



1 July 2009

Dr Michael Keating, AC
Chairman
Independent Pricing and Regulatory Tribunal of NSW
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Keating,

RE: Review of fares for metropolitan and outer metropolitan bus services from January 2010 – Proposed changes to IPART's fare setting approach.

BusNSW is the peak body of the private bus and coach industry in NSW. BusNSW was founded in 1942 to represent the interests of the private bus and coach industry and to foster the efficient and sustainable growth of bus and coach transport in NSW.

Currently BusNSW represents around 700 members that employ 15,000 staff and operate approximately 6,500 vehicles. The objectives of BusNSW are to grow public transport by providing quality, professional services to members via business development, advocacy, promotion and innovation, and to promote the benefits of bus and coach transport to the community.

BusNSW understands it is governments' responsibility to set fares and decide how much of the transport cost is met by the passenger and how much is met by the tax

payer. In our view it is also important to set fares to encourage patronage growth as this has benefits much wider than the transport budget.

BusNSW welcomes the opportunity to comment on the “Issues Paper” regarding proposed changes to IPART’s fare setting approach. We emphasize that our comments relate to fares that are appropriate under metropolitan and outer-metropolitan contracts i.e. not regional and rural fares where government contracts and risk sharing are quite different to Sydney.

Following are BusNSW’s comments on the specific issues outlined by IPART.

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?

BusNSW supports IPART’s fare harmonization policy which determines the same bus fares for all 25 metropolitan and outer-metropolitan contract regions via a form of averaging.

BusNSW recognizes that there are significant costs and time constraints associated with analyzing the efficient costs and benefits of the selected contract regions and supports IPART’s approach of focusing on the four largest contract regions which account for 72% of farebox revenue and 74% of patronage (fare paying boardings) of all contract regions.

BusNSW agrees that using these four regions will result in fares that reflect the costs and benefits of bus travel for the majority of passengers. In making this comment we expect that any changes to individual operator revenue from fares can be adequately adjusted in existing or new contracts.

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?

BusNSW has the view that fares determined by IPART should be set at levels which ensure optimal use of bus services by passengers. With metropolitan and outer-metropolitan bus system contracts containing a patronage incentive component, it is essential that changes to fares do not have a detrimental impact on sustainable contracts and patronage revenue from year to year.

BusNSW supports IPART's approach of benchmarking unit costs in the four largest contract regions with:

- 1) other urban bus services across Australia, and
- 2) International bus benchmarking data

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

BusNSW supports IPART's preliminary view of setting fares for three to four years based on agreed forecasts of efficient costs and benefits used to determine changes to fares from year to year. This would also provide greater certainty to the public and encourage better marketing and promotion of public transport

Notwithstanding the above, setting fares for a number of years should not prevent the NSW Government from reforming fares (structure and products) prior to the implementation of an electronic ticketing system.

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?

BusNSW acknowledges that there is some advantage in aligning future bus fare determination with CityRail but recommends that IPART also consider the implementation of an electronic ticketing system and changes to the fare structure and fare products that are required to facilitate a smooth transition. Any alignment should not remove the government's ability to introduce a new fare structure that can

deliver integrated multi-modal fares before or at the time of introducing an electronic ticketing system.

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

In regard to point 2 of "Box 3.1 proposed assessment criteria" BusNSW has the view that facilitating the introduction of integrated ticketing will greatly benefit by reviewing the existing fare structure rather than by maintaining what is considered a "simple fare structure". This includes reducing the number of fare products available.

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

BusNSW does not have a view on this for the purpose of this review.

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

BusNSW does not have a view on this for the purpose of this review.

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

The average remaining life is dependent on what is considered an appropriate maximum and average age for buses operating in metropolitan and outer-metropolitan areas. BusNSW recommends that government consider reducing the current maximum age of 25 and the average age of 12 to provide more modern buses for commuters.

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?

BusNSW has the view that it is appropriate for IPART to determine the share of costs to be borne by the taxpayer based on the external benefits approach.

The advantage of this approach is that fares paid by passengers are reduced by considering the cost benefit to individuals that are not using the public transport service.

The disadvantage of the external benefits approach is quantifying the true value of external benefits. From the governments perspective there is an opportunity cost of funding the external benefit.

BusNSW advocates a triple bottom line approach to assessing the benefits of growing public transport i.e. consider social and environmental impacts as well as economic factors.

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

Whilst IPART recognises congestion and pollution as key external benefits of public transport, some other externalities need to be considered. Both avoided road accidents and improved social inclusion are important external benefits to consider.

Avoided Road Accidents

Bus travel is the safest form of road transport. The elderly and young people make use of buses to access shopping, health and social activities. Hundreds of thousands of school children travel every day by bus to and from school.

In the IPART Issues paper it is stated that “any increase in accident risk is in proportion to the passenger kilometres travelled”. No account is taken of the increased safety of bus travel versus car travel.

Bus travel is overall, the safest form of land passenger transport for all passengers and the safest for school children between 5 and 16 years old if we exclude train. “It is 23 times safer than driving, 1.38 times safer than being driven in a car, 23 times safer than driving a motorbike, 55 times safer than using a bicycle and 4.4 times safer than walking.” (Hensher, 2002)

Improved Social Inclusion

In the IPART Issues paper it is recognised that social mobility through the use of bus services would accrue significant external benefits.

Social exclusion is the existence of barriers which make it difficult or impossible for people to participate fully in their communities or obtain a decent standard of living. Lack of public transport or limited access to buses is one of the barriers that need to be considered when looking at social exclusion.

Social inclusion through the use of public transport allows people to access health services, education, shopping, employment and recreation / social activities. Better social inclusion can be responsible for lower crime rates, better care for children, improved health and greater well being.

Lack of access to transport can be a major problem for people looking for employment. Looking at lifelong mobility, governments can enhance old people’s independence and quality of life thereby lowering public health costs.

Professor John Stanley and Professor David Hensher from ITLS at Sydney University have recently completed research on social exclusion and the value of mobility to show that the value of an additional trip is estimated at \$AUS20. A paper on this subject by Professor John Stanley and Professor David Hensher will be available soon.

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

Ideally the external benefits mentioned should be quantified through expert reviews, such as the abovementioned paper on social inclusion. IPART should also consider using experts to quantify other externalities including avoided noise pollution, avoided road accidents, and avoided road damage.

External benefits still need to be considered at the least in a qualitative way.

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?

Whilst the optimisation approach is complex and it is difficult to determine the fare levels at which all the benefits are maximised, this approach should be considered to determine cost shares. BusNSW suggests that IPART consider using the marginal net benefit approach. We understand that IPART has adopted the averaging approach in establishing the overall net benefit (based on seminar at ITLS in June 2009). There should be further debate on these approaches.

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

Whilst many factors impact on affordability and patronage, IPART could use recent passenger trends and information on public transport price elasticity to estimate the likely implications.

We are advised that affordability is related to equity and should at least establish the cost relative to alternatives such as car and train. But importantly IPART should consider the issue of mobility and the social exclusion issue cited above is crucial to this.

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

Yes. Government and private operator passengers in all metropolitan and outer-metropolitan areas should have access to the same fares, fare products, discounts and concessions. (This is not an endorsement of the current fare structure, fare products, discounts and concessions).

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

The patronage growth of 2.7% for metropolitan contract regions for the eight months to June, 2007 reported by IPART in December, 2008 and the 3.5% growth for the four largest contract regions for 2007/08 compared to 2006/2007, provides an indication of future patronage growth in the Sydney metropolitan area.

It is difficult to accurately forecast future demand for bus services as there are many factors which are outlined in question 16 below that impact on demand.

Future fares policy will be a significant factor in the NSW Government's quest to meet the following State Plan targets (Priority 6):

- Increase the share of commuter trips made by Public Transport to and from the Sydney CBD during peak hours to 75 per cent by 2016.
- Increase the proportion of total journeys to work by Public Transport in the Sydney metropolitan region to 25 per cent.

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

There are many factors that impact the future demand for bus services. These include the following factors which IPART identified in the issues paper.

- Bus fares – level, structure, and their relativity with other forms of transport.
- Social and economic factors – household incomes, population, employment, fuel prices, interest rates, road congestion

- Bus service quality – suitability, frequency, speed, reliability, ease of use
- The alternative modes of transport available - suitability, frequency, speed, reliability, ease of use

Other factors that will impact on bus use include the:

- implementation of integrated bus networks – changes to routes, frequency and coverage
- enhancement of bus priority and introduction of PTIPS – speed, reliability
- introduction of 300 growth buses and additional peak services – frequency, capacity
- introduction of an integrated ticketing system (eTS)
- introduction of integrated fares
- public transport marketing and communications initiatives
- parking policies and road pricing initiatives
- introduction of more rail commuter car parks - \$170m in 2009-10 Budget (*This has a negative impact on bus services feeding rail stations. This money may be better spent on additional bus services*)

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

BusNSW is optimistic about future increases in patronage based on recent government investment in growth buses, additional kilometres (peak frequency), along with plans to increase bus priority and introduce PTIP's.

It is difficult to accurately forecast patronage for the next five years as it depends on all the factors identified in question 16, many of which are dependent on government support and funding.

Two crucial issues for those who have a mode choice are congestion and fuel prices. One doubts these will change much over the next 5 years and hence moves out of car will only come about when bus services deliver improved connectivity and

frequency. Factors such as real time information at rail stations, better ticketing strategies, and bus priority measures, combined with increased frequency and coverage can substantially boost patronage.

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?

BusNSW is not sure why IPART is seeking comments on this when on page 45 of the issues paper it states, “It is government policy that electronic ticket fares will be distance-based – that is, their price will comprise a flagfall charge and per kilometer (or per section) charge”. This suggests there is no negotiation on fare structure.

Given the history of the Sydney integrated ticketing project it is difficult to understand how “Moving away from a distance-based fare structure that is harmonized across regions would complicate the introduction and viability of integrated electronic ticketing and most probably delay its introduction”.

In July 2006, as part of its Bus Reform Mid-term Review (*10 Point Plan*), BusNSW identified the need to “review the scope and fare policy of the integrated ticketing project, including School Tcard”. At that time, BusNSW made the following two recommendations to government:

- *“The government needs to take a fresh look at the smartcard project. It has attempted to fit the old business rules and ticketing products with the new technology and has not taken the opportunity to update its fare policy. This is a missed opportunity and may inhibit the growth of Public Transport.*
- *The review needs to address the increased demand for bus travel and the shortages of peak buses. This review needs to completely rethink the School Tcard and how it relates to SSTS policy and the Reform Contracts Funding Model”.*

It would seem that fares policy will only be addressed as an afterthought with the Sydney ticketing project continuing to work within an antiquated fare structure.

Although there has been partial harmonization of fares they are still based on an old distance based single mode structure that does not encourage patronage growth.

Based on an assessment of other jurisdictions and the advantages and disadvantages of different fare structures, BusNSW recommends that government consider a hybrid zone/time based fare structure. BusNSW would not rule out other fare structure options that can deliver integrated multi-modal fares.

The potential challenges tied to a move to zone/time based fares include:

- sustaining stakeholder involvement, commitment and cooperation,
- managing farebox revenue and cost recovery impacts, and
- managing customer fare level impacts (particularly for the 'losers')

To minimise transitional impacts the Government should consider an alignment of zones to the existing CityRail TravelPass fare zones and incorporate a short distance (< 3.2km) single fare for local and cross border travel (similar to Perth).

Crucially we need fare simplification and much better traveler information to allow more effective choices.

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?

Under all circumstances passengers should only pay a single flagfall when using more than one bus or multiple transport modes to complete a journey. This can be achieved by a zone/time based system as discussed at question 18. (The Queensland Government was able to introduce a zone based system for South-East Queensland prior to the introduction of the "Go Card").

BusNSW notes that fares shown in Figure G.1 for Brisbane, Melbourne and Adelaide include travel on other modes of transport (not just bus).

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?

BusNSW recommends that IPART give consideration to more equitable bands that are based on equal distances for each band (current bands are 3.2km, 4.8km, 6.4km, 9.6km and all additional kilometres after 24km). IPART should ensure that convenience is maximised and the system is easy to use when considering how many ticket types are required.

BusNSW also recommends that IPART consider labeling the bands one to five for example, rather than continuing to label groups of short distance (1.6km) sections (1-2, 3-5, 6-9, 10-15 and 16+). This would pave the way for a transition to a multi-modal zone fare for Sydney which requires a greater distance for each section or zone i.e. the current 1-2 section band is approximately 3.2km compared to a Perth multi-modal zone which is approximately 10km in width.

This also has the benefit of simplify the bus drivers fare selection process (thus improving boarding times) and the customers understanding of what they are paying for. It will also assist in minimising development costs for a new integrated system.

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

Based on the comments at question 20 above and the need to increase the distance of each band, there is a case for having fare bands for travel in excess of 24 kilometres. Commuters travelling on bus services in excess of 24 kilometres should pay a fare that is commensurate with the distance they are travelling.

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

BusNSW understands that IPART must consider the social impacts of its proposed fare options. BusNSW supports the consideration of income and employment profiles when assessing the likely impact of changes to fares.

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

IPART has adequately identified the factors that have environmental impacts on metropolitan bus fares.

Other Issues to be considered

BusNSW supports a simple, integrated and appropriately priced fares system that will improve Public Transport in Sydney metropolitan and outer-metropolitan areas. BusNSW also supports the migration of Sydney's operator based fare collection systems to an integrated contact-less smartcard system. A new customer facing organisation ("Sydlink") should be established to oversee its introduction and market "one" Public Transport system for Sydney.

In concluding, an important issue for fares reform is the patronage and revenue gains that can be reasonably expected. The migration to full fares integration should be coordinated with service enhancements, appropriate vehicle capacity, marketing and communications initiatives.

Should you wish to discuss any of the above please contact me or Matt Threlkeld

Yours sincerely

Darryl J Mellish
Executive Director