

REVIEW OF CITYRAIL FARES, 2009-2012

Draft Determination

On 3 October 2008, IPART released its draft report and determination on CityRail fares for the period from 1 January 2009 to 31 December 2012. This fact sheet provides a short summary of IPART's report. The full report, which includes the draft determination, is available on IPART's website.

IPART's fare determination applies to all railway passenger services supplied by CityRail.¹ It sets the maximum price CityRail can charge for all single, return and off-peak tickets, as well as for TravelPass, FlexiPass, CityHopper and DayTripper tickets, and link and intermodal destination tickets (such as Olympic Park tickets).

How fares would change under the draft determination

Under the draft determination, the prices of CityRail fares would increase by an average of 12 per cent in real terms² over the four years to 31 December 2012. However, it should be noted that the price changes for a large number of individual tickets will depart from this average because of the fare restructuring undertaken by IPART. In particular, the draft decision to implement a consistent distance based fare structure, transition weekly fares towards a constant 20 per cent discount and the increase in the off-peak discount drive significant variations in fare outcomes over the four year determination period. However, no individual fare would increase by more than 30 per cent in real terms over the four years to 31 December 2012. More specifically:

- ▼ For distances up to 15 km, single tickets would increase by 40 cents on 1 January 2009, and by between 2 cents and 7 cents a year plus inflation over the subsequent three years. Weekly tickets would increase between \$2.00 to \$3.00 per week on 1 January 2009, and by between 15 cents and 60 cents per week a year plus inflation over the subsequent three years.
- ▼ For distances from 15 km up to 35 km, single tickets would increase by between 40 cents and \$1.00 on 1 January 2009, and by between 5 cents and 20 cents a year plus inflation over the subsequent three years. Weekly tickets would increase by \$3.00 to \$8.00 per week on 1 January 2009, and by between 65 cents and \$1.35 per week a year plus inflation over the three subsequent years.

¹ Except for the services supplied in accordance with the ticket known as the "SydneyPass".

² 'In real terms' means before the effect of inflation.

- ▼ For distances from 35 km up to 175 km, single tickets would increase by up to \$1.00 on 1 January 2009, and by between 20 cents and 90 cents a year plus inflation over the subsequent three years. Weekly tickets would increase by \$7.00 to \$9.00 per week on 1 January 2009, and by between \$1.50 and \$6.50 per week a year plus inflation over the three subsequent years.
- ▼ For distances 175 km and above, single tickets would decrease by up to \$8.00 on 1 January 2009. For the subsequent three years fares will vary: some will reduce by up to 80 cents, while some will increase by up to \$1.00 a year plus inflation over the subsequent three years. Changes in weekly tickets in this group vary from a decrease of \$18.00 per week on 1 January 2009 to an increase of \$9.00 per week on 1 January 2009. Weekly tickets in this group increase by between \$2.95 and \$5.15 per week plus inflation over the subsequent three years.
- ▼ TravelPasses will increase by \$3.00 to \$5.00 on 1 January 2009, and by between \$1.80 and \$3.65 per week a year plus inflation over the subsequent three years. The Red TravelPass - will increase by \$3 on 1 January 2009 and by approximately \$2.00 per week a year plus inflation over the subsequent three years.

Table 1 provides a summary of the corresponding real percentage increases over the regulatory period compared to present fares.

Table 1 Average real cumulative percentage change in fares from 2008 to 2012

Distance	Single	Weekly	Off peak return
Up to 15 km	13%	10%	-18%
From 15 km up to 35 km	18%	18%	-15%
From 35 km up to 175 km	14%	25%	-17%
175 km and above	-16%	5%	-39%
TravelPass	-	20%	

Under the draft determination, there would also be some changes to the price and conditions related to off-peak return tickets:

- ▼ The discount for off-peak return tickets would increase to 50 per cent of the equivalent peak period ticket (compared to the current discount of 30 per cent). This reflects the lower costs of providing CityRail services outside peak periods, and the excess capacity on trains operating at those times.
- ▼ The periods in which off-peak tickets may be used would be limited to trains that are scheduled to³:
 - arrive at Central before 7 or after 9:30 in the morning
 - depart Central before 4 or after 6:30 in the afternoon/evening
 - operate on the weekend or public holidays.

³ All tickets sold on weekends and public holidays are regarded as off-peak.

This more accurately reflects the periods of lower demand for CityRail services travelling to and from the CBD in the morning and afternoons, and the lower costs of providing these services.

Attachment A sets out the maximum price for all distance-based fares and TravelPass tickets from 1 January 2009. On 1 January 2010, 2011 and 2012, these prices increase by an average of 2 per cent and would be adjusted to account for inflation. The adjusted prices would then be rounded according to RailCorp's rounding conventions. IPART will publish the new adjusted fares for the coming year in a prices and services report on CityRail in December each year.

IPART's key considerations in making the draft determination

IPART took account of a wide range of matters in making its draft determination – including (but not limited to):

- ▼ the impact on the affordability of fares and the patronage of CityRail services
- ▼ the urgent need to create effective incentives for CityRail to reduce its costs by increasing its economic efficiency, and
- ▼ the need for passengers and taxpayers to each fund an appropriate proportion of the costs of providing CityRail services that reflects the level of benefits individual users and the wider community derive from these services.

To help create the right incentives for CityRail, IPART revised the approach it uses to set fares (see Attachment B for more detail). The new approach includes a more rigorous assessment of the efficient operating, maintenance and capital expenditure that will be required to provide CityRail services over the determination period. In making its draft decision on efficient operating and maintenance expenditure, IPART accepted the recommendation of its consultant (LEK) that it is both reasonable and achievable for RailCorp to reduce CityRail's operating costs by 18 per cent per annum by 2011/12 by making efficiency savings. This decision implies that RailCorp can make total efficiency savings of around \$1 billion⁴ by 2011/12, while maintaining or improving service standards.

Because CityRail's revenue from fares and other sources is substantially less than its costs, NSW taxpayers subsidise a significant proportion of these costs. For example, in 2007/08, CityRail received \$1.9 billion in government funding. This funding was equivalent to a subsidy of \$15 per week from each household in NSW⁵ yet only 5 per cent of all average weekday trips by Sydney's residents are by rail.

To help ensure that passengers and taxpayers each pay an appropriate proportion of CityRail's costs, IPART made an explicit decision on this matter. Since there is general agreement in Australia and other jurisdictions that the provision of passenger rail services provides significant external benefits to the wider community,

⁴ Before the effects of inflation.

⁵ RailCorp and ABS (Cat No. 2068.0).

and that these benefits justify government subsidisation of rail services, one of the key factors IPART considered was the value of the external benefits of CityRail services. These external benefits are substantial, and include reduced road congestion, traffic accidents and greenhouse gas emissions. IPART also considered expert advice on optimum fare outcomes which balance the costs of additional rail services against the benefits of rail travel and suggest lower fare increases.

IPART's draft decision is that the value of the external benefits in 2007/08 was \$1.7 billion, and this value will increase to \$1.9 billion in 2011/12 in real terms. This value represents around 70 per cent of CityRail's revenue requirement over the determination period, which suggests that a funding share of 70:30 is appropriate.

After considering the implications of a 70:30 funding share for the affordability of fares and for patronage levels, IPART made a draft decision that 70 per cent of CityRail's annual revenue requirement should be funded by taxpayers through government subsidies, and 30 per cent should be funded by passengers through fares.

IPART is seeking stakeholder comments on the draft report and determination, which it will consider before making its final determination in December 2008. Submissions are due by 5 November 2008. They can be emailed to ipart@ipart.nsw.gov.au or sent by fax to 02 9260 2061 or mailed to:

CityRail form of regulation review
Independent Pricing and Regulatory Tribunal
GPO Box Q290
QVB Post Office NSW 1230

A Draft CityRail fares from 1 January 2009

Table A.1 Maximum prices for CityRail distance-based tickets from 1 January 2009

Distance up to (km)	Current Single	Proposed Single (\$)	Current Weekly (\$)	Proposed Weekly (\$)	Current Off Peak Return (\$)	Proposed Off Peak Return (\$)
5	2.60	3.00	21.00	24.00	3.60	3.00
10	3.00	3.40	25.00	27.00	4.20	3.40
15	3.40	3.80	28.00	30.00	4.60	3.80
20	3.80	4.20	31.00	34.00	5.20	4.20
25	4.20	4.60	34.00	37.00	5.80	4.60
30	4.60	5.20	36.00	42.00	6.40	5.20
35	4.60	5.60	37.00	45.00	6.40	5.60
45	5.60	6.40	41.00	48.00	7.60	6.40
55	6.60	7.40	44.00	52.00	9.00	7.40
65	7.20	8.20	48.00	56.00	10.00	8.20
75	8.60	9.00	51.00	59.00	11.80	9.00
85	9.60	10.00	54.00	63.00	13.20	10.00
95	10.60	10.80	56.00	64.00	14.60	10.80
105	11.00	11.80	58.00	66.00	15.20	11.80
115	12.20	12.60	60.00	69.00	16.80	12.60
125	13.60	13.60	63.00	72.00	18.80	13.60
135	13.80	14.40	69.00	76.00	19.00	14.40
155	15.80	16.00	75.00	83.00	22.00	16.00
175	18.00	18.00	79.00	88.00	25.00	18.00
175+	22.00-30.00	22.00	86.00-113.00	95.00	30.00-41.00	22.00

Table A.12 Maximum prices for TravelPass tickets from 1 January 2009

Tickets	Current Weekly (\$)	Proposed Weekly (\$)	Proposed Half Fare (\$)
Sydney TravelPass Red	35.00	38.00	19.00
Sydney TravelPass Green	43.00	46.00	23.00
Sydney TravelPass Yellow	47.00	50.00	25.00
Sydney TravelPass Pink	50.00	55.00	27.50
Sydney TravelPass Purple	57.00	62.00	31.00

B Overview of the key changes to the approach to fare setting

IPART's draft decisions on the approach to fare setting represent major revisions to the approach used in the past. The revised approach is more rigorous and robust, and provides significantly more scope to create effective incentives for CityRail to improve its economic efficiency.

IPART's draft decisions on the approach to fare setting include:

- ▼ Introducing a multi-year determination period. For the next determination, IPART will set CityRail's fares for a period of four years, from 1 January 2009 to 31 December 2012.
- ▼ Using the building block approach to determine CityRail's annual revenue requirement over the determination period. The building block approach ensures that all the costs of providing CityRail services are measured and monitored in a way that is rigorous and transparent. It uses forecasts of capital and operating expenditure, depreciation and a rate of return on assets to calculate the revenue CityRail requires.

IPART engaged LEK Consulting to estimate the efficient costs of providing CityRail's regular passenger services, taking into account the potential for CityRail to make efficiency improvements between 2008/09 and 2011/12. IPART considered LEK's recommendations, submissions from stakeholders and the assessment criteria for the review. IPART considers that RailCorp can make total efficiency savings of around \$1 billion by 2011/12, while maintaining or improving service standards. These efficient costs are 18 per cent less than CityRail's costs in 2011/12. The efficiency savings include reductions in head office staff, train guards and station staff at low patronage stations, which would bring CityRail staffing levels in line with those of comparable rail operators, while maintaining service quality (see table B.1).

CityRail drivers spend far less time driving trains than drivers in Melbourne or Brisbane. Overhead costs driven by staff numbers are much higher than other comparable operators. While CityRail's policy of staffing low patronage stations and providing guards on trains provide passengers with a sense of security, LEK's report identified that a greater level of customer service and security could be achieved if CityRail's existing resources were better deployed.

Table B.1 LEK's recommendations on the scope for efficiency improvements in CityRail's operating areas in 2011/12 (\$million real 2008/09)

Operating area	RailCorp's forecast cost	LEK's recommended efficient cost	Size of efficiency improvement	% saving
Infrastructure maintenance	884	823	61	6.9
Rolling stock maintenance	357	304	53	14.7
Train operations and crewing	464	308	156	33.6
Customer interface (including station staffing)	451	370	81	17.9
Revenue collection	60	33	27	45.3
Overhead and marketing	277	196	81	29.2
Total	2,494	2,036	458	18.4

- ▼ Establishing the appropriate proportions of the revenue requirement to be recovered from CityRail passengers and from taxpayers by estimating the value of the external benefits - those that accrue to the wider community - generated by CityRail services, and considering potential impacts on fare affordability and patronage levels. IPART has made a draft decision that the value of external benefits in 2007/08 was \$1.7 billion, increasing to \$1.9 billion in real terms in 2011/12. Based on this estimate and the estimate of CityRail's efficient costs, IPART has made a draft decision that taxpayers should fund 70 per cent of CityRail's revenue requirement through government subsidies and that passengers should fund the remaining 30 per cent through fares.
- ▼ Converting the portion of CityRail's revenue requirement to be recovered from passengers into fares by setting the maximum fare for each CityRail ticket type.
- ▼ Adopting a fixed flagfall plus a per kilometre charge and moving weekly tickets towards a consistent discount of 20 per cent.

IPART considers its revised approach to determining fares has clear advantages over alternative options. In particular, it takes account of the full economic costs of providing CityRail services and the external benefits of these services in a rigorous and transparent way.