

REVIEW OF CITYRAIL FARES, 2009-2012

Final Determination

On 16 December 2008, IPART released its final 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 final 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 will change under the final determination

Over the four years to 31 December 2012, the price of CityRail tickets will increase by a weighted average of 12 per cent in real terms (or 25 per cent in nominal terms).² However, the price of a large number of individual tickets will change by more or less than this average due to changes in the structure of CityRail fares.

In particular, IPART decided to price single tickets based on a flat flag-fall charge and a variable distance-based charge that is the same for all distance bands. It also decided to move towards a consistent frequency discount of 20 per cent for all periodical fares. These decisions mean there will be some variations in how individual fares change over the four-year period. However, in nominal dollars, weekly tickets for journeys of less than 175 km (which includes journeys from Newcastle to Central) increase by no more than \$12 over the four-year period.³

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. 'In nominal terms' means after being adjusted for inflation. In this fact sheet, all figures expressed in nominal terms assume a current market implied inflation of 2.7 per cent per annum. If actual inflation differs from this forecast, actual fare outcomes in 2010 to 2012 may differ.

³ The price of the 195 km and 215 km weekly train and pink TravelPass weekly increase by \$15 in nominal terms over the four years.

Based on the current market implied inflation forecast:

- ▼ For distances up to 20 km, single tickets increase by between 20 and 60 cents on 4 January 2009, and by a total of 20 to 80 cents over the subsequent three years. Weekly tickets increase by \$1.00 to \$3.00 per week on 4 January 2009, and by a total of \$3.00 to \$6.00 over the subsequent three years.
- ▼ For distances from 20 km up to 65 km, single tickets increase by up to 40 cents on 4 January 2009, and by a total of 80 cents to \$1.40 over the subsequent three years. Weekly tickets increase by \$2.00 to \$3.00 per week on 4 January 2009, and by a total of \$6.00 to \$9.00 over the subsequent three years.
- ▼ For distances from 65 km up to 175 km, single tickets remain at current levels on 4 January 2009, and increase by a total of 20 cents to \$1.20 over the subsequent three years. Weekly tickets increase by \$3.00 per week on 4 January 2009, and by a total of \$7.00 to \$9.00 over the subsequent three years.
- ▼ For distances 175 km and above, single tickets decrease by up to \$8.00 on 4 January 2009, then remain constant over the subsequent three years. Weekly tickets vary from a decrease of \$25.00 per week to an increase of \$2.00 per week on 4 January 2009, then increase by a total of \$13.00 over the subsequent three years.
- ▼ TravelPasses increase by \$3.00 on 4 January 2009, and by a total of \$8.00 to \$12.00 over the subsequent three years. The Red TravelPass increases by \$3.00 on 4 January 2009 and by a total of \$10.00 over the subsequent three years.
- ▼ Off-peak tickets for journeys up to 175 km increase by up to 80 cents on 4 January 2009, and by up to \$2.20 over the subsequent three years.

Key differences between the draft and final determinations

IPART used the same approach to set fares under the final determination as it did for the draft determination. IPART's final decisions on the weighted average increase in fares and the structure of single and periodical fares were also the same as its draft decisions. However, IPART made changes to its draft decisions on individual components of the fare setting approach and fare structure, particularly in response to:

- ▼ the NSW Government's and other stakeholders' concerns that the fare outcomes under the draft determination would reduce the affordability of fares, particularly for longer distance commuters
- ▼ updated data from RailCorp on the opening date and forecast ticket sales for the Epping Chatswood Rail Link
- ▼ the impact of recent changes in global financial market conditions.

As a result, the individual fare increases provided under the final determination are more evenly distributed. For example, the nominal cumulative increase in the price of single tickets for distances up to 175 km over the determination period range from 20 cents to \$1.40, compared to 80 cents to \$5.00 under the draft determination. For weekly tickets, the nominal cumulative price increase for distances up to 175 km range from \$5.00 to \$12.00, compared to \$6.00 to \$36.00 under the draft determination.

But the increase in off-peak return fares is higher under the final determination because IPART decided not to increase the level of discount for these tickets from 30 per cent to 50 per cent, as proposed in its draft determination. Under the final determination, for distances up to 175 km the price of these tickets increase by up to \$2.20 over the four-year period, compared to a price decrease of up to \$2 under the draft determination. IPART also decided not to change the conditions related to the use of off-peak tickets, as the results of a recent trial suggest such changes are unlikely to be sufficient to shift demand for CityRail services from peak to off-peak periods.

IPART's key considerations in making the final determination

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

- ▼ the impact of price increases 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. 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 final 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.

⁴ Before the effects of inflation.

IPART notes that the NSW Government has indicated that it will not pursue some of these efficiencies such as train guards and staffing of low patronage stations. As IPART has emphasised throughout its review, the decision about whether or not to employ guards and staff low patronage stations is a matter for the Government. IPART's role is confined to determining the maximum fares CityRail can charge for its services and, as part of this process, determining the **efficient** costs of providing those services. IPART's view is that the costs associated with employing train guards and staffing low patronage stations are **not efficient**, and so should not be funded by passengers.

Because CityRail's revenue from fares and other sources is substantially less than its costs, NSW taxpayers subsidise a significant proportion of these costs.⁵ There is general agreement in Australia and other jurisdictions that such subsidisation is justified because the provision of passenger rail services provides significant external benefits to the wider community. However, IPART considers it is important that taxpayers do not pay more than their fair share of CityRail's costs.

For this reason, IPART made an explicit decision on the appropriate share of these costs to be funded by taxpayers and by passengers, based largely on the value of the external benefits of CityRail services. It found that the value of these benefits, which include reduced road congestion, traffic accidents and greenhouse gas emissions, was \$1.7 billion in 2007/08, and this value will increase to \$1.9 billion in 2011/12 in real terms.

IPART's final decision on the value of the external benefits represents around 70 per cent of CityRail's revenue requirement over the determination period. This suggests that around 70 per cent of the revenue requirement should be funded by government subsidies, and thus the remainder of around 30 per cent should be funded by passengers. After considering the implications of these funding shares for the affordability of fares and the level of patronage, IPART considers that they are broadly appropriate.

However, in making its final decision IPART further considered stakeholder views that the passenger share should be less than 30 per cent in recognition of CityRail's contribution to broader social benefits. While they are hard to quantify, IPART agrees that CityRail services provide social benefits by improving mobility and social inclusion, particularly for disadvantaged groups. In recognition of this, it decided to set fares to recover a lower proportion of CityRail's net annual revenue requirement than it did for the draft determination (28.5 per cent, compared to 30 per cent for the draft determination).

⁵ For example, in 2007/08, CityRail received \$1.9 billion in government funding (RailCorp and ABS (Cat No. 2068.0)). This funding was equivalent to a subsidy of \$15 per week from each household in NSW yet only 5 per cent of all trips by Sydney's residents are by rail.

A 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	New Single (\$)	Current Weekly (\$)	New Weekly (\$)	Current Off Peak Return (\$)	New Off Peak Return (\$)
5	2.60	3.20	21.00	24.00	3.60	4.40
10	3.00	3.40	25.00	27.00	4.20	4.80
15	3.40	3.80	28.00	30.00	4.60	5.20
20	3.80	4.00	31.00	32.00	5.20	5.80
25	4.20	4.40	34.00	36.00	5.80	6.20
30	4.60	4.80	36.00	38.00	6.40	6.60
35	4.60	5.00	37.00	40.00	6.40	7.00
45	5.60	5.60	41.00	44.00	7.60	8.00
55	6.60	6.60	44.00	47.00	9.00	9.20
65	7.20	7.20	48.00	51.00	10.00	10.00
75	8.60	8.60	51.00	54.00	11.80	12.00
85	9.60	9.60	54.00	57.00	13.20	13.40
95	10.60	10.60	56.00	59.00	14.60	14.80
105	11.00	11.00	58.00	61.00	15.20	15.40
115	12.20	12.20	60.00	63.00	16.80	17.00
125	13.60	13.60	63.00	66.00	18.80	19.00
135	13.80	13.80	69.00	72.00	19.00	19.40
155	15.80	15.80	75.00	78.00	22.00	22.00
175	18.00	18.00	79.00	82.00	25.00	25.00
175+	22.00-30.00	22.00	86.00-113.00	88.00	30.00-41.00	31.00

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

Tickets	Current Weekly (\$)	New Weekly (\$)	New 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	53.00	26.50
Sydney TravelPass Purple	57.00	60.00	30.00