

Author name: R. PETCH

Date of submission: Friday, 8 January 2016

Submission: The main points relating to the attached submission is the need to include dynamic efficiency benefits which are not captured in the draft report and the inappropriateness of making distributional recommendations covering the withdrawal of Gold Concession cards from seniors and replace it with an alternative card which increases the daily cost by 250%. There is no analysis as to why this should happen. In essence, it is a matter for Government to determine distributional issues and not IPART. In any event, the distributional question does not only cover income but a range of issues such access to transport, appropriate timetables and safety concerns.

  
SYDNEY

8 January 2015

## SUBMISSION ON IPART DRAFT REPORT “MORE EFFICIENT, MORE INTEGRATED OPAL FARES”

The following comments on the IPART *Draft Report on More Efficient, More Integrated OPAL Fares* which was released on 21 December 2015 and on which final submissions are required by 5 February 2016.

It is unfortunate that the timing of the release of *The Report*, and the requirement for submissions necessitates comments to be prepared over the Christmas/New Year period. This will probably result in fewer responses being provided by stakeholders as they may not be in a position to review *The Report* in detail.

### **Dynamic Efficiency Benefits**

The starting point for the review of the pricing structure stems from the IPART paper “*A new methodology for setting fares – Public transport fares for Sydney and surrounds*” published in September 2015. In that paper, IPART states that fares should be based on the efficient costs but that other factors should be undertaken to assessing what is the appropriate overall subsidy taking into account external benefits of public transport – lower traffic congestion and pollution benefits.

However, the dynamic efficiency benefits of which flow through a change in the structure of fares may have a very substantial benefit, which is not captured in the analysis. It should be recognized that the subsidy to transport acts, in effect, as a fiscal stimulus. Similarly, an increase in fares is an increase in costs to all who rely on the transport system through either public transport or alternative transport users who travel by other means as a spillover from public transport. It is in effect a tax and will undoubtedly distort behavior.

It would be useful to have at least this point recognized and, if practicable, provided with an indicative estimate of its size.

### **Distributional Recommendations**

One substantial area with high impact on some passengers are recommendations covering availability of the Gold Concession Card. Specifically, that these should only be limited to aged pensioners, war widows (incorrectly labeled war

widowers) and other lower income groups. It is proposed that availability of the Gold Card to seniors should be withdrawn and replaced with a new “concession card”. The proposal, as I read it is for seniors access to the Gold Card cost to increase the cost from \$3.80 (on the proposed escalation proposal from \$2.50) to \$9.00 – a 250% increase.

Conventional cost benefit analysis cannot easily make any conclusions whether distributional issues should be considered at all. Some say that distributive effects are difficult to apply in practice. David A Weisbach makes this point<sup>1</sup> where he states “attempts to adjust cost-benefit analysis analysis for distributive effects will be more expensive and less effective than other means of improving the distribution of resources.”

Apart from income, there are many aspects of transport equity that are not related to income. For example, remoteness of passengers from the appropriate transport node. Another is the timeliness of transport and also perceptions of safety.

IPART’s proposal is not supported by any analysis as to how this proposal was made. Was there an estimate as to the financial benefit to Government as to the tightening the eligibility of Gold Card recipients? What would be the variation in demand as a result of a tightening of the Gold Opal card through elasticity impacts of this higher price proposal? Why was the tightening of the eligibility limited to aged pensioners and other low-income groups? Would taxable incomes above these amounts be completely ruled out or would there be some tapering as is carried out in determining access to the aged pension?

The proposal might under some circumstances – specifically on weekend travel and some short journeys into the Sydney CBD – as road transport may be a lower cost option. This is particularly the case with some limited timetables, and the location of passengers from the relevant transport node.

Overall, the question of transport distributional determination **is a matter for government** and the policy proposal in this area is very poorly argued.

Russell Petch

---

<sup>1</sup> David A Weisbach *Distributionally-Weighted Cost Benefit Analysis: Welfare Economics Meets Organizational Design* University of Chicago Law School Public Law and Theory Working Papers 2014.

