



TICKET TO RIDE: REFORMING FARES AND TICKETING FOR SUSTAINABLE PUBLIC TRANSPORT

EXECUTIVE SUMMARY

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TOURISM & TRANSPORT FORUM

The Tourism & Transport Forum (TTF) is a national, member-funded CEO forum advocating the public policy interests of leading corporations and institutions in the Australian tourism, transport and aviation sectors.

TTF is the only national multi-modal transport advocacy group in Australia and is committed to improving the quality of passenger transport across the country. Our key transport policy goals are to promote:

- the importance of investment by state and federal governments in transport infrastructure;
- the role of the private sector in the delivery of public transport services, particularly through franchising; and
- best practice in customer service, particularly through the use of new technology.

ABOUT THE AUTHORS



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INTRODUCTION



At the end of the 1990s, there was an expectation that the roll out of first generation smartcard ticketing systems would see an acceleration of fare system reform in an environment where “everything is possible”. In practice, the Australian experience since the progressive roll out of smartcard ticketing from April 2007 in Perth has been reflected by relatively limited fare structure reform (Melbourne being the notable exception with both Sydney having recently and South East Queensland about to implement significant structural changes). Fare product reform has been embraced by all major Australian jurisdictions, specifically the move away from traditional fare product concepts such as weekly and monthly periodical tickets towards fare and trip capping.¹

At a global level, to the extent that major reform has been implemented, it has tended to favour greater simplification rather than greater levels of complexity, which has been somewhat contrary to the expectation that smartcard ticketing would facilitate a trend towards increased fare system complexity. For example, London moved from bus zonal fares to a flat fare model to capture operational benefits of a “touch on only” model and analysis suggests that the “simplification effect” has resulted in additional patronage and operational cost savings. In a similar vein, Melbourne has pursued a sustained program of fares simplification targeted at increased patronage.

Whilst fares policy may be articulated internally by State Government transport departments, we are unaware of any current public statements of overarching fare policy, or policy objectives made by Australian states or jurisdictions that inform the key policy trade-offs.

From time-to-time, there have been attempts by Australian State Governments to provide planning certainty with respect to fare levels by committing to medium-term pricing paths (e.g. Sydney and South East Queensland). Transport for London (TfL) has historically adopted a similar approach

by committing to real fare growth to support network modernisation and the need for services to meet the forecast growth in demand. Rather than define specific pricing paths, both Singapore and Hong Kong have transparent mechanistic formulas that drive annual fare increases - capturing factors such as changes in inflation, wages, energy costs and the productivity of public transport service delivery.

This paper explores the hypothesis that the multiple structural and policy objectives that combine to define fares policy are often poorly understood and cannot generally be satisfied simultaneously. The core objectives are patronage and farebox revenue – and the associated impact of fare levels on individual customers. Other objectives considered include social equity issues, the customer friendliness and accessibility of the ticketing system, and the technical capability required to support required fares policy outcomes. As a means of addressing these issues, we consider the four elements of a fare system in turn; namely fare structure, products, levels and media/payment channels.

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1. The Perth SmartRider smartcard was progressively rolled out with April 2007 reflecting the date when SmartRider was available to the entire population and the legacy fare collection system was phased out.

1 FARE STRUCTURE

From a fare structure perspective, the key consideration is the strength of the relationship established between fare levels and distance-travelled. At one extreme, a flat fare structure establishes no relationship between the fare paid and distance travelled, while zonal and distance-based structures can impose a progressively stronger relationship between fare levels and distance travelled. At the other extreme, a unique fare can be established for each station or stop pair.

All of the popular fare structures observed globally (i.e. flat, distance-based and zonal) are represented in major Australian cities. Some smaller systems (e.g. Adelaide and Canberra) maintain flat fare systems, whereas larger systems (e.g. Sydney and South East Queensland) have retained more complex zonal fares structures. However, system size is not a predictor of fare structure settings, with Perth's zonal system containing many more fare zones than Melbourne for example.

The principal policy arguments made in favour of highly differentiated fares according to trip length are tied to economic efficiency and equity.

From an economic efficiency perspective, higher fares should be charged to cover the higher operating costs associated with longer trips such that those customers travelling longer distances are not cross-subsidised by those travelling shorter distances. Although sound as a principle, its application is complicated by issues pertaining to cost allocation (i.e. fixed versus variable costs) and time frame (i.e. short versus long-run costs).

In addition, from an economic efficiency perspective, it is often claimed that passengers using higher cost (i.e. long distance) services are less price sensitive than those making shorter trips and hence 'revenue raising efficiency' (i.e. maximising patronage for a given farebox revenue target) dictates that those travelling longer distances pay higher fares. In general, we would expect the short-distance market to be most responsive to fare levels given the range of options available including active transport (i.e. walking and cycling). However, there is no consistent evidence of customers being less responsive to fare increases over longer distances. In fact, to the contrary, income constraints would suggest that fare elasticities might actually increase once a "threshold" fare level is exceeded as customers find public transport increasingly unaffordable.

From a "benefit" equity perspective, it is argued that customers might perceive that a fare structure that establishes a strong relationship between the distance travelled and the fare paid is fundamentally "fair". In addition, the multiple fare levels established by increasingly granular distance-based structures provides greater opportunity to manage/target the magnitude and customer impact of fare changes.

In some cases, it also needs to be recognised that issues such as housing affordability dictate that those from lower socio-economic groups tend to reside on the urban fringe and may have lower levels of public transport service and need to travel further on average. This might need to be reflected in a weaker relationship between fare levels and distance travelled. That is, the implied fare per kilometre progressively declines over longer distances.

In summary, there is no universally compelling rationale on either economic efficiency or equity criteria to support a specific fare structure. Fare elasticity evidence needs to be well understood and assessed on a case-by-case basis to analyse the customer response to alternative relationships between fare levels and distance travelled. While the "benefit" equity argument is perhaps the stronger one in terms of supporting distance-based pricing, together with the enhanced capacity to manage fare increases, the potentially regressive nature of distance-based pricing suggests that some moderation of fares against distance (i.e. progressively higher fares but a reduction in average fares per kilometre) will often be appropriate.

The above conclusions are entirely consistent with what is observed in Australia's major cities. In particular, there is no dominant structure and where distance-based structures have been maintained, there is a typically a strong "taper" in the relationship between distance and fare levels (i.e. fares continue to increase over longer distances but at a slower rate). This is particularly evident in rail fares in the greater Sydney area, for example to areas such as the Blue Mountains and Central Coast.

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A further key consideration where multiple public transport modes and/or operators are delivering services is the extent of fares integration. Before the advent of smartcard ticketing systems, full fares integration (i.e. the same fare being payable for an origin-destination pair regardless of the number and mix of services used) was the only means available of delivering the customer a "seamless" travel experience using a single ticket. Melbourne, Perth and South East Queensland all migrated to full fares integration before the roll out of their respective smart card systems. On the other hand, seamless travel was only achieved in Sydney with



the completion of the Opal smartcard roll out in December 2014. Sydney has moved a step closer to fares integration in September 2016 with the introduction of a “transfer rebate” where multiple modes are used, which among other things reflects the increased requirement/opportunity for customers to interchange between services following the completion of the extension of CBD light rail services.

There is little doubt that a service delivery model that requires significant interchanging between public transport services and/or modes should support fares integration and thereby avoid the payment of multiple “flagfalls”, particularly as customers typically prefer a direct service that avoids the need to transfer between modes and/or services.

Historically, the biggest barriers to partial or full fares integration was the development of sustainable farebox revenue sharing models (i.e. to allocate revenue between services and operators) and the often wide variation in the costs of public transport service provision across modes.

The need for farebox revenue sharing mechanisms has largely become a “non-issue” as Australian cities have progressively migrated to gross cost public transport service contracts where Government typically retains all farebox revenue risk. For example, the introduction of gross cost public transport service contracts in the mid-2000s was a key enabler of integrated fares in South East Queensland. An exception is Melbourne, where Metro Trains and Yarra Trams hold revenue risk, sharing 70% of the total metropolitan farebox revenue.

Material differences in the cost of public transport service provision between modes can also be a barrier to fares integration, particularly where farebox cost recovery is a key policy driver. In the Australian context, ferry services provide the most extreme example of operating cost differentials

compared to other public transport modes. All ferry services provided by Brisbane Transport on the Brisbane River operate under full fares integration, while all Sydney Ferries services provided on Sydney Harbour are provided with integrated ticketing (i.e. via Opal) but without fares integration.

The above discussion does not address free fares, which strictly speaking represents an additional fare structure option. Although there are no such examples in Australia, Melbourne has recently introduced a free tram zone in the CBD.

The case for free fares is tied to increases in public transport use at the expense of private car use, savings in fare collection costs, improvements in vehicle boarding times, improved social inclusion and the removal of ticketing as a barrier to public transport use. On the other hand, there are some clear financial and economic costs that need to be considered including the opportunity cost of foregone farebox revenue and, if the patronage response is significant, the negative consequences of overcrowding on public transport services leading to reduced customer satisfaction and reduced on time running/service reliability. Limited free fare schemes such as the Melbourne CBD tram free fare zone risk adding greater complexity into the fare system, with customers required to understand the specific services, times or areas where payment is not required.

We conclude that free fare schemes generally have limited potential to increase public transport patronage at the expense of foregone farebox revenue which increases the reliance on other funding sources. Beyond their use in small population centres where public transport is more focussed on social inclusion, whole of system free fare schemes are not considered a viable option.

2 FARE PRODUCTS

The single fare continues to underpin all public transport systems in Australia's major cities. In the smartcard era, the role of the single fare has increasingly focussed around the irregular public transport customer, including both residents and non-residents. There is also evidence that many public transport customers from lower socio-economic groups continue to rely on the purchase of single fares because they are unwilling or unable to justify holding funds on a smartcard.

The single fare is inexorably linked with the goal of a cashless fare collection system, while at the same time supporting access to public transport services. Major Australian cities have pursued vastly different strategies in this regard. Melbourne does not support the purchase of a single fare on any mode. Sydney has and will continue to support (premium) single fare purchase on heavy rail, light rail, ferry and some bus services, while Brisbane supports single fare purchases on all modes, albeit at a very significant premium to an equivalent smartcard fare.

The introduction of smartcard ticketing across major Australian cities has seen the progressive demise of many traditional product concepts such as daily/return fares, weekly passes, monthly passes and annual passes. Major Australian cities have been global leaders in moving to a "product free world". In contrast, major international cities, including London, have retained legacy product concepts despite achieving high levels of smartcard take-up.

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Fare capping, according to either the number of journeys made or the value of travel undertaken, has been embraced in major Australian cities. In particular, as at October 2016:

- Weekday monetary fare caps are applied in Sydney, Melbourne, Canberra and Hobart, with the maximum amount payable ranging from \$7.80 (Melbourne) to \$15.00 (Sydney)
- Only Sydney applies a weekly cap (\$60).

Fare capping, according to the number of journeys taken, is applied in Sydney, South East Queensland and Canberra. As at October 2016:

- Sydney applies a business rule of "8 journeys, then half-fare", while in South East Queensland, it is "9 journeys then free" (8 journeys then half-fare will apply from 1 January 2017)
- Canberra offers a monthly cap of "40 journeys and then free"

There has been some concern raised that regular customers in Sydney and South East Queensland undertake multiple short journeys (e.g. at lunchtime) that might otherwise not have been made to trigger the weekly trip cap early in the week as a means of enjoying "free" commuting during the latter part of the working week. This was particularly evident in the IPART review of the Opal card fare structure for NSW. As a result, both Sydney and South East Queensland have or will implement a move to a less generous discounting regime (i.e. 8 journeys and then a 50% discount on all journeys for the rest of the week).

The introduction of fare capping on the back of smartcard ticketing was intended to preserve and/or enhance the benefits that formerly accrued to weekly and longer term period pass holders. That is, the frequent, loyal public transport customer continues to be rewarded with free travel, typically in off-peak periods where the costs of meeting additional demand are lowest (i.e. weekends and weekday evenings). However, customers also avoid the limitations of traditional fare product concepts where an upfront decision to purchase (say) a weekly ticket was based on the expectation of 5 days of commuting and some additional non-commuting trips. In an environment of greater employment flexibility (e.g. working from home, greater off-peak travel), the value proposition of such rigid traditional product concepts has inevitably been diluted for many customer groups.

In Australia, only Melbourne and Adelaide have retained the option to purchase longer term periodicals (in both cases a monthly pass is available), which are loaded onto a customer's smartcard. Given the transaction cost of purchasing and loading a fare product, it is difficult to see the rationale for sustaining such fare products, particularly when the value delivered by such products can be straightforwardly delivered via fare capping.

3 FARE LEVELS

There are multiple dimensions that need to be addressed in any discussion of fare levels including the “headline” fare level, variations in fare levels according to trip origin and destination, time-of-day and variations according to customer type. The relationship between fare levels and the cost of public transport service provision, as reflected in the contribution made by fares to the recovery of public transport operating expenditure is also of particular interest.

Any comparison of “headline” fares is somewhat problematic unless it adequately reflects actual trip patterns and the associated basket of fare types used on a jurisdiction-by-jurisdiction basis. The inclusion of international cities creates the added complexity of appropriate provisions for purchasing power parity.

A 2015 report attempted to normalise fares by comparing them to the minimum wage in each jurisdiction (i.e. minutes required to work to pay for a return fare for an average trip)². The report identified wide variations across Australian cities with persons on the minimum wage being required to work 50% to 90% longer in South East Queensland and Sydney to pay for an average fare compared to the likes of Canberra and Hobart.

Variations in fare levels according to journey origin and destination continue to be relatively unsophisticated in major Australian cities. With expectation of airport stations, which is considered below in the context of customer segmentation, the only variation in fares according to journey origin and destination reflects the overarching fare structure (i.e. where distance-based or zonal structures are in place). Hong Kong MTR provides one example where variations in pricing according to journey origin and destination have been embraced to reflect the competitive positioning of MTR against competing modes. For example, MTR is able to charge higher fares for journeys that cross Hong Kong Harbour given the impact of congestion on travel times where the road-based harbour crossings are used.

The application of public transport time-of-day pricing in Australian cities has been tied to reducing early AM or inter-peak fares relative to fares charged during the morning and evening peaks. The introduction of discounted or free early AM fares has been directed at securing trips that would otherwise have been made during the morning peak. Melbourne’s “early bird” scheme offering free travel before 0715 has had only limited success in shifting customers out of the morning peak (studies have suggested that peak demand reduced by 1.2% to 1.5%).

The rationale for inter-peak discounts has been to increase the attractiveness of using public transport where significant excess capacity exists and hence the incremental cost of carrying an additional customer is effectively zero. The

success of such pricing lies in customers re-timing their trips away from the morning or evening peak or entirely new trips being undertaken in off-peak periods.

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We have yet to see peak period premium pricing adopted as a demand management strategy. Over time, it might be expected that a combination of time of day/origin-destination pricing could attract attention as (for example) a potential means of managing peak period demand at Australia’s busiest CBD stations – as opposed to a coarse peak – off peak pricing model that is not specifically targeted at public transport service or infrastructure pinch points. For example, London Underground identified a combination of peak period pricing, additional capacity and tele-working as a means of matching future demand and supply for its services.

All Australian cities support a range of concession discounts to support the mobility needs of the transport disadvantaged. There is a reasonably high degree of consistency across Australian jurisdictions in terms of concession discounts, with most falling in the 30% to 70% range depending on customer segment.

Apart from concessions, the only public transport pricing policy clearly targeted at a specific market segment is that associated with the use of airport stations at Sydney and Brisbane Airports. In both cases, a premium pricing model was an integral component of the strategy to support the delivery of the infrastructure under a private – public partnership model.

The interaction of fare levels, patronage and the costs of public transport service delivery is reflected in the observed levels of farebox cost recovery.

Whilst few jurisdictions operate public transport at 100% farebox cost recovery (or at a profit), most raise much higher farebox revenue (as a percentage of operating costs) than Australian jurisdictions. Perth achieves the highest level of cost recovery (30%) followed by Brisbane (South East Queensland) 23% and Sydney 22%. The Australian results are not simply a function of population density, with cities such as Wellington (57%), Dunedin (54%) and Chicago (55%) all achieving significantly higher rates of cost recovery despite having similar population densities to Australian cities.

2. <http://ninesquared.com.au/wp-content/uploads/2015/10/2015-Fare-Benchmarking-Final-Report.pdf>

One of the challenges in addressing this issue is the extent to which patronage may suffer as a result of attempts to improve farebox cost recovery. However, there seems to be little doubt that fare levels across Australian jurisdictions are at an unsustainably low level and the balance between user pays and government subsidy needs to be addressed.

Queensland provides perhaps the only recent example of a concerted attempt to improve farebox cost recovery. A series of significant average fare increases between 2010 and 2012 (i.e. 15% over three successive years) were applied in South East

Queensland before the intended 15% increase in 2013 was wound back to 7.5%. A further 7.5% average fare increase was applied in 2014. The series of fare increases came to an end in January 2014 when fares were cut across the board by 5% before being frozen in 2015. Concerns about the affordability of public transport and the associated negative impact on patronage underpinned the change in policy direction. Moreover, the increases implemented did not improve cost recovery – the average subsidy per trip actually increased.

4 FARE MEDIA



First generation smartcard systems have now been rolled out in all major Australian cities and the major areas of interest pertain to channel strategies underpinning card acquisition and reload, the future of cash fare payment on system, meeting the needs of tourists and other irregular travellers, the cost of public transport fare collection and future technological change.

In terms of smartcard acquisition, all major Australian cities support significant retail networks (e.g. convenience stores, newsagents and customer service centres) for card acquisition. A number of card types are typically supported including “core” adult, child and senior cards. Processes vary on a state-by-state basis with respect to concession cards where proof of entitlement checks need to be undertaken before a smartcard can be issued. There are significant variations in policy across jurisdictions in terms of the initial cost of card acquisition, which can include the card cost plus an initial deposit. In Sydney, an adult customer can acquire a free Opal card and not pay a deposit. At the other end of the spectrum, the acquisition of a Perth SmartRider adult card requires the payment of a non-refundable \$10 card fee. The major policy trade-off here is the risk of cards being used once and discarded (potentially with a negative monetary balance) where there is no card acquisition fee/deposit as opposed to the card cost/deposit acting as a barrier to public transport use.

Minimum smartcard reload value is another important issue. The key policy issue here is the trade-off between minimising the number of reloads made and customer resistance to tying up funds on their smartcard from a cash flow management perspective. In addition, from the



scheme administrator perspective, there is also the issue of encouraging customers to use the lowest cost reload channel (i.e. autoload) as opposed to ad hoc reloads (web or ticket machines), phone and face-to-face channels.

To minimise the use of the most costly reload channels, notably phone and face-to-face (where available), specific short and long-term strategies have been employed. In Sydney, it was only initially possible to obtain a registered Opal card, which was directed at maximising the proportion of customers committing to autoload. However, as expected, once unregistered cards became available, the proportion of customers both registering their cards and committing to autoload has fallen significantly. As a longer term strategy, Perth customers committing to autoload receive a 25% discount relative to standard cash fares. This represents a 12% discount relative to “standard” smartcard fares. Although operator and customer incentives would clearly seem to be aligned with respect to using the autoload channel (i.e. cost for the operator and convenience for the customer), the proportion of reload transaction processed by way of autoload has typically failed to exceed 10% in any Australian jurisdiction.

The progressive migration towards a cashless society is also a major consideration for current and future fare collection strategies. The primary issues in this context in the near term are the continued capacity to purchase a cash single ride ticket and use cash to acquire and/or reload a smartcard. Clearly, from an operator perspective, the costs of cash collection and cash management provide an obvious incentive to minimise, if not remove, cash from public transport fare collection. On the other hand, there are strong arguments to retain the capacity for cash fare payment to support irregular travellers not interested in acquiring a smartcard and market segments resistant to smartcard use. In terms of this latter point, as

suggested above, it has been observed that many people in lower socio-economic groups continue to show a preference for cash single ride fares to support cash flow management.

With the exception of Melbourne, it is still possible to varying degrees to purchase a cash single ride ticket in our major systems. For example, in South East Queensland, while it is possible to purchase a cash single fare on all modes and services, customers pay at least 30% less if they use the “Go Card” smartcard. In Sydney, all legacy (magnetic stripe) single trip tickets were withdrawn from 1 August 2016. This has been replaced by self-service ticket vending machines that allow cash purchase of smartcard (Opal) single tickets thereby securing the on-going capacity to purchase a cash single ride ticket for all public transport trips excluding “cashless” bus services³.

The imperative for tourists and irregular customers is to ensure that ticketing does not present a barrier to public transport use. The discussion above regarding the capacity to purchase a cash single ride ticket is highly relevant to this issue, as is the availability of products targeted specifically at tourists. The Gold Coast “go explore” product is a very positive example of a product that has been tailored to meet the needs of Gold Coast tourists and provides a strong value proposition in terms of availability, price and ease of use. For \$10 (\$5 for children), the product provides unlimited travel on Gold Coast light rail and bus services over a 24-hour period. The product is readily available from hotels and the retail network and can be reloaded if additional days of travel are required.

Over the next five years or so, we would expect to see a number of Australian cities migrate to the next generation of fare collection systems where payment options will be potentially extended to include contactless bank cards and smart phones. This will have clear customer benefits generally and specifically for tourists and other irregular users of our public transport systems. Sydney has announced a trial of contactless payment using debit and credit cards on Manly ferry services.

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3. There has been a progressive increase in the proportion of “cashless” buses to minimise dwell times and support on time running.

5 FARE SYSTEM GOVERNANCE

On a year-to-year basis, the primary issue is the approach and timing to the development and implementation of fare changes (i.e., typically product introduction or withdrawal, changes to fare levels).

With the exception of New South Wales, such matters are solely the domain of the relevant government department with responsibility for the delivery of public transport services. Fare changes are often implemented in early January to allow changes to “bed in” before commuters return to work following the Christmas/New Year period.

In New South Wales, the Independent Pricing and Regulatory Tribunal (IPART) determines the maximum prices that may be charged by all public transport operators in New South Wales. In accordance with legislation, IPART adopts a relatively prescriptive approach to the fares determinations that considers, among other things, the cost of service delivery, protection of consumers from the abuse of monopoly power in terms of prices, pricing policy and service standards and the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers. The process also provides for submissions to be prepared

and submitted by interested parties and participation in public hearings. While the independence and transparency of the NSW process to fare setting is an undoubted strength, it does not provide the same degree of policy flexibility that exists in other jurisdictions.

In terms of longer term fare system reform, our research shows that there are a number of triggers for fundamental fare system reviews including the introduction of new services or modes, technology upgrades and the need to drive reform to improve farebox cost recovery.

While the independence and transparency of the NSW process to fare setting is an undoubted strength, it does not provide the same degree of policy flexibility that exists in other jurisdictions.

6 OTHER OPPORTUNITIES

At the time many Australian smartcard ticketing systems were in the planning phase, it was contemplated that public transport could provide the “anchor” application for contactless payment and such systems might reasonably host a range of potential non-transit applications including parking, taxis, bike hire and a range of other “micro-payments” such as convenience stores, vending machines and so on. For a variety of reasons, adoption has been very limited with jurisdictions choosing to focus on the core public transport offer, thereby foregoing broader payment applications.

REPORT RECOMMENDATIONS

1. Fares policy should be better articulated in Australian jurisdictions. This includes making clear what the objectives of fares policy are, and any trade-offs that are being made in setting the policy.
2. Fares policy, and particular fare changes, should make clear linkages between the outputs that the fare changes

are intended to support, especially in the case of above inflation fare increases. This would improve transparency and support a more mature discussion about the role that fares play in delivering (and improving) services.

3. Fares policy should be independent of the political cycle wherever possible, to ensure that continuity of policy objectives can be achieved free of political influence. There seems to be little doubt that fare levels across Australian jurisdictions are at an unsustainably low level and the balance between user pays and government subsidy needs to be addressed.
4. Franchise obligations should be made with appropriate consideration of fares policy, and in particular, consistency between future fares policy plans and future patronage / revenue obligations of operators would be desirable. Ticketing systems and architecture should be offered universally across a jurisdiction wherever possible, such that the lack of that system is not a disincentive to travel on any particular operator.



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