

INQUIRY INTO THE INVESTMENT OF COMMONWEALTH AND STATE FUNDS IN PUBLIC PASSENGER TRANSPORT INFRASTRUCTURE AND SERVICES

The Independent Pricing and Regulatory Tribunal (IPART) is the independent economic regulator for public transport services in New South Wales. IPART is responsible for setting the maximum fares for train, bus and ferry services in the greater Sydney region. It also provides advice to the NSW Government on the appropriate fares for taxis, rural and regional buses and some ferry services. In determining the appropriate fares levels IPART must consider some key issues which are of relevance to your review, in particular the benefits provided by public transport services and the efficient cost of providing of these services.

IPART has recently completed its review of fares for CityRail (the passenger train provider in the greater Sydney region) for the 2009-2012 period. This is the first time IPART has set fares for a medium-term period. Therefore it is the first time it has had to consider in detail the efficient economic costs of providing CityRail's services including how to value existing and future capital investments, and how the considerable benefits provided by CityRail's services should be incorporated in the fare setting approach.

Most people readily understand that CityRail's services provide both direct benefits to users and external benefits, such as reduced road congestion and lower levels of air pollution and greenhouse gas emissions, to the general community. It is also widely accepted that both users and the general community should contribute towards the costs of providing these services. However, the exact value of these benefits had not been carefully quantified in the past for fare setting purposes. IPART engaged a consultant to provide it with advice on the value of the external benefits of CityRail's services. The consultant found that these external benefits are considerable – in the range of \$1.7 to \$1.9 billion a year.¹ Chapter 11 of IPART's report provides details on the value of the external benefits. More detail on the approach used to calculate the external benefits can be found in the report from IPART's consultant LECCG.

IPART explicitly incorporated its estimate of the value of the external benefits in determining the appropriate share of CityRail's revenue requirement to be funded by users as opposed to that to be funded by taxpayers via Government subsidies in making its CityRail fare decision. IPART's final decision was that taxpayers should fund around 70 per cent of CityRail's revenue requirement with the remaining 30 per cent to be funded by users. In determining the appropriate funding shares IPART also took into account broader social objectives such as the affordability of fares and CityRail's contribution to enhanced social mobility. IPART considers that its approach of directly linking the level of Government subsidy to the value of the external benefits the most effective approach to determining the funding shares of users and taxpayers. The Chartered Institute of Logistics and Transport noted IPART's approach in its submission to the Committee's review. Full details on IPART's approach to determining the appropriate user and taxpayer funding shares can be found in Chapter 12 of IPART's report.

This approach to determine the sharing of costs between passengers and taxpayers could also be used in the assessment of public transport projects which provide external benefits. For example, in its report IPART notes that the Government should consider what impact

¹ External benefits for period 2007/08 to 2011/12 in 2008/09 dollars.

additional rail infrastructure projects will have on fares assuming that IPART will continue to use a sharing rule based on the external benefits in determining maximum fares in the future.

IPART also engaged a consultant to assess the efficient costs of providing CityRail's services. Through an extensive benchmarking approach IPART's consultants identified considerable cost savings. This was an important part of the review. IPART considered that users should only pay their share of the efficient costs of providing the service. This is consistent with good regulatory practice. IPART's assessment of CityRail's efficient costs is set out in Chapters 6 to 9 of its report. The report from LEK Consulting contains additional details on the approach used to determine the efficient cost base and sets out the consultant's findings.

Given the relevance of some of the issues considered in IPART's review to the Senate Committee's inquiry I would recommend that committee members consider the relevant sections of IPART's final report on its Review of CityRail fares, 2009 - 2012, and the two consultant's reports which were integral to the review. I have included copies of these reports for the Committee's consideration.