



Independent Pricing and Regulatory Tribunal

Review of CityRail fares for 2007/08

Public Hearing 5 September 2007

Transport — Discussion Paper
August 2007

1 Introduction

As part of the public consultation process of its 2007 review of CityRail fares the Independent Pricing and Regulatory Tribunal (IPART) is holding a public hearing on 5 September 2007. The hearing will be held at IPART's offices at Level 2, 44 Market Street, Sydney NSW 2000 between the hours of 10.00am and 1.00pm.

As this is a public process, the transcript of the hearings will be made available for public access on IPART's website, www.ipart.nsw.gov.au.

2 Background to the 2007 fare review

IPART's letter to stakeholders of 25 June 2007 explains the process for the 2007 CityRail fare review. IPART has been requested by the Premier to provide the CityRail fare determination by 31 October 2007. IPART has also been provided with terms of reference to undertake an in-depth review of the regulatory framework it uses to determine CityRail fares. Both the letter from the Premier and the terms of reference are attached to this discussion paper.

IPART will make its 2007 decision on CityRail fares before completing its in-depth review. However, IPART intends that the approach taken for its 2007 decision will be broadly consistent with the regulatory approach used as part of its in depth review. Therefore, the 2007 fare decision will represent a first step towards the new approach.

In practical terms this means both the 2007 annual and the in-depth regulatory reviews will consider the same key issues. These key issues are set out in section 15 of the *Independent Pricing and Regulatory Tribunal Act 1992* (see Appendix 3). The in-depth review will also consider the specific issues listed in the terms of reference in detail. The letter from the Premier of 11 June has also requested that IPART no longer have regard to matters set out in the 2004 letter from the Premier.

3 RailCorp's 2007 CityRail fare proposal

RailCorp's proposal raises some key issues for stakeholders and IPART to consider.

- ▼ The sustainability of CityRail's current funding arrangements. The 2007 fare proposal highlights the ongoing decline in farebox cost recovery levels.¹ As with any business, CityRail must attain sufficient revenue to meet the cost of providing its services. RailCorp claims that CityRail's costs are increasing at a rate faster than inflation and exceeding revenue increases provided through fare rises and patronage growth.² This has meant that the NSW government's contribution to providing CityRail's services has continued to grow, to the point where NSW taxpayers currently subsidise 76 per cent of CityRail's costs.³
- ▼ CityRail is forecasting increasing levels of expenditure over the coming years. In particular, capital expenditure on items such as the Rail Clearways project and new rolling stock will see capital expenditure increase by over \$300 million from 2005/06 to 2006/07.⁴ RailCorp argue that this expenditure will directly benefit CityRail's passengers and they should therefore fund part of these cost increases.
- ▼ RailCorp contends that the results of independent surveys and its on-time running measure indicate that service levels have been improving.⁵
- ▼ RailCorp's analysis which shows that CityRail fares are generally equivalent to those in other Australian capital cities and considerably cheaper than international comparators.

4 Tribunal's 2007 fare decision

Some stakeholders have questioned the timing of the 2007 fare decision given IPART's decision to pursue an in-depth review of its regulatory approach over the coming 12 months. It has been suggested that IPART delay making a decision or approve a CPI increase until the in-depth review is completed.⁶

IPART has considered these arguments and believes that it is a matter of assessing the relative risks of making an interim decision of fares without the full information provided by the in-depth review against not increasing fares in 2007 and the consequent impact on revenue and the provision of CityRail's services. On balance IPART considers that Cityrail requires an Annual Review to address potentially significant loss of revenue that may transpire while that wider review is underway, especially in light of the relatively small increases in fares over the last three years.

¹ RailCorp's 2007 CityRail fare proposal, June 2007, p 17.

² RailCorp's 2007 CityRail fare proposal, June 2007, p 18.

³ RailCorp's 2007 CityRail fare proposal, June 2007, p 17.

⁴ RailCorp's 2007 CityRail fare proposal, June 2007, p 12.

⁵ RailCorp's 2007 CityRail fare proposal, June 2007, p 24 and p 29.

⁶ Such as Action for Public Transport's submission, July 2007, p 2.

The in-depth review is likely to consider the merits of setting a price path for CityRail fares over the coming years. The in-depth review would identify the appropriate price path taking into account: the efficient level of costs and the appropriate range of cost sharing between passengers and the government. The price path would also take into account the 2007 fare decision. Should that wider review identify a price path that involves smaller fare increases than those implemented in this Annual Review, adjustments will be made within the longer term price path.

5 Costs and cost efficiency

CityRail's costs have been increasing at a rate faster than its revenue. To maintain existing levels of cost recovery assuming levels of patronage are unchanged, CityRail require fare increases exceeding CPI. RailCorp's proposal argues that the proposed fare increases are warranted because:

- ▼ Operating costs have increased at rate exceeding the CPI - in particular wage costs, maintenance costs and commodity prices.⁷
- ▼ Specific costs have been incurred which improve the safety and reliability of its services to the benefit of customers.⁸
- ▼ Capital expenditure is forecast to increase to \$781m in 2006/07, up more than \$330m from the previous year's result.⁹

Submissions received by IPART in response to RailCorp's proposal suggest that there is significant scope to offset the need for fare increases by implementing cost efficiency measures within CityRail.¹⁰ Many submissions also question CityRail's ability to deliver capital projects on time and within budget.¹¹

In previous reviews IPART has concluded that CityRail could achieve greater cost efficiencies.¹² IPART expects that this is still the case. The in-depth review will explore these issues in greater detail, however, IPART is seeking views based on the available evidence to assess CityRail's current fare proposal.

⁷ RailCorp's 2007 CityRail fare proposal, June 2007, p 4.

⁸ RailCorp's 2007 CityRail fare proposal, June 2007, p 4.

⁹ RailCorp's 2007 CityRail fare proposal, June 2007, p 12.

¹⁰ Such as individual submission from Julian Coomb.

¹¹ Such as individual submission from Michael Konya.

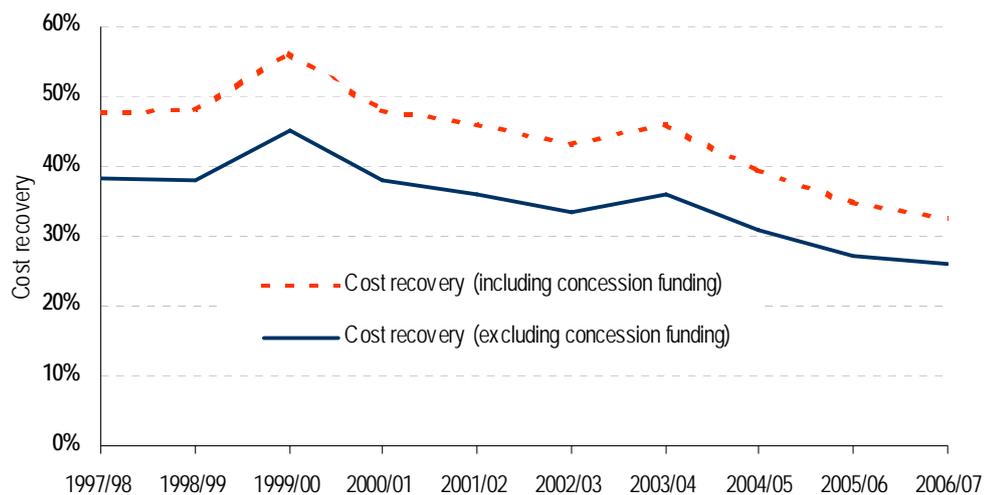
¹² IPART's 2006 report on CityRail fares, June 2006, p 11.

6 Revenue and cost shares

As depicted in Figure 1, farebox cost recovery has declined since 2000 to the point where the government and NSW taxpayer subsidies over 75 per cent of CityRail's costs.

In its review of CityRail fares in 2006, IPART noted that CityRail was expected to recover only 26 per cent of its total costs in 2006/07 - 22 per cent from fare-box revenue and 4 per cent from other revenue. IPART's report also considered the trend in CityRail's cost recovery from 1997/98, as shown in the following figure. This shows that CityRail's cost recovery has declined since IPART's fare determination in 2003. The fall is due to a sharp rise in costs, which is only partly moderated by modest growth in revenues. This modest revenue growth reflects in part the fact that there was no change in fares between September 2003 and June 2006.

Figure 1 CityRail: Level of Cost Recovery



Note: Prior to the establishment of RailCorp, access fees are assumed to be reflective of below-rail costs. Cost recovery for 2005/06 uses budgeted revenues and costs. 2006/07 uses forecast revenues and costs under IPART's decision.

Data source: IPART, *Review of Fares for CityRail in NSW 2006 - from 2 July 2006*, Report, p 15.

In 2005/06, the level of Government funding was equivalent to taxpayers providing a subsidy worth around \$14 per week per household in NSW.¹³ This level of funding has grown significantly over the last six years. In real terms, it has grown at an annual average rate of 8.4 per cent since 1999/2000, compared to real revenue growth for the general government sector in NSW of only 1.5 per cent (average) per year.¹⁴ The NSW Government subsidy to CityRail represented 4.3 per cent of total General Government expenditure in 2006/07 – seven years ago the subsidy represented 3.3 per cent of the NSW Government's general expenditure.

¹³ IPART's 2006 report on CityRail fares, June 2006, p 13.

¹⁴ Arithmetic mean of yearly growth rates obtained from NSW Treasury Budget Paper Number 2, 2007/08.

IPART received a number of submissions addressing revenue and cost shares. Many submissions questioned the wisdom of increasing fares, suggesting that this will have a negative impact on patronage and reduce revenue.¹⁵ Others suggest that CityRail should pursue other means to increase revenue such as commercial activities or reducing fare evasion.¹⁶ While others suggest that achieving cost efficiency savings would reduce the pressure to increase revenue.

One of the key aspects of the in-depth review will be to attain the sustainability of CityRail's current funding arrangements. In the past IPART has expressed its concern that the trend of increasing government subsidies is not sustainable. CityRail must have sufficient revenue to invest in its business and ensure that ongoing provision of its services. The in depth review will determine the appropriate range of cost sharing for passengers and the government/taxpayers.

7 Service standards

In its submission, RailCorp argues that survey results from the Independent Transport Safety and Reliability Regulator (ITSRR) reports suggest that CityRail have achieved an increase in overall customer service quality. Table 1 sets out the results of the 2006 survey. RailCorp also point to its reliability measure, on time running, to suggest that service levels have improved since 2005/06. CityRail's on time running is meeting the RailCorp target for on time running for the year to date.

Table 1 ITSSR customer survey

Service aspect	2005 survey	2006 survey	Increase in expectations met
Punctuality	38%	64%	+26%
Delays and cancellations	38%	59%	+21%
Information provided at stations about arrival and departure times	66%	78%	+12%
Quality of information provided about train delays and cancellations	57%	69%	+12%
Frequency of trains	52%	63%	+11%
Timeliness of announcements about delays and cancellations	58%	67%	+9%
Knowledge and helpfulness of CityRail staff	78%	84%	+6%
Journey time	69%	74%	+5%
Politeness and friendliness of staff	80%	84%	+4%

Source: RailCorp 2007 submission to IPART, p 29.

¹⁵ Such as individual submission from John Tsioulos.

¹⁶ Such as individual submission from John Tsioulos.

Public submissions on RailCorp's proposal contradict these claims and indicate customer dissatisfaction with the existing levels of service. The vast majority of individual submissions received by IPART have been critical of the levels of service particularly in the following areas:

- ▼ on-time running, skipped stops and overcrowding¹⁷
- ▼ cancelled trains¹⁸
- ▼ non-air conditioned older trains¹⁹
- ▼ slower journey times²⁰
- ▼ communication and information to passengers²¹.

The in-depth review will explore these divergent views of service standards. It will also explore approaches to better incorporate service standard measures, particularly those of relevance to customers, into the regulatory framework.

¹⁷ Such as individual submissions from Kathy Ford, Dean Storch and John DeSalis.

¹⁸ Such as individual submission from Kathy Ford.

¹⁹ Such as individual submission from Philip O'Donnell.

²⁰ Such as individual submission from John DeSalis.

²¹ Such as individual submission from Dean Storch.

8 Fares

RailCorp proposes a straight cent/dollar increase for all tickets. A sample of proposed fare increases is set out in Table 2 below.

Table 2 Sample of proposed increases in fares

from Central to:	ticket	km	Fare 2006	Fare 2007 (proposed)	Dollar increase	Percentage change
Newtown	single	3.12	\$2.40	\$2.60	\$0.20	8.3%
	weekly		\$19.00	\$21.00	\$2.00	10.5%
Bondi Junction	single	6.61	\$2.80	\$3.00	\$0.20	7.1%
	weekly		\$23.00	\$25.00	\$2.00	8.7%
Chatswood	single	12.85	\$3.20	\$3.40	\$0.20	6.3%
	weekly		\$26.00	\$28.00	\$2.00	7.7%
Parramatta	single	23.2	\$4.00	\$4.20	\$0.20	5.0%
	weekly		\$32.00	\$34.00	\$2.00	6.3%
Campbelltown	single	45.9	\$6.20	\$6.60	\$0.40	6.5%
	weekly		\$41.00	\$44.00	\$3.00	7.3%
Penrith	single	55.1	\$6.80	\$7.20	\$0.40	5.9%
	weekly		\$45.00	\$48.00	\$3.00	6.7%
Gosford	single	73.5	\$8.20	\$8.60	\$0.40	4.9%
	weekly		\$48.00	\$51.00	\$3.00	6.3%

Source: CityRail fare calculator.

RailCorp's proposal notes that CityRail's fares are broadly equivalent to those charged in other major Australian cities and substantially below those of international comparators.²² On the other hand, the vast majority of the submissions received by IPART suggest that passengers do not consider the current fare levels appropriate given the level of service.²³ However, 77 per cent of train users surveyed by ITSRR in 2006 considered the cost of train travel acceptable or better.²⁴

²² RailCorp's 2007 CityRail fare proposal, June 2007, p 10.

²³ Such as individual submission from Malcolm Knight.

²⁴ RailCorp's 2007 CityRail fare proposal, June 2007, p 9.

Some submissions note that the proposed fare increases seem to be arbitrary with some noting that passengers using lower distance band services will experience fare increases of up to 10 per cent while passengers from the outer suburban residential areas will face smaller percentage increases.²⁵ Submissions also commented that RailCorp's justification for increasing fares based on the fact that since 2001/02 average wages have risen by over 30 per cent is misleading. For example, Action for Public Transport comments that increases in wages have been more than offset by increases in petrol prices, mortgage payments, state taxes, council rates and food. Other submissions mention that many commuters especially in the outer suburbs, did not receive wage increases of over 30 per cent over the last 4 years, but still have to keep up with increases in other living costs.²⁶

Submissions also commented on the fare structure still used by CityRail and the ongoing delays with the introduction of the integrated ticketing system - Tcard. Submissions note that the current fare structure is complicated and not particularly user friendly. Some submissions are in favour of a flat fare, other comment that a zonal system similar to Melbourne would be easier to use.²⁷ Many submissions also comment that ticketing machines are unreliable.²⁸

Issues/Questions

- A. Do stakeholders believe the proposed fare changes will have an impact on patronage levels?
- B. RailCorp's CityRail fare proposal argues that it is incurring costs which improve service levels to the benefit of its passengers. An example is the substantial increase in capital expenditure forecast for 2006/07. To what extent should passengers be required to pay for these cost increases if they are delivering service improvements?
- C. Are the customer service measures as reported by RailCorp and provided in Table 1 of this paper the measures that are important to customers? If not, what measures would be more meaningful?

²⁵ Such as NCOSS's submission, August 2007, p 11.

²⁶ Such as individual submission from Katie Bird.

²⁷ Such as Action for Public Transport's submission, July 2007, p 2.

²⁸ Such as individual submission from Graham Guy.

9 Format of the hearing

IPART's Chairman, Dr Michael Keating AC, will provide a brief introduction and chair the hearing. The hearings will commence with a presentation of the CityRail fare proposal by RailCorp. After RailCorp the key stakeholders will be asked to give their presentation on the CityRail fare proposal. Once the key stakeholders have finished their presentations, the Chairman will invite any comments from the floor. RailCorp will then get the opportunity to address any comments made to close proceedings.

Discussion should focus on RailCorp's CityRail fare proposal (available on the website www.ipart.nsw.gov.au). However, should stakeholders consider there are other relevant issues not included in the CityRail fare proposal or this discussion paper they should feel free to raise them on the day when provided the opportunity by the Chairman. IPART asks that presenters not be disturbed when making their presentations and that the Chairman will provide the opportunity to ask questions once the speaker has finished.

An agenda for the day can be found below.

For any inquiries, please contact Aaron Murray, Program Manager Transport on (02) 9290 8440.

Table 3 AGENDA FOR HEARING

Time	Topic
9:45	Registration
10:00	Welcome and IPART introduction by Chairman
10:10	CityRail fare proposal presentation by RailCorp
10:30	Stakeholders invited to make presentations: <ul style="list-style-type: none">▼ Action for Public Transport▼ The Commuter Council▼ Council of Social Service of NSW (NCOSS)▼ Older Women's Network▼ Lower Hunter Councils Transport Group Comments from the audience RailCorp's response to issues raised
12:30	Close

Table 4 Hearing participants – Tribunal members and nominated presenters

Tribunal	Dr Michael Keating	Chairman
Tribunal	Mr James Cox	CEO, Tribunal Member
Tribunal	Ms Sibylle Krieger	Tribunal Member
RailCorp	Mr Vince Graham	CEO
Action for Public Transport	Mr Allan Miles	Committee Member, APT
Commuter Council	Mr Kevin Parish	Chairman
Council of Social Service of NSW (NCOSS)	Linda Frow	Acting Director
Older Women's Network	Beth Eldridge	Coordinator
Lower Hunter Councils Transport Group	Ken Freeston	Chair



Appendices

A Terms of Reference for in-depth regulatory review

TERMS OF REFERENCE

Review of the CityRail regulatory framework

I, John Watkins, Acting Premier of New South Wales, under Section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act'), refer to the Independent Pricing and Regulatory Tribunal (Tribunal) for investigation and report the following matter:

The Tribunal is to recommend a regulatory framework which will provide CityRail with the incentives to provide efficient passenger rail services.

In conducting this review, the Tribunal is to consider the matters listed under Section 15 of the Act, in particular the need for greater efficiency and reliability in the supply of services so as to reduce costs and improve quality, safety and reliability for the benefit of consumers and taxpayers.

Other issues the Tribunal is to consider in undertaking this review are:

1. the appropriate regulatory period for the Tribunal's fare decisions;
2. the efficient costs of providing CityRail's services and the scope for greater efficiency in the supply of these services;
3. NSW Government policy on passenger rail services and public transport, including the future investment in CityRail set out in the *Urban Transport Statement*, and the *State Plan*;
4. an appropriate range for the allocation of costs between government and users, taking into consideration the positive environmental, economic and social benefits for the community generated by CityRail's services;
5. how service standards can be incorporated into the regulatory approach;
6. appropriate fares for CityRail which take into account the cost of providing CityRail's services, the capacity of users to pay and current and future government policy on public transport fares; and
7. if necessary, transitional arrangements from the current form of regulation to the new regulatory approach.

A draft report is to be publicly released by 31 May 2008, with a final report due by 30 September 2008.

The Tribunal has indicated that it intends to conduct this review in conjunction with the 2008 determination of fares for CityRail services, conducted in accordance with the Tribunal's standing reference under Section 11 of the Act. This reference under Section 12A of the Act is in addition to, and does not replace, the Tribunal's standing reference under Section 11 of the Act.

B Premier's letter



Premier of New South Wales
Australia

Dr Michael Keating AC
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

11 JUL 2007

Dear Dr Keating

I am writing in relation to the Independent Pricing and Regulatory Tribunal's ("the Tribunal's") standing reference for the determination of CityRail fares.

As you are aware, on 18 May 2004 the former Premier wrote to the Tribunal requiring that specified matters arising from the 2003 *Ministerial Inquiry into Sustainable Transport in New South Wales* be considered by the Tribunal when making its investigations into passenger transport fares.

Given the Tribunal's new reference to review the CityRail regulatory framework, I am writing to clarify that, in respect of the Tribunal's current and future passenger rail fare reviews, the requirement to consider the matters set out in the 18 May 2004 letter does not apply.

I also require, pursuant to section 13(1)(a) of the Act, that the Tribunal provide its report on the current CityRail fare determination to the Premier by 31 October 2007.

If your officers wish to discuss these matters, they should contact Ms Angela Woo, A/Policy Manager, Economic Development Branch, Department of Premier and Cabinet on (02) 9228 4930.

Yours sincerely

A handwritten signature in black ink that reads "John Watkins".

John Watkins MP
Acting Premier

C IPART Act requirements

Section 15 requirements

Section 15 of the IPART Act 1992 details the matters to be considered by the Tribunal when making a determination. The section is reproduced in full below.

(15) Matters to be considered by Tribunal under this Act

- (1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):
 - (a) the cost of providing the services concerned,
 - (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
 - (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,
 - (d) the effect on general price inflation over the medium term,
 - (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
 - (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
 - (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
 - (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
 - (i) the need to promote competition in the supply of the services concerned,
 - (j) considerations of demand management (including levels of demand) and least cost planning,
 - (k) the social impact of the determinations and recommendations,

- (1) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).
- (2) In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.
- (3) To remove any doubt, it is declared that this section does not apply to the Tribunal in the exercise of any of its functions under section 12A.
- (4) This section does not apply to the Tribunal in the exercise of any of its functions under section 11 (3).

Section 16 requirements

Section 16 of the IPART Act requires the Tribunal to report on the likely impact to the Consolidated Fund if fares were not increased to the maximum permitted.