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8 July 2009

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Dear Dr Keating

## **REVIEW OF FARES FOR METROPOLITAN AND OUTER METROPOLITAN BUS SERVICES FROM JANUARY 2010**

The Lower Hunter Councils Transport Group (LHCTG), which comprises officers and Councillors from the five Lower Hunter Councils of Cessnock, Lake Macquarie, Maitland, Newcastle and Port Stephens, welcomes the opportunity to provide input to the current review of fares for metropolitan and outer metropolitan bus services from January 2010. Many of the issues noted in the following have been raised by the LHCTG in previous submissions to IPART and the Ministry of Transport.

The specific issues on which IPART seeks comment are listed below.

1. For the purpose of setting bus fares in the metropolitan and outer metropolitan regions, is it reasonable for IPART to focus on the four largest contract regions as the foundation for estimating the costs and benefits of bus services?

There may be substantial differences in the socio-economic profiles of residents of the various contract regions and as such, the external benefits (including societal benefits) attributable to public transport may vary. The LHCTG considers it reasonable for IPART to focus on the four largest contract regions as long as this variation is captured (or benefits are over-estimated rather than under-estimated).

2. Should IPART consider a broader set of contract regions in its review of the costs and benefits of bus services? If so, which additional contract regions should IPART include?

See above.

3. What is the appropriate length for the fare determination?

A multi-year determination (for example, three years) is supported.

4. Is it better to align the end of the bus fare determination with the end of the CityRail determination, so that fares for both modes of transport can be considered together in 2012?

Yes. This will facilitate integration of public transport ticketing.

5. Are IPART's proposed assessment criteria for the review reasonable? Should IPART reconsider the criteria, or prioritise them differently?

The LHCTG considers that the criteria should specifically state that the fare setting approach will consider the external benefits of increased mode share to public transport and that in Point 3, the specific objective of increasing patronage should be noted.

6. What is the most appropriate approach for setting the value of initial capital base in the four largest contract regions?

No comment.

7. What is the appropriate rate of return to allow on regulatory assets in the four largest contract regions?

No comment.

8. What is the appropriate average remaining life for regulatory assets in the four largest contract regions?

No comment.

9. Is it appropriate to determine the share of costs to be borne by taxpayers based on the external benefits approach? What are the advantages and disadvantages of this approach?

External benefits of public transport provision should be considered. The LHCTG has argued that public services such as health, education, and the police are provided with funding from taxes, for all to use and that while efficiency of provision may be questioned by the public, these services are not expected to recover their operating costs. Why is the provision of transport treated differently? Why is there such a focus on cost recovery in transport?

The public transport system is provided for all to use. It is funded at a far lower level than that enjoyed by private road-based transport, particularly if one considers the full social costs of provision and use. As the benefits of increased modal share to public transport at the expense of single occupant car trips are enjoyed by the whole community (through decreased congestion and emissions, for example), the LHCTG considers it quite reasonable that all should share the costs of public transport provision.

As an alternative or supplement to fares, additional funding for public transport could be derived from imposition of a charge for vehicle kilometres travelled (vkt). A vkt charge may encourage people to think about the amount (and potentially, timing) of their car use. Charges could be collected at registration, based on odometer readings. Different rates may apply depending on the emission profile of the vehicle and the availability of alternative modes (e.g. metropolitan versus country rates). Research indicates that there is a substantial gap between the perceived costs of car use (cost of petrol, maintenance and parking costs) and what the actual costs are (when infrastructure, environmental and social costs are taken into account).

Charging for vkt may assist to make some of these costs more transparent, and encourage shifts to walking, cycling and public transport.

There has been a long-standing Commonwealth planning and funding bias towards roads at the expense of other modes. As noted in "The slow road from rhetoric to reform: an analysis of road pricing in Australia" (Lewis, 2004); the structure of the tax system can play an important role in either promoting or discouraging sustainable transport use. The article concludes:

The financial subsidy to road transport is estimated to be up to \$20 billion per annum, excluding the cost of greenhouse gas emissions. The current system of vehicle and travel charges is inefficient and leaves the major externalities unpriced, leading to a general overconsumption of travel. Further, alternate transport modes do not receive equal treatment, with rail-based transport covering a larger proportion of its total costs, compared to road-based transport. Consequently, all evidence suggests that there is overconsumption of road transport.

Recent changes to the tax system in Australia have exacerbated inequities in transport pricing, while existing tax regimes, such as that for fringe benefits, include direct incentives for additional car travel.

In the last twenty years there has been much discussion of the need to use economic policy instruments to improve the sustainability of the transport system. Over the same period, policies which represent a significant step backwards, such as the abolition of fuel excise indexation, the imposition of a 10 per cent tax on public transport and lowering the cost of fuel for business users have been implemented. The question for policy makers is not "what should be done" but "why hasn't it been done?"

The LHCTG supports review of Commonwealth taxation policies to enhance achievement of public transport objectives, particularly of those which provide incentives for car use over public transport use, and encourages IPART and the Ministry of Transport to advocate for such review.

10. Are there other external benefits of bus services that IPART should take into account?

Benefits associated with increased social mobility should be taken into account.

11. How should IPART take into account the external benefits of bus services that cannot be quantified?

Qualitative analysis should have a part in decision making. The external benefits should be considered in conjunction with the government's objectives in provision of public transport.

12. Is it appropriate to determine the share of costs to be borne by taxpayers based on an optimisation approach? What are the advantage and disadvantages of this approach?

Both methods can be used to provide input to IPART's decision-making process. Quantitative analysis, particularly in the consideration of external benefits, is subject to error. There needs to be provision for qualitative analysis and exercise of sound judgement.

13. How should IPART take account of the likely implications for affordability and patronage in its fare decisions?

The LHCTG has argued that in the Lower Hunter, there is substantial potential for increasing revenue through increasing patronage, rather than raising fares. The Lower Hunter, unlike Sydney, has spare capacity on most services to accommodate substantial increases in patronage without the need for capital expenditure on additional buses. Also, unlike Sydney, parking is free in most areas. Even in the Newcastle City Centre, all day parking can be procured for around \$6.00 per day. Coupled with low frequency of service, there are few inducements in the Lower Hunter for car drivers to convert to public transport use. A further increase in fares without substantial improvements in service provision will likely lead to a reduction in patronage.

14. Should Newcastle fares be harmonised with fares in the other bus contract regions? If not, what justification is there for a separate fare structure?

The Ministry of Transport has indicated its intention to change the time-based fares of Newcastle Buses to distance-based fares. The LHCTG does not support this direction. Fares and ticketing systems should be easy to understand. Newcastle Buses has a very simple system - travellers have unlimited travel over the network for one hour, four hours or all day. The minimum fares on Newcastle Buses are, however, relatively high, thereby negating some of the benefits of this initiative.

The situation in the Lower Hunter, in terms of the public transport market, travel patterns and service provision, is significantly different to that in Sydney. Various social surveys undertaken in the Lower Hunter confirm that the biggest groups of people using public transport are youth, elderly, low-income earners and those who live in households with one or less vehicles. The system implemented in the Lower Hunter should have regard for these differences. Ideally,

- bus, train and ferry services in the Lower Hunter would operate under the same fares and ticket system;
- fares would be based on what the local market can bear; and
- it would be recognised that greater cost recovery could be achieved by encouraging greater use of public transport, rather than increasing fares.

The unit of travel for most people is what they travel in a day, not what they travel in a single trip. Successful public transport systems overseas use some form of time-based tickets and zone-based tickets combined. A possibility which could be explored is that of all-day tickets for single zone and multi-zone travel in the Hunter. For example, four zones could cover the urban areas of Cessnock, Maitland, Port Stephens and Newcastle-Lake Macquarie. Within each zone, there could be a single trip ticket and an all-day ticket and similar products for multi-zone travel (two or more zones). The all-day ticket could be priced at approximately twice that of the single trip ticket and the tickets should cover all modes.

Currently, there is virtually no marketing of public transport in the Lower Hunter. There is however, spare capacity on most services. The LHCTG considers that common branding and marketing of public transport collectively would enhance patronage growth. In the current climate of rising petrol prices, and the

increasing incidence of obesity and diabetes, particularly in young children, there is a prime opportunity to market public transport and active transport.

The LHCTG is concerned that IPART has been extremely selective in its use of quotes in this section - a negative view of the current system has been quoted without due recognition of the benefits of Newcastle Buses' current system. Further, the different fare structures have not prevented the extension of the all-day pensioner excursion ticket to all operators in the Lower Hunter region.

15. What will be the increase in demand for bus services over the next five years?

At present, there is little promotion of public transport and its benefits. The LHCTG considers that demand will increase in the future, particularly if services are improved and promoted. The Lower Hunter Councils support a target of 20% mode share to public transport.

16. What factors are likely to have the largest impact on bus use?

In the Lower Hunter, improvements in service provision (notably frequency of service) have significant potential to increase patronage.

Before public transport can be regarded as a sustainable transport option, service levels have to be set at a basic frequency of quarter-hourly throughout the day (nominally 6.00am to 7.00pm) and half-hourly at other times. This basic frequency should apply seven days a week, with perhaps slightly later starts at weekends. In the Lower Hunter, apart from school peaks, the spread of trips throughout the day is fairly even. The additional buses that are used for school transport should be retained in service throughout the day to provide higher service frequencies and a local community transport service. Much greater consideration should be given to the fact that increased frequency only incurs marginal costs, and these costs will be covered from the increased revenue as the modal split for public transport increases gradually to the sustainable targets.

In addition to high frequency services, there are various other standards which would be conducive to making public transport convenient, safe and attractive. Of particular importance is the need to retain memory timetables so that travellers can easily remember what times services pass a particular point. To achieve an acceptable level of convenience, the service standards might be as listed below.

- Public transport services operate at a frequency of at least 15 minutes during the day, and at least 30 minutes at night.
- Timetables maintain a memory pattern throughout the day, and as far as possible are the same for each day of the week.
- A majority of dwellings in urban areas are within five minutes walking time from a bus stop.
- Timetables are co-ordinated so that there is minimal waiting time with transfers at interchanges.
- Scheduled connections are guaranteed through the use of network communications and control systems.
- Service reliability is maintained with a specific limit of not more than one minute early or three minutes late at any advertised timing point.
- Special arrangements are adopted to maintain reliability when there are unscheduled disruptions.

- Bus connections with delayed trains are maintained.
- Vehicle cleanliness is maintained to a high standard throughout the day.

17. Are recent increases in patronage likely to be a good indicator of patronage changes over the next five years? Why or why not?

Promotion of services, improvements in service provision and co-ordinated service planning by Lower Hunter operators have the potential to increase patronage to levels above that indicated by current trends.

18. Is a flat flagfall and a per kilometre charge that reflects the fixed and variable costs of providing bus services the most appropriate fare structure?

The LHCTG favours a system of all-day tickets for single zone and multi-zone travel in the Hunter. For example, four zones could cover the urban areas of Cessnock, Maitland, Port Stephens and Newcastle-Lake Macquarie. Within each zone, there could be a single trip ticket and an all-day ticket and similar products for multi-zone travel (two or more zones). The all-day ticket could be priced at approximately twice that of the single trip ticket and the tickets should cover all modes.

19. Under what circumstance should passengers only pay a single flagfall charge when using more than one bus to complete a journey or multiple transport modes? Given the limitations of current ticketing technology, how could this be achieved on buses?

Refer to 18.

20. Is the current aggregation of ticket sections (1-2, 3-5, 6-9, 10-15 and 16+) appropriate? Should more or less ticket types be introduced to better reflect a consistent flat flagfall and per kilometre charge?

Refer to 18.

21. Should all bus passengers travelling more than 16+ sections (24 kilometres) be charged the same fare?

Refer to 18.

22. What factors should IPART take into account when considering the social impact of fare options on bus passengers?

Factors which should be considered include the socio-economic mix of patrons and their access to other transport modes, the ease of use of fare systems and the points of sale of tickets.

The reference for this section noted incomes for the Sydney Statistical Division. The figures for the Newcastle Statistical Division would differ substantially.

23. Are there any other factors IPART should take into account when considering the environmental impacts of bus fares?

The report notes that the market in Sydney is relatively inelastic. Again, the LHCTG urges that it cannot be assumed that the Lower Hunter has similar characteristics.

The observations of members of the LHCTG are that services in the fare free zone in Newcastle are well patronised, quite the contrary to that noted in the report (p. 51). Patronage counts would determine the matter.

The issue of climate change is one which is now on the mainstream agenda. Innovative solutions are required to address this and other pressing issues in our society. Substantial expense is involved in setting up and maintaining the support infrastructure and services necessary to collect fares. When the cumulative costs of such infrastructure and services are considered - the ticketing machines, enforcement measures, staff time in calculating eligibility for ~~travel cards and concessions etc.~~ - one must question the value of such an approach. Is it not time for a different approach to fares and financing of public transport?

If you would like to discuss any aspect of this submission, please contact Mr Ken Freeston, Chair, Lower Hunter Councils Transport Group, on telephone (02) 4921 0590 (Tuesday to Thursday) or e-mail [kfreeston@lakemac.nsw.gov.au](mailto:kfreeston@lakemac.nsw.gov.au).

Yours faithfully

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