An Inquiry into Pricing of Public Passenger Transport Services

Fair Fares: An Overview

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

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Transport Interim Report No 6 **March 1996**

Submissions on the Interim Report should be sent to the Tribunal at the address below or by fax to 02 290 2061

Please forward submissions by 19 April 1996.

Public Hearings to consider the interim reports of this review and determinations of maximum prices to apply from July 1996 for declared passenger transport fares will be held on 26 April 1996 at the Sydney Hilton Hotel, 259 Pitt Street, Sydney.

The Tribunal is releasing the following Interim Reports for this review. Copies of the reports are available from the Tribunal's office.

Report No 1	Government Payments for Public Transport
Report No 2	Buses and Ferries
Report No 3	CityRail
Report No 4	Fare Structures for Public Transport
Report No 5	Framework for Public Transport Pricing
Report No 6	Fair Fares: An Overview

Independent Pricing and Regulatory Tribunal of New South Wales
Level 1, 140 Sussex Street, Sydney NSW 2000
Tel (02) 290 8400 Fax (02) 290 2061
All correspondence to: GPO Box 3400 SYDNEY NSW 2001

1 INTRODUCTION

This Overview Report focuses on the major issues arising from the Tribunal's inquiry into the pricing of public passenger transport. Five other Interim Reports are being released together with this Overview Report. These Reports cover the major topics examined by the Tribunal:

- 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 the operations of the government-owned public passenger transport businesses - STA's buses and ferries and SRA's CityRail
- fare structures and fare levels for the STA's buses and ferries and CityRail's rail services - "fair" fares
- a context for considering the "transport pricing problem".

This Overview Report brings together the main themes that have emerged from the Tribunal's Inquiry.

The Reports that have been released are ***Interim Reports.*** That is, they reflect the Tribunal's thinking to date, based on the submissions and information available through the Inquiry process. The Reports provide an opportunity for the Tribunal to test a number of propositions about transport and the transport businesses examined. They also put forward some proposed approaches to fare setting. The Tribunal is especially interested in responses to these Reports from the various stakeholders that have an interest in public transport. These comments will form part of the process of finalising the Inquiry and, as such, will be relevant to the setting of fares over the medium term.

The Tribunal is aware that, in part, it is exploring areas of policy which are clearly responsibilities of government. The Tribunal has no intention to determine nor set government policy. Rather, having regard to the Inquiry's Terms of Reference, the Tribunal has endeavoured to provide the Government with an independent and considered view.

The focus to date has been on passenger transport within the urban areas. The Tribunal will now commence work on State Rail's CountryLink passenger services.

2 OBJECTIVES FOR "FAIR" FARES

The Government makes a substantial contribution to the funding of urban passenger public transport. Treasury quotes a net outlay of $1 billion.

A key issue for the Tribunal and for the community is to determine what is an appropriate ("fair") contribution from taxpayers towards running and maintaining public passenger transport. Conversely, what is a reasonable contribution from those who use public transport to make towards the running, maintenance, infrastructure and capital costs of the services they use?

Ultimately, this Inquiry is about "fair fares". There are many factors that are relevant to this issue. The community benefits from its transport system, in the form of environmental and other "externality" benefits. Users of the system also benefit in terms of the value that they derive from a transport service. Indeed some users may receive a benefit (value) well beyond their contribution to the costs of running, maintaining and up-grading public transport.

Therefore, one important objective for fares must be that fare levels and structures should allow the public transport system to continue to meet the transport objectives expected of it by passengers, the community, and Government.

The strongest argument for increasing farebox revenue flows to public transport is to ensure that the system is adequately funded to meet operating, maintenance and prudent capital requirements. It would be undesirable to allow a situation to develop whereby the public transport system failed to meet its core objectives because of inadequate revenues. This requires a "fair" funding balance between taxpayers and users.

Key objectives for the public transport system and major constraints on fares are:

- in view of the important externality issues, the public transport businesses should attain (State Rail Authority - SRA) or maintain (State Transit Authority - STA) financial viability in order to continue with and improve services that keep and increase patronage levels
- fares should be set so that the major passenger groups (ie commuters), who are potentially able to switch, do not switch away from public transport to private cars
- fares should be set in relation to efficient costs
- any fare increases should be set and phased in to meet capacity to pay considerations.

3 TAXPAYER FUNDING OF PUBLIC TRANSPORT

For the past six years, taxpayers have contributed well over $1 billion a year in support of passenger transport (Table 1). These contributions comprise various direct and indirect subsidies to the government-owned public transport operators (STA and SRA), as well as targeted concession reimbursements (to pensioners and seniors and for school student travel) to public and private operators. The main contributions have been the funding of capital expenditure by the SRA.

Table 1 Government contributions to transport operators

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96 (est.)
			($m 1994-95)			
CityRail (including capital)	732.8	783.4	813.6	828.4	720.5	875.4
STA (including SSTS & concessions)	168	180	177	168	152	135
Private buses (including SSTS)	210.5	231.4	247.9	260.5	287.0	298.3
Total	1111.3	1194.8	1238.5	1256.9	1159.5	1308.7

(Source: Interim Report No 1, *Government Contributions for Public Transport*)
Note: Contributions include payments for School Student Transport Scheme (SSTS).

The major issues for the community and government are :

- what is a reasonable level of total taxpayer funding?
- where is this money best directed?

There are many worthwhile alternative uses for the large amount of taxpayers' money currently funding public transport. These include health, education and social services. This point is especially significant when it is realised that public transport accounts for only a very small part of total passenger journeys in Sydney's urban areas.[1]

The benefits of public transport are not confined to those who actually use it. The substantial externality benefits associated with environmental and community benefits justify a general level of government funding for public transport. There are also social policy reasons for subsidising particular transport activities (including some non-commercial services) as well as subsidising the fares paid by particular groups of travellers (eg pensioners and school students).

A major concern of the Inquiry has been how to get better value from the very large amounts of taxpayer money that flows to public transport. Very closely related to this issue of getting better value for taxpayers, is the issue of ensuring that the passengers who use and pay for public transport get value for their money.

This is what "fair fares" is all about achieving better value for taxpayers and public transport users and establishing a reasonable share between taxpayers and public transport users in the funding of public passenger transport.

The question of what is a "reasonable" or "fair" level of taxpayer funding for public transport can be viewed in terms of what specific areas and functions are being funded by government. The major areas of government funding are :

- capital expenditure by CityRail
- the school students travel scheme (SSTS) (reimbursing SRA, STA and private buses)
- various targeted concessions (such as pensioners and seniors)
- operating subsidies and CSOs to STA and SRA

Present government subsidies are not well targeted. Passengers with good access to CityRail and government-owned buses services enjoy better services and lower fares than those who do not. The recommendations in this review will start to redress this imbalance.

The Tribunal believes that there is scope for reviewing the main areas of government expenditure on public transport so that there are better outcomes and greater value from that expenditure. Part of the approach proposed by the Tribunal involves an increase in the share of funding by passengers through a modest increase in some CityRail fares.

There is also an emphasis on better control of costs by both the STA and SRA, as well as better (more cost effective) ways of funding concessions by government.

The Tribunal believes that the transport operators and government need to carefully assess some of the strategies for public transport, particularly where these bear on capital

[1] For example, private cars account for two-thirds of journey to work travel and journey to work travel is only some 10% of all trips.

expenditure, which constitutes the largest single category of government expenditure on public transport.

4 WHAT IS SUBSIDISED?

As noted, taxpayers currently subsidise a number of areas of general expenditure by transport operators through general operating subsidies as well as subsidising certain targeted groups of travellers (such as pensioners, seniors and school students). The Tribunal believes that there are several ways in which government expenditure can be better focused.

The basis for some of the government payments to both public and private operators needs to be reassessed. As argued in Interim Report Number 1, *Government Payments for Public Transport*, the reimbursement of CSOs and targeted concessions to public and private operators may not be giving the government best value for its transport dollars.

It is important that the government and the community clearly understand what funds are being provided to public sector agencies and for what purposes. The Tribunal believes that there needs to be both greater transparency and a clearer categorisation of the actual payments by government to both the STA and SRA for general operating subsidies, CSOs and targeted concessions.

In the case of the public sector operators (SRA and STA), some of the features of the present reimbursement arrangements disguise the true nature and effect of the transfer of funds from government. In the case of the private buses and the SRA and STA, there is an argument that the present level of reimbursement for targeted CSOs is too high.

A commercial purchaser of the large quantity of output of the transport operators is likely to be able to negotiate a better deal than can be achieved through the current reimbursement arrangements. The use of a “purchaser (or funder) - provider” model, as discussed later in this report, would help to ensure that the taxpayer was not paying too much for the purchase of concessions and CSOs from both the government-owned and the private transport operators. This would mean better value for taxpayer transport expenditure.

In the case of services which are not commercially viable, such as some of the ferry services and all the Outer Suburban CityRail services, it is important that, if these are to be subsidised, they be funded by government explicitly as CSO services. It is for government to decide whether a particular transport service should be subsidised. For example, the Government explicitly subsidises the Parramatta RiverCat service. There are other non-commercial services that would require massive fare increases in order to achieve reasonable levels of cost recovery. These need to be explicitly identified and funded by government via CSO payments to the transport operator.

The Tribunal also believes that the setting of *minimum* service standards for transport operators (both government and private) and the assessment of *actual* service levels provided, needs to be reviewed to ensure that government transport policy objectives are being met. For example, it is not clear whether minimum standards that have been set (and are being met by private operators) are “too low” or the actual standards of STA are “inappropriately high”. If the standards being met by STA and SRA exceed the minimum standards that government, in fact, wishes to fund, then attaining higher standards will involve unnecessary expenditure and subsidisation by taxpayers via CSOs.

5 EFFICIENT COSTS AND GOVERNMENT SUBSIDIES

Regardless of what is the “correct” balance between taxpayer and user funding of public transport, it is clear that neither should be funding inappropriate or inefficient costs. There are categories of “inappropriate” costs that may currently be met by government, such as paying too much for targeted concessions, and CSO payments for “inappropriate” service standards or non-commercial services. These can be dealt with by addressing the issue of standard setting and non-commercial services, and reviewing the way in which targeted concessions are reimbursed.

The Tribunal believes that farebox contributions and government subsidies should not be required to cover costs in excess of the efficient level. As discussed in the Interim Reports on the STA and CityRail, the Tribunal believes that there is considerable scope for reducing costs incurred by both the STA and the SRA. In particular, there are two areas where operating costs need to be carefully reviewed. In the case of both STA and SRA, the high levels of head office, overhead costs need to be closely reviewed. In addition, the costs of meeting “government requirements” (another part of overhead costs) appear to be well above what a private operator would incur (or, indeed, does incur, as is the case with private buses).

In addition to these head office operating costs, particular cost issues associated with the capital side of SRA’s CityRail operations need to be carefully considered. CityRail has very high fixed costs, both “below rail” (the track, stations and signalling equipment) as well as “above rail” (mainly rolling stock). A major influence on CityRail’s poor economic and financial performance is declining utilisation of its capacity as additional capacity is put in place without a corresponding increase in patronage.

The Tribunal is concerned that large new capital expenditure on rolling stock, to be funded by government, assumes levels of patronage growth that will not be achieved. If this does occur, CityRail’s capacity utilisation will deteriorate further, as will its economic and financial performance. The need for new rollingstock to replace old equipment and to provide a superior service is not at issue. Rather, the issue is investing in new, additional rollingstock to service a growth in patronage that may not eventuate.

Given the alternatives for government funding of public transport, including providing bus services in areas with no public transport and additional infrastructure for bus routes (such as bus priority lanes), future investments in CityRail need to be assessed by the Government in the broader context of how best to meet transport objectives, that is, how to get the best value for government funding.

6 THE CASE FOR GENERAL SUBSIDIES

There are very good reasons for subsidising public transport in general. In particular, external benefits are enjoyed by the community overall, and by road users in particular, from the operation of public transport.

There is considerable evidence that private cars impose substantial externality costs on the community in the form of environmental pollution, congestion and other such impacts. Therefore, by substituting for private cars, public transport creates an externality benefit associated with the avoidance of externality costs through having fewer trips made by private cars. In addition, there are general community benefits from having a public transport system which contributes to the mobility of individuals, and which helps meet the community's urban planning strategies.

Thus the overall externality benefits from public transport are potentially substantial. There have been attempts to value various of these externalities (as discussed in Interim Reports 1 and 3). However, it is not possible to know with any degree of certainty exactly what the externality benefits are really worth. Nevertheless, there is a clear externality case for providing a general subsidy to public passenger transport. This is most clear in the case of CityRail, and its CityMet services in particular. The Treasury has recognised this argument and suggests that the externality benefits of CityRail can be "captured" by way of a subsidy to the below rail (infrastructure) costs of CityRail.

The Tribunal accepts the importance of externalities, especially in respect of CityMet. This has been an important consideration in the proposed approach to setting fare levels and structures for public transport. One of the major objectives of "fair" fares must be to recognise the externality effects and, therefore, limit the movement of those passengers who could switch away from public transport to private cars.

While there is a strong externality argument for providing a general subsidy to public transport, especially CityRail, there is no good case for a further ***general*** subsidy to meet social policy objectives. The Tribunal believes that social policy objectives need to be clearly related to specific subsidies for particular services (such as late night bus services) and to specific subsidies for targeted groups (such as pensioners, seniors and school students).

7 TARGETED SUBSIDIES

The Government subsidises the fares of a number of specific groups, such as pensioners, seniors and school students. These targeted subsidies are made available across the government (STA and SRA) and private bus networks. Targeted subsidies are additional to any general subsidy to public transport (such as for externality reasons) which result in fares that are lower than might otherwise apply.

The Tribunal recognises that CSOs and concessions are policy issues for the government of the day. However, it is clear that there are a number of anomalies and inequities in the current arrangements for providing and reimbursing targeted concessions. These are discussed in Interim Report No. 1, *Government Payments for Public Transport.*

The Tribunal believes that a clear framework for the application of social policy in the passenger transport area needs to be put in place and implemented. At the moment there are a number of equity issues:

- lack of access to the pensioner and senior citizen excursion fare on the private bus network
- differential concessions between pensioners, senior citizens and other groups that government may wish to better target (people who have disabilities or are unemployed)

- absence of any "needs" or "means" basis for better targeting the (often generous) transport concessions presently enjoyed by groups such as pensioners, senior citizens and school students.

Extending or adding to targeted concessions to groups that are outside existing arrangements (such as pensioners using private buses or the people with disabilities) ***may*** entail extra costs for government. However, to some extent this will depend on whether the purchase of particular concessions can be put on a more cost-effective commercial footing. For example, if extending targeted concessions simply uses existing capacity and does not require any additional capacity investment by the transport operator, there may be no argument for government to pay additional money to extend the targeted concession.

If, however, there is a real increase in costs as a result of extending concessions, this may be funded by a modest increase in the price of all concession tickets or by better targeting which individuals within the target group are actually eligible for the concession.

It is important to fully explore the likely cost implications of extending targeted concessions, as well as the more fundamental issue of the method of reimbursing transport operators for these concessions.

These are important and inter-related issues for government that need to be resolved.

An important element in both targeting concession fares and reimbursing the transport operators (both private and public) is the separation of "funder" and "provider" functions. The Tribunal supports the development of a robust funder-provider model in which the decision to fund a targeted social policy program is separated from the provision of the service. The area of government that is responsible for funding the targeted social policy program (whether pensioners, unemployed people or school students) will then have an incentive to ensure that the actual targeted concession delivers the policy outcome required, and to negotiate the best possible commercial terms for the (bulk) purchase of the services to be delivered.

There are major anomalies and inequities in the current arrangements for targeted concessions. The Tribunal has recommended a review of the availability of targeted concessions on the basis of identified target groups and according to the governments social objectives.

Any increase in the availability of concessions may require additional funding, particularly if there is an increase in operator costs. Changes in the way in which transport operators are reimbursed for providing concession travel, and in the way that government purchases these concessions are likely to limit the cost of increasing the availability of concessions.

Another means of limiting the cost of any increase in concessions is to review targeted concessions to ensure that they are provided on the basis of need, better reflecting lack of income and wealth. The Tribunal stresses that these are matters for government policy.

8 FRANCHISING : THE NEXT STEP

Several specific measures that can be implemented which will reduce the level of, and provide better value for, the government subsidy to public transport. Apart from greater efficiency improvements by the SRA and STA, which will flow to a reduction in the total subsidy requirement, there is scope for changing the way transport operators are reimbursed for targeted concessions. There is also substantial potential benefit in managing targeted concessions within a funder-provider framework.

These changes can be implemented reasonably quickly, but there is a case for a more fundamental change in the way in which governments fund public transport, especially in the area of buses.[2] The introduction of competitive tendering for bus franchise areas across an urban area could deal with many of the problems that currently arise with respect to government funding. There are several possible models for competitive tendering for a bus franchise area. A well designed tender would allow government to specify all service standards, including non-commercial service requirements such as night and weekend frequencies. All targeted concession requirements (including pensioner, senior citizen and school student travel) would be specified explicitly and could be funded by the relevant "purchaser" department as part of the franchise. The tender could specify maximum fares or could be designed so that actual fares were an outcome of the tender process. Franchise areas would be open to competitive tender again at the end of the franchise term (say five years).

The Tribunal supports investigation of the introduction of a competitive tender process for all bus franchise areas across the metropolitan region, covering both STA and private bus areas. This would provide a mechanism for the extension of the pensioner excursion fare to private buses, where it is not currently available. It would also allow for the standardisation of other targeted concession arrangements and service levels, reflecting government transport policy objectives. Effective competitive tenders for these franchises will result in lower fares and/or a reduction in the net amount of all subsidies from taxpayers to public bus transport.

Effective competitive tendering will require careful specification of all franchise requirements, a properly competitive field of bidders, and effective sanctions against anti-competitive bidding practices and any failure to meet franchise conditions.

9 "FAIR FARES" AND FAREBOX RECOVERY

In its various Interim Reports, the Tribunal has discussed at some length the main issues that need to be taken into account when determining the reasonable balance between taxpayer and user funding of public passenger transport, that is farebox recovery and "fair" fares. The main factors that the Tribunal has considered in determining a reasonable balance are:

- the transport objectives of the community and government
- the financial viability of the public transport operators which would allow them to meet these transport objectives

[2] Although in theory franchising could be applied across all modes of public transport, the practical area where franchising can be introduced relatively easily is with buses across all urban areas.

- the efficient costs of the transport operators, including capital and operating costs
- the positive externality benefits of public transport which underpin the case for a substantial general subsidy of public transport by taxpayers, particularly, in respect of CityRail and its CityMet operations
- the capacity to pay of travellers not already receiving targeted concessions.

Targeted subsidies and other CSOs reflecting social and/or political objectives are matters for government and are not part of the Tribunal's consideration of farebox recovery and fair levels and structures.

The Tribunal is interested in the extent to which changes in fares would result in a change in travel patterns and hence affect the mix of social and environmental costs and benefits which depend on choice of transport mode.

The Tribunal commissioned the Institute of Transport Studies (ITS) to conduct a survey to estimate the sensitivity of travel choice to fare changes. The study is discussed in a forthcoming Tribunal paper, *Estimation of Transport Fare Elasticities in the Sydney Region*.

The results suggest that few travellers would be likely to switch to cars following a "modest" public transport fare increase. This is because public transport users are either unable to use a car for travel or do not have access to parking. It also may reflect the availability of good quality public transport. In the long run, to prevent a gradual shift to car use and an accompanying increase in social and environmental costs, public transport must continue to offer good value for money in terms of service quality and price.

The mode choices of travellers during the peak appear to be more sensitive to increases in fares than those of purchasers of "cash" tickets. In response to "large" increases in fares, some of these regular commuters might transfer to other forms of public transport, while others might be lost to public transport entirely.

The ITS has developed a decision support system to enable the Tribunal to assess the impact of alternative fare options on revenue, patronage, government subsidy and road traffic congestion. The model provides an indication of the alternative choice of transport mode of those passengers who would no longer travel on weekly tickets following a fare increase.

The Tribunal has concluded that, given past increases, the greater sensitivity of the commuter group to fare increases and the risk of their switching to private car use, a cautious approach to increasing the prices of periodicals and multi mode tickets is warranted.

With these considerations in mind, the Tribunal has developed a series of proposals for public transport (STA and SRA) fares relating to both fare levels and fare structures.

10 FARE PROPOSALS FOR THE STA

The Tribunal considers that there is substantial scope for the State Transit Authority (STA) to increase efficiency and improve cost recovery from its bus and ferry services. The Tribunal has proposed fares which will provide incentives for STA to achieve such improvements. An important consideration in setting overall fare levels for STA is the view that actual costs are still well above achievable efficiency costs.

Sydney Buses

The evidence presented by the STA suggests that Sydney Buses could reduce its costs by at least $23 million over the next four years. However, the Tribunal considers that greater reductions are achievable, especially in the area of overheads and "government related" costs. Given the substantial scope to reduce overall costs, and in view of the substantial explicit and disguised CSO payments to STA, the Tribunal believes that the case for a commercial rate of return on STA operations has not been made. This matter will be need to be considered further in finalising the Inquiry.

At this stage, the Tribunal considers that there is no case for an overall increase in fare levels for the STA. Whether overall fare levels should be kept constant in nominal or real terms over the proposed period for the medium-term price path is a matter to be considered in finalising the Inquiry. The scope for cost reductions and the argument regarding a commercial rate of return will determine this issue.

While the Tribunal believes that there is no strong case for overall fare increases for the STA over the next four or five years (at the very least in real terms), there is a case for re-structuring a number of the STA fares.

The fare structure for Sydney Buses is based on 1.6 kilometre sections and tickets are sold for five fare bands. STA proposes increasing the number of bands to seven and adjusting the distances in each fare band so that the fares will more closely reflect the distance travelled and, thus, costs.

The Tribunal accepts Sydney Buses' argument for the introduction of a cash fare scale that is more closely related to distance. The Tribunal suggests that Sydney Buses should bring forward new proposals for changes to cash fares which are consistent with not increasing the weighted average of all fares, but which introduce revised fare scales.

STA should revise its proposals for changes to fares for multi-ride and periodical tickets to ensure they are consistent with the policy that the weighted average of fare types should not increase. Any fare changes should minimise the loss of passengers from public transport to private motor vehicles.

Allowing free transfers within the distance covered by the ticket purchased would further improve the relationship between fare paid and distance travelled. The Tribunal believes that Sydney Buses should allow penalty-free transfers between buses within its network for the distance covered by the ticket.

Sydney Ferries

Sydney Ferries' "core" business is services for discretionary travellers, that is, regular commuters who have bus alternatives, or tourists and occasional travellers pursuing leisure activities. ***These passengers presently fail to pay even the operating cost of the ferry services they use.***

Farebox recovery on Sydney Ferries is poor. Some routes would require only a modest increase in fares to become more viable - at least covering their operating costs if not replacement costs. Other routes would require very large fare increases to cover costs - increases which would cause patrons to move away from ferries to alternative transport modes and, hence, effectively lead to the closure of the service.

The Tribunal believes that STA should look at a combination of increases in fares and examine ways to alter the existing level of service in order to eliminate the revenue shortfall on potentially cost-effective ferry services.

Fares on the chronic, loss-making ferry services should increase by a similar amount to fares on the services that can potentially cover costs. The Government should consider whether the perpetual loss-making services should continue at reduced levels or, indeed, at all. If they do continue, support will be required through an explicit CSO payment.

The Tribunal believes that cash fares for ferries should be increased by a larger percentage than periodical fares and fare structures should be set to ensure a closer relationship between the fare and the distance travelled.

Newcastle Buses and Ferries

The Newcastle passenger transport "market" has very different characteristics to the larger metropolitan centres. As a result, it is very difficult to attract regular commuter patronage.

Passengers who use public transport in Newcastle often have little or no alternative. They include pensioners, schoolchildren, some tertiary students, low income earners and social welfare recipients. Commuters form a very small part of the total.

Cost recovery could normally be improved by growing the market through service level improvements and cost reductions. However, because Newcastle has very little commuter travel and the majority of passengers on Newcastle services are pensioners (46% as compared to 24% in Sydney), there is very little opportunity to increase patronage through normal service level enhancements.

STA proposes introducing a new fare structure for Newcastle which involves time based pricing. That is, a ticket will be valid for a certain period of time, allowing unlimited travel distance within the time available, with free transfers between services. The Tribunal believes that a time based fare is worth trialling in Newcastle. STA should submit details of the proposed time based fares.

The Stockton Ferry provides the only direct means of transport to convey the people of Stockton Peninsula across the 700m wide Hunter River to the Newcastle CBD. It is proposed that the current flat fare for Newcastle Ferries remain unchanged.

11 FARE PROPOSALS FOR CITYRAIL

Whereas STA buses are not far from full cost recovery, leaving aside the question of commercial returns, the State Rail Authority's CityRail service is a different story. Importantly, the characteristics and economics of the different market segments of CityRail vary substantially. As shown in Table 2, operating cost recovery is close to "reasonable" levels on some CityMet services, but very low on the Outer Suburban and Regional segments.

Adjustments to CityRail fares (both levels and structures) have been proposed which take into account the specific objectives and constraints identified by the Tribunal. In brief, these adjustments involve ensuring that the CityRail network attains financial viability. This is necessary to maintain and improve services that keep and increase its patronage levels. Meanwhile fares must be set so that the major users of the system do not switch away from rail to private cars. A related consideration is to determine the appropriate government contributions to the revenue requirements of the different users of the network, recognising CityRail's high fixed system costs and low marginal operating costs. At the same time, any fare increases need to be set and phased in to meet considerations of capacity to pay.

Table 2 CityRail route results [a] 1994-95

Service group	Operating costs [b] ($m)	Revenue [c] ($m)	Cost recovery (%)
CityMet			
South	269	126	47
Illawarra	117	79	68
North	143	82	58
West	133	75	56
Carlingford	7	1	11
Total	669	363	54
Outer Suburban			
Illawarra	43	12	28
West	58	12	20
Newcastle	101	34	34
Total	202	58	29
Regional services			
Goulburn	15	2	13
South Coast	10	2	17
Hunter Valley	14	2	13
Total	*39*	*6*	*15*
Total	**911**	**426**	**47**

(Source: Interim Report Number 3, *CityRail)*

Notes: a Values rounded; percentages based on actual dollar amounts.
b These amounts exclude those components of periodic maintenance which are included in the capital works program.
c Revenue includes reimbursements for targeted concessions.

The Tribunal believes that CityRail's cost projections substantially understate the extent to which cost reductions are possible. The Tribunal believes that there is greater scope for controlling costs, particularly in the area of overheads. If bigger cost reductions can be achieved, the subsidy to cover revenue shortfall can be reduced.

On the Tribunal's modelling of costs, patronage and revenue, a relatively modest real increase in fares of around 15% over the four years to 1999-2000 would close the gap between fare revenue and "efficient" operating costs for CityMet, excluding a rate of return. This projection assumes that the Government will continue to meet the below rail costs of the system. Subject to what happens with capital expenditure, this increase in farebox revenue would assist in improving CityRail's financial viability.

If farebox revenue is to be increased to ensure the financial integrity of the CityRail system, a better alternative to seeking a greater contribution from the "occasional" travellers who use the "cash" single and off-peak tickets would to increase regular commuter fares such as the rail weekly. However, t***he Tribunal is concerned that the greater the increase in commuter fares (the periodical tickets), the greater the switch away from rail travel to private car usage, especially in the peak period. This would cause a consequent increase in adverse environmental and other externality costs.*** Based on work by the Institute of Transport Studies, the Tribunal accepts that there is far less likelihood of this "switching" in the case of increases in "cash" fares paid by occasional travellers. Therefore, the Tribunal has proposed smaller fare increases for the core business commuter segment of CityRail's operation.

Such an increase could be phased in over several years, with minimal effect on patronage. The question of whether a rate of return should also be recovered will be considered by the Tribunal in finalising this Inquiry. However, the fare increases required to do this would be very substantial.

The three segments of CityRail, CityMet, Outer Suburban and Regional, have very different scope for improving recovery of operating costs. They must therefore be considered separately. For example, the bulk of the externality (mainly environmental) benefits of CityRail arise in the CityMet area. It would be counterproductive to impose on CityMet passengers the much larger fare increases that are required to achieve cost recovery for the CityRail system as a whole.

What should happen to fares in the Outer Suburban and Regional segments is far more difficult. Very large increases in fares (over 100%) would be needed to achieve recovery of operating costs under any scenario of cost reductions and patronage growth. Such increases would cause many passengers hardship and could run a real risk of discouraging use of the railway system.

Bearing in mind the objectives for fares, the Tribunal is reluctant to consider real fare increases for the Outer Suburban segment beyond the 15% proposed for the CityMet area. Nevertheless, the problem of under recovery of the avoidable costs of the Outer Suburban services will need further attention in finalising this Inquiry and in subsequent price reviews.

The real issue for some of the Outer Suburban and all of the Regional services is why they continue to operate at their current levels of service or, indeed, at all. ***This issue is one for government rather than the Tribunal.*** The Tribunal believes that these uneconomic operations should be funded explicitly by government by way of a service CSO.

The Tribunal has proposed a medium term price path for fares on CityRail, which ***phases in an overall weighted average increase in real terms of 15% over the four years from 1996-97 to 1999-2000***. To be consistent with the major objectives and constraints for passenger rail service set out in this Report, fare increases must be targeted to the different fare categories.

The Tribunal proposes phasing in increases in ***CityRail periodical and multi-ride tickets by 12.5%*** in real terms over the four-year period to 1999-2000. These increases will be capped (eg in the CityMet area, fares will increase by no more than $1 per week).

The Tribunal proposes phasing in real increases of ***20% in "cash" single and return fares*** over the four-year period to 1999-2000. These increases may be capped (eg a maximum increase of 20 cents per single trip and 40 cents per return trip in the CityMet area). Larger increases may be required beyond the CityMet area.

The Tribunal proposes increasing the ***"cash" off-peak fares by 20%*** in real terms over the four-year period to 1999-2000. These increases may be capped (eg an increase of 40 cents per return trip each year in the CityMet area). Larger increases may be required outside the CityMet area.

Table 3 sets out some examples of actual ticket prices under the proposed fare increases for CityRail.

Table 3 Proposed fares - some sample tickets

Destination from Central	1995-1996 ($)			1999-2000 (1995-1996 $)			Annual $ variation		
	Weekly	Cash	Off-peak	Weekly	Cash	Off-peak	Weekly	Cash	Off-peak
North Sydney	9.00	1.40	1.50	10.13	1.68	1.80	0.28	0.07	0.08
Homebush	14.00	1.80	2.00	15.75	2.16	2.40	0.44	0.09	0.10
Westmead	19.40	2.60	2.80	21.83	3.12	3.36	0.61	0.13	0.14
Macquarie Fields	23.00	3.00	3.20	25.88	3.60	3.84	0.72	0.15	0.16
Berowa	28.00	3.60	3.80	31.50	4.32	4.56	0.88	0.18	0.19
Penrith	28.00	4.20	5.00	31.50	5.04	6.00	0.88	0.21	0.25
Gosford	37.00	6.20	6.40	41.63	7.44	7.68	1.16	0.31	0.32
Newcastle	52.00	14.00	17.00	58.50	16.80	20.40	1.63	0.70	0.85

(Note: Fares are illustrative only and would normally be rounded to the nearest $0.20.
While the cash fare is a single ticket, the off-peak fare a return ticket.)

Depending on the actual cost reductions achieved by CityRail, and the actual increase in patronage for CityRail and, especially, the CityMet system, the increase in farebox recovery could have a significant favourable effect on the financial viability of CityRail. It must be stressed, however, that improved farebox recovery levels within CityMet relate only to operating costs. There will still have to be a substantial contribution by government to "below rail" (infrastructure) costs, as well as to any capital expenditure by CityRail, such as on new rollingstock. Government will also continue to fund targeted concession travel on CityRail.

The greatest threat to the strategy for improving CityRail's financial viability and getting better value from the taxpayer's funding of public transport is the level of capital expenditure in CityRail. Table 4 illustrates CityRail's projections for above rail capital expenditure, which are largely associated with the purchase of new rollingstock.

Table 4 CityRail Capital expenditure projections (1994-95 $m)

1995-96	1996-97	1997-98	1998-99	1999-00
89.9	66.9	64.4	124.9	166.4

Note: The above figures ***exclude*** periodic maintenance of $48.6m a year that is included as operating expenditure for the purpose of this report.

Any increase in projected capital expenditure which is based solely on CityRail's assumed increase in patronage needs to be reviewed. If patronage growth is not as high as CityRail assumes, much of expenditure on rollingstock will not be matched by an increase in revenue. This will have adverse consequences for capacity utilisation, the economics of CityRail operations and the financial viability of CityRail.

The Tribunal has no special knowledge of the likely extent of future patronage growth. However, it doubts whether the assumed growth in CityRail patronage can or will be realised. Importantly, there may be transport infrastructure opportunities elsewhere that might deliver better transport outcomes (such as new, more flexible bus networks and additional bus infrastructure). ***In these circumstances, it is most important that commercial investments be carefully assessed against commercial outcomes and realistic operating scenarios. Where government funding is involved (as with capital expenditure) alternative means of achieving desired transport objectives must be taken into account when considering investment in any one mode.***

Related to this is the difficult question of "disinvestment", that is, withdrawing or rationalising services. This is entirely a matter for government. However, there are some CityRail services which recover only a small proportion of their operating costs (as is the case with some STA ferry services). In the absence of community benefits (such as externality benefits) which justify the continuation of loss-making services, any non-viable service can be sustained only if there is explicit CSO funding by government.

12 EQUITY

The existing arrangements for regulating and subsidising transport give rise to inequities that are of concern to the Tribunal. For example:

- About 66% of government payments to subsidise transport operators in NSW are paid to CityRail yet rail users tend to be fairly affluent.
- It is a matter of regional equity that more than 50% of rail trips either start or finish in the Sydney CBD.
- Areas served by STA enjoy higher service standards than those which are served by privately-owned bus companies.
- The larger subsidy paid to Sydney Ferries benefits mainly discretionary travellers (leisure travellers and residents of harbourside suburbs who have other transport options).
- Pensioners who travel on STA buses have access to more generous concessions than those who travel on private buses.
- Only limited subsidies are available to those who, because of disability, are unable to use conventional public transport modes.

This review proposes the introduction of more equitable arrangements for funding and regulating public transport. If the recommendations are implemented:

- Passengers on trains and ferries will be asked to pay a little more. However, increases will be held within the capacity of passengers to pay and are unlikely to lead many of them to divert from public transport to private motor vehicles.
- Passengers on private buses will be able to buy multi-modal tickets.
- The pensioner excursion ticket will be available for travel on private buses.

- A competitive franchise model will be introduced for buses. This will promote more equitable outcomes for concessions, services and fares throughout the Sydney region.
- Higher priority will be given to those who cannot use conventional public transport.

13 THE WAY AHEAD

In its various Interim Reports, the Tribunal has attempted to propose an approach to setting fares which takes account of the variety of policy objectives and constraints surrounding public transport. As well as proposing a medium-term price path for regulated public transport businesses, the approach details some specific proposals for getting better value for the large amounts of taxpayer and passenger dollars that fund public passenger transport.

Some of the proposals are specific suggestions that could be implemented relatively quickly by government or the transport operator. Examples of these are: changing the arrangements for reimbursing targeted CSOs, and extending targeted CSOs.

Other proposals will require further consideration and development by government and operators. These include developing funder-provider models for negotiating and purchasing targeted concessions, and reducing operating costs (such as overheads and government requirements) to more efficient levels.

Some proposals require a fundamental consideration of transport policy and related objectives such as the whole area of service CSOs and government policy for social and other objectives as reflected in targeted concessions, the development of competitive tendering for bus franchises, and, establishing priorities for capital expenditure across alternative transport modes.

The Interim Reports provide an opportunity for the community and government to better explore and debate the complex and important issues that surround public transport and “fair” fares. The next stage of the Inquiry will allow for that process to occur.

ATTACHMENT 1 TERMS OF REFERENCE

Review of pricing policies of government agencies supplying public passenger transport services

Pursuant to Section 11(1)(b) of the Government Pricing Tribunal Act, 1992, the Tribunal will conduct a review of the pricing policies of public passenger transport services which are provided by the State Rail Authority and the State Transit Authority.

The review (Matter No. SRI/95/1) will examine the pricing of government monopoly bus, ferry and train services which have been declared in the Government Pricing Tribunal (Passenger Transport Services) Order 1992, No. 3.

Terms of Reference

The review of prices and pricing policies will consider:

1. the cost of providing the services and the scope for greater efficiency in the supply of the services including comparisons of costs with best practice public and private sector operators in Australia and overseas

2. the protection of consumers from abuse, in terms of price or standards of service, which may result from inappropriate use of a dominant market position

3. the evaluation of alternative structures and levels of fares, having regard to: the relative impacts on users; the interrelationships between travel modes (particularly any impact on road use); and environmental costs and benefits

4. the scope for integration of services and fares between travel modes, including possible integration with private transport operators

5. economic, social, urban development, land use and environmental impacts that may arise from any program of fare restructuring, and any other costs and benefits of such restructuring

6. the importance of community education about pricing relationships between cars, private buses and Government transport and the relationship between pricing and budget expenditures on transport

7. the impact on pricing policies of borrowing, capital structure, rate of return on assets and investments, dividend or subsidy requirements, and the impact of any need to renew or increase relevant assets

8. the impact of national competition proposals on the matters under terms of reference 1 to 7, and the form and extent of price and access regulation having regard to developments at the national and state levels.

Requirements under Section 13(1)c

Under Section 13(1)c of the Government Pricing Tribunal Act 1992 the Premier has requested the Tribunal to consider the following matters when making its investigations:

1. The relationship between the pricing of public passenger transport services provided by government agencies and those which are provided by non-government suppliers, including an evaluation of the efficiency and service quality of the benchmark presently used by the Department of Transport both for setting STA fares and for determining Social Program Contributions.

2. The financial flows to government-agency provided and private-sector provided public passenger transport services arising from Government Social Policy Programs, and the general principles that should apply to pricing social equity services in public passenger transport.

3. The relationship of Government funding for public passenger transport as it relates to funding for other transport modes.

4. The operation of the Countrylink rail passenger service. This part of the Inquiry is to commence after publication of the Draft Final Report covering urban passenger transport.

ATTACHMENT 2 LIST OF SUBMISSIONS

Organisations and individuals who made submissions to the Inquiry are listed below.

Action for Public Transport
Ageing and Disability Services Department
Australian Quadriplegic Association

Beale, P
Blue Mountains Commuter and Transport Users Association
Bower Cards
Bus & Coach Association (NSW)

Caldwell, Robert
Castle, W & D
Central Sydney Community Transport Group
Chapple, Jack S
Coalition of Transport Action Groups Incorporated
Combined Pensioners & Superannuants Association of NSW
Commuter Council
Council of Retired Union Members Associations of NSW
Council of Senior Citizens
Council of Social Service of NSW
Craig, William

Environment Protection Authority
Ettinger House Inc

Federation of Parents & Citizens Associations of NSW

Helt, C C

Jones, S A

Killeen, Greg

Mills, R J
Mooney, David

National Federation of Blind Citizens of Aust Ltd
NRMA Limited

O'Loughlin, Carolyn
Oliver, Eddie

Parker, Alan
Peninsula Public Transport Coalition
Prazak, Peter
Public Transport Union

Retired Teachers Association
Roads and Traffic Authority

Rozelle Balmain Precinct Committee

Smith, Colin
Southern Cross University
State Rail Authority of NSW
State Transit Authority of NSW

The Hills Community Aid & Information Service Inc
The Voice of the Elderly (VOTE) Inc
Total Environment Centre
Transport, NSW Department of
Treasury, NSW

UAGRP
University of Western Sydney Nepean
Urban Affairs and Planning, Department of

Vaucluse Progress Association
Veersema, Hans

Wade-Ferrell, R W
Western Suburbs Commuter Association
Western Sydney Regional Organisation of Councils
Western Sydney Transport Forum
Wilson, R

ATTACHMENT 3 PUBLIC HEARINGS AND CONSULTATION

Public Hearings

Public hearings for this review were held on 23 and 24 October 1995 at the Hotel Lawson, Bulwara Rd, Ultimo. The following organisations were represented at these hearings.

23rd October

STA	Mr Lucio Di Bartolomeo Mr Paul Dunn
SRA/CityRail	Mr Len Harper Dr Dick Day
Department of Transport	Mr Alan Coutts Mr Ian Robinson Mr Lindsay Lee
Public Transport Union	Mr Peter Murphy
Directorate on Ageing	Ms Gillian McFee Mr Leo Flynn Mr David Kilsby
Combined Pensioners and Superannuants Association	Mr Bruce Hutton
Unity Action Group for Retired Persons & Voice of the Elderly (Vote)	Ms Phyllis Thompson

24th October

Department of Urban Affairs and Planning	Dr Joan Vipond
	Mr Hugh Smith
Action for Public Transport	Mr Peter Mills
WSROC	Clr Alex Sanchez
	Mr Alex Gooding
Commuter Council	Mr Kevin Parish
Blue Mountains Commuter Association	Mr John Marsh
NSW Council of Social Service	Mr Robert Drake

Public access to transcripts of hearings and submissions

Transcripts of these public hearings and copies all submissions are available for public inspection at the Tribunal's office at Level 1, 140 Sussex Street, Sydney. Copies of transcripts and submissions can be purchased. Transcripts are also available on computer disk.

Seminars

Public seminars were held on 13 October 1995 at the Metcalfe Auditorium, State Library, Macquarie St Sydney and on 3 November 1995 at the Holroyd Centre, Merrylands. The following speakers addressed the seminars.

13 October

Professor Tom Parry	Chairman, *Government Pricing Tribunal*
Mr Len Harper	Chief Executive, *CityRail*
Mr Lucio Di Bartolomeo	Chief Executive, *State Transit Authority*
Mr Frank Jordan	Director Economic Strategy, *NSW Treasury*
Mr Charlie Richardson	*Central Sydney Community Transport Group*

3rd November

Professor Tom Parry	Chairman, *Government Pricing Tribunal*
Dr Dick Day	General Manager, Planning and Business Development, *CityRail*
Mr Barrie Macdonald	Executive Director, *Bus and Coach Association*
Mr Robert Drake	Deputy Director, Policy, *Council of Social Service of NSW*