prices too high.

We are, however, pleased with a number of recommendations which would reduce the complexity of the public transport system. In certain instances, such changes would lead to simpler and fairer services provision.

This submission provides more detailed and specific comment in relation to the following:

1. The impact of the Tribunal's proposed fare price determinations;
2. The Tribunal's approach to making draft decisions on fares;
3. Opal fare integration for multi-mode journeys;
4. Proposed variance in fares with distance travelled;
5. Peak and off-peak fare structures;
6. Frequency discounts and weekly price caps;
7. Proposed increase to daily cap;
8. Recommended changes to Gold Opal card arrangements; and
9. Opal Concession cards.

1. The impact of the Tribunal's proposed fare price determinations

As indicated above, NCOSS holds major concerns about the proposed draft fares determinations. As stated in the Report, the determinations would see passengers pay an average of 8% more in real terms per journey by 2018.¹

This substantial recommended increase is significantly higher than those which the Tribunal has put forward in recent years. For example, in its determination relating to rail fares for the period 2012 to 2015, the Tribunal recommended an increase over the three year period of 4% above the rate of inflation.²

Such a dramatic increase in the cost of public transport travel will have a disproportionate impact on low-income people and those experiencing other forms of financial disadvantage. The impact on those who live outside of inner-suburban Sydney would be particularly acute, with low-income commuters from such areas already paying higher fare prices for longer distance journeys.

Higher fare prices would see many low-income people and their families having to devote a larger share of their modest income towards meeting transport costs. This might force many to reduce spending in other essential areas.

Others would simply be forced to forego travel, which in turn would have a number of negative social and economic flow-on effects. This is especially so for those who are unable to drive or have access to a car.

Many low-income people rely on public transport to find or maintain employment, access services in essential areas like health, education and child-care and stay connected with friends, family and other social supports. Accordingly, over the course of a person's life, transport availability will influence their ability to stay healthy, be educated, find work, raise children, age with dignity, and engage with the community. Enabling individuals to work, gain an education and stay healthy all carry significant economic benefits to the society large.

While NCOSS appreciates that the Tribunal has made separate recommendations relating to Opal fare structure which will bring about relative improvements for some groups of low-income people and make certain aspects of the system fairer, the proposed fare price increases will have a negative overall net impact on those least able to meet the costs of higher fares. This, in turn, could have significant flow-on effects for our community as a whole.

¹ Independent Pricing and Regulatory Tribunal, *More efficient, more integrated Opal fares*, December 2015, p7.

² Independent Pricing and Regulatory Tribunal, *Changes in CityRail maximum fares from January 2013*, November 2012, p2.

2. The Tribunal's approach to making draft decisions on fares.

During the Tribunal's Public Hearing held on 15 September 2015 in Sydney, NCOSS raised a number of concerns with the then proposed methodology and assessment criteria for determining maximum fares to apply from July 2016 to June 2019. It now appears that what NCOSS argued were flaws and biases in this methodology have led to draft determinations which would see average fares increase by 8% in real terms, which we contend would unfairly restrict access to transport services for people experiencing financial disadvantage (see above).

As such, we again submit and further detail our concerns with the methodology and assessment considerations underlying the Tribunal's determination process. We urge the Tribunal to develop a more balanced and accurate approach so as to ensure fairer and more reasonable fare price determinations.

Assessment criteria

The Report states that the Tribunal has sought to balance the following criteria in determining fares:

- (1) encourages the efficient use of public transport
- (2) promotes the efficient delivery of public transport
- (3) encourages greater use of public transport
- (4) minimises impacts on passengers
- (5) is logical, predictable and stable over time, and
- (6) increases fare box revenue or cost recovery.

NCOSS submits that criteria (1) to (5) are sensible and reasonable factors to consider in setting fare prices. In particular, we believe that criteria (3) and (4) ought to guide the Tribunal towards giving some weight to the impact that higher priced fares have in reducing accessibility to transport services for those experiencing financial and other forms of disadvantage.

However, we believe the Tribunal ought to also include the need to promote accessibility for all people as a clear and specific criterion. Given the vital role that accessibility and inaccessibility of public transport play in either addressing or entrenching disadvantage, NCOSS believes that an acknowledgement of the need to promote broader access is important.

NCOSS does not agree, however, with criterion (6). It seems to be out of step with the Paper's broad approach to setting fares at socially optimal levels (see below) and proposing a criterion which is an end in of itself. As such, this criterion appears to undermine other criteria and unfairly tip the balance – especially if the proposed new criterion detailed above is not included.

Socially optimal fares – external costs and benefits

The Report further states that in assessing criteria (1) and (2) above (i.e. the encouragement of the efficient use and the promotion of the efficient delivery of public transport), the Tribunal has used an economic model to

estimate 'socially optimal' fares for single-mode journey. While seeking to develop and apply such a model is on its own supported as a rational, more transparent and potentially evidence-based means of determining fares, NCOSS maintains that there are flaws, omission and biases in the external benefit and cost factors used in the model.

While NCOSS supports the inclusion of external benefits like reduced road congestion, lower pollution levels and certain health benefits, we submit that other benefits associated with public transport have been overlooked. Most notably, this includes the broader social and economic benefits associated with enabling people to have access to public transport. Such accessibility benefits include:

- Improved health and mental health from greater social inclusion (particularly for older people) as well as better access to physical activity facilities and health services more generally;
- Increased employment participation – public transport enables people to access places of employment, childcare and other employment-related needs; and
- Education – broader participation in education, especially at the adult and tertiary level, brings well-known economic benefits to the broader society.

NCOSS further submits that the Tribunal has erred by including the estimated tax burden required to provide a government subsidy as an external cost factor. We note that this is a new external cost factored into the Tribunal's model for determining the level of socially optimal fares and its inclusion may well explain the significantly higher fare price increases proposed in the Report.

The inclusion of external tax-related costs appears to have arisen from an assumption that the provision of a higher government transport subsidy will inevitably lead to higher taxes. Given the fact that governments can meet such costs through a variety of mechanisms – including not-tax revenue such as public sector efficiencies, borrowings and federal government grants – it is impossible to ascertain with any certainty whether this is the case.

Furthermore, information provided by Tribunal members at the inquiry's public hearing on 15 September 2015 in Sydney suggests that the tax-cost estimate has been made by reference solely to the GST. As such, the estimate has been based on the cost of a tax which the NSW Government – which solely bears the cost of the public transport subsidy - neither collects nor sets. Given this disconnect, it is difficult to see how such a GST cost as the price for the transport subsidy could arise in actual fact and therefore why it has been considered as part of the model.

Otherwise, it is simply wrong to suggest that operational costs to the NSW Government – such as the cost of the public transport subsidy – are directly or automatically offset by commensurate levels of taxation. This is especially so when one considers the relatively modest cost to the state's operational budget in funding the public transport subsidy.

3. Opal fare integration for multi-mode journeys

As outlined in earlier submissions,³ NCOSS is supportive of the Tribunal's recommendations to better integrate Opal fares across the Sydney transport system. NCOSS is of the view that people should not be penalised for having a lack of choice in transport options such that they are required to take multiple modes in order to reach their destination.

We note that fare integration would have a positive impact on those who live some distance from urban centres and encourage greater transport use for such commuters. As stated above, great access to public transport services carries immense benefits both to an individual and our community as a whole.

4. Proposed variance in fares with distance travelled

NCOSS welcomes the Tribunal's proposal for better determining distances travelled for the purposes of setting fare categories. We note the current rail fare system calculates distance on the basis of track distance and the Tribunal is proposing a single method for all modes, being the straight-line distance from a commuter's origin to their destination. In our view, this is a fairer and more rational method.

5. Peak and off-peak fare structures

As per our earlier submission,⁴ NCOSS supports the extension of off-peak travel concessions to other transport modes, such as buses. It is therefore disappointing that the Tribunal has not recommended such a change in the Report.

As we outlined in that submission, there are multiple section of the Greater Sydney region that are serviced only by buses. Many such areas have significant populations of people experiencing financial disadvantage.

It is not only unfair to have such commuters pay a premium for having to take a bus, but runs contrary to the Tribunal's broader thrust to better integrate fares and fare structures across the Opal card network.

Otherwise, the Tribunal's proposal to more heavily discount off-peak rail fares would ordinarily be supported by NCOSS. However, in light of the Tribunal's broader fare price determination for rail travel – which will see average fares increase by 6% in real terms by 2018 – it is difficult to see how this recommendation would make the transport system more accessible for low income people.

As we noted in our previous submission, many low-income people do not enjoy the luxury of being able to choose the time of day during which they travel. Given the overall rise in fares the Tribunal is proposing, those

³ NCOSS, *Submission to IPART Review of Public Transport Fares: Fare Structure*, August 2015, p3.

⁴ *Id*, p4.

who must travel during peak times to attend jobs or make fixed appointments will pay significantly more, while those who travel during the off-peak period will still be worse off.

NCOSS is further concerned at the Tribunal's proposal to increase the current \$2.50 cap for all travel on a Sunday as a means of introducing a consistent cap for Saturdays and Sundays. The assumption behind this proposal appears to be that weekend passenger journeys would be better spread between Saturdays and Sundays if a consistent cap were introduced.

Whilst the Tribunal's thinking in this respect has merit from an efficiency point-of-view, we are concerned at the proposed cap levels of \$7.20 in 2016, increasing to \$8.00 in 2018. For those who currently enjoy the Sunday \$2.50 cap to engage in family outings and other social and recreational activities, this represents a near tripling in travel costs. This would mean that a Sunday outing for a family of four would increase from \$10 for return journeys for two adults and two children, to a total \$28.80. Such an expense would be out of reach for many.

6. Frequency discounts and weekly price caps

In light of the Tribunal's proposed fare increases, NCOSS accepts that reducing the availability of frequency discounts would in small part lessen the overall cost burden which might otherwise be paid by less frequent travelers.

NCOSS agrees that the free travel which is currently enjoyed by frequent commuters over the course of a week is effectively subsidised by those who travel less frequently. For example, a part-time shift worker who only uses public transport three or four times a week subsidises the cost of enabling a full-time city office-worker to travel for free on a Friday.

Whilst NCOSS maintains its concerns with the extent of the Tribunal's proposed overall fare increases – and note the negative impact this will have on both frequent and non-frequent transport users - we support a modest reduction in the availability of frequency discounts as a means of ensuring that the overall burden of transport cost recovery is shared more equally between frequent and less-frequent travelers.

7. Proposed increase to daily cap

NCOSS welcomes the Tribunal's recommendation to retain daily fare caps as a means of protecting commuters from high daily costs. However, we do not support the Tribunal's proposal to increase the cap from its current level of \$15 to \$18 in 2016, with further \$1 increases each year thereafter. The net effect of this change would see the cap increase by \$5 – or 33% - over the three years from 2015 to 2018. We note this increase is far and beyond the anticipated rate of inflation. When considered alongside the Tribunal's overall draft fare determinations, the proposed cap increase would impose significant additional costs on commuters.

This is especially so for those who travel long distances on the transport network. For example, from July 2018 a commuter travelling from Penrith to the Sydney CBD and back again would pay \$19.96 in fares, which is below

the proposed \$20 daily cap. This is \$5 more than if the cap were to remain at its current level or around \$4 more if the cap amount were increased at the rate of inflation.

As noted earlier in the submission, large numbers of low-income people live long distances from the CBD and other urban centres. This change would have a particularly acute impact upon such commuters.

The cap increase will also have a negative flow-on effects to concession card holders, who would also face significant increases in daily cap levels. As noted throughout this submission, concession card holders typically face immense financial disadvantage. By placing upward pressure on the amount that many card holders will have to pay for travel, the proposed cap increases will make it more difficult for many to access transport services.

8. Recommended changes to Gold Opal card arrangements

NCOSS has detailed its opposition to any increase in the Gold Opal card cap or reductions in terms of who is eligible for the card. We note that currently, the card is available to all individuals in possession of a NSW Senior's Card and caps travel at \$2.50 per day.

The Gold Opal card provides to eligible seniors the same discount travel concession as was previously available to purchasers of the Pensioner Excursion Ticket (PET). In the view of NCOSS and many of its members, the PET was a popular and successful means of enabling and encouraging older people to use public transport.

As such, the Gold Opal card achieves two important outcomes. Firstly, it improves public transport accessibility for older people on lower and fixed incomes, especially those who depend upon the Age Pension. Secondly, it encourages all older people – including those not dependent on the Age Pension – to stay mobile and participate in the sorts of activities which public transport provides access to.

Access and encouragement to use public transport play a major role in supporting positive physical and emotional health and wellbeing for older people. In particular, it enables older people to participate in civil society, through connections with family and friends and engaging in community activities, and thereby helps avoid well-documented health and wellbeing problems arising from social isolation.

It is also worth noting that the NSW Government has recently decided to expand eligibility for the Gold Opal card to include asylum seekers. Making public transport services more accessible for asylum seekers helps enable such individuals to participate in the broader community, access support services and develop social supports from existing cultural communities, friends and in some cases, family.

In light of the broad positive impacts associated with enabling and encouraging older people and asylum seekers to use public transport, NCOSS does not support the Tribunal's proposal to change eligibility arrangements and fare cap levels for the Gold Opal card. In our view, making the PET widely available to all seniors and consistently capping its fare at an affordable level has played a vital role in improving the lives of older people and, more recently, asylum seekers. As such, current arrangements ought not to change.

Furthermore, in our view the making of recommendations in relation to the Gold Opal card is outside the scope of the Minister’s Referral to the Tribunal. In the Report, the Tribunal has noted its usual view that concession pricing serves “social policy objectives” and is therefore a matter for the NSW Government.⁵ We note that this view was oft repeated by Tribunal members and staff at public hearings held in September last year.

In the Report, the Tribunal has indicated that it has given broad consideration to Gold Opal card concession on the basis that the Minister’s referral asks the Tribunal to investigate – as quoted in the Report’s Executive Summary - “whether current concession arrangements support the optimal use of the network.”⁶

The above quotation from the Report’s Executive Summary misquotes the Minister’s Referral. The text of Matter (2) of the referral actually reads:

- (2) *The benefits and costs of spreading demand for public transport to increase efficiency in service delivery and the likely impact of different fares on the travel behavior of customers, including **whether current concession arrangements for peak and off-peak travel support the optimal use of the network** (our emphasis).*

As such, it appears the Tribunal has misread the Minister’s request. The Minister has asked the Tribunal to look specifically at concession arrangements *for peak and off-peak* travel only, which the Tribunal has done in a separate section of its Report.

As outlined at (2) above, NCOSS maintains that certain social impacts ought to be considered as part of the Tribunal’s weighing of objectives and determination of socially optimal fares. It is inconsistent to exclude such matters from consideration in fare price determinations only to later provide recommendations to reduce or cap the availability of fare concessions. In our view, the Tribunal ought not consider specific “social policy objectives” without giving such matters due consideration across all aspects of its inquiry.

9. Opal Concession cards

If the Tribunal decides to maintain the inclusion of a broad investigation into Gold Opal card concession arrangements as part of its Final Report, then NCOSS would submit that consideration ought to be given to improving arrangements for the Concession Opal Card. In particular, NCOSS submits that travel discounts available to Concession Opal Card users ought to be consistent with those available to Gold Opal card users.

Currently, the Concession Opal card is available to students, trainees/apprentices and job seekers. Typically, individuals in these groups survive on low incomes and face significant financial disadvantage. Making public transport financially accessible to them helps ensure they can travel to education and training services and programs and access employment opportunities. As such, concession fares play a major role in enabling students, trainees/apprentices and job seekers to either find employment or obtain the education and training

⁵ Above n1, p6.

⁶ Id.

they need to get a job. This in turn carries a broader social and economic benefit via increased employment participation and reduced reliance on Government-provided financial assistance.

In light of these benefits, and given the fact that many students, trainee/apprentices and job seekers experience significant financial hardship and face rising cost of living expenses in other areas, NCOSS submits that the daily cap for Concession Opal card travel ought to be reduced to \$2.50, in line with the Gold Opal card. There is a particularly strong case for such a change in light of the Tribunal's proposed fare price increases.

NCOSS has undertaken preliminary costing of this proposal and found that it would increase the overall transport subsidy provided by the Government by approximately \$18 million.