Submission to IPART's CityRail Fare Review

This submission opposes the fare increases sought by CityRail in its submission to the Independent Pricing and Regulatory Tribunal (IPART). CityRail has not put forward a case based on sound economic and policy principles, but rather has used principles and approaches that are fundamentally flawed and misunderstand the dynamics of decision making by individuals and the broader cost implications for society.

This submission contains an analysis of the economics of mass transport options for Sydney and the potential impact of the proposed fare increases. It also questions the rationale used by CityRail to justify a fare increase and puts forward arguments as to why this rationale is inappropriate.

I refer to page 19 of the CityRail submission. The figure on this page shows the costs (in cents per passenger kilometre) of different transport options. These costs are divided into user costs (immediate and hidden), government costs and costs to society. There are three key points of immediate relevance to this discussion, namely:

a) The immediate cost to the individual is 10 cents per passenger kilometre for CityRail compared to 13 cents for a private car;
b) The overall total cost is 40 cents per passenger kilometre for CityRail compared to 81 cents per passenger kilometre for a private car; and
c) The perceived cost to Government and the hidden cost to society of CityRail is 30 cents per passenger kilometre compared to 36 cents per passenger kilometre for a private car.

Point (a) above is the crucial decision making point for an individual user, while points (b) and (c) are critical in decision and policy making from a Government and society viewpoint. Points (b) and (c) conclusively show that travel by CityRail is far superior to private car use from a Government and society point of view. However, while point (a) shows that the immediate costs for the individual are lower than a private car, this differential is much lower than for society or government.

An individual will consider the relative immediate costs of public transport compared to a private vehicle as well as a number of other factors including for example frequency of service and the travel time. CityRail's proposed fare increases of 6-10% will lift the immediate cost to the individual to somewhere in the order of 10.6 cents to 11 cents per passenger kilometre, meaning there is less of a cost differential to private car use. If all other things remain equal, it can be expected that as a result of this increase in immediate costs, fewer people will use CityRail's services and more will use private cars or other means of transport. This would further hinder progress towards meeting the target of increasing CityRail's share of transport trips.

Furthermore, if more people use private cars compared to CityRail services then the overall cost of mass transport would increase, as the overall total cost per passenger kilometre for CityRail is about half that of a private car, as noted in point (b) above. The other fact is that an increase in car use as a result of the proposed CityRail fare increases would result in higher costs to Government and Society (see point (c) above).

In summary, this is the crux of the problem – the individual assesses the relative merits of transport options based on the immediate costs, while the overall cost to others and society more generally is not considered. Raising the immediate costs of CityRail travel sends a clear price signal to individuals that other options are preferred, whereas in reality, from a society viewpoint, CityRail travel is the cheaper and preferred option. Hence, as far as overall economic welfare for NSW is concerned, the proposed fare increase is wrongheaded and bad policy.

Another consideration in whether to raise prices is the elasticity of demand. It is one of the fundamental principles of economics that as the price of a good or service rises, the quantity demanded will fall. The critical issue is how much demand changes with a change in price (termed the elasticity of demand). In their submission, CityRail has not provided any indication as to the elasticity of demand for public rail transport services. If demand is elastic, then the percentage decline in patronage would be greater than the percentage increase in fares. If this was the case, a fare increase would result in a decline in overall fare revenue for CityRail, which would not be the desired outcome. If the demand was inelastic, then the opposite result would occur (i.e. an overall increase in revenue as the percentage decline in patronage would be lower than the percentage increase in fares).

With considerable uncertainty over the elasticity of demand, there is also considerable uncertainty that a fare increase will deliver the desired outcome for CityRail (i.e. greater revenue). Until CityRail can provide clear evidence based on the elasticity of demand that the fare increase will actually deliver greater revenue then their proposal should be rejected.

In its submission, CityRail argues that a fare increase is justified because cost recovery has declined. This argument is based on the principle that the proportion of costs borne by Government and users should remain the same throughout time. This principle has no sound economic basis. The principles of subsidies and taxes in economics are to ensure that in the presence of externalities, that the private costs and benefits are consistent with the public or societal costs or externalities. This means that in the case of CityRail services versus private car use, private car use should be taxed or CityRail services subsidised to the extent necessary to ensure that individuals are making decisions that are consistent with the wider interests of society. This approach never states that the proportion of public versus private cost must be the same. Using the analysis outlined earlier, increasing CityRail fares would be bad for the economic welfare of NSW because few people would use CityRail services, instead opting for the more costly private car or other transport options.

CityRail's argument that the proportion of costs borne by customers should remain the same throughout time can also be rejected by comparison with other Government services. Numerous services provided by Government for other services such as roads, schools, hospitals, water supply and wastewater infrastructure are not charged or considered to be charged on a fixed proportion of cost recovery from users. If this is the case for other services, then it can be reasonably argued that public transport is not a special case where this should apply.

CityRail stated in their submission that 44% of customers view CityRail's services as great or good value for money. Conversely, it can be argued that 56% of customers did not view CityRail's services as good or great value for money. Increasing fares is likely to further increase the number of people who do not view CityRail's fares as being reasonably priced – reducing the number of people who are likely to use its services.

CityRail also argued that service reliability and quality has improved based on the percentage of services that run on time. However, this is only half the story. The timetable changes have resulted in fewer and slower services. This means that even if the percentage of "on time" services has increased, we have no evidence to compare the actual number of "on time" services, as CityRail has not provided this information. Commuters are not necessarily just interested in the percentage of on-time services without any other information – they also want to know how frequent the train services will be. Having a higher percentage of on-time services but less frequent services may actually mean that the number of trains running on time has declined – giving a lower level of service than previously provided. CityRail's analysis does not provide a "like for like" comparison and therefore cannot be used to justify a fare increase.

A further consideration is CityRail's performance in major incident situations. This year we have had three major incidents where CityRail's treatment of its customers and the public was appalling. In April, overhead wires were brought down at Berowa, resulting in significant delays. On that occasion, passengers were held in a train for several hours. These passengers were not given vital information as plans constantly changed and were not given an option to disembark at Hornsby and make alternative arrangements. This incident clearly showed that CityRail had not undertaken any contingency planning for an entirely foreseeable situation. The second major incident was the break down of a train in the North Sydney tunnel where passengers were left stranded on a train for many hours. This incident was a result of poor maintenance. Poor maintenance was also to blame for the third incident which blocked trains on the Sydney Harbour Bridge early in July. However, while CityRail's handling of the event itself had improved, the blatant lie about a gust of wind being to blame highlights the total disregard that CityRail has for its customers and the public.

A final consideration is whether CityRail is looking beyond its traditional business model of generating revenue from fares alone. Many commuters are spending over an hour each way travelling on CityRail's trains. There is an opportunity for CityRail to charge for wireless broadband services on its trains. There are many commuters who would be interested in such a proposal as it could enable them to get vital work completed before they arrived at the office. There is no evidence available as to whether CityRail has considered such a proposal, or others like it which would diversify its potential sources of income, and enable it to provide better value for money to its customers.