

# **PUBLIC TRANSPORT FARES**

**from 29 June 1997**

**CITYRAIL AND STA BUSES AND FERRIES**

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**  
OF NEW SOUTH WALES

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In October 1996, the Tribunal published a Final Report for its major inquiry into the pricing of public passenger transport services of CityRail and the State Transit Authority (STA). In the Final Report, the Tribunal proposed an approach to setting fares which takes account of the various policy objectives and constraints surrounding public transport.

The Tribunal recognised that CityRail's cost recovery is very low and many of the periodical and multi-mode tickets provide a very large discount on the equivalent distance cash fare. The Tribunal proposed real increases in CityRail fares of 15% over the next four years to reduce the gap between fare revenue and efficient operating costs.

The Tribunal still believes that such increases are reasonable in terms of passenger acceptability and in improving the financial sustainability of CityRail's operations. However, the Tribunal notes the Government's views on fare increases, the unsatisfactory level of productivity improvements and CityRail's recent poor operating performance.

The Tribunal is particularly concerned about the poor levels of reliability. The Tribunal has sought assurances from CityRail that performance will improve before future fare increases can be considered. The Tribunal will develop appropriate performance measures with CityRail.

***Given these factors, the Tribunal has decided to limit weighted average fare increases for CityRail to the CPI.***

In this determination, the Tribunal notes CityRail's desire to continue to rationalise its fare structure. The Tribunal supports this approach. However, it is concerned about the effects of the proposal on some travellers. The Tribunal has imposed a number of side constraints on individual fare increases to minimise any adverse impacts.

In the Final Report, the Tribunal considered that there was substantial scope for the STA to increase efficiency and improve cost recovery from its bus and ferry services. The Tribunal proposed setting fares that provide incentives for STA to achieve such improvements.

For Sydney Buses, the Tribunal considered that there was no case for an overall real increase in fares. For Sydney Ferries, the Tribunal proposed that STA look at a combination of increases in fares and examine ways of altering existing levels of services. For Newcastle Buses and Ferries, the Tribunal considered that a time-based fare is worth trialling in Newcastle.

***For these reasons, the Tribunal has permitted modest increases in some STA fares but has imposed limits on the extent of such increases.***

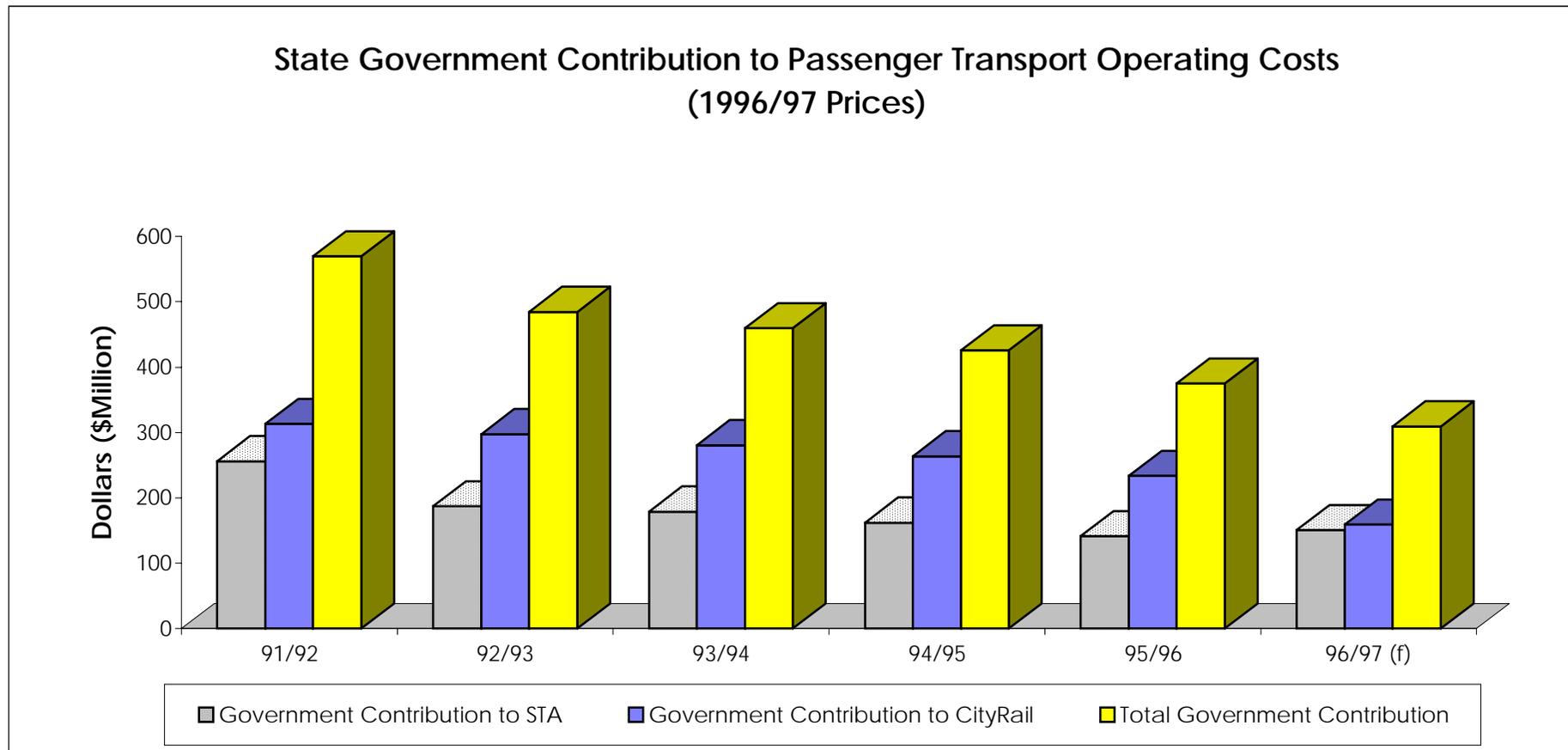
The Tribunal has allowed modest increases in a number of CityRail fares that will result in a weighted average increase in fares of 2.3%. The Tribunal has allowed modest increases in certain STA bus and ferry fares that result in a weighted average increase in fares of 2.3%. These increases are in line with the Tribunal's reference inflation figure.

Before the next fare determination, the Tribunal will examine closely the efficiency and service of CityRail and Sydney Buses and the service performance of CityRail. It is essential that these vital transport services be delivered at a fair cost to both passengers and taxpayers.

Thomas G Parry  
*Chairman*

**NSW GOVERNMENT TRANSPORT SERVICES**

***"State Government funding of public transport's operating costs has declined, but still costs taxpayers some \$309m per annum."***

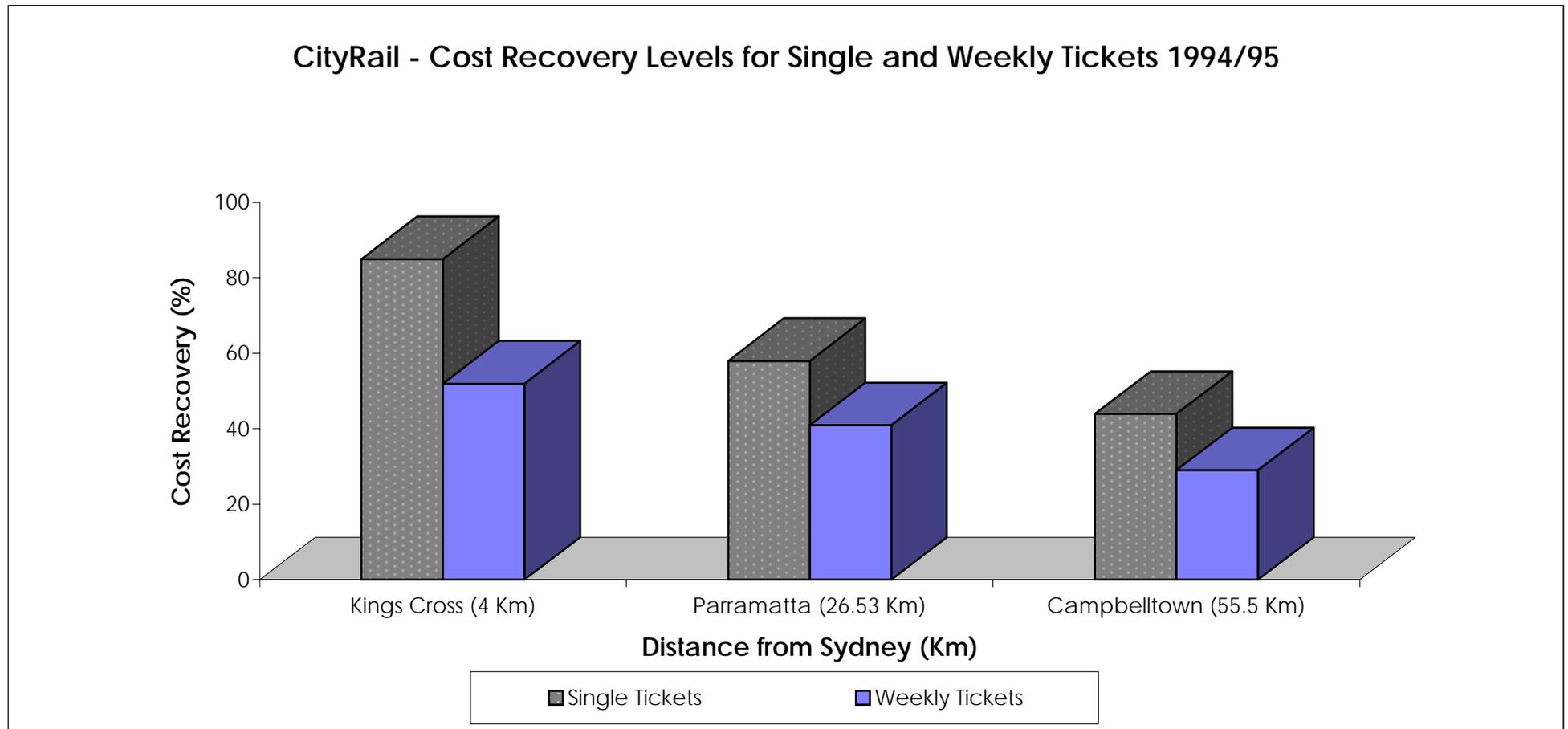


**Source:** CityRail & STA

**Notes:** Includes all concession and CSO payments.

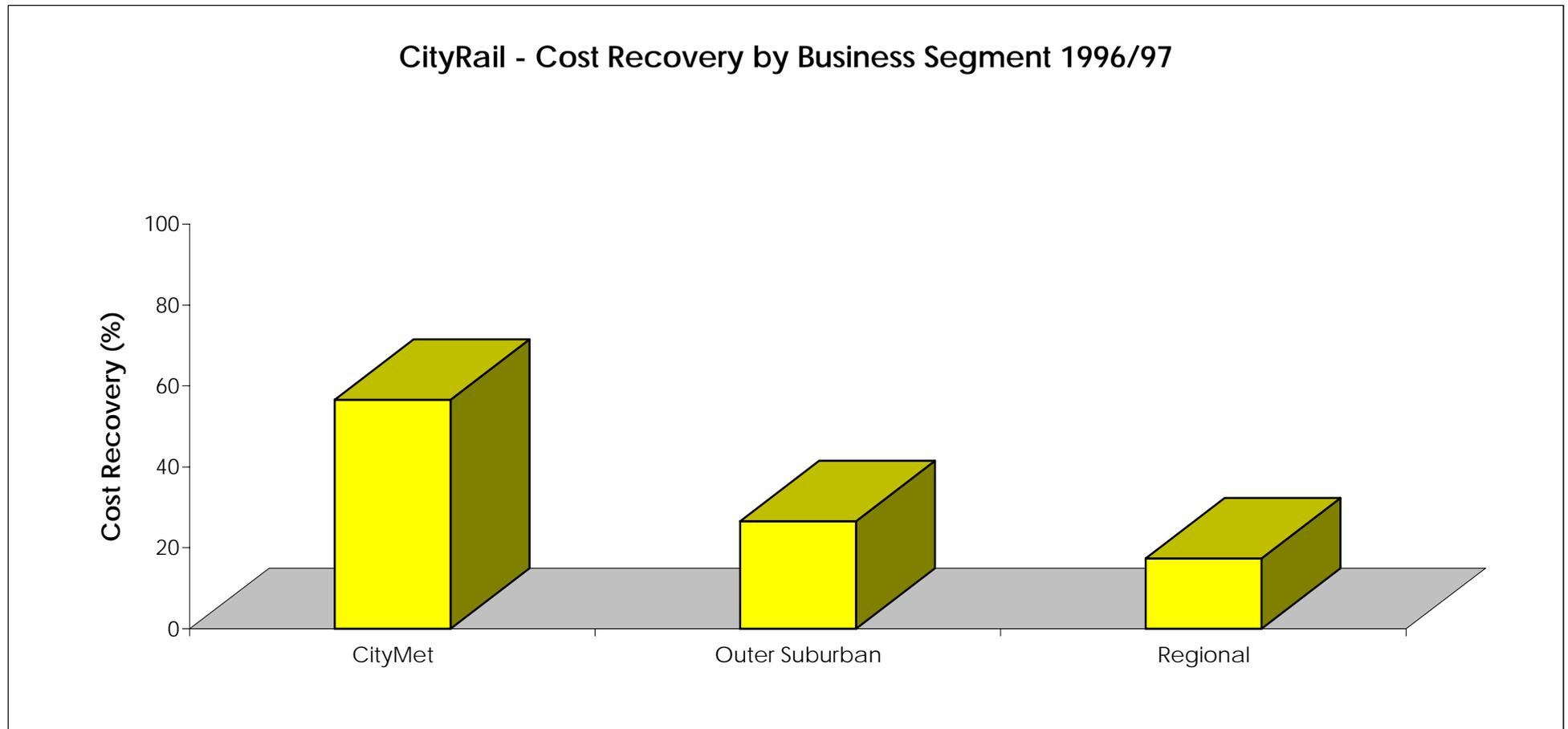
Excludes all capital payments and funding for Countrylink and private bus operators

***"The level of cost recovery for CityRail falls sharply with increased distance and for discounted weekly tickets..."***



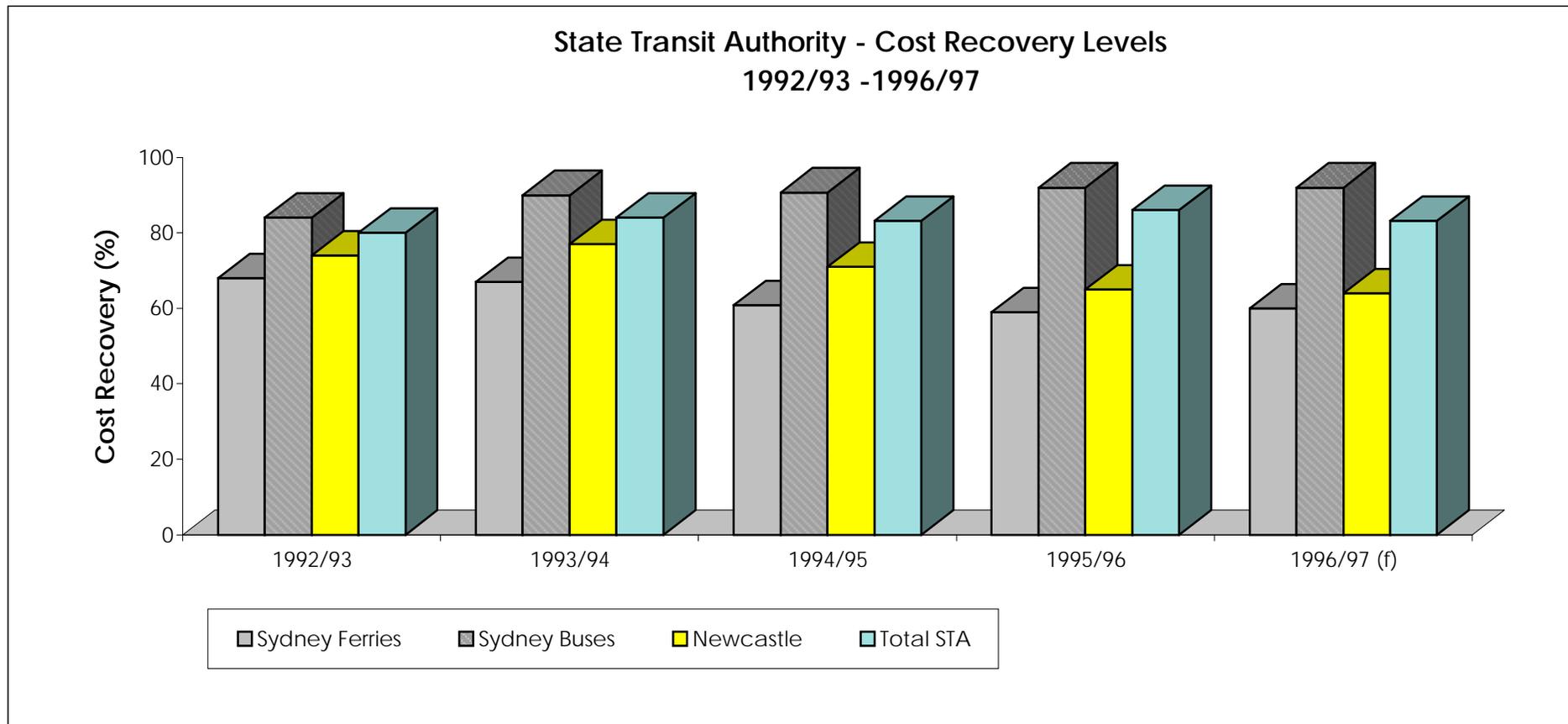
Source: CityRail Submission to Pricing Tribunal 1995.

***"The level of cost recovery for CityRail falls sharply with business segment..."***



Source: CityRail Submission to Pricing Tribunal 1997.

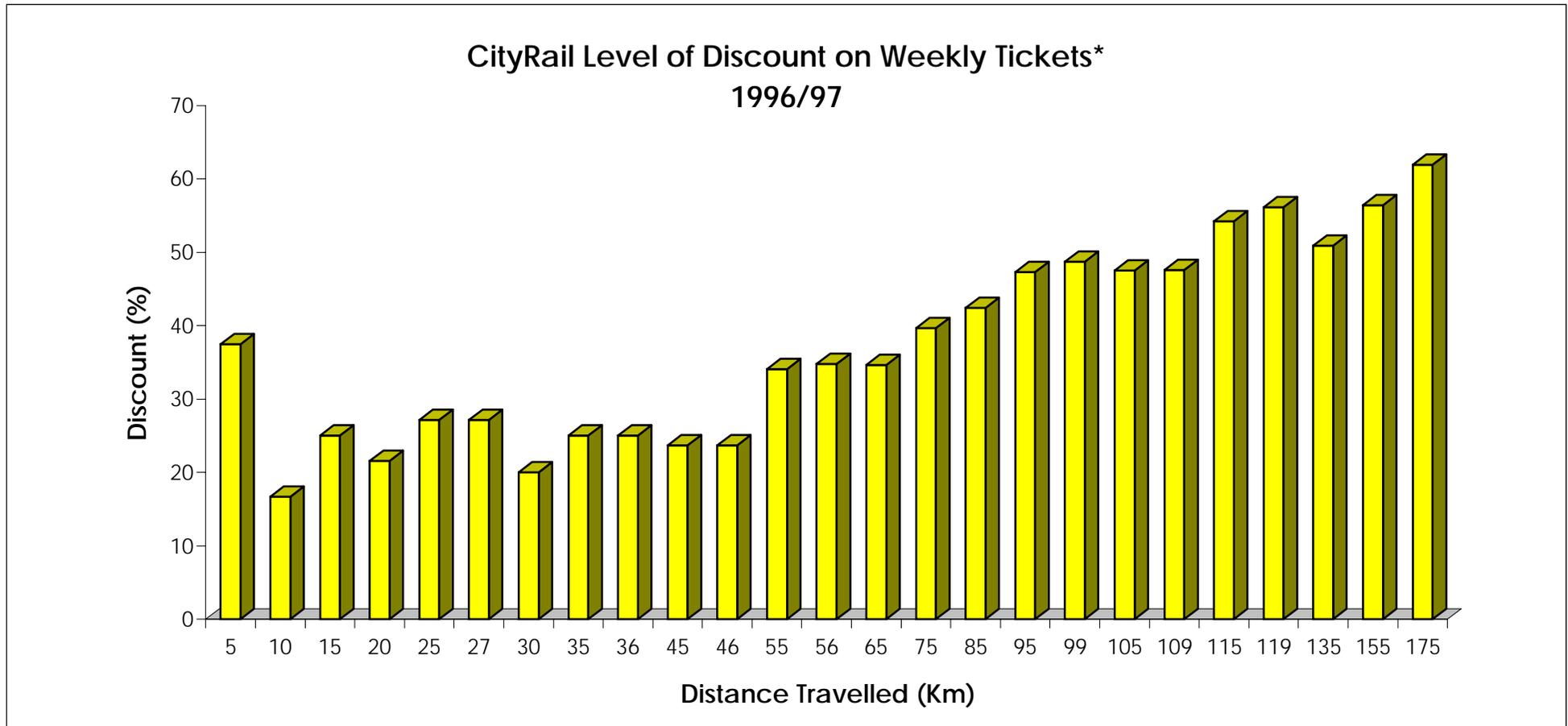
***"...cost recovery levels for the STA are generally much higher than CityRail, with the exception of Sydney Ferries and Newcastle services."***



Source: State Transit Authority.

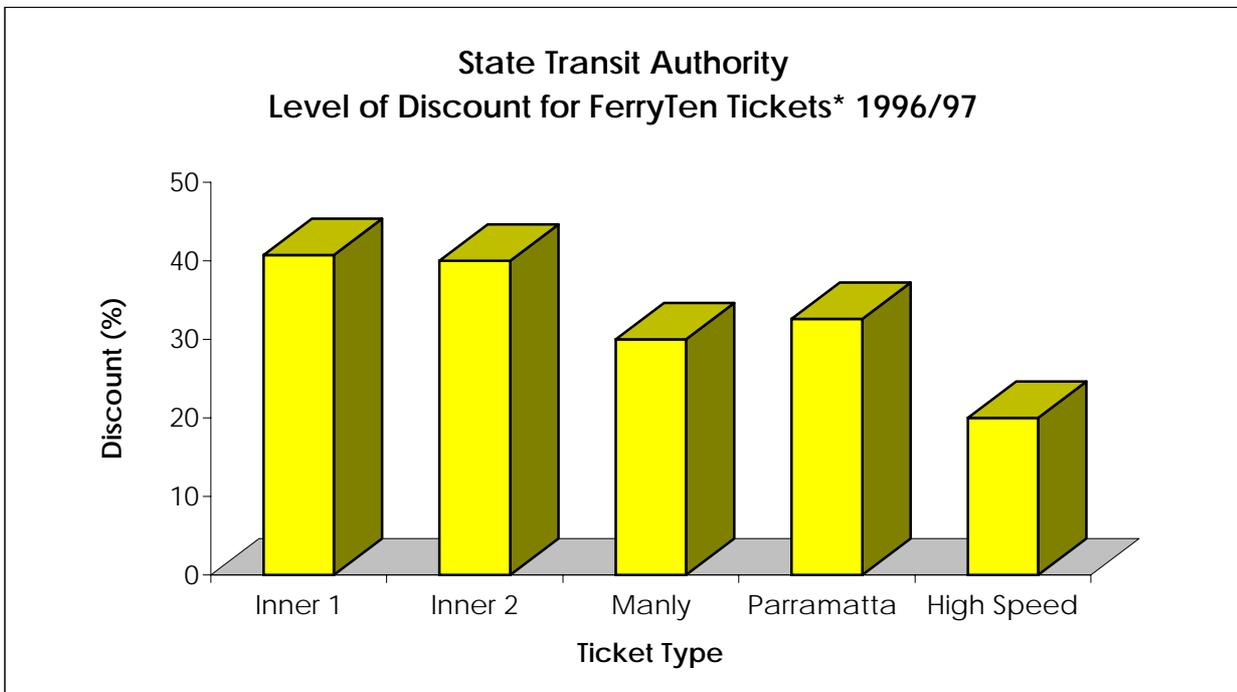
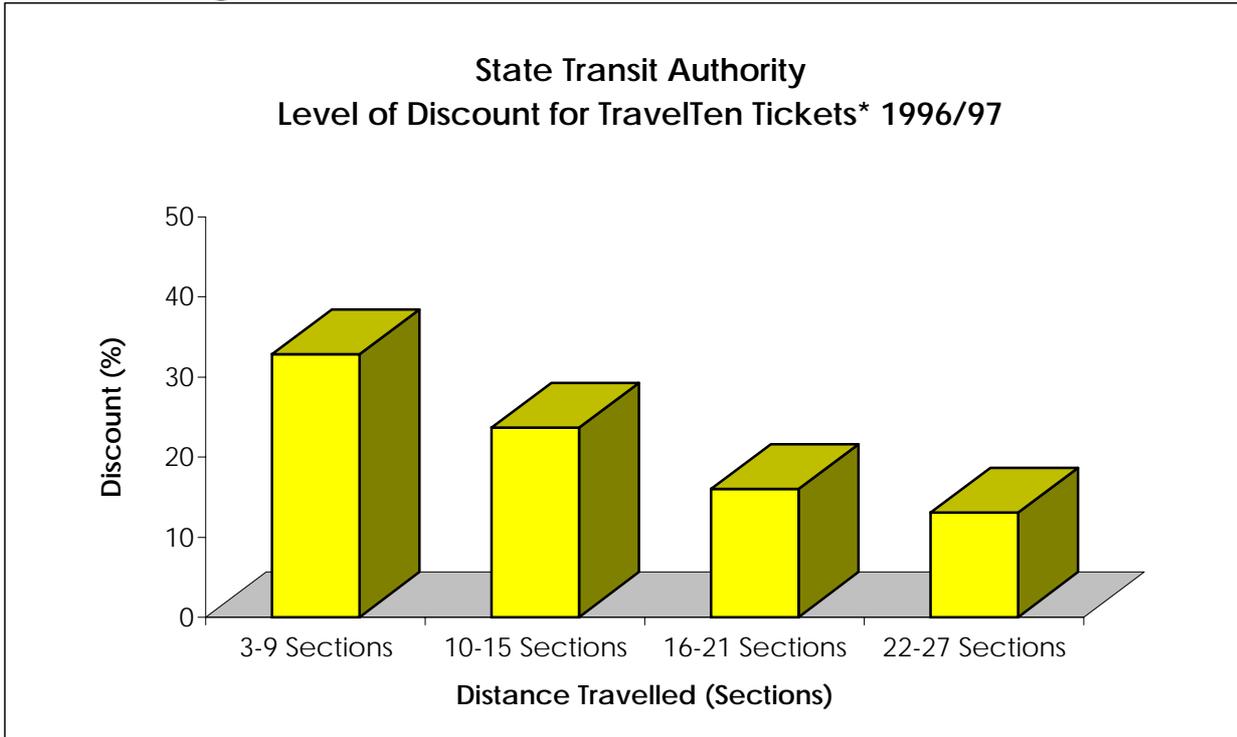
Note: Cost Recovery includes concession fares.

***"CityRail's discounts on weekly tickets (over cash fares) are as much as 62% for long distance travel..."***



\* Note: Discount on equivalent purchase of daily return ticket.

***"...however, STA's discounts for multi-trip tickets are more generous for shorter distance bus travel."***



\* Note: Discount on equivalent purchase of single cash fare.

**STATE RAIL AUTHORITY OF N S W**  
**REPORT TO THE PREMIER AND DETERMINATION**



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**  
OF NEW SOUTH WALES

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES  
UNDER SECTION 11(1) OF THE INDEPENDENT PRICING AND REGULATORY  
TRIBUNAL ACT, 1992**

**Matter No.:** SRD/97/01

**Report:** No 1, 1997

**Agency:** State Rail Authority, CityRail services

**Services:** Passenger transport services.

**Declaration of Government Monopoly Services under Section 4 of the Act:**

Government Pricing Tribunal (Passenger Services) Order 1992, No 3 dated 27 August 1992 -  
page 6431, Gazette No. 105

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## 1 INTRODUCTION

As required by Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Independent Pricing and Regulatory Tribunal has investigated proposals by the State Rail Authority (a standing reference agency in Schedule 1 of the Act) for maximum prices to be charged from 29 June 1997 for declared passenger transport monopoly services supplied by CityRail.

The Tribunal's determination of the maximum prices for these services is attached with this report.

## 2 THE PRICE DETERMINATION PROCESS

The Tribunal called for pricing proposals from CityRail. Submissions were invited from interested parties and the public on these proposals and other issues relating to the pricing of these services. Details of CityRail's proposals are shown below. A list of other submissions received is shown in an attachment.

A public hearing was held on 24 March 1997 at the Tribunal's hearing room, Sydney. Copies of all submissions and a transcript of the hearing are available for inspection at the Tribunal's offices, Level 2, 44 Market St, Sydney.

The Tribunal members who considered this determination were:

*Dr Thomas Parry, Chairman*

*Mr James Cox, Full-time Member*

*Mr Robert Bruce, Temporary Member.*

## 3 SUMMARY OF THE DETERMINATION

In the Final Report for the *Inquiry into the Pricing of Public Passenger Transport Services*, the Tribunal indicated that it supported real fare increases for CityRail. However, in making its determination, the Tribunal has considered the performance of CityRail over the past year, particularly with respect to on-time running, and the Government's views that fares should increase broadly in line with inflation. These factors combined have led the Tribunal to conclude that for 1997/98 the maximum fares should increase in line with inflation.

As a result of this determination, weighted average fares will increase by 2.33%. This is in line with the Tribunal's reference value for CPI of 2.34%. The main features of this determination for CityRail passenger fares are:

### *Cash fares*

- 91% of single journey passengers will pay the same fare as currently
- adult single journey fares for some trips of less than 45 kilometres will increase by up to 20 cents
- adult single journey fares for some longer distance trips will increase by up to 60 cents
- return fare tickets corresponding to the above single journey tickets will be set at twice the full fare. For 90% of return journeys, passenger fares will not increase.

- half fare tickets corresponding to the above single and return tickets will be set at half the corresponding adult fare. For 93% of half fare passengers, fares will not increase.
- adult off-peak (return) fares for distance bands up to the 215 kilometre band will be set at 1.2 times the equivalent single journey fare
- adult off-peak (return) fares for distance bands greater than the 215 kilometre band will be set at 1.05 times the equivalent single journey fare
- child off-peak fares will increase by 10 cents in band 1 and 20 cents in bands 2 and 3
- the price of the CityHopper ticket will be the cost of the return rail ticket (peak or off-peak) to the City plus an add-on. The price of the add-on will remain at \$3.40.

#### *Periodical fares*

- rail weekly fares will increase by a maximum of \$1 for distance bands up to 25 kilometres representing an increase of up to 10 cents per trip for a weekly ticket used ten times
- rail weekly fares will increase by a maximum of \$2 for distance bands greater than 25 kilometres representing an increase of up to 20 cents per trip for a weekly ticket used ten times
- Red and Green weekly TravelPass fares will increase by \$1, an increase of 10 cents per trip for a weekly TravelPass ticket used ten times
- all other rail/bus/ferry TravelPass tickets will remain frozen at 1996/97 fares levels
- the price of the 28-day and upwards periodical rail tickets ("Flexipasses") will increase by an amount corresponding to the increase in weekly tickets for that distance band. Flexipass prices will be calculated as tapered multiples of the rail weekly price, rounded to the nearest whole dollar amount.

All other fares are frozen at 1996/97 levels. Future fare increases will depend on CityRail achieving service quality improvements that are to be agreed between the Tribunal and CityRail. This would require CityRail to meet specified standards for reliability and quality of service.

## **4 MAJOR REVIEW OF PUBLIC PASSENGER TRANSPORT SERVICES**

In 1996 the Tribunal completed an *Inquiry into the Pricing of Public Passenger Transport Services*. A series of interim reports were released in March 1996. The Tribunal released a final report in October 1996.

In the final report the Tribunal found that:

- Significant scope for productivity improvements exists within CityRail's operations. Prior to an appropriate level of improvement being established, the Tribunal encourages CityRail to continue to pursue real cost reductions of at least 2.5% per year (p 45).
- CityRail should be able to attain higher levels of cost recovery for above rail costs on the CityMet service. A substantial government subsidy will still be required for the below rail costs. This subsidy will recognise the externality benefits of the rail service to the

community. Targeted concessions to particular groups will entail specific subsidies (p 47).

- CityRail's fares for outer suburban customers should increase in line with CityMet fares. It is unlikely that the outer suburban services can ever achieve levels of recovery of operating costs comparable to those achievable within CityMet (p 47).

With regard to fares the Tribunal proposed:

- A medium term price objective of a weighted average increase in real terms of 15% over the four years from 1996/97 to 1999/2000 (p 48).
- Phasing in real increases for CityRail's 'cash' single and return fares and off-peak fares (pp 48-49) periodical and multi-ride tickets (p 48).
- Phasing in real increases for over the period to 1999/2000 (p 49).

## 5 SUBMISSIONS

In setting fares, the Tribunal encourages public discussion of the key issues. This enables a better understanding of the issues, provide a broader range of inputs than otherwise possible and promote community acceptance of the final decision. The public consultation process for the annual determination is an important element in this.

### 5.1 Pricing proposals made by CityRail

CityRail made a submission to the review of fares. In that submission, CityRail sought a 4.6% real increase in weighted average fares. CityRail's proposals for 1997/98 were:

- weighted average fare increase of 4.6% real (ie 6.9% nominal)
- continue to restructure fare bands with a long term goal of reducing to 23 bands using single journey fares as the basis for other ticket types
- off-peak fares to be set at a multiple of 1.2 times the single fare
- weekly fare bands to align with single bands
- increase weekly fares by up to \$2
- increase some TravelPass tickets by \$2, others by \$1
- increasing child off-peak fares by 10 cents for zone 1 and 20 cents for the other zones.

Following the public hearing, CityRail provided a number of options for lower fare increases than those originally proposed.

### 5.2 Other submissions

A list of submissions from groups other than the transport operators is given in the attachment. These submissions have given diverse views on fare increases. In summary, the submissions note:

- The inability of CityRail to maintain the timetable (Blue Mountains Commuter and Transport Users Association)

- Need for internal reforms of SRA (Commuter Council)
- Fares should not increase while CityRail continues to be inefficient (Blue Mountains Commuter and Transport Users Association) or while service is poor (P Jackson)
- Fares should reduce by 25% for not providing guaranteed levels of service (Campbelltown & District Commuter Assn)
- Fares should not increase by more than CPI (Commuter Council, Department of Transport, Combined Pensioners)
- Fares should only increase when guaranteed service is provided and then by CPI-X (where X =±1) (Campbelltown & District Commuter Assn, P Jackson)
- A single journey off-peak fare should be introduced (Commuter Council)
- There should be a fully integrated public transport system (Combined pensioners)
- Support aligning weeklies with singles (Action for Public Transport)
- Support setting off-peak fares at 1.2 times the single fare (Action for Public Transport)
- Support a moderate fare increase (Action for Public Transport)
- Query increasing Red and Green TravelPass by \$2 and others by \$1 (Action for Public Transport)
- Gradual reduction in large discounts (Action for Public Transport)
- Support Tribunal Final Report approach (Treasury)
- Increase for weeklies should be capped at \$2 (Treasury)
- Impacts of fare increases on women need to be assessed (Department for Women).

## 6 ISSUES CONSIDERED UNDER SECTION 15

Under Section 15 of the *Independent Pricing and Regulatory Tribunal Act 1992*, the Tribunal is required to have regard to a number of matters and indicate what regard it has had to them. These matters are outlined below.

### 6.1 Costs and efficiency

- \* *the cost of providing the services concerned [S15(1)(a)]*
- \* *the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers [S15(1)(e)]*
- \* *the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body [S15(1)(h)]*
- \* *the need to promote competition in the supply of the services concerned [S15(1)(i)]*

#### 6.1.1 Operating costs

CityRail's fully accrued costs for 1996/97 are \$1,090.9m (including interest, depreciation and other accruals). Table 1 gives a breakdown of CityRail's costs in 1996/97. The Tribunal notes that farebox revenue is approximately equal to the operating expenditure (payroll and

major periodic maintenance). Government contributions, either CSOs or concession reimbursements meet all other costs.

CityRail's services are divided into three operating segments: CityMet, Outer Suburban and Regional. These segments are very different in terms of costs and revenue. Macarthur and Waterfall bound the CityMet segment in the south, Penrith in the west, Richmond in the north-west, Cowan in the north. This represents CityRail's metropolitan electric services. The Outer Suburban segment serves the area beyond the CityMet region as far as Newcastle in the north, the Blue Mountains (Lithgow) and Wollongong (Dapto). It includes CityRail's inter-city services. The Regional segment is essentially the non-electric services that operate in the Hunter Valley, to the Southern Highlands and to Nowra. The Southern Highlands services are the only Regional services that operate into Sydney Terminal station (Central).

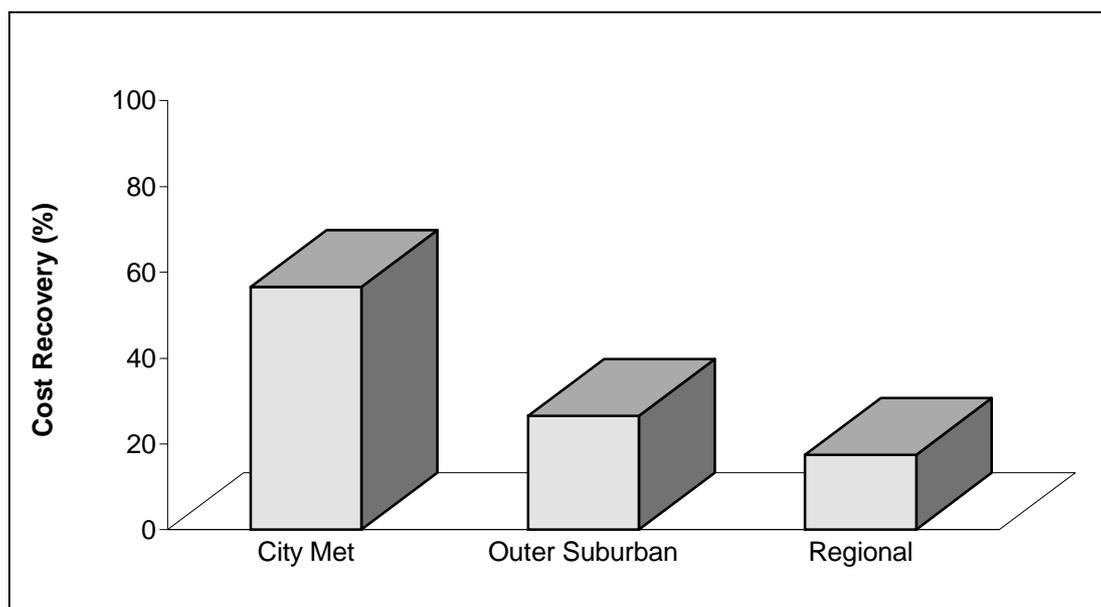
Figure 1 shows that the CityMet recovers just over 50% of its above and below rail costs. Outer Suburban services recover 27% while the Regional services recover only 17% of the costs. To achieve full cost recovery within each business segment, fare increases would need to be different for each. However, it would not be easy to do this within the existing fare structure. Tickets are sold on a distance basis not on which services are used. Different fares by business segment would require a complete overhaul of the fare structure and would lead to significant increases in fares for Outer Suburban and Regional rail users.

**Table 1 CityRail costs and revenues (\$m1996/97)**

		1996/97	1997/98
<b>Costs</b>			
Operating expenditure		376	375
Access		345	316
Electricity		35	34
Depreciation & Accruals		180	181
Inter Entity Charges (FreightCorp and RSA)		6	6
Transfer charges			
Countrylink	0.71		
Network Control	5.06		
Fleet maintenance	110.12		
Business services	18.90		
Corporate Finance & Administration	6.30		
Head office	7.23	148	137
<i>Total CityRail Costs</i>		<i>1091</i>	<i>950</i>
<b>Revenue</b>			
Farebox revenue	333.6		
Other operating revenue	29.0		
Govt Concessional reimbursement	114.7		
Govt CSO funding	613.6		
<i>Total</i>		<i>1091</i>	<i>950</i>

Source: SRA submission, pp 25, 27.

Includes above and below rail costs and revenue and is on an accrual basis.

**Figure 1 CityRail cost recovery 1996/97**

Based on accrued costs. Excludes payments for non-commercial services.  
Source: CityRail Submission 1997.

### 6.1.2 Capital expenditure

Rail capital expenditure can be broken into the following expenditure items: below rail infrastructure (eg maintenance and construction of track, signalling and catenary<sup>1</sup>), rollingstock (maintenance, refurbishment and acquisition) and major periodic maintenance (overhaul of rollingstock on a periodic basis).

With the restructure of the rail industry,<sup>2</sup> the Tribunal understands that Rail Access Corporation (RAC) is responsible for capital expenditure for below rail infrastructure. CityRail would pay for this through the access charge.

CityRail's capital expenditure until 2000/2001 is shown in Table 2.

**Table 2 CityRail Capital expenditure projections (\$m 1996/97)**

Year	1996/97	1997/98	1998/99	1999/2000	2000/2001
<b>Growth</b>	10.90	32.95	53.85	98.80	122.60
<b>Enhancement</b>	49.40	67.89	67.60	69.34	48.05
<b>Major periodic maintenance</b>	89.40	77.48	83.55	75.06	73.07
<b>Total CityRail</b>	149.70	178.32	205.00	243.20	243.72
<b>RAC Specific Projects</b>	130.60	166.80	101.80	57.80	(23.00) <sup>a</sup>
<b>Total Capex</b>	280.30	345.12	306.80	301.00	220.72

Source: CityRail

Note: <sup>a</sup> Negative number represents revenue from land sales at the end of New Southern Railway construction

<sup>1</sup> Catenary is the overhead wiring and associated supports used to provide electricity to trains.

<sup>2</sup> The SRA was restructured in July 1996. Ownership and provision of access to the tracks has been placed in a separate corporatised business (Rail Access Corporation). Freight Rail has been separated and corporatised. Track maintenance and control functions have been consolidated in an independent Railway Services Authority. Countrylink is the rural passenger operator of SRA.

CityRail receives grant funding for its rollingstock and facilities such as maintenance centres. CityRail also covers the cost of refurbishing its rollingstock. This latter capital spending is required to maintain CityRail's assets at its current level.

The increased capital expenditure for growth from 1998/99 represents CityRail's forecast for new rollingstock (fourth generation train) to meet projected passenger demand and replacement of existing rollingstock that can no longer be refurbished. In the Final Report<sup>3</sup>, the Tribunal has cautioned on the need to monitor patronage forecasts and the need for this level of capital expenditure.

### 6.1.3 Scope for efficiency gains

A number of studies have examined the efficiency of the SRA. In 1988, Booz Allen and Hamilton Limited set productivity targets for CityRail. In 1993/94 Mercer Management Consulting<sup>4</sup> analysed CityRail's progress in respect of these targets. The latter study found that CityRail operates very efficiently by world standards in most aspects of asset productivity<sup>5</sup> and is well on the way towards achieving best practice staff productivity<sup>6</sup>. The Tribunal believes that CityRail is still well short of achieving efficient operation in areas such as overheads and station operation.

In the Final Report, the Tribunal suggested that CityRail should be able to achieve real reductions in operating expenditure of 2.5% per annum over the next five years. CityRail considers that this level of savings may not be attainable within the timeframe without requiring reduction in front-line customer service areas. In its submission, NSW Treasury warns that this approach to setting fares on the expectation that these improvements are to materialise could lead to revenue shortfalls if savings are not achieved.<sup>7</sup> Further, CityRail will not be able to attain any savings while they put on new staff. In its submission, CityRail has indicated that it is putting on 256 new staff:

The majority ... have been employed in either station or train operations to ensure that CityRail's commitment to improve customer service and business growth can be achieved.<sup>8</sup>

The Tribunal has considered CityRail's and Treasury's concerns. However, the Tribunal remains of the view that CityRail has scope for further productivity improvements. The Tribunal believes that CityRail should continue to review its operating costs as a means of reducing the impost on Government funds.

### 6.1.4 Competition

The National Competition Policy seeks to "facilitate effective competition to promote efficiency and growth".

The SRA was restructured in July 1996. As part of this restructure, the Government established a Rail Access Regime for NSW. Under this regime operators are able to bid for

<sup>3</sup> IPART. *An Inquiry into Pricing of Public Passenger Transport Services: Final Report*, p 45.

<sup>4</sup> Mercer Management Consulting, Mid Term Strategic Review, Executive Summary, December 1993.

<sup>5</sup> Asset productivity is a measure of how effectively the assets of the organisation are used eg passenger journeys per train.

<sup>6</sup> Staff productivity is a measure of how effectively the staff of an organisation are used, eg passengers per employee.

<sup>7</sup> NSW Treasury, Submission to Tribunal, 1997, p 5.

<sup>8</sup> SRA/CityRail, Submission to IPART February 1997, p 18.

access to the rail network. This competitive regime will be most relevant to freight traffic, but all operators will have to pay for access to the network. This has an impact on CityRail costs. The rail access regime ensures priority access for passenger trains to relevant parts of the network. However, the NSW Government is funding CityRail and Countrylink for their access charges through increased CSO payments.

## 6.2 Consumer protection

- \* *the protection of consumers from abuses of monopoly power in terms of price, pricing policies and standard of services [S15(1)(b)]*
- \* *the effect on general price inflation over the medium term [S15(1)(d)]*
- \* *the social impacts of the determinations and recommendations [S15(1)(k)]*

### 6.2.1 Pricing

CityRail has proposed restructuring its fare setting based on the following principles:

- the same distance bands for single, off-peak and weekly tickets
- a pricing formula for single tickets based on a fixed (flagfall) component and a per kilometre charge with fares for other tickets being based on the single fare
- future percentage increases to be applied to a base fare scale and actual fares only increase when the calculated value is rounded to the next 20 cents
- off-peak fares are a constant multiple of the single journey fares
- weekly tickets are a multiple of the single journey fare with this multiple decreasing as distance increases.

These principles should provide a more transparent approach to fare setting, making fares more cost-reflective and eliminating levels of cross subsidies that currently exist within the fare structure. Changes to the structure will have differing impacts on customers.

While supporting this broad approach to fare setting, in making its determination the Tribunal has sought to minimise the impact of restructuring on individual customers. Therefore the Tribunal has placed constraints on CityRail in implementing its proposals by staggering increases over two or more years.

### 6.2.2 Service standards

CityRail's Community Service Obligation (CSO) contract specifies performance standards to be met. These include both operational and safety performance standards. Service standards are discussed further later in this report.

### 6.2.3 Impacts on cost of living

The Australian Bureau of Statistics conducts a Household Expenditure Survey. The most recent survey indicates that public transport charges comprise 0.41 % of an average household's weekly expenditure in NSW.<sup>9</sup> The proposed increase in charges will have a negligible effect on the overall cost of living within the Greater Metropolitan Region.

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<sup>9</sup> ABS. *Household Expenditure Survey Australia 1993-94. Detailed Expenditure Items.* Cat No 6535.0. Table 4.

The Tribunal has estimated that the fares set out in Schedule 1 of this report together with those in Schedule 1 of Report No 2 for STA would result in an increase in the CPI of less than 0.1%.

#### 6.2.4 Social impacts

The Tribunal has been concerned about the impacts of any increases on passengers. The Tribunal has adopted a general approach of ensuring that each individual fare increase is not unreasonable, taking into account the circumstances of passengers.

Putting a somewhat different light on this issue, in its submission, the Department for Women suggests that the Tribunal should consider the gender equity impacts of its fare determination. Of particular concern are the off-peak and weekly tickets. The Tribunal considers that the gender equity impacts of the fare increases set out in this report are minor.

In this determination, the Tribunal has set constraints on individual fares to minimise impacts on travellers. Table 3 shows the percentage of users of each ticket type that would be affected by a fare increase. For some ticket types, only a small proportion of all travellers will pay more for their tickets. Most single and return journey passengers would not have a fare increase.

**Table 3 Impacts of fare increases by ticket type**

<b>Ticket type</b>	<b>Weighted average increase (%)</b>	<b>Proportion affected (%)</b>
Single	0.7	8
Return	0.8	7
Off-peak	3.2	40
Weekly	3.3	77
TravelPass	3.1	85

Source: CityRail

The most significant impact on individual fares is for periodical tickets (rail weekly and TravelPass) for which the highest discounts are offered. More than 75% of weekly users will incur a small increase.

Forty percent of off-peak ticket users will have increased fares. Setting the off-peak fare for longer distance journeys (greater than 215 kilometres) at 1.2 times the single journey fare would result in some high increases. However, this represents less than 1% of off-peak travellers. Despite the low number of users, the Tribunal is concerned about the impact of going to a multiplier of 1.2. For this determination, the Tribunal has set the off-peak (return) fares for the longer distance journeys at a lower multiple of the single fare.

### 6.3 Financial viability

- \* *the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of NSW [S15(1)(c)]*
- \* *the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets [S15(1)(g)]*

### 6.3.1 Rate of return

The Government makes a contribution to CityRail for 54% of the total operating costs on an accrual basis. CityRail's capital program is funded separately by Government. As noted in SRA's submission to the Major Review and in the Tribunal's Interim Report No 2, substantial fare increases would be required for CityRail to achieve a positive rate of return.

### 6.3.2 Capital structure

CityRail meets about 54% of all its expenses from its revenues. That is, CityRail's revenue is not sufficient to cover its costs of operations and maintenance. It makes no contribution towards the cost of debt and equity finance. These costs are borne solely by the Government.

Any net increase in revenue, for example a fare increase not offset by reduced patronage, helps reduce the cost to government. While CityRail relies on deficit funding capital structure considerations are irrelevant. However, the Tribunal would question whether debt financing is the optimal source of funding for a loss making entity.

## 6.4 Environmental issues

- \* *the need to maintain ecologically sustainable development by appropriate pricing policies that take account of all the feasible options available to protect the environment [S15(1)(f)]*
- \* *considerations of demand management and least cost planning [S15(1)(j)]*

### 6.4.1 Ecologically sustainable development

Ecologically sustainable development (ESD) is described in Part 3 of the *Protection of the Environment Administration Act 1991* as requiring the "effective integration of economic and environmental considerations" and the implementation of "improved valuation and pricing of environmental resources." The Australian Conservation Foundation defines ESD as:

Creation of a society which achieves the joint goals of a sustainable environment, a thriving economy and a high material standard for all its citizens.<sup>10</sup>

Urban and transport planning have significant roles to play in developing a sustainable community. As noted by the Clean Air 2000 Taskforce

Increases in traffic congestion and inequitable levels of transport access in the Sydney region reinforce the need to act now to sustain a good quality of life for the Sydney community.<sup>11</sup>

The Tribunal notes that Sydney's urban form and uneven access to transport limits the attraction of public transport. These matters are outside the control of the Tribunal. However, the Tribunal recognises that its determinations may cause some price sensitive rail users to shift from public transport to other forms of transport.

<sup>10</sup> Australian Conservation Foundation, *The environmental role of the commonwealth*, Outlook Paper No 1, Melbourne University Press, Melbourne, 1996, p 4)

<sup>11</sup> Clean Air 2000 Taskforce. "Shaping Sydney's Transport - a framework for reform". Discussion Paper, March 1996, p 4.

Estimates of price sensitivities provided by the Institute of Transport Studies<sup>12</sup> (ITS) suggest that the increases determined by the Tribunal would have a minute effect on patronage.

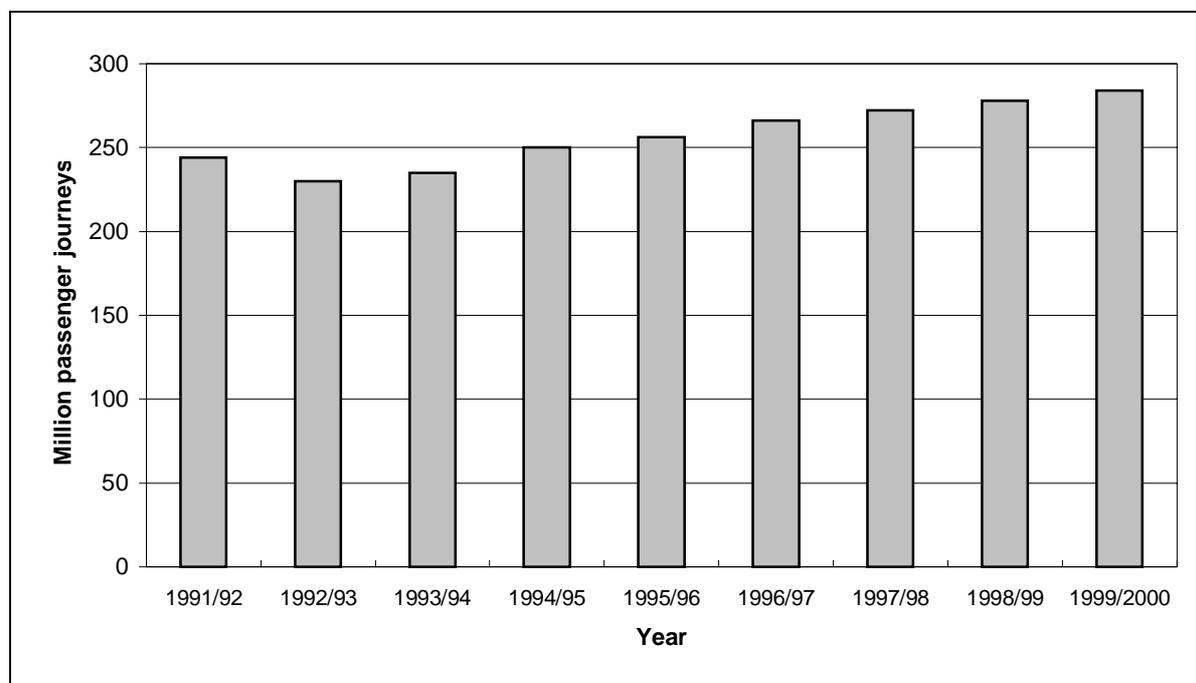
#### 6.4.2 Demand Management

CityRail has conducted a number of Customer Perception Surveys. In a survey conducted in 1994 frequent users of CityRail thought that prices charged for travel were a lower priority than issues such as safety, on time running information and quality of service.

This information suggests that prospective CityRail patrons wanted improvements in on-time running, cleanliness and safety. Actual fare levels were less of a concern in the travel decision making process.

As shown in Figure 2, after dropping in 1992/93, passenger journeys have grown steadily since. CityRail projects growth through to the year 2000.

**Figure 2 CityRail passenger journeys, 1991/92 – 1999/2000**



Source: CityRail.

<sup>12</sup> A non-technical version of the ITS report was released by the Tribunal. IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, October 1996.

## 6.5 Standards

\* *standards of quality, reliability and safety of the services concerned [S15(1)(l)]*

Quality, reliability and safety standards are of particular concern to passengers. The Tribunal notes that:

CityRail's mission is to encourage more people to travel by train by providing fast, safe, reliable services which exceed customer expectations.<sup>13</sup>

### 6.5.1 Quality and reliability

In its submission, CityRail provided performance indicators it considers critical to customer satisfaction. These include reliability, cleanliness of trains and safety.

The Tribunal has observed significant reductions in reliability during the year with CityRail's on-time running declining and many reports of high levels of customer dissatisfaction. At the public hearings, a representative of CityRail stated:

Since that time [introduction of the new timetable in November 1996] our on time running has continued to suffer quite badly and a number of initiatives have been put in place to rectify that problem.<sup>14</sup>

CityRail has provided limited information to the Tribunal on initiatives to increase reliability. Information provided suggests that major improvements will occur when further timetable changes are implemented on 15 June to restore most of the previous timetable. This view is based on the premise that the old timetable produced satisfactory levels of reliability and that these levels can be replicated simply by reintroducing the old timetable.

Licence conditions of some government owned corporations provide for a rebate if service is not delivered (eg Hunter Water Corporation and Sydney Water Corporation). A key issue for CityRail is whether it should rebate customers for poor service. It is difficult to identify individuals who have been affected by any loss of service. Refunding them would be difficult. However, the fares for the coming year could recognise this.

The Tribunal has sought written guarantees from the Chief Executive of SRA that reliability would improve before granting fare increases, and he has assured the Tribunal that operating performance will improve in the future.

Based on this assurance the Tribunal has agreed to fare increases that are in line with inflation. However, the Tribunal is not prepared to grant real fare increases while performance is not up to required standards.

The Tribunal proposes to review the question of reliability for the 1998/99 determination. Prior to the next determination the Tribunal and SRA will jointly develop a range of performance measures that will form the basis of future fare increases. These measures will include items specified in the CSO Contract such as: on-time running, scheduled services operated and customer satisfaction. The Tribunal will be seeking details on how CityRail calculates these indicators.

<sup>13</sup> SRA, Submission from Tribunal, 1997, p 6.

<sup>14</sup> IPART, Transcript of Public Hearing 24 March 1997, p 6.

*The Tribunal considers that SRA's performance does not support the case for fare increases above CPI.*

## 6.5.2 Safety

The Rail Safety Act 1993 requires CityRail, as a rail operator, to be accredited by the Director-General of the Department of Transport. CityRail must have approved safety standards and procedures in place. CityRail's CSO contract specifies safety performance standards. These relate to items such as collisions, derailments, falls and strikes. Table 4 gives safety performance for 1995/96 and 1996/97 (year to date). In its submission, CityRail has indicated that it has met all safety performance standards.

**Table 4 Safety performance measures**

	<b>Minimum Performance Standard</b>	<b>Performance 1995/96</b>	<b>Performance 1996/97 (Year to date)</b>
Collisions	0.25/MPJ	42	5
Derailments	0.20/MPJ	42	3
Falls	2.5/MPJ	696	284
Strikes	2.25	130	35
Fires and explosions	0.30/MPJ	60	19

Source: CityRail

Notes: MPJ - Million passenger journeys  
Strikes – incidents involving hitting animals and other objects

## 7 OTHER ISSUES CONSIDERED BY THE TRIBUNAL

### 7.1 Government contributions to operating losses

As noted earlier (Table 1), the Government contributes large amounts to CityRail through concession reimbursements and CSOs. Providing services below full costs requires subsidy and, hence, increases the strain on the State's fiscal capacity. Pricing services below cost also means that rail users do not bear the full costs of decisions about their residential and working lifestyles. Normally such subsidies from the general taxpayer would be undesirable; but there are other important considerations that require examination in pricing public transport, such as environmental benefits.

These considerations include the facts that road users are charged through registration and petrol levies (which have no relevance to where travel is undertaken) and the comparative social and environmental benefits of rail passenger transport in Sydney, versus the use of private vehicles or road-based public transport. In recognition of this, the Tribunal suggested in its major review that no more than the above rail costs of providing rail passenger transport should be recovered from the farebox.

### 7.2 1996/97 determination

In its 1996/97 determination, the Tribunal endorsed:

- The introduction of a master fare scale.
- Restructuring of fare bands to provide finer graduation for the shorter distances and a smaller number of fare bands (30 down to 23).

- Off-peak fares directly related to single journey fares.

The Tribunal considers that the initiatives contained within that determination should be continued with in 1997/98.

### 7.3 Discounts on multi-ride fares

Multi-ride (weekly and other periodicals) and multi-mode (TravelPass) tickets have provided large discounts from the single journey fares to commuters. In previous determinations, the Tribunal has sought to reduce the discounts on weekly tickets by increasing the weekly fares while holding single fares constant. Despite this, data presented to the Tribunal indicates that the discounts for the weeklies and the short distance TravelPass remain substantial.

A key issue is the appropriate level of discount for weekly tickets. In a study undertaken for the Tribunal, Symonds Travers Morgan noted that “for international cities weekly tickets are generally priced at between 7.5 and 11.0 times the price of the single journey ticket”.<sup>15</sup> Reasons for offering a discount vary. For CityRail, the benefits of multi-trip tickets, such as weeklies, are improved cash flow and the need for less ticket staff on a daily basis. From the passengers perspective, the benefits are improved travel time by not having to purchase tickets for each journey, flexibility of unlimited use of the ticket over seven days and for multiple trips on any one day. On balance it could be argued that the passenger benefits outweigh the operator benefits and a much lower discount may be appropriate. However, it is unlikely that passengers would be attracted to purchasing weekly tickets if the discount was set much below 20%.

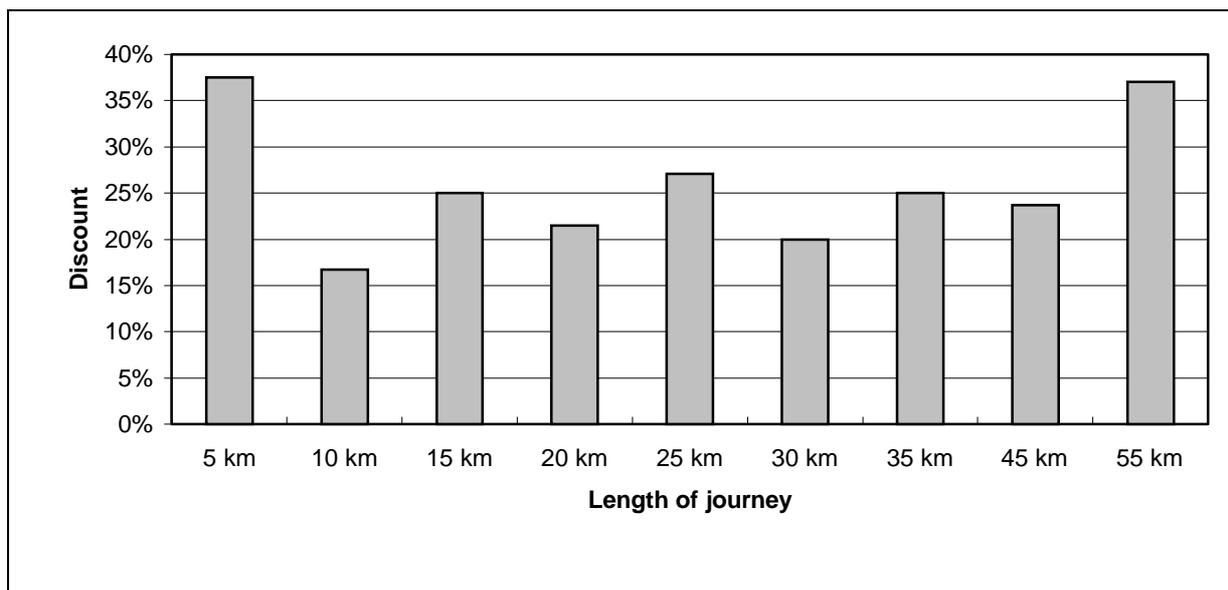
CityRail suggests a discount of 20% may be appropriate for weekly tickets. The Tribunal accepts this figure as a reasonable guide and believes that, in general, discounts for weekly tickets should not be less than 20%. Across all distance bands, very few have weekly discounts below 20%. However, as shown in Figure 3, for trips within 55 km of the originating station most weeklies offer discounts around 20%. However, the 5 km and 55 km tickets offer quite large discounts.

Further, as distance increases beyond 55 km, the discounts become much greater. For these distances, very high fare increases would be required to reduce these low discounts. CityRail proposes that higher discounts continue for the very long distance bands.

In light of the progress in reducing the level of discount for most of the shorter distances to more reasonable levels, the Tribunal considers that significant gains from the progressive reduction of discount levels (for trips less than 55 km) should continue to be pursued. This determination addresses this issue.

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<sup>15</sup> IPART. *Fares and Ticketing Policies and Practices: International Review*, A report to the Independent Pricing and Regulatory Tribunal by Symonds Travers Morgan Pty Ltd. Research paper No 6, October 1996, pp 32-33.

**Figure 3 Discounts for weekly tickets, 1996/97**

## 8 BASIS OF THE TRIBUNAL'S DETERMINATIONS

### 8.1 Overview

As required under its Act, the Tribunal attempted to balance the often conflicting interests of transport operators, travellers, taxpayers and community groups.

***In determining the maximum CityRail fares from 29 June 1997, the Tribunal seeks the most acceptable trade-off between the interests of passengers and the benefits to taxpayers of reducing CityRail's fare revenue shortfall.***

CityRail is best placed to design optimal structures and set individual fares. The Tribunal has considered the arguments put forward in the various submissions and at the public hearings. The determination reflects the Tribunal's judgement on the relative merits of the arguments.

In setting maximum prices for these services, the Tribunal wishes to ensure that CityRail retains responsibility, as far as possible, for developing pricing strategy. Following consideration of the submissions provided, the Tribunal proposed to CityRail an average level by which fares could increase and a broad set of constraints on increases for particular fares. The maximum fares in the determination result from CityRail applying these constraints.

### 8.2 Restructuring of fare bands

In the longer term, CityRail proposes to reduce the total number of single-journey bands to 23. This would mean that the single, off-peak and weekly fare bands are the same. This realignment of fare bands could be achieved in one determination. However, increases for some bands would be unacceptable to both the Tribunal and the community. CityRail has

sought to implement this policy over a number of years. Fare increases in 1997/98 will bring CityRail's fare structure closer to its goal of 23 fare bands.

Restructuring fare bands has four effects.

1. There are more fare bands within the CityMet area with uniform distances in each band. This will provide a better distance base for fares.
2. Very longer distance trips (greater than 305 km) will have the same fare. As there are very few tickets sold over these distances, this simplifies the fare scale.
3. Off-peak fares have the same bands as peak fares. This links off-peak fares to the single journey fare uniformly.
4. In time, weekly fares will be aligned to the single journey band structure. Again this will allow linking the two by formula.

The existing weekly fare bands are very coarse because two adjacent single ticket bands are generally joined together. Customers who travel only relatively short distances within each band tend to be disadvantaged by this. This year's determination addresses this coarseness.

### 8.3 Master fare schedule

In its determination for 1996/97, the Tribunal approved the introduction of a master fare scale. This approach creates base fare schedule for single journey fares. Future fare increases should be applied to this master to obtain a calculated fare. The actual fare charged is this value rounded to the nearest 20 cents. Future fare increases would be tied back to the calculated and not the rounded values (See box 1 for an example). Return and off-peak fares are based on the single fare.

The Tribunal supports the master fare scale approach. The approach sets in place a clear structure for future fare increases and avoids problems of fares never increasing because they are more than a fixed percentage.

In this determination, the Tribunal has approved changes in a number of single journey fares which, for equity reasons, attempt to remove anomalous bands from the structure. This has meant that a small number of fares have been changed within the master fare scale. Because of this, the Tribunal has not applied a standard inflator to the master fare scale for 1997/98, which otherwise remains as at 1996/97 levels.

#### **Box 1      Application of the master fare scale**

For example in the master fare scale, the fare for the 35 km distance band is \$3.20. A 5% increase would take the value in the schedule to \$3.36. This would be rounded to the nearest 20 cents, \$3.40. The following year, if a 2% increase were applied to the master fare scale, it would be applied to the \$3.36, and not the \$3.40 fare, to produce a master fare of \$3.43, which would be rounded down to \$3.40.

## 8.4 Single journey tickets

To reduce the number of fare bands, some fare increases are necessary. While the Tribunal is of the view that some increase is justified, it wishes to ensure the impacts on individual travellers are not onerous.

***The Tribunal has determined that the price of the single journey tickets for all distance bands should increase by no more than 60 cents. For the shorter distance bands, up to 55 km, increases should be no more than 20 cents.***

The new single journey fares are given in Table 5.

**Table 5 Comparison of current and new single journey fares**

Distance(km)	Existing fare	New fare (\$)	Change (\$)
5.00	1.60	1.60	0.00
10.00	1.80	1.80	0.00
15.00	2.00	2.00	0.00
20.00	2.60	2.60	0.00
25.00	2.80	2.80	0.00
26.53	2.80	3.00	0.20
30.00	3.00	3.00	0.00
35.00	3.20	3.20	0.00
36.19	3.20	3.40	0.20
45.00	3.80	3.80	0.00
45.85	3.80	4.20	0.40
55.00	4.40	4.60	0.20
55.50	4.60	5.00	0.40
65.00	5.20	5.20	0.00
75.00	5.80	6.00	0.20
85.00	6.60	6.80	0.20
95.00	7.40	7.60	0.20
98.95	7.60	8.00	0.40
105.00	8.00	8.00	0.00
108.61	8.20	8.80	0.60
115.00	9.40	9.40	0.00
119.00	9.80	10.40	0.60
135.00	10.60	10.60	0.00
155.00	12.40	12.40	0.00
175.00	14.20	14.20	0.00
195.00	17.20	17.20	0.00
215.00	18.60	18.60	0.00
235.00	22.00	22.00	0.00
255.00	23.00	23.00	0.00
305.00	25.00	25.00	0.00
305+	27.00	27.00	0.00

The Tribunal notes that the price of return and half-fare tickets is driven by direct application of a multiplier to the single journey fares. Return fares are exactly twice the single journey fare. Half-fare tickets are 0.5 times the cost of the corresponding adult fare.

## 8.5 Off-peak fares

The Tribunal has approved an increase in the fares for all single and return journeys. Off-peak fares are sold as return fares. Off-peak fares are available after 9:00 am weekdays and all day on weekends.

In its 1996/97 determination, the Tribunal set a multiplier of 1.18 times the single journey fare for distances less than 215 km. Off-peak fares for distances greater than 215 km were set equal to the single journey fare. CityRail has asked that the multiplier for off-peak fares be 1.2. The Tribunal considers that the effect of this leads to inappropriately large fare increases for journeys greater than 215 km. The Tribunal believes that the increases for the shorter distances are not great and that a multiplier of 1.2 is simple and reasonable. However to limit increases for long distances, the Tribunal has set the multiplier for journeys greater than 215 km at 1.05.

Table 6 compares the current and proposed fares, indicating the increase for each distance band.

**Table 6 Comparison of current and proposed Off-peak fares.**

Distance	Existing fare (\$)	New fare (\$)	Change (\$)
5.00	1.80	2.00	0.20
10.00	2.20	2.20	0.00
15.00	2.40	2.40	0.00
20.00	3.00	3.20	0.20
25.00	3.40	3.40	0.00
26.53	3.40	3.60	0.20
30.00	3.60	3.60	0.00
35.00	3.80	3.80	0.00
36.19	3.80	4.00	0.20
45.00	4.40	4.60	0.20
45.85	4.40	5.00	0.60
55.00	5.20	5.60	0.40
55.50	5.40	6.00	0.60
65.00	6.20	6.20	0.00
75.00	6.80	7.20	0.40
85.00	7.80	8.20	0.40
95.00	8.80	9.20	0.40
98.95	9.00	9.60	0.60
105.00	9.40	9.60	0.20
108.61	9.60	10.60	1.00
115.00	11.00	11.20	0.20
119.00	11.60	12.40	0.80
135.00	12.60	12.80	0.20
155.00	14.60	14.80	0.20
175.00	16.80	17.00	0.20
195.00	20.00	21.00	1.00
215.00	22.00	22.00	0.00
235.00	22.00	23.00	1.00
255.00	23.00	24.00	1.00
305.00	25.00	26.00	1.00
305+	27.00	28.00	1.00

***The Tribunal has determined that the price of the off-peak tickets for the distance bands up to 215 km should be 1.20 times the corresponding single journey fare. For distance bands beyond 215 km, the price of the off-peak tickets should be equal to 1.05 times the single journey fare rounded to the nearest 20 cents.***

### 8.5.1 Off-peak half fare

As shown in Table 7, the off-peak half fare is available for three very broad fare zones. In essence, these tickets work in the same way as pensioner concession tickets. The zones are the same. However, unlike the pensioner fare, the ticket is valid for one return journey only.

**Table 7 Off-peak Half Fares**

Zones	Coverage	Existing Fare	Proposed Fare
1	Sydney metropolitan and Newcastle metropolitan	\$1.60	\$1.70
2	Outer metropolitan	\$2.20	\$2.40
3	All CityRail network	\$4.20	\$4.40

The Tribunal notes that the off-peak half fares bear no relationship to the equivalent adult off-peak fares. For short trips the fare is close to the adult fare, while for longer journeys the fare is substantially lower. CityRail has proposed small increases in these fares.

***The Tribunal has determined that the maximum price of the off-peak half fares should increase by 10 cents for zone 1 and 20c for zones 2 and 3.***

## 8.6 Periodicals

A large proportion of all weekly travel is undertaken within the CityMet area. Therefore, for travel less than 55 km, the discount from the relevant single journey fare should be relatively consistent. Further, as noted above, the Tribunal has permitted increases in some single fares where bands are to be rationalised. In order to prevent further increases in discounts for weekly tickets, the Tribunal proposes to allow modest increases in the price of the weekly fares.

***The Tribunal has determined that the price of rail weeklies for distances up to 25 km should increase by up to \$1. The price of weeklies for distances greater than 25 km should increase by up to \$2.***

Table 8 compares the current and proposed weekly fares. It also shows the relationship of the weekly fare to the corresponding single fare.

In 1996/97, CityRail suggested that, due to changes in patronage in distant areas, it might wish to introduce a weekly fare for distances beyond 175 km. Some people already travel such distances and are required to purchase two weekly tickets. There is no maximum fare for these distances using one ticket. The Tribunal then set the maximum fare at 3.8 times the relevant single fare. To bring this in line with fares up to 175 km, the Tribunal now proposes to increase this multiple to 3.9.

***The Tribunal considers that if CityRail were to introduce weekly tickets for distance that do not have weekly tickets, the maximum price of these weekly tickets should be 3.9 times the relevant single journey fare.***

Flexipass fares are charged as a calculated multiple using a pre-defined formula. This formula has not changed. Flexipass fares will only change to the extent that the weekly fare will change.

**Table 8 Comparison of current and proposed rail weekly fares**

Distance up to (km)	Existing fare (\$)	New fare (\$)	Change (\$)	Relationship to single fare <sup>1</sup>
5.00	10.00	11.00	1.00	6.9
10.00	15.00	15.20	0.20	8.4
15.00	15.00	16.00	1.00	7.3
20.00	20.40	21.00	0.60	8.1
25.00	20.40	21.40	1.00	7.6
26.53	20.40	22.00	1.60	7.3
30.00	24.00	24.00	0.00	8.0
35.00	24.00	25.00	1.00	7.4
36.19	24.00	26.00	2.00	6.5
45.00	29.00	29.00	0.00	7.3
45.85	29.00	30.00	1.00	6.5
55.00	29.00	30.00	1.00	6.5
55.50	30.00	32.00	2.00	6.2
65.00	34.00	34.00	0.00	6.5
75.00	35.00	35.00	0.00	6.0
85.00	38.00	38.00	0.00	5.8
95.00	39.00	40.00	1.00	5.4
98.95	39.00	41.00	2.00	5.1
105.00	42.00	42.00	0.00	5.3
108.61	43.00	44.00	1.00	4.7
115.00	43.00	44.00	1.00	4.7
119.00	43.00	45.00	2.00	4.3
135.00	52.00	52.00	0.00	4.9
155.00	54.00	54.00	0.00	4.4
175.00	54.00	56.00	2.00	3.9
195.00 <sup>2</sup>	na	67.00	na	3.9

Note <sup>1</sup> A weekly fare that is 8 times the single fare offers a 20% discount to travellers.

<sup>2</sup> Weekly tickets previously only available for travel up to 175 km.

## 8.7 TravelPasses

TravelPasses provide unlimited travel over the period of issue (week, quarter or year) throughout the zones of issue and apply to rail, bus (STA) and ferry services. They are designed for regular users of public transport. TravelPass tickets have increased each year since the Tribunal has been setting fares. However, these tickets provide train, bus and ferries users with very flexible and relatively cheap travel options.

In its submission, the State Transit Authority has provided an analysis of the use of TravelPass tickets (see Table 9) based on individuals' travel patterns. This analysis is referred to as Total Value of Travel (TVT). The TravelPass ticket recovers a low proportion of the costs of providing the service. However, the ticket is very popular with commuters and provides one of the few integrated tickets for Sydney commuters. Without knowledge of the individual travel patterns, the level of discount is difficult to estimate.

**Table 9 Estimates of Total Value of Travel for TravelPasses**

TravelPass	Existing fare	TVT	Effective discount
Red	21.00	35.05	40%
Green	27.00	37.21	27%
Yellow	31.00	35.05	13%
Pink	34.00	41.12	17%
Brown	39.00	47.90	19%
Purple	46.00	54.41	15%

While the Tribunal considers a modest increase in TravelPass prices is appropriate, the Tribunal also notes that, according to the analysis presented to it, the discounts on most of the rail bus and ferry TravelPasses are not too high. Clearly, the Red and Green TravelPasses have high discounts and could reasonably increase. The Tribunal considers that an increase similar to that for rail weeklies is appropriate. Table 10 shows the new TravelPass fares.

***The Tribunal determines that the price of Red and Green rail/bus/ferry TravelPasses should increase by \$1.***

**Table 10 Comparison of current and new TravelPass fares**

	Current fare (\$)	New fare (\$)	Change (\$)
<b>TravelPass - Bus, Ferry and Rail</b>			
Red	21.00	22.00	1.00
Green	27.00	28.00	1.00
Yellow	31.00	31.00	0.00
Pink	34.00	34.00	0.00
Brown	39.00	39.00	0.00
Purple	46.00	46.00	0.00

According to the TVT analysis, the Red and Green TravelPass appear to have similar amounts of usage. The Tribunal acknowledges that the pattern of usage may be different on these two passes. However, the Tribunal believes that the similarity in value of travel consumed merits examination. It may be appropriate that a broader area be used for the one ticket at a higher cost than the existing Red TravelPass. The Tribunal looks forward to detailed consideration of this issue in the 1998/99 determination.

## 8.8 CityHopper fares

The CityHopper ticket allows travel from the origin station to the City with unlimited travel on CityRail Trains and STA buses within the city area. The ticket can be purchased during peak and off-peak period. The price of the CityHopper ticket is the price of the appropriate return ticket, peak or off-peak, from the originating station to the City plus an add-on component. In its 1996/97 determination, the Tribunal determined that the price of the add-on should remain at \$3.40.

*The Tribunal has determined that the price of the CityHopper add-on be frozen at \$3.40.*

## **8.9 DayRover tickets**

A DayRover ticket can be used for all day use on peak and off-peak services. The ticket can be used on bus, rail and ferry services within the area covered by the Purple TravelPass. The peak ticket costs \$20, the off-peak ticket is \$16.

*The Tribunal has determined that these fares be frozen at existing levels.*

## **8.10 RailRover**

While preparing this determination, CityRail approached the Tribunal to introduce a RailRover ticket. The RailRover ticket would enable all day travel within the area currently defined by the Purple TravelPass. In setting a fare, CityRail has taken the cost of a 55km trip plus a 5km off-peak trip as a reference fare. The amount of travel undertaken would be greater than this. CityRail proposes a fare of \$11 for a ticket purchased during the morning peak and \$7 off-peak.

The Tribunal sets the maximum price for all fares. It is the Tribunal's view that the Tribunal must set maximum prices for all tickets and operators should not set discount fares. The Tribunal is concerned that CityRail has approached the Tribunal to set the maximum fare for this ticket after the public hearing and the Tribunal has not had the opportunity to fully assess this ticket.

Although the proposed ticket would be cheaper than existing fares, the Tribunal needs to assess the wider implications of introducing this ticket, eg the effect on revenue. In future the Tribunal expects all fares to be included in proposals put to the Tribunal before the public hearing.

Given that the fare is less than the cost of equivalent fares to undertake the journey and that there is unlikely to be a loss of revenue, the Tribunal sees no reason why the fare should not be approved.

*The Tribunal has determined that the maximum fare for the RailRover ticket shall be \$11 peak and \$7 off-peak.*

## **8.11 Sydney Pass**

The Sydney Pass is a tourist ticket featuring unlimited bus, rail and ferry travel. A 10% increase came into effect from 1 April 1997. This was the first increase since 1994.

The Tribunal is currently reviewing whether these fares should be subject to the Tribunal's determination. In the meantime, the Tribunal has determined that these fares be frozen at existing levels.

## 8.12 Pensioner concessions

The pensioner concession fare of \$1 provides unlimited travel within the CityMet area on the day of purchase. This fare has not increased since 1988.

However, the price of these concession tickets and the reimbursements made by government to the authority (as Community Service Obligations (CSOs)) are matters of social policy for the Government to determine, not the Tribunal.

## 9 REQUIREMENT UNDER SECTION 16 OF THE ACT

The Tribunal is required under Section 16 of the Act to assess and report on the likely annual cost to the Consolidated Fund if the price were not increased to the maximum permitted.

The determination for the State Rail Authority is for an increase in total farebox revenue of about \$7.1 million over 1996/97. The Treasury makes up the difference between farebox revenue and costs by way of a subsidy through CSOs. Should fares be set below the scheduled levels, then for each \$1 reduction in farebox revenue, payments to the SRA from the State Government would increase correspondingly.

## 10 COMPLIANCE

Compliance with the Tribunal determinations is an issue required under Section 18 of the Independent Pricing and Regulatory Tribunal Act 1992. Government agencies are required to include details relating to the implementation of a determination within its annual report.

The Tribunal notes compliance with the 1996/97 determination. The Tribunal will continue to monitor this requirement.

Thomas G Parry  
*Chairman*  
29 May 1997

## Attachment 1 List of submissions

Organisations and individuals who made submissions to this review of fares are listed below. Copies of these submissions can be viewed during business hours (8:45 am– 5:15 pm, Monday to Friday) at the Tribunal's offices. Level 2, 44 Market St, Sydney.

### *Organisations*

- ◇ Action for Public Transport
- ◇ Blue Mountains Commuter and Transport Users Association
- ◇ Campbelltown & Districts Commuter Association
- ◇ CityRail
- ◇ Combined Pensioners & Superannuants Association of NSW
- ◇ Commuter Council
- ◇ Department for Women
- ◇ NSW Dept of Transport
- ◇ NSW Treasury
- ◇ Older Women's Network
- ◇ State Transit Authority of NSW
- ◇ Western Suburbs Commuter Association

### *Individuals*

- ◇ Jackson, P
- ◇ Knowles, R
- ◇ Taylor, G



INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES

**DETERMINATIONS UNDER SECTION 11 (1) OF THE INDEPENDENT PRICING  
AND REGULATORY TRIBUNAL ACT, 1992**

**Matter No.:** SRD/97/01  
**Determination:** No 1, 1997  
**Agency:** CityRail, State Rail Authority  
**Services:** Passenger transport services.

**Declaration of government monopoly services under Section 4 of the Act:**

Order dated 27 August 1992 - page 6431, Gazette No. 105

**Maximum prices determined under Section 14 of the Act to be charged from  
29 June 1997 for railway passenger services supplied under the name  
"CityRail" by the State Rail Authority**

*1. All CityRail passenger rail services*

The price of any type of rail ticket for a given distance band is not to exceed the price, for that distance band, of that type of ticket as set out in the attached table.

*2. CityHopper*

The price of the CityHopper ticket is the price of the appropriate return ticket, peak or off-peak, to the City plus an add-on for unlimited bus and rail travel in the City area. The price of the add-on is \$3.40.

*3. DayRover tickets*

The price of the peak and off-peak DayRover tickets shall not exceed \$20 for tickets purchased during the morning peak and \$16 for tickets purchased outside the morning peak.

*4. RailRover*

The price of the RailRover ticket for all day travel on the CityRail CityMet network shall not exceed \$11 for tickets purchased before the end of the morning peak and \$7 for tickets purchased after the morning peak.

*5. Sydney Pass*

The price of the Sydney Pass is not to exceed the price as at 1 April 1997.

## 6. Flexipasses

The price of the Flexipass ticket for a given distance band, is not to exceed the fare calculated by multiplying the weekly fare for the same distance band by the appropriate multiplier. The multiplier for calculating the appropriate Flexipass fare is given by the following formula (the value calculated is then rounded to the nearest whole dollar).

$$P = R * (3.66 + K * x - L * y)$$

where:

$$\begin{aligned} P &= \text{fare Price (before rounding)} \\ R &= \text{Weekly ticket price for distance band} \\ N &= \text{Number of days of validity (from 28 to 366)} \\ x &= N - 28 \\ y &= N - 90; \text{ for } N > 90 \\ &= 0; \text{ for } N \leq 90 \\ K &= 0.12 \\ L &= 0.011 \end{aligned}$$

Thomas G Parry

*Chairman*

29 May 1997

**STATE TRANSIT AUTHORITY OF N S W**  
**REPORT TO THE PREMIER AND DETERMINATION**



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**  
OF NEW SOUTH WALES

**REPORT TO THE PREMIER ON THE DETERMINATION OF MAXIMUM PRICES  
UNDER SECTION 11(1) OF THE INDEPENDENT PRICING AND REGULATORY  
TRIBUNAL ACT, 1992**

**Matter No.:** SRD/97/02

**Report:** No 2, 1997

**Agency:** State Transit Authority

**Services:** Passenger transport services.

**Declaration of Government Monopoly Services under Section 4 of the Act:**

Government Pricing Tribunal (Passenger Services) Order 1992, No 3. Gazette No. 146,  
p 8893.

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## 1 INTRODUCTION

As required by Section 11(1) of the Independent Pricing and Regulatory Tribunal Act 1992, the Independent Pricing and Regulatory Tribunal has investigated proposals by the State Transit Authority (a standing reference agency in Schedule 1 of the Act) for maximum prices to be charged from 29 June 1997 for declared passenger transport monopoly services supplied by State Transit.

The Tribunal's determinations of the maximum prices for these services are attached to this report.

## 2 THE PRICE DETERMINATION PROCESS

Submissions were invited from interested parties and the public on issues relating to the pricing of public transport services. The Tribunal called for pricing proposals from the State Transit Authority.

A public hearing was held on 24 March 1997 at the Tribunal's office, Level 2, 44 Market Street Sydney.

Details of State Transit's proposals are shown within this determination and a list of other submissions received is shown in an attachment.

Copies of all submissions and a transcript of the hearing are available for inspection at the Tribunal's office.

The Tribunal members who considered this determination were:

*Dr Thomas G Parry, Chairman*

*Mr James Cox, Full-time Member*

*Mr Robert Bruce, Temporary Member*

## 3 SUMMARY OF THE DETERMINATION

The Tribunal has continued the process of annual determinations in preference to establishing a medium term pricing path. An annual determination remains necessary due to uncertainty regarding efficient cost levels, the likely growth in passenger numbers and the capital expenditure program.

The main features of the determination are:

*For State Transit*

- Weighted average fares will increase by 2.27% which is below the inflation rate of 2.34%. The reference inflation figure is the average Sydney CPI for the year to March 1997.

*For Sydney Buses*

- All *single journey bus* fares will again remain unchanged.

- *Bus TravelTen* fares will increase by up to 2.35%. However, the long distance (purple) *TravelTen* is to remain frozen at \$40.
- *Red and Green rail/bus/ferry TravelPass* will increase by \$1. All other rail/bus/ferry *TravelPasses* remain frozen.
- *Bus/ferry TravelPasses* will increase by between 60 and 90 cents. The price of the Pittwater *TravelPass* remains frozen.
- *School term pass, Special sporting services, Sydney Pass, Bus Tripper, City Hopper (add-on), Day Rover and DayPass* all remain at previous fare levels.

#### *Sydney ferries*

- All *single ferry fares* will increase by 20 cents per journey. However, the *JetCat* fares remain unchanged.
- *JetCat Ten and FerryTen* prices increase by between 40c and \$2.00

#### *Newcastle buses and ferries*

- All single time based fares and time ten fares remain unchanged
- The Newcastle Orange (bus/ferry) *TravelPass* rises by 60 cents and the Yellow (bus/rail/ferry) *TravelPass* remains at current fare levels.
- Stockton ferry fare is to remain frozen at \$1.30

As a result of this determination, State Transit's farebox revenue will increase by \$3.56 million or 2.27%.

## **4 MAJOR REVIEW OF PUBLIC PASSENGER TRANSPORT SERVICES**

The Tribunal published its Final Report on the Pricing of Public Passenger Transport Services in October 1996. This report was preceded by a series of six Interim Reports. This determination has had regard to the broad findings detailed in the report.

The Final Report examined STA operations with a focus on the following:

- government contributions to public transport, the principles for determining Community Service Obligations (CSOs), and targeted concessions in the passenger transport area
- some principles for determining reasonable fare structures
- the nature of STA and CityRail operations
- fair structures and levels for STA services - "fair" fares
- a context for considering the "transport pricing problem".

The key recommendations of the Final Report relating specifically to the STA are repeated below:

- *STA's capital expenditure program should be re-considered in detail, including a full analysis of the farebox impact of a superior quality fleet.*
- *To earn a "reasonable" ROR on assets, the STA should:*
  - ◆ *achieve best practice in operations*
  - ◆ *clarify the CSO program*
  - ◆ *match its capital investment program with an appropriate level of service quality.*
- *Following satisfactory cost reductions and the removal of CSOs for Sydney Buses, the Tribunal will reconsider the case for real fare rises to finance capital expenditure or business growth. In the interim, the Tribunal will permit fare rises which are broadly in line with the CPI and will continue to correct fare anomalies to improve customer equity.*
- *The Tribunal supports discounts for TravelTen tickets of between 15 and 20%.*
- *While supporting increases in TravelPasses, the Tribunal will consider the extent of increases for these tickets annually.*
- *The Tribunal supports the realignment of discount levels and will support modest increases in all ferry fares to improve cost recovery.*

Despite the completion of the Major Review, the Tribunal wishes to encourage ongoing public discussion of all key transport issues. This will enable a better understanding of the issues, provide a broader range of inputs than otherwise possible and promote community acceptance of government decisions. The public consultation process was an integral part of the major transport review and will remain a central component of the ongoing annual determinations.

## 5 SUBMISSIONS

### 5.1 Pricing proposals made by State Transit Authority

Prior to the public hearing, STA made a submission which, following a Tribunal request, was later supplemented by a specific pricing proposal. STA's proposal included:

- Single ride bus fares to remain unchanged
- Bus TravelTen tickets to increase by 10 cents and 40 cents
- STA bus/ferry TravelPasses to increase by between 60 cents and \$1
- Bus/ferry/rail TravelPasses to increase by between \$1 and \$2 depending on the zone
- FerryTen tickets to increase by between 40 cents and \$4
- *School term pass, Special sporting services, Sydney Pass, Bus Tripper, Day Rover and DayPass* all remain frozen at previous fare levels.

### 5.2 Other submissions

A list of other submissions is contained in the Attachment to Report No 1 for CityRail services.

## 6 ISSUES CONSIDERED BY THE TRIBUNAL

Under Section 15 of the Independent Pricing and Regulatory Tribunal Act 1992, the Tribunal in completing a determination is required to consider a number of factors and indicate what regard it has had to each factor. The Tribunal's assessment of each Section 15 factor is detailed below.

### 6.1 Costs and efficiency

- \* *the cost of providing the services concerned [S15(1)(a)]*
- \* *the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers [S15(1)(e)]*
- \* *the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body [S15(1)(h)]*
- \* *the need to promote competition in the supply of the services concerned [S15(1)(i)]*

#### 6.1.1 Operating costs

Data provided by STA shows that it recovers less than the costs of providing the service. STA forecasts for 1997/98 indicate total operating costs of \$377.9m with 62.6% of costs being recovered from fares, advertising and other revenue (excluding government concession reimbursements and CSO payments). STA's submission detailed that in the 12 months to March 1997 costs for Sydney Buses had increased by 10.6%. The Tribunal accepts that these recent cost increases have been largely uncontrollable by STA and include rises in the cost of fuel, compulsory third party insurance and exposure to sales tax.<sup>1</sup> However, the extent to which fares recover efficient costs<sup>2</sup> remains unclear.

STA state that urban area congestion decreases their average operating speed which lifts cost levels to above those of private operators. The NSW Council of Social Service (NCOSS) and the Bus and Coach Association (BCA) have previously suggested that this comparison is not entirely valid because STA serves higher population densities, receives better bus priority measures and has higher commuter passenger loadings. The Final Report for the major review of transport details what continues to be the Tribunal's current view on the scope for movement toward efficient cost levels.<sup>3</sup> STA considers that "the level of inefficiency is nothing like that assumed by the Tribunal".<sup>4</sup> To resolve this issue, the Tribunal will undertake a detailed analysis of the gap between STA bus costs and efficient bus cost levels. The study is expected to identify areas where efficiency improvement can be made. The Tribunal will factor the results of this efficient cost study into the 1998/99 determination and beyond.

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<sup>1</sup> STA, submission to the Tribunal, February 1997, p 1.

<sup>2</sup> Efficient costs are those incurred by an organisation on the basis that they are operating at best practice.

<sup>3</sup> See Tribunal's Final Report, Inquiry into the pricing of Public Passenger Transport Services, 1996, p 22-24.

<sup>4</sup> STA, submission to the Tribunal, February 1997, p 2.

In undertaking an efficient cost analysis, the Tribunal recognises that care should be taken in comparing Sydney Buses' costs with those of Sydney private operators. For example it may not be reasonable to assume that private operators are operating at best practice or that Sydney Buses could operate at that level. On this point, the conclusions of previous efficient cost analyses have been varied. In the interim, the Tribunal again encourages the pursuit of further cost reductions.

The level of cost recovery for some Sydney ferry services remains an area of concern. In the Interim Report the Tribunal indicated that STA operates most ferry services at above minimum service level requirement despite chronic poor cost recovery.<sup>5</sup> Core operating costs for Sydney Ferries are projected to rise by an average of 2.6% per annum (or \$5.95m) between 1995/96 and 1998/99. The Tribunal is therefore of the view that modest ferry fare increases should be granted as part of this determination, while suggesting that STA review service frequencies for chronic loss-making services.

### 6.1.2 Efficiency

The Tribunal retains the view expressed in evidence presented at Public Hearings and in the Interim Reports that cost savings in excess of \$20m for STA buses are achievable over the next four years (see Section 6.1.1). Furthermore, the Final Report isolated the following four key areas where efficiency gains in excess of \$20m per annum in total are possible:

1. Increasing driving hours toward the level of paid hours
2. Employing the majority of new drivers on part-time or casual terms
3. Aligning the award conditions of all future (and where possible current) drivers to private sector levels
4. Reducing overheads and administration costs

Despite the previously mentioned increase in uncontrollable costs (see Section 6.1.1) the Tribunal considers that the same scope for improvement remains between current STA costs and efficient cost levels. The analysis of efficient costs for STA buses will examine closely the costs of the bus business in comparison with 'best practice', with appropriate regard for STA's operating environment.

### 6.1.3 Contracting out

In 1994/95 STA completed a comparative analysis of retaining non-core activities in-house versus contracting out. In these comparisons STA examines the efficiency of internal service areas against the tender results on a like for like basis.

Following examination of the scope for contracting out STA has retained 'in-house' functions such as information technology, timetable production, cleaning and legal advice. However, STA must continue to re-assess the cost effectiveness of retaining such services. The Tribunal supports this process and will continue to follow the results of contracting out. The large variety of non-core activities completed internally by STA is of concern to the Tribunal. STA staff in administration roles comprise 13.4% of total staff which is well above

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<sup>5</sup> An Inquiry into Pricing of Public Passenger Transport Services, Interim Report No. 2 March 1996, p 43-47.

the average performance of Australian public transport operators (10.6%) reported by STA.<sup>6</sup> Better use of efficient contract services may provide scope for reducing the size of STA administration overheads.

#### 6.1.4 Promotion of competition

In the major review of transport the Tribunal recommended further investigation of competitively tendered franchise systems to improve competition and efficiency in the bus industry. The Tribunal understands that government is currently reviewing the appropriateness of the current system whereby contracts are permanently retained by holders who meet minimum legislative standards.

There are two main methods available to government for promoting greater competition in the provision of urban bus services.

- Competitive tendering
- Competitive benchmarking.

Under competitive tendering the government selects the service areas or routes, decides on the specification to apply, holds a competitive bidding process and then chooses the operators from which it purchases the services. This ensures competitive entry into the urban bus market and is a complete way of testing the market. Competitive tendering for bus areas has been introduced in other Australian states.

Competitive benchmarking requires clear evidence of achievement of best practice contract prices and service standards as a precondition for renewal of a contract. Where an operator does not achieve the benchmarks, the franchise is offered to other interested operators in a competitive tender. Competitive benchmarking may provide an effective proxy for competitive outcomes particularly if franchise areas could be put out to tender where best practice benchmarks are not met. The benchmarking approach would work best where operators are operating at close to best practice costs, prices and/or service standards.

Clearly, ensuring that any new system of bus contract complies with Competition Principles Agreement<sup>7</sup> and also delivers an efficient result for customers and government is a large, complex task. The Tribunal will continue to explore and encourage proposals to enhance competition in urban passenger transport.

## 6.2 Consumer protection

- \* *the protection of consumers from abuses of monopoly power in terms of price, pricing policies and standard of services [S15(1)(b)]*
- \* *the effect on general price inflation over the medium term [S15(1)(d)]*
- \* *the social impacts of the determinations and recommendations [S15(1)(k)].*

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<sup>6</sup> STA Annual Report, 1995-96, p 67 and STA correspondence to the Tribunal 11 December 1996, p 4.

<sup>7</sup> In 1995, the Council of Australian Governments agreed to implement a national competition policy reform package. The goal of these reforms is to establish a framework to remove unnecessary barriers to trade and competition. As part of the reform package, the heads of all governments signed the Competition Principles Agreement (CPA).

### 6.2.1 Pricing

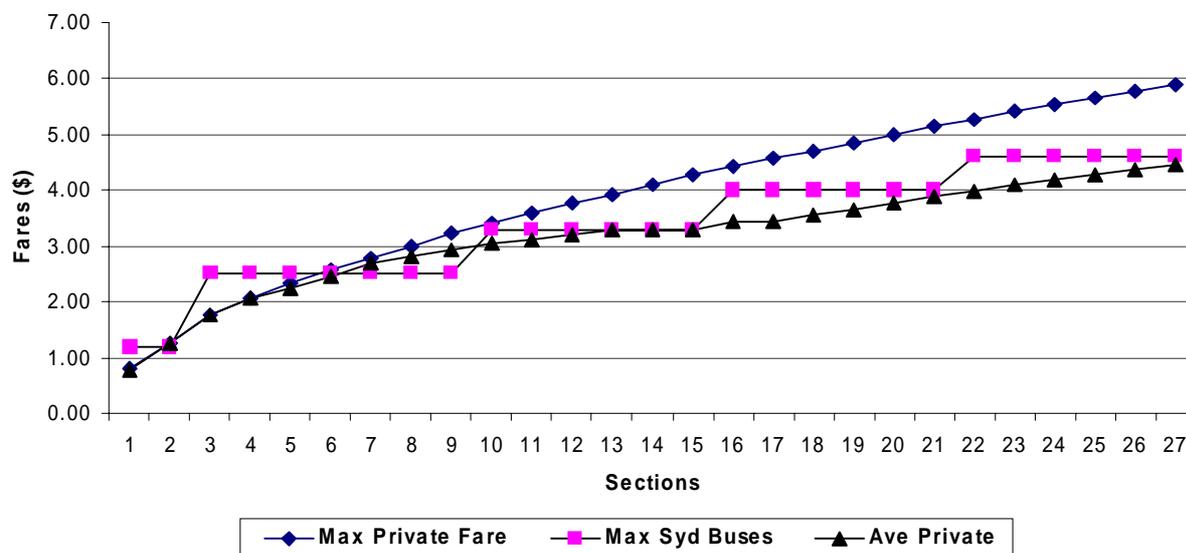
STA and the Tribunal have progressively eliminated most pricing anomalies and will continue some minor revisions to achieve better equity across STA services. Over the medium term STA and the Tribunal intends to:

- progress towards cost recovery across all services
- broadly standard discounts for most multi-trip tickets
- enhance the relationship between distance travelled and fares where appropriate.

In estimating efficient costs STA compares its fare structure with that of the private bus operators. STA's view is that this comparison (see Figure 1) illustrates the gap between its fares and a commercial or profitable fare level.

Figure 1 provides a comparison of STA and private operator fares for single-ride tickets by distance. While the private operators increase fares with each section, STA groups a number of sections which have a common fare. STA fares for single-ride tickets exceed private operators' fares for most shorter journeys (ie less than 6 section, or 10km). Overall, the comparison illustrates that maximum private single journey fares are consistently higher for longer journeys than STA single fares.

**Figure 1 Comparison of STA and private operator single journey fares**

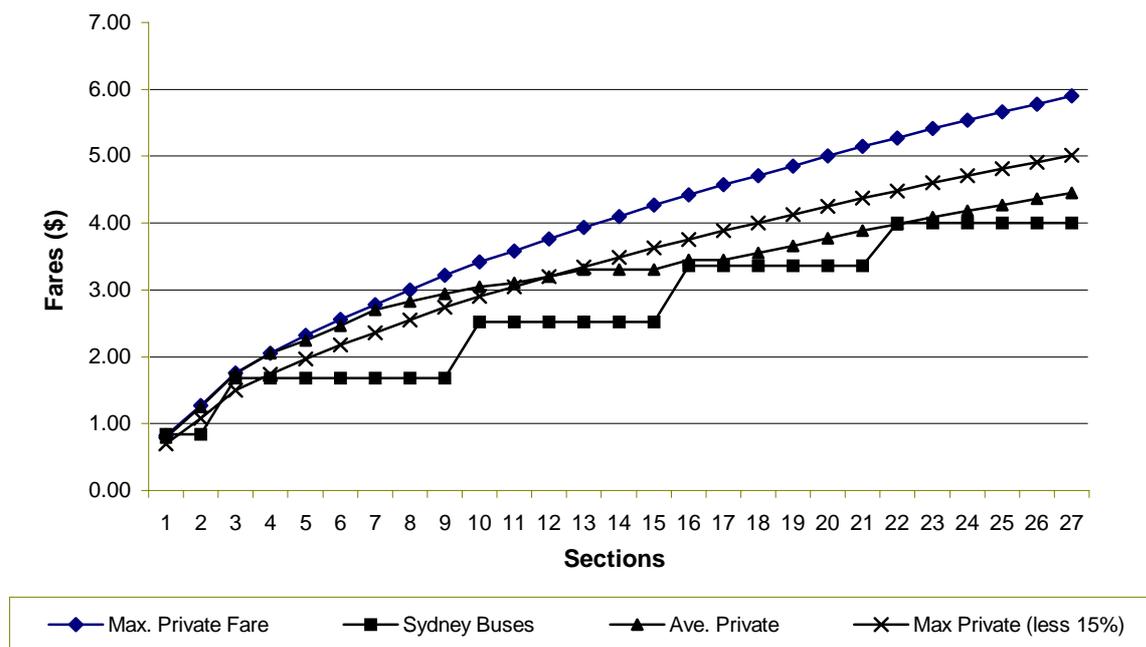


The average private fare line gives an indication of the level of discount offered by most private operators. However, STA offers a greater variety of larger discounts. The pricing CSO compensates STA for single fares charged below the maximum private fare and TravelTen fares charged at below the maximum private fare less 15%. Because of the pricing CSO, STA could attract higher patronage levels through excessive discounts, yet receive full government reimbursement for this practice. The Department of Transport sets the maximum private fares and has authorised a 3.9% increase in private bus fares for the metropolitan area for 1996/97. The Tribunal determined that average Sydney Buses fares

would rise by 3.2% from July 1996. The difference between the two rates of increase has resulted in a corresponding increase in the pricing CSO.

Figure 2 illustrates that most private operators discount multi-ride fares by greater than 15% especially on longer journeys. Figure 2 demonstrates that the maximum private operator fare is not an accurate proxy for a 'commercial' fare level due to the prevalence of discounting and the fact that STA prices at its maximum fare levels whilst most private operators do not.

**Figure 2 Comparison of STA and private operator ten journey fares**



In the Final Report the Tribunal noted that the pricing CSO results in two outcomes:

1. Since the pricing CSO is based on the maximum private bus fare, any rises in the maximum fare lead to automatic increases in the pricing CSO.
2. Since STA fares remain below the maximum private fares, any increases in service usage will generate corresponding increases in the pricing CSO.

Again the Tribunal recommends a revision of STA's CSO funding arrangements.

For the bus business, the Tribunal maintains that any increases in fares should focus on the multi-ride and multi-mode tickets to progress towards standardised discounts.

STA has sought to move towards broadly standard discount levels and to increase the number of fare bands to enhance cost reflectivity and customer equity. STA has delayed plans to increase the number of bus fare bands. This would allow an evaluation of the Newcastle time-based fares system and its applicability for Sydney. The Tribunal looks forward to the report on time based fares. Should STA wish to restructure the present distance based system, the Tribunal would seek a detailed impacts analysis, which examines changes to patronage and revenues across several band size options. The Tribunal would also work with STA to ensure a smooth transition for customers.

## 6.2.2 Past increases in fares

### Buses

**Single-ride bus fares for 99.8% of customers have not increased for over seven years.** Table 1 shows the movement in single journey bus fares since 1991/92.

**Table 1** Single journey bus fares since 1991/92

Fare band	1991/92 (\$)	1992/93 (\$)	1993/94 (\$)	1994/95 (\$)	1995/96 (\$)	1996/97 (\$)
1-2 Sections	1.20	1.20	1.20	1.20	1.20	1.20
3-9 Sections	2.50	2.50	2.50	2.50	2.50	2.50
10-16 Sections	3.30	3.30	3.30	3.30	3.30	3.30
16-21 Sections	4.00	4.00	4.00	4.00	4.00	4.00
22-27 Sections	4.00	4.00	4.20	4.40	4.40	4.60

STA research suggests that multi-ride ticket users are more likely to be in full-time employment and tend to be more affluent than cash fare payers.<sup>8</sup> To minimise the social impact of bus fare rises the Tribunal has favoured retaining stable cash fares. Holding single ride fares constant also allows the Tribunal to reduce the large discounts for multi-ride and multi-mode tickets by increasing the price of these tickets.

As illustrated in Figure 1 of this determination STA's shorter journey single fares remain higher than those charged by the private operators.

### Ferries

Table 2 shows the movement in single ride ferry fares since 1991. Most ferry fare rises have been small with most increasing by an average of 10 cents a year.

**Table 2** Single journey ferry fares since 1991/92

Ferry Fare	1991/92 (\$)	1992/93 (\$)	1993/94 (\$)	1994/95 (\$)	1995/96 (\$)	1996/97 (\$)
Inner Zone 1	2.50	2.60	2.60	2.60	2.80	2.80
Inner Zone 2						3.00
Manly/Rydalmere	3.30	3.40	3.40	3.40	3.60	3.80
Parramatta			4.00	4.00	4.20	4.60
Stockton	1.20	1.30	1.30	1.30	1.30	1.30
JetCat	4.50	4.60	4.60	4.60	4.80	5.20

As discussed in the Final Report most of these ferry services have very poor cost recovery due high capital and operating costs per passenger. Sydney Ferries also has a strong reliance on infrequent leisure travellers. As a result, Sydney Ferries as a business, is far more reliant on the cash fare as a component of farebox revenue than is Sydney Buses. Achieving cost recovery improvements requires cash fare rises in conjunction with cost reductions. The Tribunal will continue to implement an ongoing program of small rises for all ferry fares.

<sup>8</sup> STA, submission to the Tribunal, February 1997, p 3.

### **Discounts on multi-ride fares**

STA has a long term goal of standardising discounts for multi-ride (TravelTens, FerryTens and bus/ferry TravelPasses) and multi-mode tickets (rail/bus/ferry TravelPasses). STA has stated that the appropriate level of discount should be 15-20%. Tables 5 and 6 illustrate that the current discounts for most of the 'Ten' and some TravelPass tickets remain well above this.

The Tribunal recognises that there are benefits for commuters and the bus operator in providing discounts and accepts that 20% is a reasonable discount target for most 'Tens'. On this basis, over the longer term, the fares for shorter distance bus TravelTens will need to increase by up to 20%. However, due to adverse social impacts the Tribunal will not permit such an increase over a short time frame. In the case of the Purple TravelTen the fare could be reduced to obtain a greater discount. Alternatively, the discount for the Purple TravelTen could be increased by increasing the cash fare.

'Multiple-dipping'<sup>9</sup> of TravelTen tickets has been a permissible way to pay for longer trips. STA has preferred that the price of each colour TravelTen be maintained as an exact multiple of the Blue TravelTen ticket. This restricts the capacity to reduce the discount for the shorter journeys and increase the discount for the longest journeys. To address this and to encourage the purchase of the longer distance TravelTens the Tribunal has broken the exact multiple structure. Customers will retain the flexibility of multiple dipping but they will pay a minor premium for the privilege; ie customers who dip a Blue TravelTen three times will have a slightly higher effective fare than customers who dip once using a Green TravelTen.

TravelPass tickets provide commuters with a flexible ticketing arrangement which gives every customer a different discount depending on their usage (or the value they extract from their ticket). STA has recently completed a total value of travel (TVT) analysis to value the average value of travel consumed by TravelPass customers and hence assess average TravelPass discounts. TVT uses ticket validation data to produce a far more accurate method of assessing appropriate fare levels and average discounts received by customers. TVT analysis illustrates that these average discounts vary between 5% and 40% (see Table 4). With the aid of TVT, the Tribunal will seek to progressively reset all fares to an average discount level of 15-20%. TVT data indicates that most of the longer distance TravelPasses have discounts within this range and require no fare rise for the 1997/98 determination.

### **6.2.3 Effect of pricing proposals on the cost of living**

The Australian Bureau of Statistics conducts a Household Expenditure Survey. The most recent survey indicates that public transport charges comprise 0.41% of an average household's weekly expenditure in NSW.<sup>10</sup>

The Tribunal has estimated that the prices set out in Schedule 1, together with those in Schedule 1 of Report No 1 for the State Rail Authority, would result in an increase in the CPI for Sydney of less than 0.1%.

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<sup>9</sup> Commuters can obtain benefits of a higher value ticket by inserting their ticket more than once. For example, users may dip their Blue TravelTen (1-2 Sections) twice to travel on a 3-9 section journey normally covered by a Red TravelTen.

<sup>10</sup> ABS. Household Expenditure Survey 1993-94. Detailed Expenditure Items. Cat No 6535.0. Table 4.

### 6.2.4 Social Impacts

The Tribunal closely evaluates the social impacts of price and pricing policy changes to minimise any adverse impact upon consumers. The progressive implementation of reforms ensures a smooth transition to the new fares and that the impact on individual public transport users is not too onerous. Additionally the Tribunal examines the relative equity between different groups of STA customers to ensure the fairness of pricing structures.

To improve equity the Tribunal has sought to enhance the relationship between fare levels and distance travelled.

The Tribunal has used a model developed by the Institute of Transport Studies at the University of Sydney to analyse the effects of STA's proposals and the Tribunal's determination on usage. Changes in patronage as a result of the 1997/98 determination are likely to be extremely small. The modest increases proposed for TravelTen fares will affect commuters mainly and are in line with inflation. Overall, the weighted average fare rise for STA is also below inflation.

The Tribunal considers that the proposed price changes will have a minimal impact upon travel patterns and the general usage of STA services.

## 6.3 Financial viability

- \* *the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of NSW [S15(1)(c)]*
- \* *the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets [S15(1)(g)]*

### 6.3.1 Government contributions to STA

The Government will contribute a total of \$156.75m to STA income in 1997/98. This represents an 11.3% increase in recurrent government funding since 1995/96.<sup>11</sup> Under current CSO funding arrangements, as STA carries more passengers, government funding automatically rises.

Government funding in 1997/98 for STA comprises five key elements:

1. **Pensioner concession reimbursements (\$60.93m):** equates to revenue foregone by providing a concession.
2. **Half fare concession reimbursements (\$28.39m):** equates to revenue foregone by providing a half fare concession.
3. **School student transport scheme– SSTS (\$27.06m):** the estimated cost of free travel.
4. **Service CSO (\$14.27m):** reimbursement for providing non-commercial services in excess of the minimum service level requirement.
5. **Pricing CSO (\$26.10m):** reimbursement for offering fares below a commercial level (based on the difference between maximum private fares and STA fares).<sup>12</sup>

<sup>11</sup> NSW Budget Paper No 3 1997-98, p 635.

<sup>12</sup> STA Submission, April 1996, p 64.

**Table 3 Components of State Transit government funding**

<b>Government funding \$m</b>	<b>1995/96</b>	<b>1996/97</b>	<b>1997/98 (f)</b>
Pensioner reimbursement	49.35	57.54	60.93
Half fare reimbursement	25.34	26.54	28.39
SSTS	27.91	27.21	27.06
Service level CSO	16.31	14.14	14.27
Pricing CSO	20.12	24.90	26.10
<b>Total funding</b>	<b>139.03</b>	<b>150.33</b>	<b>156.75</b>

Source: STA (all numbers in dollars of the day) (f) budget forecast

Table 3 illustrates the rapid growth for the pricing CSO (29%) and pensioner concession reimbursement (23%) components over the two years to 1997/98. Increasing State Transit fares would reduce the requirement for Government contributions to State Transit's operating losses. Providing services below full costs requires subsidy and, hence, increases the strain on the State's fiscal capacity. Pricing services below efficient cost also means that bus users do not bear the full costs of decisions about their residential and working lifestyles. Normally such subsidies from the general taxpayer would be undesirable; but other important considerations that come into play in pricing public transport, such as traffic congestion, urban development and community health. There is also some uncertainty about the level of STA's efficient costs.

Table 4 illustrates the size of each of the five components of government funding paid to each business unit.

**Table 4 State Transit government funding by business unit - \$m 1997/98 (f)**

	<b>Sydney Buses</b>	<b>Sydney Ferries</b>	<b>Newcastle</b>	<b>Total</b>
Pensioner reimbursement	47.38	6.56	6.99	60.93
Half fare reimbursement	24.76	1.04	2.59	28.39
SSTS	22.57	0.31	4.18	27.06
Service level CSO	0.00	10.03	4.24	14.27
Pricing CSO	21.49	4.19	0.42	26.10
<b>Total funding</b>	<b>116.20</b>	<b>22.13</b>	<b>18.42</b>	<b>156.75</b>

Source: STA (all numbers in dollars of the day) (f) NSW 1997/98 budget forecast

Overall, the Tribunal seeks a stronger focus on extracting efficiency gains by STA. This would assist in achieving cost recovery goals and reduce the cost to government.

### 6.3.2 Capital investment and structure

The capital structure of STA is being shaped and driven by current and future capital expenditure programs. The appropriateness of the current capital expenditure program is dependent upon the reasonableness of patronage growth assumptions.

Patronage on Sydney Buses grew by a modest 12.9% during the five years between 1992/93 and 1996/97(f). This equates to an average growth rate of 2.5% per annum.<sup>13</sup> STA forecast that patronage over the next five years will increase by 25% or an average of 4.6% growth per annum or well above historic growth rates.<sup>14</sup> To accommodate this forecast patronage growth Sydney Buses is expanding its fleet by 29.7% from 1,419 to 1,840 buses. The additional 421 buses are likely to cost in excess of \$140m.

<sup>13</sup> Recent patronage growth for Sydney Buses has averaged 5% per annum between 1995/96 and 1996/97. This contrasts with average growth of 1% per annum between 1992/93 and 1994/95.

<sup>14</sup> STA submission to the Tribunal, February 1997, p 12.

The Tribunal notes that a significant portion of the fleet size increase is necessary to comply with the legislative requirement of an average fleet age below 12 years. The Tribunal also notes that STA has not sold an ageing bus since 1994 as part of a broad strategy to fulfil potential Olympic transport requirements. The retention of older buses and the acquisition program will result in a fall in bus utilisation from 6.6 hours per day in 1995/96 to 5.8 hours per day in 1997/98(f). However, the high marginal cost of bus operation reduces the significance of utilisation as a measure of efficient performance.

The Tribunal is concerned that if patronage forecasts are not achieved the debt financing of excessive levels of capital expenditure will increase STA's cost to government. STA fleet standards are already above current, and likely future, Department of Transport minimum standards and private sector levels. The new buses currently purchased by STA cost approximately 38% more (or an additional \$97,000) than the new buses selected by average private operators.<sup>15</sup> At the Public Hearings, the Tribunal sought information on the patronage and revenue impact of the shift toward a superior fleet. The use of a mixed age fleet, featuring buses of ages from new to over eighteen years, creates difficulties in assessing the role of new bus quality in customer travel decisions. The Tribunal requires further reassurance that the additional expenditure outlayed for premium quality buses satisfies a rigorous financial assessment. The Tribunal is also interested in whether STA bus customers are prepared to pay the additional cost of superior bus quality.

Other major capital expenditure items include:

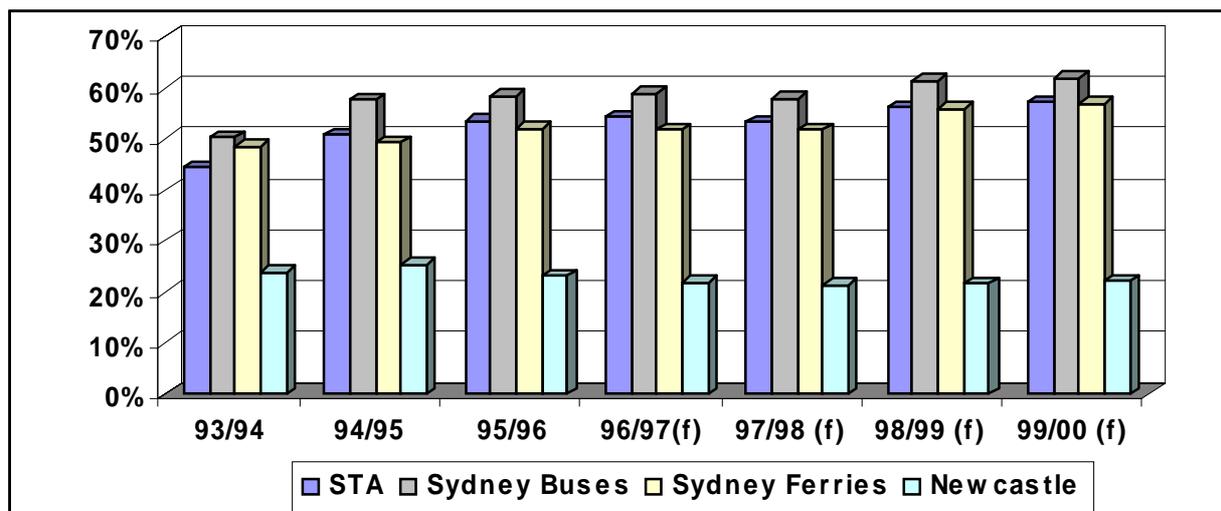
- a new fare collection system for Sydney Ferries \$6.1m
- replacement of tourist service buses \$5.0m
- two new 150 seat ferries \$3.3m
- a variety of depot redevelopments and expansions \$9.8m

The large scale of STAs capital expenditure program (\$84.03m in 1997/98) remains of concern to the Tribunal. The Tribunal seeks reassurance that all capital expenditure items have a sound commercial justification.

### 6.3.3 Costs recovered by fares

STA forecasts for 1997/98 indicate total operating costs of \$377.9M with 62.6% of costs being recovered from fares, advertising, asset sales and other revenue (excludes government concession re-imbursments and CSO payments). Cost recovery from passenger revenue for 1997/98 is 55.6%. Results for individual business units are diverse. For 1997/98 Sydney Buses recovers 60.5% of costs from passenger revenue compared to Sydney Ferries at 55.4% and Newcastle services at 21.64%. The historical projected trends for cost recovery by business unit are illustrated in Figure 3. Overall, the promising cost recovery improvements made between 1993/94 and 1995/96 are forecast to stabilise for consolidated STA and each business unit.

<sup>15</sup> NSW Budget Paper No 4 1997-98, p 111, (300 Scania buses at \$104.05m or \$347,000 each). BCA submission to the Tribunal, November 1995, p 23 ('average private operator new bus purchase price is \$250,000.').

**Figure 3 Costs recovered from non-government revenue**

### 6.3.4 Rate of Return

A commercial enterprise will only invest in new capacity if it expects to earn a commercial return over the useful life of the investment. In its 1997 submission, STA states that a suitable target rate of return on net assets is 14.5% per annum (nominal, pre-tax). This equates to a real post tax target of 7%. The Tribunal seeks further information on the assumptions behind this target to assess its suitability for consideration in fare determinations. The future rate of return earned by STA will be primarily dependent upon the target set for efficient costs, the debt structure arising from the capital program, service standards and resulting fare levels.

The Tribunal will continue to investigate whether STA has developed an optimal investment strategy.

## 6.4 Environmental issues

- \* *the need to maintain ecologically sustainable development by appropriate pricing policies that take account of all the feasible options available to protect the environment [S15(1)(f)]*
- \* *considerations of demand management and least cost planning [S15(1)(j)]*

### 6.4.1 Ecologically sustainable development

The concept of ecologically sustainable development (ESD) requires the implementation of improved valuation and pricing for environmental resources. Utilisation of urban public transport services is a critical component of current government initiatives to reduce air pollution. The Tribunal is acutely aware that transport fare determinations which feature onerous price rises could see customers switch to alternate transport modes with higher environmental costs. Alternatively, comparatively high public transport fares (against costs for alternate modes) may deter prospective bus or train customers. To assist in understanding patronage impacts the Tribunal utilises a detailed model developed by the Institute of Transport Studies (ITS) of the University of Sydney. The ITS model results for the 1997/98 determination predict that patronage changes will be extremely small.

The Tribunal supports the comments of the Clean Air 2000 Taskforce regarding the need for greater equity of access to public transport services to retain the current quality of life for Sydney residents.<sup>16</sup>

The Tribunal notes that Sydney's sprawling development pattern, growing diversity of travel patterns and uneven access to transport limit the ability of public transport services to meet actual travel needs.

#### 6.4.2 Demand management

STA conducts a program of continuous evaluation of demand and examines opportunities to introduce new services or enhance timetables to improve patronage and service frequency.

STA operates a large number of routes above the minimum service levels (defined in bus contracts) which do not recover costs. This creates some demand management problems as the time period to terminate an unviable route (above minimum service levels) is often 1-2 years. The long time period is due to a number of factors including:

- STAs strategy of permitting routes several years to build-up demand to breakeven level
- STAs strategy of attempting to vary the course and timetable of poorly performing routes prior to termination to attempt to improve viability and avoid termination
- community expectations that all government transport services continue regardless of financial viability.

These factors add significant complexity to the process of optimal demand management.

The morning peak timetable for Sydney Buses is set to utilise almost all available vehicles and hence dictates fleet size requirements. However, the Tribunal is concerned that the proportion of vehicles in excess of maximum daily demand has risen by over 29% from 8.6% in 1991/92 to 11.1% in 1995/96.<sup>17</sup> Again this rise is partly explained by the retention of older buses and the large bus acquisition program.

For Sydney Buses, weekday peak period<sup>18</sup> journeys comprise approximately 45% of total journeys. Morning peak patronage is the most intense and largely dictates fleet size requirements. The total Sydney Buses fleet averages approximately 170 boardings per vehicle hour during the morning peak. The lull in demand occurs on Sundays where journeys fall to around 30% of average weekday levels. As such, the Tribunal is aware that the cost structure of Sydney Buses and most Sydney private bus operators, is higher due to the need to satisfy peak period demand.

The increase in the bus fleet has allowed the introduction of numerous new services and further refinements are being pursued. Additionally, bus traffic flow enhancements at several Sydney locations have improved travel times and attracted new passengers.

<sup>16</sup> NRMA Clean Air 2000 Project, *Shaping Sydney's transport – a framework for reform*. Discussion Paper, March 1996.

<sup>17</sup> Steering Committee on National Performance Monitoring of GTEs, GTE Performance Indicators 1991/92-1995/96, Volume 2 March 1997, p 262.

<sup>18</sup> STA weekday peak is seven hours in total from 6.30am-9.30am and from 3.30pm-7.30pm.

The Tribunal considers that potential exists for further improvements by focusing on growing the market through targeted service level improvements and cost reductions.

## 6.5 Standards

\* *standards of quality, reliability and safety of the services concerned [S15(1)(l)]*

### 6.5.1 Standards met by STA

STA bus and ferry services comply with all regulatory requirements set out by a variety of government agencies including the Department of Transport, the RTA, the MSB, the EPA.

STA is required to comply with service standards required under the Department of Transport CSO contract. Services are required to meet the following general aims:

- high levels of frequency, timeliness, safety, reliability and cleanliness
- accessible, current and understandable timetables
- polite, courteous and helpful staff
- the alignment of services with the travel needs of customers
- to increase the accessibility of services to all passengers.

The Tribunal notes the conflict between achieving high service standards and improving cost recovery. However, the performance of STA can be further enhanced through programs focusing on:

- further efficiency gains
- the re-alignment of the required service standards by the Government to better match the transport needs of potential and existing customers.

The amongst the most significant standards for most customers are punctuality and reliability. For Sydney Buses less than one in every three hundred services are cancelled, whilst one in fifty Sydney Buses is delayed by more than five minutes.<sup>19</sup> However, the Tribunal notes that the higher frequency offered during peak periods (on primary routes) has reduced commuter reliance on timetables. Whilst this higher peak frequency is very desirable, it makes assessment of the actual punctuality performance of individual services more difficult.

In general, the service standards of STA are acceptable.

## 7 BASIS OF THE TRIBUNAL'S DETERMINATIONS

### 7.1 Overview

As required under its Act, the Tribunal has attempted to balance the often conflicting interests of transport operators, travellers, Government Departments and community groups.

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<sup>19</sup> Steering Committee on National Performance Monitoring of GTEs, GTE Performance Indicators 1991/92-1995/96, Volume 2 March 1997, p 263 and STA Annual Report 1995/96, p 10.

In setting maximum prices for these services, the Tribunal wishes to ensure that State Transit Authority (STA) retains responsibility, as far as possible, for developing pricing strategy. Following consideration of the submissions provided, the Tribunal has proposed to STA a set of constraints on increases for particular fares. The maximum fares listed in Schedule 1 result from the application of these constraints by STA.

The Tribunal considers that it should permit small increases in ferry single journey fares due to poor cost recovery and the high importance of cash fares to this business. Single bus fares continue to be frozen to allow reductions in TravelTen discounts and the pursuit of efficient cost gains. There is a stronger case for increasing multi-ride and multi-mode fares where large discounts exist. Even so, the Tribunal considers that the price increases for these tickets should be limited to prevent serious adjustment difficulties or significant loss of patronage.

The 1997/98 determination recognises that STA has not made projected continuing cost improvements. STA has recently incurred some large increases in non-controllable costs which necessitate some fare rise. As a result, this determination permits a modest fare rise which is broadly in line with inflation.

## 7.2 Single ride bus tickets

The STA has sought no increase in the single ride tickets so as to achieve reductions in TravelTen discount levels. The Tribunal considers that there is no valid argument for increasing the cash fares.

***The Tribunal considers single ride bus fares should not increase.***

The 1997 STA submission outlined preliminary plans to restructure bus fare bands for the 1998/99 determination. STA propose to increase the number of fare bands for journeys of less than ten sections from two to four. STA had previously intended to restructure bus fare bands for the 1997/98 determination but has postponed the restructure to allow an evaluation of the suitability of a Newcastle style time based fare system for Sydney.

STA claim that benefits of having four bands in the first ten sections include a stronger relationship between fare paid and journey length, the removal of the fare 'spike' whereby a 3 section customers pay more than double the 2 section fare and reduced incentive for over-riding. As a part of the 1998/98 determination process the Tribunal requests greater information to assess the impact of utilising from one, two, three and four bands for journeys of less than ten sections.

## 7.3 TravelTens

The Tribunal considers that the Blue and Red and to a lesser extent the Green TravelTen tickets continue to provide an excessive discount to users. Further reductions in this discount appear to be warranted. Ideally TravelTen discounts should be between 15% and

20% or between 8 and 8.5 time the price of a single fare.<sup>20</sup> The Tribunal will continue to freeze cash fares and allow modest TravelTen fare rises to achieve this goal.

As shown in Table 5 after these increases are implemented the fare for the shorter distance journeys will still offer a large discount.

**Table 5 Comparison of current and proposed TravelTen fares**

	Current fare	New Fare	Change	Single fares to equal a ten fare	
	(\$)	(\$)	(\$)	Current	New
1-2 Sections	8.40	8.60	0.20	7.0	7.2
3-9 Sections	16.80	17.20	0.40	6.7	6.9
10-15 Sections	25.20	25.80	0.50	7.6	7.8
16-21 Sections	33.60	34.00	0.40	8.4	8.5
22-27 Sections	40.00	40.00	0.00	8.7	8.7

## 7.4 TravelPasses

STA has recently undertaken a total value of travel (TVT) study to measure the average value of travel consumed by TravelPass customers and the subsequent average discount on these tickets. Unlike TravelTens the accurate estimation of TravelPass discounts has previously been difficult as methods of assessing TravelPass usage were more arbitrary. The conversion of TravelPasses to magnetic stripe tickets enabled the TVT study to utilise 'green machine' and ferry ticket validation data to enhance accuracy. These and future TVT results will be used by the Tribunal to assist in fare determinations. TVT will also be utilised to improve the accuracy of revenue sharing for TravelPasses between STA and CityRail.

The TVT study assessed discount levels by valuing TravelPass travel at the next-best single mode ticket price. The TVT illustrated that most customers are gaining excellent value from TravelPasses especially from the Blue, Red, Green, and Orange products.

Table 6 illustrates the average TVT for TravelPass and resulting discount levels. However, the Tribunal is aware that TVT represents an average discount and that customers can receive discounts far above or below the average. The Tribunal will seek greater information on the deviation of discounts enjoyed by customers to assist in future fare determinations.

<sup>20</sup> A 20 % discount for a multi-ride fare is the same as the multi-ride fare being 8 times the single-ride fare. A multi-ride ticket which is 6.7 times the single-ride fare offers a discount of 33%.

**Table 6 Analysis of average TravelPass usage and discounts**

<b>Ticket type</b>	<b>Current price (\$)</b>	<b>Average total value of travel consumed (\$)</b>	<b>Effective average discount %</b>
<b>Bus &amp; Ferry TravelPass</b>			
Blue	18.10	28.25	36
Orange	24.40	32.24	24
2 Zone	18.20	24.54	26
Pittwater	36.00	37.94	5
<b>Bus, Ferry &amp; Train TravelPass</b>			
Red	21.00	35.05	40
Green	27.00	37.21	27
Yellow	31.00	35.50	13
Pink	34.00	41.12	17
Brown	39.00	47.20	19
Purple	46.00	54.41	15

Source: STA

The Tribunal notes the similarity of the TVT consumed by Red, Green and Yellow TravelPass customers. The Tribunal seeks an assessment from the transport authorities of the potential for amalgamating these passes into a simpler, user friendly, system.

The TVT analysis also illustrates that excessive discounts prevail on most shorter distances passes which provides justification for modest fare rises. By contrast discount levels on the Yellow, Pink, Brown and Purple TravelPasses are broadly within the Tribunal's preferred discount range of 15-20% and no fare rise appears necessary.

The new TVT data and low ticket sales have demonstrated that the Pittwater TravelPass is over priced. Table 6 illustrates that Pittwater Pass users obtain an unsatisfactory average discount of only 5%. The discount level deteriorated when the Tribunal accepted an STA proposal to increase the Pittwater TravelPass fare by 4.7% in the 1996/97 determination. The Tribunal will not change the price for 1997/98 and seeks information on other ticket sales for travel to the Pittwater area. To improve the discount may necessitate a future decrease in the price of the Pittwater TravelPass.

The Tribunal considers that the increase in price for the STA only TravelPasses should be 60 cents for the Orange and 90 cents for the Blue. The Pittwater TravelPass will remain frozen. The Tribunal approves a \$1 increase in the price of the Red and Green rail/bus/ferry TravelPasses to assist in discount reductions. All other rail/bus/ferry TravelPasses represent acceptable value and remain unchanged.

***The Tribunal has determined the maximum fares as outlined in Table 7.***

**Table 7 Comparison of current and proposed TravelPass fares**

	Current fare (\$)	New fare (\$)	Change (\$)
<b>TravelPass - Bus and Ferry</b>			
Blue	18.10	19.00	0.90
Orange	24.40	25.00	0.60
Two-zone	18.20	19.00	0.80
Pittwater	36.00	36.00	0
<b>TravelPass - Bus, Ferry and Rail</b>			
Red	21.00	22.00	1.00
Green	27.00	28.00	1.00
Yellow	31.00	31.00	0
Pink	34.00	34.00	0
Brown	39.00	39.00	0
Purple	46.00	46.00	0

## 7.5 BusTripper tickets

This is an all-day (unlimited) bus ticket for the Sydney area. BusTrippers are ideal for people who make numerous bus trips over one day. The BusTripper appears also popular with customers who undertake a long distance return journey as they receive a discount greater than the Purple TravelTen. The BusTripper is effectively a Sydney version of the all-day Newcastle time based ticket at a 23% higher price. The higher price for the Sydney BusTripper may be justified by the larger service area available to Sydney customers.

The Tribunal seeks further information on the TVT of BusTripper patronage and details of the proportions of leisure travellers and commuters. The price of the BusTripper ticket may have encouraged some commuter switching from the Purple TravelTen, Purple TravelPass and Pittwater TravelPass tickets.

The BusTripper was last increased by 3.8% in 1995/96. STA has not proposed any increase.

***The Tribunal has determined that this price should remain constant at \$7.80 until patronage and TVT analysis clarify what is an appropriate price.***

## 7.6 Single journey ferry tickets

The Tribunal considers that there is a need for modest increases in single journey ferry fares. In 1996/97 the Tribunal approved the restructuring of the Inner harbour fare into 2 Zones to improve the relationship between fares and distance travelled. Zone 1 covers journeys up to 10km. Zone 2 applies over 10km, ie currently only to Meadowbank services (13.8km). Introducing further zones is desirable as currently customers travelling from Neutral Bay (2.5km) pay the same fare as those travelling from Watsons Bay (7km). STA is awaiting the introduction of a new ticket gate system during 1997 to facilitate the use of further zones. The Tribunal encourages this restructure into further zones and will review proposals from STA as part of the 1998/99 determination process.

*The Tribunal accepts a need for modest increases in single journey ferry fares of up to 20 cents per journey as detailed in Table 8.*

**Table 8 Comparison of current and proposed single journey ferry fares**

	Current fare (\$)	New fare (\$)	Change (cents)
Inner Zone 1	2.80	3.00	20
Inner Zone 2	3.00	3.20	20
Manly/Rydalmere	3.80	4.00	20
Parramatta	4.60	4.80	20
Manly JetCat	5.20	5.20	0

## 7.7 FerryTen tickets

STA has sought increases in the FerryTen tickets of between 40 cents and \$2. Table 9 illustrates that FerryTen tickets offer excellent discounts. The Tribunal has previously stated an intention to progressively reduce all ten ticket discounts to between 15 and 20%. However, single cash fares comprise the bulk (56%) of ferry revenue and will require continual modest increases to improve the cost recovery of Sydney Ferries. The Tribunal also notes that only 13% of ferry farebox comes from FerryTens compared to 26% of Sydney Buses revenue being derived from TravelTen. These circumstances have reduced the priority given to FerryTen discount reduction.

By contrast, Sydney Buses cash fares have been held constant to assist in the TravelTen discount reduction. As such progress on reducing discount levels for FerryTen will be slower than for TravelTens as improving financial performance of Sydney Ferries is the primary goal. As a result different target discount levels for bus and ferry tens will be required.

The increases for FerryTens are shown in Table 9.

**Table 9 Comparison of current and proposed FerryTen fares**

	Current fare	New fare	Change	Discount from single	
	(\$)	(\$)	(\$)	Current (%)	New (%)
Inner Zone 1	16.60	17.00	0.40	40.7	43.3
Inner Zone 2	18.00	19.00	1.00	40.0	40.6
Manly/Rydalmere	26.60	28.00	1.40	30.0	30.0
Manly JetCat	41.60	43.00	1.40	20.0	17.3
Parramatta	31.00	33.00	2.00	32.6	31.2

## 7.8 Pensioner excursion fares

The Tribunal does not have any role in determining the fares for the pensioner excursion ticket system. Government controls fares and conditions of this scheme. However, the operation of the excursion ticket system has an impact on the viability and returns of STA and CityRail which requires consideration by the Tribunal in setting other fares.

The size of government payments to STA (\$60.9m for 1997/98) for the pensioner excursion system is illustrated in Table 3. The cost to government of the system has been growing by over 7% per annum.

The pensioner concession fare of \$1 provides unlimited bus and ferry travel within the STA area on the day of purchase. The ticket also permits unlimited train travel within the Sydney area. This fare has not increased from \$1 since its introduction in 1988. In real terms, the price of the concession ticket has fallen by 43.1% since 1988. The Tribunal will seek TVT information for the pensioner excursion ticket to further assess the size of the true cost to government of this program. TVT data on excursion ticket will also enhance the accuracy of transport authority revenue sharing.

However, excursion fares and reimbursement levels to each transport authority (as CSOs) are matters of social policy for the Government to determine, not the Tribunal.

## 7.9 SydneyPass, DayRover and DayPass

STA offers a variety of unlimited travel tickets to suit almost any travel requirements.

The *SydneyPass* is a tourist focused ticket featuring unlimited bus, rail and ferry travel on any three, five or seven days. It also features use of premium STA services such as the Explorer coaches, Airport Express, JetCats and Harbour Cruises.

No fare rise has been proposed by either transport authority for the SydneyPass. The SydneyPass was last increased by 10% in April 1997 which negates the need for a further increase for 1997/98. The Tribunal will seek TVT information prior to any further fare adjustments.

The *DayRover* is a product which provides unlimited train, bus and ferry travel across all regular services within the Purple TravelPass area. The DayRover is essentially a 1 day Purple TravelPass. Concessions are not offered on the DayRover however, it is available at an offpeak discount (20%). STA has not sought any fare rise for the DayRover. The Tribunal seeks TVT information prior to any future DayRover fare adjustments.

The *DayPass* is a one day unlimited bus and ferry ticket. It was previously called the bus/ferry daily ticket. It is equivalent to a BusTripper with the addition of unlimited regular ferry use. The DayPass was introduced in July 1994 and the fare since this time has remained frozen at \$12. STA has not sought a fare rise for the DayPass. TVT information will be sought from STA prior to any future DayPass fare adjustments.

***Fares for the SydneyPass, DayRover and DayPass remain frozen.***

## 7.10 Newcastle bus services

A time based fare structure was introduced for Newcastle bus services on 6 January 1997. The introduction of this system is intended to be revenue neutral and preliminary financial results indicate no significant change to revenue. To enable a complete evaluation of the new fare system no change to fare levels has been sought by STA. STA also reports widespread acceptance and conversion to the new system by customers and drivers. The time based fares trial is being conducted as it provides a simpler fare system, gives penalty free transfers and ensures all customers pay the correct fare.

The Tribunal notes that STA sought approval to include “a TimeTen (1 hour) ticket for Newcastle which carried a discount of no more than 20% and preferably only 10%.”<sup>21</sup> This ticket was subsequently introduced at a fare of \$14.80 which represents a discount of 26%. The Tribunal is perplexed as to why this ticket was introduced at this high level of discount. However, the Tribunal will not reduce the discount for 1997/98 to facilitate a full evaluation of Newcastle time based fares without the impact of fare changes. The introduction of any further new fares for Newcastle should only proceed following Tribunal approval.

The Tribunal will continue to monitor the performance of the time based fares initiative and evaluate its possible application to Sydney buses.

***With the exception of TravelPass tickets, fares for all STA Newcastle services will remain unchanged.***

Schedule 1, Table 2 details the time based fare structure.

### **7.11 School term pass**

The school term pass provides one terms’ bus transport to students who are ineligible for free travel due mainly to their proximity (less than 2km) to the school they attend. STA has not sought to increase the price of the term pass.

***The price of the school term pass will remain unchanged at \$29.00.***

In the 1996/97 determination STA sought to increase the price of the pass to \$32 as the price had been unchanged since 1989 and under-recovery of costs. The Tribunal subsequently approved a smaller increase in the price of the school pass from \$23 to \$29 in July 1996 which was below the change in inflation since 1989. The July 1996 rise negates the need for a further rise as part of this determination. The Tribunal seeks TVT information prior to any adjustments in this fare.

## **8 REQUIREMENT UNDER SECTION 16 OF THE ACT**

The Tribunal is required under Section 16 of the Act to assess and report on the likely annual cost to the Consolidated Fund if the price were not increased to the maximum permitted.

The determination for State Transit Authority will result in an increase in revenue of about \$3.56 million above 1996/97 levels. Should fares be set below the scheduled levels, then for each \$1 reduction in farebox revenue, the Government will need to subsidise STA by an equal amount.

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<sup>21</sup> STA, submission to the Tribunal, April 1996, p 39.

## 9 COMPLIANCE

Compliance with the Tribunal determinations is required under Section 18 of the Independent Pricing and Regulatory Tribunal Act 1992. Government agencies are required to include details relating to the implementation of a determination within its annual report.

The Tribunal notes the reporting of compliance with the 1996/97 determination in STA's annual report and will continue to monitor this requirement.

**Thomas G Parry**

*Chairman*

29 May 1997



INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES

**DETERMINATIONS UNDER SECTION 11 (1) OF THE INDEPENDENT PRICING  
AND REGULATORY TRIBUNAL ACT, 1992**

**Matter No.:** SRD/97/02  
**Determination:** No 2, 1997  
**Agency:** State Transit Authority  
**Services:** Passenger transport services.

**Declaration of government monopoly services under Section 4 of the Act:**

Government Pricing Tribunal (Passenger Services) Order 1992, No.3. Gazette No. 146, p 8893.

**Maximum prices determined under Section 14 of the Act to be charged from  
29 June 1997 for bus and ferry passenger services supplied by the State  
Transit Authority**

*Regular passenger services (within the meaning of the Passenger Transport Act 1990)  
supplied by the State Transit Authority, excluding the bus services known as the "Airport  
Express" and the "Sydney Explorer"*

*1. All State Transit Authority bus services*

The price of any type of STA bus ticket is not to exceed the price of that type of ticket as set out in the attached Table 1.

*2. CityHopper*

The price of the CityHopper ticket is the appropriate return ticket, peak or off-peak, to the City plus an add-on for unlimited bus and rail travel in the city area. The price of the add-on is \$3.40.

*3. Sports special return bus ticket*

The price of the sports special return bus is not to exceed \$3.80.

*4. School term pass*

The price of the school term pass is not to exceed \$29.00 per school term.

5. *All State Transit Authority ferry services*

The price of any type of STA ferry ticket is not to exceed the price of that type of ticket as set out in the attached Table 1.

6. *Newcastle bus services*

The price of STA bus tickets in Newcastle is not to exceed of the fares detailed in the attached Table 2.

7. *Sydney Pass*

The price of the Sydney Pass is not to exceed prices set out in attached Table 3.

8. *DayRover tickets*

The price of the DayRover ticket shall not exceed \$20 for tickets purchased during the weekday morning peak and \$16 outside the morning peak.

**Thomas G Parry**

*Chairman*

29 May 1997

Table 1

## Maximum prices for STA bus and ferry services from 29 June 1997

	\$ Maximum Price
<b>BUS FARES</b>	
<b>Single ride fares</b>	
1-2 Sections	1.20
3-9 Sections	2.50
10-15 Sections	3.30
16-21 Sections	4.00
22-27 Sections	4.60
<b>TravelTen</b>	
1-2 Sections	8.60
3-9 Sections	17.20
10-15 Sections	25.80
16-21 Sections	34.00
22-27 Sections	40.00
<b>TravelPass - Bus and Ferry</b>	
Blue	19.00
Orange	25.00
2 Zone	19.00
Pittwater	36.00
<b>TravelPass - Bus, Ferry and Rail</b>	
Red	22.00
Green	28.00
Yellow	31.00
Pink	34.00
Brown	39.00
Purple	46.00
<b>Bus Tripper</b>	7.80
<b>DayPass (Bus and Ferry Daily)</b>	12.00
<b>FERRY FARES</b>	
<b>Single</b>	
Inner Harbour Zone 1	3.00
Inner Harbour Zone 2	3.20
Manly / Rydalmere	4.00
Manly Jetcat	5.20
Parramatta	4.80
Stockton	1.30
<b>FerryTen</b>	
Inner Harbour Zone 1	17.00
Inner Harbour Zone 2	19.00
Manly / Rydalmere	28.00
Manly Jetcat	43.00
Parramatta	33.00
<b>Note: Quarterly TravelPass = 11 x weekly fare</b>	
<b>Yearly TravelPass = 40 x weekly fare</b>	

**Table 2 Maximum STA Newcastle Bus Fares from 29 June 1997**

<b>Time</b>	<b>Maximum (\$)</b>
1 Hour	2.00
4 Hours	4.00
TimeTen 1 Hour	14.80
All day	6.00

**Table 3 Sydney Pass - Maximum fares from 29 June 1997**

<b>Term</b>	<b>Adult (\$)</b>	<b>Child (\$)</b>	<b>Family (\$)</b>
3 day	66.00	55.00	187.00
5 day	88.00	77.00	253.00
7 day	99.00	88.00	286.00