

## IPART RELEASES FINAL DETERMINATION ON CITYRAIL FARES

**Embargoed until 12.15pm 16 December 2008**

The Independent Pricing and Regulatory Tribunal (IPART) today released its final determination of fares for CityRail passenger services for four years starting from 4 January 2009.

Fares will rise on average by 7.5 per cent on 4 January 2009, and will rise by a weighted average total of 12 per cent plus inflation (or an estimated 25 per cent in nominal terms)<sup>1</sup> over the four years from 2009 to 2012.

Under the final determination:

- ▼ For distances up to 20 km, single tickets will increase by between 20 to 60 cents on 4 January 2009, and by a total of 20 to 80 cents over the subsequent three years. Weekly tickets will 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 will 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 will 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 will remain at current levels on 4 January 2009, and will increase by a total of 20 cents to \$1.20 over the subsequent three years. Weekly tickets will 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 will decrease by up to \$8.00 on 4 January 2009, then remain constant over the subsequent three years. Changes in weekly tickets in this group will vary from a decrease of \$25.00 per week on 4 January 2009 to an increase of \$2.00 per week on 1 January 2009. Weekly tickets in this group increase by a total of \$13.00 over the subsequent three years.
- ▼ TravelPasses will increase by \$3.00 on 4 January 2009, and by a total of \$8 to \$12.00 over the subsequent three years. The Red TravelPass will increase by \$3.00 on 4 January 2009 and by a total of \$10 over the subsequent three years.
- ▼ Off-peak tickets for journeys up to 175 km will increase by up to 80 cents on 4 January 2009, and by a total of up to \$2.20 over the subsequent three years.

No individual weekly ticket for journeys up to 175km will increase by more than \$12 in nominal terms. This includes the journey from Newcastle to Central. No individual fare will increase by more than 23 per cent in real terms (or 37 per cent including estimated inflation).

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<sup>1</sup> 'In real terms' means before the effect of inflation. 'In nominal terms' assumes 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.

The Chairman of IPART, Dr Michael Keating said: "Since 2001-02, CityRail's costs have increased by 22 per cent in real terms – significantly more than the rate of inflation. But CityRail fares have only increased by 1.1 per cent in real terms over that period so taxpayers have contributed an increasing share. This trend is not sustainable, especially since CityRail's costs and investments are projected to rise considerably over the next four years".

Dr Keating said "IPART engaged LEK Consulting to undertake a total cost review of CityRail's regular passenger services. LEK concluded that CityRail can make savings in all areas of its operations, including head office, maintenance and crewing.

These savings would bring CityRail's costs more in line with those of other Australian operators. 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 projected costs in 2011/12. Nevertheless fare increases are required so that passengers pay their fair share of efficient costs".

"LEK identified a variety of opportunities for CityRail to bring its costs in line with other urban rail system operators. The Government has indicated their intention to pursue many of these efficiency savings, including in the areas of rail maintenance, driver rosters and cleaning. However, IPART notes the NSW Government has indicated that it will continue to employ guards on CityRail trains. As IPART has emphasised throughout this review, the decision about whether or not to employ guards 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. This includes considering the extent to which existing assets can be deployed in a more effective manner, and the extent to which additional capital expenditure (eg, installing CCTV cameras and upgraded ticket machines) can assist in achieving operating cost savings. IPART's aim is to set fares at a level that ensures passengers only contribute to the **efficient** costs of supplying CityRail 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," Dr Keating said.

If IPART had not identified these cost savings equivalent to 18 per cent of total costs in 2011/12, then IPART estimates that the passengers share of cost recovery would have required an increase in average fares of approximately 30 per cent plus inflation, instead of the 12 per cent (plus inflation) determined by IPART.

Most people readily understand that passenger rail services provide direct benefits to the people who use those services. However, these services also generate substantial indirect benefits that accrue to the wider community including reduced road congestion, avoided air pollution and reduced greenhouse gas emissions.

There is general agreement in Australia and other jurisdictions that external benefits generated by passenger rail services justify government subsidisation of passenger rail fares. IPART shares this view, and considers that the size of the government subsidy should be related to the estimated value of these external benefits.

IPART engaged LECG to assist in measuring the external benefits of CityRail's services. This is the first time that an independent and robust estimate of the value of external benefits of the CityRail network has been made.

Based on LECG's work, IPART estimates that the value of these external benefits is around \$1.7-1.9 billion a year which represents about 70 per cent of the efficient costs of providing CityRail services. Therefore, IPART's final decision is that it is appropriate for passengers to fund around 30 per cent of CityRail's costs.

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

After carefully considering the submissions from the NSW Government and other stakeholders on the impact of the draft fare determination on medium and longer distance passengers, IPART increased the flag fall and reduced the kilometre charge compared to its draft decision. The effect of this decision is to reduce the fare increase paid by longer distance commuters but to increase slightly the fares paid by short distance commuters. IPART considers its final decision on the fare structure provides more equitable outcomes than those under the draft decision. Under the new fare structure, the price of a single ticket fare includes a fixed flag-fall charge of \$2.80 in 2009, plus a variable distance-based charge of 6 cents per kilometre in 2009.

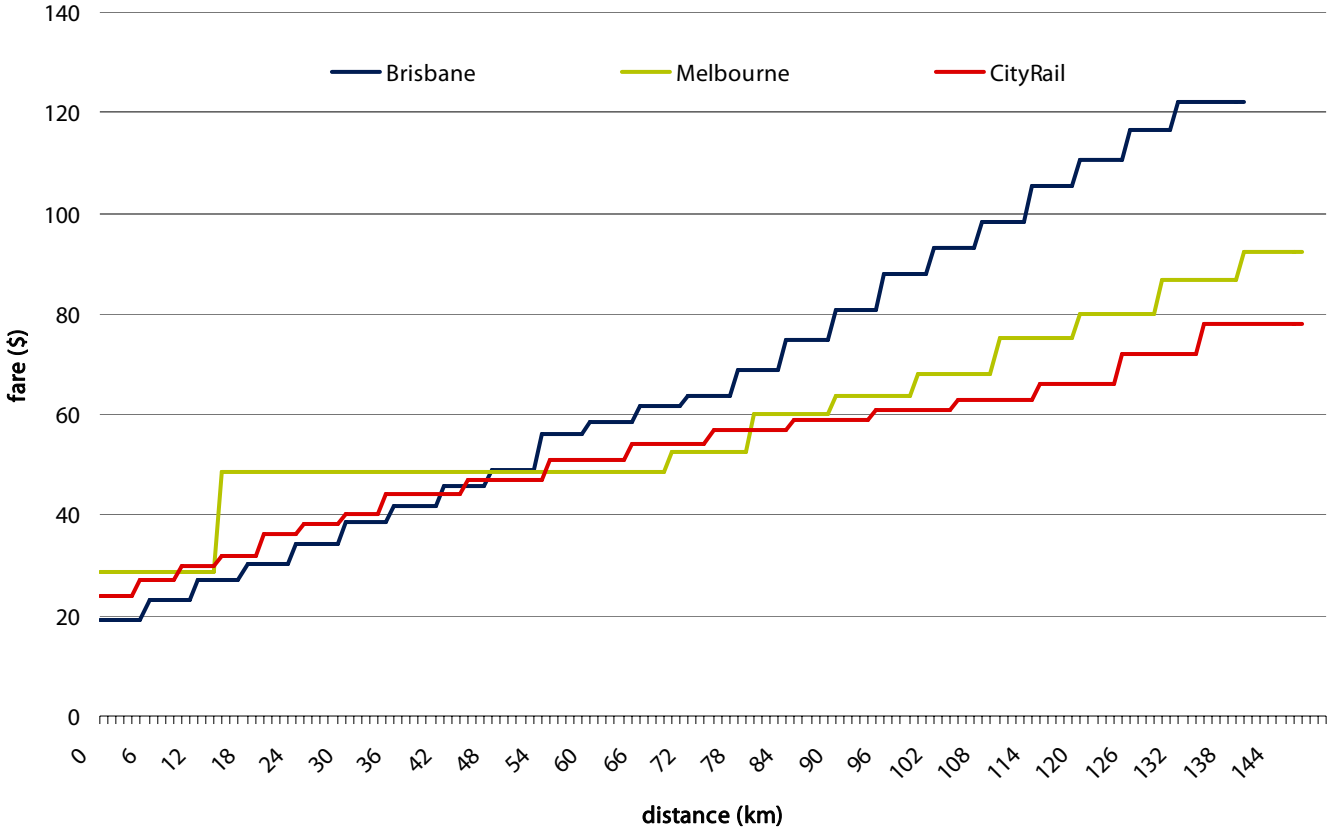
In addition, the discount for off-peak tickets will remain at 30 per cent, and the conditions related to use of these tickets will not change (ie, off-peak ticket holders can continue to make their return journey during the afternoon peak period). IPART's final decision on the structure of off-peak tickets reflects further analysis of the outcomes of the "SmartSaver" trial which produced little shift in patronage from peak to off-peak times, and the ticketing and other operational limitations of CityRail's current systems.

Dr Keating notes "Train fares for commuters in Sydney are generally cheaper than in Melbourne or Brisbane. CityRail fares are cheaper than fares in Melbourne for most distances. CityRail fares for longer journeys (over 60kms) are considerably cheaper than in Brisbane."

The Final Determination and Report, *Review of CityRail's fares 2009 - 2012*, is available on IPART's website <<http://www.ipart.nsw.gov.au>>.

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**Figure 1 Comparison of Brisbane, Melbourne, and Sydney weekly fares (2009)**



**Note:** A CPI increase has been applied to Melbourne fares. Brisbane 2009 fares are consistent with current 2008 fares. Each Brisbane fare zone is assumed to be 6 km wide. From 70 km, the v/line fares are applied for Melbourne. "Distance" refers to distance from the City.

**Data source:** Connex, V/line, Translink, CityRail.