
1. Introduction

The Public Interest Advocacy Centre (PIAC) is a non-profit community legal centre based in Sydney. Established in 1982 it strives to foster a fair and just society by empowering disadvantaged citizens, consumers and communities through strategic legal and policy intervention in public interest issues.

2. Future fare increases

Taken at face value, there is little cause for concern at the proposals by State Transit and CityRail for fare increases for the 2002-2003 period. An average increase of 2% or less in train and bus fares would impose a negligible increase in the cost of accessing effective and appropriate levels of public transport within metropolitan Sydney and Newcastle.

However, PIAC is concerned with the rationale used by CityRail to support its proposal. This has implications both in terms of the level of rail fares in future years and for the confidence of the community in the regulation of prices.

In particular, PIAC notes the implication in the CityRail submission to the Tribunal that the current proposal for an averaged 2% increase in fares will be followed in the short term by claims for much greater rises. The position taken by CityRail appears to be that a minor increase for 2002-2003 will serve as justification for significant price hikes in the following years. CityRail has stated its view that higher growth in fare revenue will be required over the longer term. In particular, CityRail have noted:

- the impact of future purchases of rolling stock;
- the costs associated with the introduction of the integrated ticketing program; and
- a discounting of fares in their current proposal to offset customer inconvenience arising from the introduction of the new timetable.

Interestingly, State Transit have not made mention of the implications for future fares from the introduction of the integrated ticketing program. PIAC is unable to ascertain if this is because the impact of the new system on costs will vary between bus and rail services.

PIAC understands that the Tribunal is working with the agencies to develop cost models which will support the introduction of price paths. We support this work as it will create greater transparency and confidence in the costs claimed by State Transit and CityRail. Furthermore, it should provide users of public transport with greater certainty of the longer term movements in fares. This contrasts with the current cycle whereby fares appear to rise at a greater rate in years closely following State elections. It is neither sensible or appropriate to have the community faced with small or negligible increases in one year followed by very large increases the next.

We welcome the decision by State Transit to 'skew' their proposed fare increases away from the single trip tickets they say are used predominantly by lower income customers. On the other hand, we note that this appears to contradict the stated desire of State Transit to achieve better on-time running performance through the use of multi-trip tickets.

Elsewhere, State Transit have argued that greater fares revenue is needed to fund future improvements in service. The explanation is offered that State Transit no longer can rely on debt as a source of funding¹. It is noted that a similar statement was made in the proposal for a much greater increase in fares for 2001-2002. However, in neither case have State Transit presented detailed evidence as to their current or historic levels of debt nor the rationale by which the 'limit' on borrowings is determined.

3. Social impacts

State Transit, in particular, are keen to argue their proposal for fares for the 2002-2003 period reflects 'close to efficient' costs². While PIAC acknowledges that the derivation of these costs is the subject of ongoing work between the agencies and the Tribunal, we are keen to see that their application to proposals for future fares is balanced by appropriate considerations of social impact. It is easy to downplay any social impact when a proposal is made for such a small increase. Yet, it is noted that State Transit has flagged in its submission an intention to reduce levels of service in some areas in order to achieve a greater spread of efficient fares across its operations³.

CityRail has attempted to address the issue of social equity by presenting evidence of the income profile of its customers. Unfortunately the source or methodology for deriving the measure of 'personal income' has not been disclosed by CityRail. A comparison of the income of CityRail customers and ABS data on average weekly earnings for the wider Sydney population may well yield a very different picture of the capacity of train users to bear increases in fares. Neither agency has explained fully their view of the relationship between income and movements in public transport fares – that is, whether fares ought to be driven by the income of customers or the recovery of efficient costs. There is also the potential to confuse cause and effect in the income profile of public transport users. For example, higher property prices in the vicinity of rail corridors may explain relatively higher incomes amongst train users yet this would not validate an approach to the setting of fares which had the effect of 'pricing out' other potential users.

4. Service standards

The proposal by CityRail for a 2% increase in fares is balanced by changes in service standards, reliability and punctuality; upgrading of current rolling stock; and customer security. PIAC is pleased to see the report by CityRail of its progress in relation to safety and ongoing capital works⁴. What is not made clear, however, is how these programs are related to the current proposal for higher fares. PIAC would have expected the agencies to present a costed timetable of work for the 2002-2003 period to demonstrate that the higher revenue to be earned by their proposed fares increases would be allocated to specific programs of service improvement.

¹ State Transit, *Submission for the Determination of Public Transport Fares 2002/03*, March 2002 p. 10

² p. 13

³ p. 14

⁴ CityRail, *Submission to IPART : CityRail Fare Review March 2002*, p.9

Both CityRail and State Transit have taken pains to promote their respective customer service charters and key performance indicators. We note, however, that these have been developed largely in the absence of appropriate consumer input. It is expected that the NSW Council of Social Service will be able to provide the Tribunal with particular concerns around the development of the Customer Charter for rail services. We also are aware of a number of shortcomings identified by community organisations in Newcastle with the outcomes of the consultative process around the State Transit 'Better Buses' program in that city.

PIAC would like to take this opportunity to point out to the agencies that market research is not an acceptable substitute for proper consultation with community organisations. In this respect we note the concerns with the methodological approach to this form of information gathering which were noted in a consultant's report commissioned by the Tribunal in 2001⁵.

5. Spending on services

As noted above, neither State Transit or CityRail have supplied information on their planned capital and operating expenditure which would enable the community to gauge the appropriateness of the proposed fare increases for the next year. While some data has been provided for specific areas of ongoing or planned work there is no basis on which to compare the level of expenditure with that undertaken in past years. The question thus arises as to whether the spending detailed in the agencies' submissions is supported by the proposed increase in fares or merely reflects a reallocation of spending priorities. Similarly, given that the NSW Government has committed additional funds to the upgrading of public transport we are left to wonder to what extent the spending outlined by the agencies already is fully funded.

PIAC takes issue with the view put by CityRail that an increase in fares is needed to maximise the value of additional Government commitments⁶. To our knowledge none of this funding was made available on the basis that it would be met with greater farebox revenue. This being the case, our view is that the Tribunal should regard such direct funding from the Government as irrelevant for the purposes of determining fares for 2002-2003.

6. External benefits

CityRail have proposed that the determination of fares for public transport should include an allowance for the external benefits gained by its users⁷. The issue of external benefits and costs of various transport modes and the appropriate approach to pricing these is a complex matter. In our view CityRail has not attempted to canvass these complexities despite the obvious desire to earn increased revenue through this means.

⁵ Centre for International Economics, *Review of willingness-to-pay methodologies*, prepared for the Independent Pricing and Regulatory Tribunal May 2001

⁶ CityRail, p.6

⁷ p.19

Indeed, elsewhere in its submission CityRail has noted the income inelasticity of demand for rail travel. In part, both agencies have based their proposals for fare increases on the basis that their customers would be able, if not willing, to bear higher prices with no change in their choice of transport mode. It is not clear whether the inclusion of external benefits in public transport fares would result in the community seeking to maximise their capture of these benefits by making greater use of rail and bus transport. However, PIAC is interested in CityRail explaining how much of the current fares and the proposed **2%** increase is intended to represent the value of external benefits.