



Council of Social Service of New South Wales

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Mr James Cox
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NCOSS Submission to Review of Bus Fares 2005

Dear Mr Cox,

The Council of Social Service of NSW (NCOSS) is the peak body for the social and community services sector in New South Wales. NCOSS works with its members on behalf of disadvantaged people and communities towards achieving social justice in NSW.

NCOSS provides an independent voice on welfare policy issues and social and economic reforms and is the major coordinator for non-government social and community services in NSW.

1. Introduction

NCOSS believes the goals for public transport should be to:

- (a) Maximise the community's access to transport with high quality, convenient services; and
- (b) Provide mobility at a price that is affordable to individuals from all socio-economic groups in the community;
- (c) Aim to reduce the social and environmental consequences of heavy private motor vehicle use.

The pricing and regulation of passenger transport has a major impact on the lives of disadvantaged people and in this regard NCOSS maintains an ongoing policy interest in ensuring that access to services is enhanced and extended.

2. Bus Fares and Social Disadvantage

Bus services are an indispensable mode of transportation for a significant number of people in the community. Bus services are often the only form of public transportation

servicing isolated areas, and frequently provide connectivity to other modes of transport in metropolitan areas.

Further, bus services are the *most* utilised form of transport for lower income users. Information from the Household Travel Survey indicates that the average personal income of a privately operated bus user is around \$10,000 less than an average rail user.¹ This correlates with international research that demonstrates lower income people typically rely on bus services.²

Any increase in bus fares will therefore disproportionately impact upon low-income users, particularly those who do not have access to fare reduction the form of a concession.

3. Essential Services Cost of Living Considerations

There have been large scale increases in the cost of living over the last five years, with cost pressures on basic expenses such as transport and housing.

The recently released Household Expenditure Survey for example indicates that Australian housing costs have increased by 39% in the 5 year period from 1998/9. The costs have disproportionately impacted on low income households in NSW, with these households spending 26% of their budgets meeting housing expenses, in comparison to the 23% national average.

Many households in both rural and regional and metropolitan areas in NSW are geographically dislocated from public transport services, necessitating the use of private motor vehicle transport to access jobs and services. Private motor vehicles are also used to connect people to public transport corridors. Recent fuel (petrol) cost increases will not only impact upon transport operators, but will disproportionately affect the bottom lines of low income households with motor vehicles.

Further, from the 2005 period onwards some low income households will experience cost pressure from increasing utilities charges for both IPART regulated water and energy prices.

4. Bus Services in the 2004 / 05 period.

There have been a number of reforms in the delivery of bus services in metropolitan areas that have delivered improved social outcomes. These include:

- a. Lowering of some longer distance fares in private bus contract areas, and harmonisation of fare structure across Sydney.
- b. Extension of Pensioner Excursion Ticket (PET) across Metropolitan Sydney, providing a low cost integrated ticket to many pensioners and Senior's Card holders across Sydney.

¹ Information sourced from the Independent Pricing and Regulatory Tribunal, Review of Fares for Taxis in NSW, Issues Paper, February 2004, p15.

² See for example Office of the deputy Prime Minister Social Exclusion Unit, *Making the Connections: Final Report on Transport and Social Exclusion*, February 2003, p23.

During this same period some bus users in Sydney have also experienced dramatic price increases:

- a. Existing users of PET faced a 128% increase in ticket cost.³ A price path for PET would have eased the price impact of this price increase.
- b. As part of the NSW Government's policy commitment to standard discount rates for bulk purchase tickets, IPART agreed to large scale increases for some Travel Ten tickets. NCOSS had argued that allowing a 4 year transition to a standardised discount rate would provide some protection to existing users of these products.

The process for bus reform has been delayed, meaning that many bus users are yet to see the benefits of the process:

- a. Consistency in concession entitlements across metropolitan bus regions has depended upon the finalisation of negotiations in relation to new bus contracts.
- b. Delays in signing bus contracts has led to delays in other reforms such as consultation with community stakeholders in contract regions and public transparency of new contracts (including performance standards, customer charters and Disability Action Plans).
- c. Delays with metropolitan contracts have delayed the timetable for outer metropolitan and rural and regional contracts, where arguably very significant improvements to services are possible. This has caused very real problems in some regions: for example there are boundary issues in the use of PET between Penrith and the Lower Blue Mountains.

5. School Subsidy Transport Scheme Pass Usage Rate Survey

The Ministry of Transport uses an estimation of school pass utilisation to reimburse transport operators for costs associated with free travel for school students. Current reimbursement levels are set at 77% for metropolitan areas and 79% for non metropolitan areas.

In 2004 the Ministry of Transport conducted a survey of school pass usage by recipients of the School Subsidy Transport Scheme.⁴ The Final Report shows that the actual school student pass usage rate was 59%.⁵

The survey results show the extent of the reimbursement problem for school transport, since the actual usage figures also provide an approximation for the level of over-payments received by operators in relation to the SSTS, demonstrating that the concerns in relation to 'phantom riders' was justified.

Although industry viability concerns have meant the NSW Government has backed away from the recommendation of the NSW Legislative Council Public Account Committee to pay for *actual* pass utilisation, NCOSS does believe the usage rates do

³ Ryde Mental Health Consumer Participation Service, for example, has made a submission to the Minister of Transport, revealing that a survey conducted by the service demonstrated that the travel practices of 76% of respondents had been affected by the PET increase.

⁴ Ministry of Transport, "School Student Transport Scheme Pass Usage Survey & Special Study: Final Report," April 2004.

⁵ Ibid., pii.

provide some scope for specifying clear service and performance outcomes, determining transparent rates of return for the industry, as well as providing a transparent funding allocation for 'community kilometres' or similar scheme.

6. IPART Bus Fares Determination in 2005

New contracting arrangements for metropolitan fares have altered the nature of the annual IPART fare determination process.

Previous determinations have involved submissions to IPART from public and private operators that detailed operating costs and relevant service quality data. 2005 marks a different determination process, since government (as the contract holder) now represents bus services in Sydney. A further consideration is the Premier's letter to IPART in 2004, which recommended a rationale for bus fare changes, involving the "CPI + X" formula.

Assuming the metropolitan bus fare determination becomes the template for all relevant fares across NSW in coming years, the following principles will hold:

- a. Bus operating cost changes are in themselves not direct grounds for fare increases;
- b. increased importance is placed on weighing CPI based increases against possible cost efficiencies;
- c. there is emphasis placed on evidence for service quality improvements;
- d. as a direct consequence of the fare box return to government, *the IPART fare process now directly determines the level of user co-contribution (with government) for bus services.*

The final principle marks an important evolution of the IPART determination process, as not only does this allow for sophisticated consideration of the level of government involvement in funding and regulating services, but allows a more direct consideration of the capacity of consumers to meet fare increases (and the converse capacity of government to act as a buffer against the impact of operating cost spikes that would otherwise impact on fares).

Note: NCOSS does not support the use of fare pricing as a tool to improve industry performance. Robust monitoring and regulation of the industry is necessary, but granting increased fares for performance gains is a potentially inconsistent method for improving the performance of services, and can have the effect of pricing some passengers out of bus transport, increase car usage and in turn lower patronage on bus services.

7. Concession Fares and IPART?

IPART have in the past taken a position that they do not have a charter to regulate concession fares, stating:

The Tribunal does not set the State Government's social benefit policy. Therefore, concessions granted to pensioners, children and students are a matter for the Government.⁶

NCOSS has, in previous submissions, raised issue with this stance, arguing that in order for the Tribunal to meet the requirements of Section 15 (1) (k) of the Independent Pricing and Regulatory Tribunal Act 1992 (which provides for IPART to consider the social impact of fare determinations), IPART must consider the effectiveness of the concession system in promoting affordability for low income public transport users.

NCOSS believes that there is a strong case for formal inclusion of PET within the Tribunal's brief in 2006. PET is an important ticket product: not only does it provide affordable transport for pensioners and senior citizens, but is also Sydney's – and soon NSW's – first truly integrated fare. Inclusion of PET within the regulation of the Tribunal could also act to prevent a rapid above CPI price increase for this ticket in the future (as has occurred in 2005).

8. Integrated Tickets = Integrated Fares?

The Ministry of Transport has made some progress with Tcard in 2005, with the system tested for school students from the beginning of the year.

Although Tcard will encourage reduced usage of cash fares in Sydney, NCOSS has raised a number of issues with MoT relating to the policy framework within which this ticket is being delivered, including:

- No NSW Government plan for Tcard roll out beyond Greater Metropolitan Sydney.
- Potential high charges for minimum initial load on the card, minimum reload and replacement fees.
- Concession entitlement inconsistencies between operators and subsequent fines for incorrect concession use.
- Inclusion of current integrated ticket products, such as TravelPass, in the Tcard.
- Physical accessibility of new Tcard machines.
- Points of access to purchase Tcards within the transport system.
- Opportunities for passengers to check status of their Tcard within the transport network.

A significant concern is the fact that Tcard will not deliver an integrated fares system, which means that there is potential for multiple flagfalls for one journey. NCOSS contends that the failure to work towards integrated fares (as opposed to ticket products) will continue to exacerbate the affordability issues faced by people who need to use a number of different operators across a single journey.

There are two important integrated fares in Sydney: *firstly* PET which has only recently been made available across Sydney; *secondly* Travelpass, available on

⁶ Independent Pricing and Regulatory Tribunal, "Report on the Determination of NSW Public Transport Fares," 2003, p5.

publicly operated ferries, trains and buses. NCOSS is very concerned that MoT have stated that in this year's submission to IPART that "TravelPass will not be available on the private operator network" (p14).

9. Ministry of Transport (MoT) Submission

9.1 Key aspects of the MoT submission:

The key aspects of the MoT submission to IPART are as follows:

- request for a CPI + x increase for Sydney fares;
- reduction of discount levels of Travel tens to 15%;
- an unspecified rise in travel passes, commensurate to bus and ferry fare increases;
- an increase in Outer Metropolitan/ Rural and Regional Commercial fares in line with BICI and additional Government subsidies in 2005/06;
- an increase in non commercial payments in line with PWC and additional Government subsidies.

Note that the Ministry of Transport has not sought a price path in 2005 for bus fares, citing incomplete data, but has highlighted that a rationale for single fare units may be sought, involving the combination of a 'flagfall' and distance component.

9.2 Sydney Metropolitan Fares

9.2.1 CPI + 'X'

The CPI + 'x' formula as laid out in the Premier's letter to IPART states that fare increases up to CPI should be subject to *efficiency gains*, while above CPI increases are justified subject to *service quality improvements*.

Efficiency Gains

The MoT submission to IPART provides no details on efficiency gains. Although NCOSS has previously stated that it has concerns about the use of 'efficiency dividends,' it is nevertheless interesting to note that the Ministry of Transport have not supplied further details in this area. NCOSS would welcome discussion on how efficiency gains may be usefully used in the future to moderate fare increases and fund service expansion / quality improvements.

Service Quality Improvements

MoT provide partial evidence for improvements in service quality for buses in Sydney:

- *STA Service Quality*. Data is provided on STA service quality improvements, although no specific information is supplied on consumer satisfaction with service. *Note that STA service now only comprise a proportion of total bus services in the Sydney area; thus, performance of STA services can in no way be taken as representative of bus services in Sydney.*

- *Fare Harmonisation*: MoT cite fare reductions for some private operator fares in 2005 as a 'service improvement.' NCOSS stresses that fare harmonisation cannot be regarded as a service quality improvement, and that it would be a serious concern for a reduction in private fares to be used to justify an above CPI fare increase in the following year.
- *Planned Bus Reform Service Quality Improvements*: MoT argue that planned reforms will deliver a range of service improvements for private operators, including an increased proportion of airconditioned and accessible buses; new bus priority measures; Environmental and Passenger Relations Plans; Tcard; and driver training. These improvements have not yet occurred, and there is little evidence of standards or benchmarks that will mandate future improvements. Note that the contents of the new bus contracts have not been made publicly available. NCOSS would certainly urge caution against granting an above CPI increase based upon speculation of future performance improvements.

9.2.2 Discount Levels for Multi-Ride Tickets

The NSW Government has again sought to reduce discount levels to 15% for multi-ride / bulk discount tickets.

NCOSS supports the following general policy approach for bulk discount tickets:

- Bulk ticket discounts act to promote affordability in transport costs for low income passengers who travel frequently, and should be included within a suite of ticketing products.
- Bulk ticket discounts promote efficiencies for the transport operator, particularly in a reduction in time consuming single ticket sales. Discount levels should be set to ensure that operator cost savings are passed on to the customer in full.

In addition to these principles, NCOSS believes there is a case for maintaining relatively high discount levels for bulk tickets where single ticket prices are not affordable to commuters. NCOSS has for example argued that there is a case for the maintenance of discount levels for bulk tickets on Sydney Ferry Services, since single ticket price levels have been clearly influenced by the tourist / visitor market.

MoT provide the following arguments for reducing the discount level to a standard 15%.

Private Operator Multi-Ride

MoT state that "new contracts being entered into by Sydney metropolitan operators require that multi-ride tickets will be offered at a 15% discount to the single fare scale. The Ministry will ask that IPART determine a standard 15% discount for all multi-ride bus fares to support the new bus contracts..." (p4).

NCOSS is very concerned that the NSW Government would impose a discount level through an in-confidence contract negotiation with private operators (despite the

obvious concerns of IPART in relation to this issue), and subsequently seek to justify a 15% standard discount on the basis of 'fare harmonisation.'

Price Comparisons

MoT have provided details of other cities that provide 15% or lower discounts on multi-ride tickets. MoT do not mention that there are other jurisdictions that apply 20% or higher discounts,⁷ so arguably the rationale for a discount reduction cannot be based on comparative terms alone.

MoT cite research that demonstrates a reduction in discount levels for some US jurisdictions, and research that shows an increase in patronage 'over the same period of time' (p13). NCOSS believes that more care is required with this data: insufficient evidence has been provided to demonstrate a significant correlation between the reduction in discount levels and the growth in patronage in these jurisdictions.

Patronage Impact

No data is provided in relation to the patronage impact of reducing the discount level, apart from the statement provided that "the convenience of use remains the same regardless of the quantum of discount."

It is argued that private bus users will not be impacted (because these users have not previously had a discount for multi-rides), though no data is provided as to whether the discount will encourage existing car users to switch to a bus service.

Ticket Switching

MoT argue that a reduction in the discount level for multi-rides will not affect a migration to the Travel Pass. MoT further suggest that "it may be difficult to argue that regular users of Travel Ten tickets will sacrifice the convenience of a discounted multi-trip ticket for multiple, more expensive and more difficult single fare purchases necessitating presentation of cash and receipt of change at the point of bus entry" (p14).

Note that as NCOSS emphasised in the 2004 hearing, the upfront cost of a multi-ride ticket can act as a barrier for low income passengers, who may be forced to purchase single fares despite using public transport frequently. A reduction in the discount level will increase the pressure on some existing low income multi-ride users.

Switching to Private Vehicle Use

MoT argue that there is little risk associated with mode substitution as a result of a low discount rate for multi-ride tickets. MoT claim:

It is reasonable to conclude that a large proportion of the users of bus services in the peak period are regular commuters – who due to a number of factors including road congestion, travel times, ease of use of buses, and lack of

⁷ See Action for Public Transport, "Review of Bus Fares: Final Submission," 2005, p5.

parking facilities at peak commuter destinations such as the CBD, can be described in terms of a captive or dependent market.

MoT proceed to cite an “Australian Study”⁸ arguing that “transit price elasticities are lower for transit dependent riders than for discretionary riders” and “elasticities are about twice as high for off peak and leisure travel as for peak and commuter travel” (p15).

NCOSS contends that MoT have misrepresented the research evidence that is presented here. Below is a complete quote – from the Todd Litman study cited by the Ministry of Transport – that details the factors relating to price elasticity for transport fares:

- Transit price elasticities are lower for transit dependent riders than for discretionary (“choice”) riders.
- Elasticities are about twice as high for off-peak and leisure travel as for peak and commute travel.
- Cross-elasticities between transit and automobile travel are relatively low in the short run (0.05), but increase over the long run (probably to 0.3 and perhaps as high as 0.4).
- A relative large fare reduction is generally needed to attract motorists to transit, since they are discretionary riders. Such travelers may be more responsive to service quality (speed, frequency and comfort), and higher automobile operating costs through road or parking pricing.
- Due to variability and uncertainty it is preferable to use ranges rather than point values for elasticity analysis.⁹

Note that once all of these factors are included, it is no longer clear that the above evidence justifies a discount reduction for multiride tickets, indeed in the long term the reverse is true: price elasticity will increase over time, and there is less incentive for existing motorists to switch to public transport (Litman states “increasing transit ridership requires pricing and incentives that attract travelers out of their car”¹⁰).

More concerning, MoT not only fail to include all of the factors Litman includes in his study, but also significantly misinterpret the meaning of ‘transit dependent riders.’ Litman is very clear about his definition of this group of passengers:

In most communities (particularly outside of large cities) transit dependent people are a relatively small portion of the population, while discretionary riders (people who have the option of driving) are potentially large but more price sensitive segment.¹¹

⁸ Note the study is Canadian, but to the credit of the Ministry, does contain some Australian examples.

⁹ T. Litman, “Transit Price Elasticities and Cross-Elasticities,” Victoria Transport Policy Institute, 2004, p13.

¹⁰ Ibid.

¹¹ Ibid.

It would be incorrect to assume, as MoT have done, that transit dependent riders are 'regular commuters,' since according to the Litman definition, these passengers would more accurately be described as *transport disadvantaged*: that is, people who do not have any other option but to use public transport. The Litman evidence suggests that these 'transit dependent' riders will stay on public transport as long as they can afford to (literally because they have no other choice), while non dependent users (that is those with private motor vehicles) will have less incentive to stay on public transport if price increases.

Transition to Tcard

MoT argue that a 15% discount level for multi ride would ensure consistency and Government revenue surety when the Tcard is rolled out.

Although NCOSS supports consistency with other fare products, it is difficult to comment on the effects of a new ticketing system that is not yet in place.

9.2.3 Travel Pass

MoT has argued for an increase in Travelpass, both in line with the bus/ferry portion and in line with the increase for Sydney metropolitan fares.

In the 2004 IPART public hearing the future of Travelpass was open. The 2005 MoT submission reveals that in the 6 months since that hearing, MoT have made the policy decision not to extend Travelpass to private operators across Sydney. MoT provide the following reasoning:

This is because Travelpass may only be used in 'zones' based on radial distances from the CBD and this is not appropriate for the contact areas of private operators. It is also inconsistent with the planning principle of developing a bus network based on linking all identified regional centres (p18).

NCOSS is concerned that there has been very little grounds offered by the NSW Government for failing to extend this ticketing product. While NCOSS would not oppose a CPI level increase for existing Travelpass in the 2005 determination, a more thorough discussion is requested on the future of this product, and integrated fares in general.

10. Bus and Coach Association (BCA) Submission

10.1 Outer Metropolitan, Rural / Country Town Commercial Fares

BCA have sought a 5.61% increase in fares, in line with the BICI.

NCOSS acknowledges that fuel price increases would have placed some cost pressures on some outer metropolitan and country commercial bus operators. As in previous determinations, NCOSS requests further data on bus operating costs (particularly given the implications of the Pass Usage Survey described above), their relationship to fares and the rates of return anticipated by commercial operators. MoT have indicated that operators have received an additional allocation to cover

increased wages: this is evidenced by the 18% additional global allocation for privately operated bus services in the 2005-06 NSW State Budget.

Fare Harmonisation for Outer Metropolitan Fares

Given the difficulties encountered in Sydney with bus contract negotiations, it is difficult to imagine that the outer metropolitan contract negotiations will occur to timetable. Nevertheless, if one of the stated objectives of outer metropolitan bus reform is to harmonise fare scales with metropolitan areas, then it would make sense for IPART to consider how a 2005 determination may affect a future attempt to align fare scales.

NCOSS would welcome further information on current outer metropolitan fare scales, and the NSW Government plans for alignment with Sydney metropolitan fares.

10.2 Non Commercial Payments

As in previous submissions to this process, NCOSS does not have comment on the PWC model or the costing. As stated above NCOSS would emphasise the need for additional information on bus operating costs and typical rates of return for operators.

Note that many of the true improvements to bus services in NSW are likely to occur outside of Sydney, particularly with regional coordinators playing an enhanced role in negotiating new bus contracts. Apart from closer ties with other operators, rural and regional bus reform could also deliver an expansion in available services, particularly outside of school runs.

11. Conclusion

In summary, NCOSS requests the Tribunal consider the following:

- a) Increases in cost of living expenses for low-income households in 2005 will be demonstrably high, with households facing rising electricity, water and petrol costs.
- b) Although bus reforms can be anticipated to deliver service improvements, the process is only in a very early stage, and has not 'delivered the goods' for many residents of NSW.
- c) Despite the IPART position on transport concessions, NCOSS believes there is a case for at least the formal consideration of PET as a ticketing product.
- d) The NSW Government have very clearly backed away from Travepass in the 2005 submission, with very little detail provided on the rationale for this.
- e) Only partial data is provided by the Ministry of Transport to justify an above CPI price increase for metropolitan fares.
- f) Poor evidence is provided for a reduction of multi-ride discounts to 15%, with an anomalous interpretation of research on transport demand elasticity.

- g) For both outer metropolitan / rural commercial fares and non commercial payments additional information is requested on bus operating cost components and rates of return to operators.
- h) The implications of outer metropolitan bus reform and future fare scale alignment on the 2005 determination.

If you need further information on this submission, please contact Dinesh Wadiwel, Senior Policy Officer on 02 9211 2599.

Yours sincerely

Gary Moore
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