



# REVIEW OF ACTION BUSES PRICING FOR 2006-07

Submission to the Independent Competition and Regulatory  
Commission's Issues Paper

March 2006



## **ABOUT ACTCOSS**

ACTCOSS acknowledges Canberra has been built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage traditional owners have suffered since European settlement. ACTCOSS celebrates the Ngunnawal's living culture and valuable contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state and territory Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' objectives are representation of people living with disadvantage, the promotion of equitable social policy, and the development of a professional, cohesive and effective community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is funded by the ACT Government.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

### **Contact Details**

Phone: 02 6202-7200  
Fax: 02 6247-7175  
Mail: PO Box 195 Civic Square ACT 2608  
E-mail: [actcoss@actcoss.org.au](mailto:actcoss@actcoss.org.au)  
WWW: <http://www.actcoss.org.au>  
Location: Jamieson House  
43 Constitution Avenue  
Reid ACT 2612

Director: Ara Cresswell  
Policy Officer: Llewellyn Reynders

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## ABBREVIATIONS

ACOSS	Australian Council of Social Service
ACT	Australian Capital Territory
ACTCOSS	ACT Council of Social Service
ACTION	ACT Internal Omnibus Network
Commission	Independent Competition and Regulatory Commission
CPI	Consumer Price Index
CSP	Community Services Program
STP	Sustainable Transport Plan

## **THE SOCIAL IMPACT OF PUBLIC TRANSPORT**

The basic premise for governments to subsidise public transport has always been to provide an accessible and inexpensive means for the community to access essential services and employment as well as enable them to participate in the life of the community, with particular emphasis on people on low-incomes or those experiencing disadvantage. In the absence of subsidised public transport there would be a significant number of people who would be unable to access health services, educational institutions, government and community assistance agencies, shopping centres, and social activities. In addition, public transport allows many low wage earners to access employment that would otherwise be non-sustainable.

The maintenance and improvement of public transport services has important positive externalities for the community. In particular it supports those people who have few other options for traversing a dispersed city. Erosion of public transport service levels or a real price increase in fares has the potential to reduce social inclusion, housing choice, employment opportunities and access to services.

In responding to this Issues Paper released by the Independent Competition and Regulatory Commission (the Commission), ACTCOSS takes the view that pricing decisions and the associated issues of service levels and funding models, should seek to ensure that those who are least advantaged in our community have access to a continually-improving public transport service that does not erode their real spending power.

ACTCOSS is concerned that the Commission does not always give these issues the prominence they deserve. ACTCOSS believes that, for example, the Commission's previous final determination on ACTION bus fares appeared to focus on student fares, with the discussion on social impacts limited to encouraging ACTION to increase the relative prices paid by pensioners and tertiary students.

On balance, however, ACTCOSS welcomed the Commission's previous price determination, which worked to minimise the impacts of price increases on disadvantaged consumers. We also applaud ACTION's decision to keep concession fare increases to a minimum during the period of the previous price determination. ACTCOSS provides the following comments as a way of further informing the Commission on the needs of low income households and their reliance on cheap, accessible public transport.

## **SERVICE LEVELS**

Action 5.2 of the ACT Government's Sustainable Transport Plan (STP) aims to "Review and develop standards to ensure a reasonable coverage and level of public transport services across metropolitan Canberra." ACTCOSS is concerned that services levels have declined in some instances, in particular through the reduction of evening and weekend services, and the introduction of the alternative "Flexi-bus" system.

The 2004-05 ACTION Annual Report records a small decrease in passenger boardings over the previous financial year, although the number of adult fare-payers increased markedly. It is also notable that the STP targets are premised on adult journey-to-work trips, rather than increased public transport usage overall. ACTCOSS is concerned that ACTION's service changes appear emphasise a reduction in the provision of a full coverage service for the community in preference for a more narrowly focussed commuter service.

ACTCOSS has also previously raised concerns about the Flexi-bus service. We understand that the introduction of the service has led to a drop in usage and increased costs, due to the requirement for passengers to have telephone access and incur the cost of a phone call in order to use it. Flexi-bus services also provide less certainty about the pick-up and arrival times compared with scheduled services, and services are only to bus interchanges rather than intermediate stops, making Flexi-bus services less reliable and convenient. ACTCOSS understands that while evening and weekend services have lower usage than commuter services, they are also more likely to be used by low-income passengers.

Any reduction in off-peak services levels impedes the mobility of consumers who are "captured" by the public transport system. This is of particular concern for consumers who require public transport in order to maintain employment. ACTCOSS notes that with increasing casualisation of the workforce, as well as an increasing propensity to employ low-paid workers during non-standard hours, the need for regular evening and weekend services has become more important to low-income consumers, not less so. Even if an evening service has relatively few passengers, removal of this service has far greater economic consequences than the cost imposed upon ACTION.

Over the period of the previous price determination, ACTION buses has produced a modest increase in passenger numbers, but that increase was in part achieved through a much larger substitution of concession fare passengers for adult fares, particularly over the last financial year. It is unclear whether these passengers have been able to find alternative transport options and ACTCOSS raises the concern that some may have found their mobility impeded by the changes and simply been forced to stay at home. Some may have been forced to forgo opportunities for employment, education or increased community participation.

### **THE SHORT PRICING PERIOD SHOULD AVOID EXCESSIVE CHANGES**

ACTCOSS notes that the Commission is to determine prices only for the 2006-07 financial year. This is a comparatively short pricing period, envisaged to be an interim pricing decision until a new funding model is in place for ACTION. Since the pricing period is so short, it would appear to be unwise to make any large changes to the price path until the Commission is informed of the final ACTION funding model and its impact upon costs and revenues.

ACTCOSS believes that maintenance of the current price direction is in line with the 'stopgap' nature of this price determination. This would provide stability while more fundamental changes in the price path are carefully examined for the 2007-08 financial year and thereafter. This would help ensure the Commission and other interested parties were fully aware of the proposed new funding model and its implications for ACTION's operations.

ACTCOSS would caution against adoption of the Commission's other stated option of adjusting the current price direction for variations in ACTION's cost base. This would raise the expectation of the both the ACT Government and ACTION that these new pricing measures would continue in the longer term, which might be considered inappropriate given that the proposed new funding model has not yet been finalised. Further issues, particularly in relation to fuel costs, are discussed later in this submission.

### **LOW PRICE ELASTICITIES HAVE CONSEQUENCES FOR CONSUMER PROTECTION**

In its previous determination, the Commission cited the findings of the ACT Governments *ACT Transport Demand Elasticities Study*, which generally found that bus services had low own-price elasticities. While this supports the Commission's comment that "the Canberra bus market is relatively unresponsive to changes in bus fares"<sup>1</sup>, the further implications of this are not explored.

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<sup>1</sup> Independent Competition and Regulatory Commission (2003) *Final Determination ACTION Pricing for the Period 1 July 2003 to 30 June 2006*, p.25

As the Commission correctly identifies, the low elasticity of bus transport is largely due to the fact that “only those who have little choice but to use the bus are the dominant users”<sup>2</sup>. The STP comes to a similar conclusion, stating that “approximately 50 per cent of ACTION bus users are ‘captive’ passengers”<sup>3</sup>. This heavy dependence on public transport means that ACTION has a very high degree of monopoly power from which consumers are protected only by pricing decisions of the Commission. ACTCOSS would reiterate that many of these consumers have low incomes or experience disadvantage, and are unable to substitute away from public transport should prices increase. Price stability remains an important consideration for this group.

ACTCOSS also raises this issue in response to the Commission’s suggestion that the options for the current price direction will be considered, in part, by their effect on patronage levels. This criterion appears strange in that it is precisely the fact that bus services are relatively price inelastic, along with having a monopoly provider, which requires the intervention of a regulator to ensure that ACTION prices remain equitable. The essential feature of this market is that patronage is relatively unresponsive to price, so assessing the effects of prices upon patronage seems a problematic benchmark for determining the appropriateness of a price direction.

ACTCOSS would make one further point with regard to the low elasticities in public transport pricing. This feature of transport demand, particularly for concession fares, makes public transport subsidies an effective and non-distortive method of both improving transport mobility and reducing the cost of living for low-income groups. In other words, public transport fare subsidies for low-income consumers provide targeted assistance which does not result in large distortions in transport consumption as a result. As a consequence, ACTCOSS encourages the Commission to maintain relatively low prices for concession fares due to their beneficial social impacts.

### **CONCESSION FARES SHOULD NOT INCREASE FASTER THAN CPI**

ACTCOSS notes that the Commission has previously stated that:

“it does not wish to adopt an outcome which would have deleterious social impacts by introducing fare increases which would materially impede the access to public transport of those most socially disadvantaged”<sup>4</sup>

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<sup>2</sup> *ibid.*, p.26

<sup>3</sup> ACT Planning and Land Authority (2004) *The Sustainable Transport Plan for the ACT*, p.17

<sup>4</sup> Independent Competition and Regulatory Commission (2003) *Final Determination ACTION Pricing for the Period 1 July 2003 to 30 June 2006*, p.28

ACTCOSS supports these sentiments, but believes that this measure is insufficient to ensure that negative social impacts of price increases are avoided. As already mentioned, bus transport has low price elasticities and a high proportion of 'captive' users, so that disadvantaged transport consumers would have little choice but to pay more in the face of steep price increases. Further, access to public transport is more likely to be affected by service levels than by price.

The more important social impact of pricing decisions is their effect on the incomes of socially disadvantaged transport consumers. Most low-income bus users are heavily dependent on government transfer payments as their main source of income. According to the Australian Bureau of Statistics, this includes some 16.7% of ACT households<sup>5</sup>. It is frequently the case that receipt of government benefits is the basis for qualifying for concession fares. Many of these payments, including unemployment benefits, youth allowance and Austudy, are indexed to inflation, and therefore rise more slowly than incomes generally.

These factors mean that if concession fares rise faster than inflation, the spending power of low-income consumers is reduced, meaning they can purchase fewer other goods and services with their existing incomes. While overall the proportion of household expenditure on public transport is low, for low-income consumers who require regular access to public transport the proportion of income spent on public transport is many times higher, and it is this group that will be materially affected by larger increases in concession fares.

ACTCOSS is disappointed at the Commission's previous commentary that it "is concerned that there be no increase in the discounting margin for concession tickets" and that "the level of discounting on concession tickets not exceed 50% of the equivalent adult fare"<sup>6</sup>. ACTCOSS would contend that it is not the extent of the discount that is relevant in ensuring equitable concession fares, but the price level compared with the disposal income of low-income consumers.

ACTCOSS recommends that regardless of the magnitude of any overall price determination, the Commission should ensure that concession fares should not increase faster than inflation.

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<sup>5</sup> Australian Bureau of Statistics (2005) *Household Income and Income Distribution 2003-04* Cat No 6523.0

<sup>6</sup> Independent Competition and Regulatory Commission (2003) *Final Determination ACTION Pricing for the Period 1 July 2003 to 30 June 2006*, p.28

## FUEL COSTS

ACTCOSS cautions against explicitly using fuel costs as a basis for determining ACTION bus fare prices. While it is understandable that both ACTION and the ACT Government point to fuel costs as impacting on their ability to meet budget and fare recovery targets, the Commission needs to consider carefully whether these are a suitable foundation on which to base pricing decisions.

Firstly, while ACTION expenditure has risen significantly since the previous price direction, increases in expenditure on supplies and services make up only a minority of expenditure growth. The most significant growth in ACTION expenditure has been employee costs, which constitutes the overwhelming majority of additional expenditure by ACTION. While ACTION's financial support from government has increased substantially, it seems improbable that fuel costs are the major factor.

A second issue is whether fuel prices represent a stable basis on which to base a price determination. In the face of rising fuel costs it is understandable that this suggestion has been made, but one can't help but wonder whether the call would be quite as loud if the converse were true. While there has been some media speculation that fuel prices will remain high for the foreseeable future, there is certainly no guarantee that this will be the case. If fuel prices fall, would this result in a price decrease for consumers? Even if it did, this presents the further question as to whether constant price changes reflecting the fuel price are an appropriate price horizon to present to consumers. ACTCOSS would suggest that this is not an appropriate response.

Thirdly, ACTCOSS notes the Commission's suggestion that increased fuel costs may be partially offset by increased patronage revenue resulting from motorists shifting to public transport to avoid high petrol prices. This behaviour, if confirmed, would weaken any argument for increased public transport prices.

ACTCOSS would, therefore, strongly object to the suggestion that increased patronage attributable to increased fuel prices would be indicative of a greater willingness to pay higher bus fares. Such an assumption would work to further entrench ACTION's 'captive' passengers, who would become even more dependent on public transport services.

Finally, even if the Commission was of the view that increased fuel prices warranted additional price rises, it should be considered to what extent this should be passed onto consumers. It is notable that recent fuel price rises have not lead to price inflation generally. According to the Reserve Bank of Australia:

“higher fuel prices and rising input costs have so far had only limited effects on general price inflation at the consumer level. That is, to the extent that they are forcing up some prices in the economy, it appears that these increases have not been passed on to consumers or they have been offset by slower rises or declines in other prices”<sup>7</sup>

While ACTCOSS understands that the transport sector in general has experienced some price inflation, it is also the case that at least part of the additional cost has been absorbed by producers. Fuel prices themselves form a significant component of recent price inflation and any consideration of fuel price impacts needs to take this into account. Further, according to the Commission, fuel prices only form a relatively small proportion of ACTION’s operating costs at around 11%<sup>8</sup>, meaning that even a large increase in fuel prices would translate into a much smaller increase in running costs. From a similar angle, it is worth pointing out that it seems appropriate to apportion any rise in fuel costs in proportion to ACTION’s revenue sources. Given that the ACT Government currently contributes over 80% of ACTION’s operating costs, it seems reasonable that they should bear a similar proportion of any change in producer prices.

The Commission has reported that they have been advised “that it was government policy to move towards a 30% cost-recovery target for ACTION Buses”<sup>9</sup>. While that decision is ultimately the prerogative of the ACT Government, pricing changes that are geared towards achieving such an aim should be declared as such, and assessed on that basis.

ACTCOSS does not support the inclusion of an additional adjustment in bus fares to reflect fuel price changes.

## **FUNDING MODELS**

In relation to future reforms of ACTION, the Commission has reported that the Department of Urban Services “has developed a number of policy options for consideration by government and ministers”<sup>10</sup>. Like the Commission, ACTCOSS would be interested in having more detail on the content of these proposals, and further advocate that the ACT Government allow public comment on any policy options before a final decision is made. Nonetheless, ACTCOSS would highlight two areas for consideration in any proposed funding model.

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<sup>7</sup> Reserve Bank of Australia (2005) *Statement on Monetary Policy*, November 2005, p.55

<sup>8</sup> Independent Competition and Regulatory Commission (2006) *Issues Paper: Review of ACTION Buses Pricing for 2006-07*, p.12

<sup>9</sup> *ibid.*, p.14

<sup>10</sup> *ibid.*, p.7

ACTCOSS would advocate that the revenue foregone from providing concession fares be fully funded by government. This would serve to ensure that ACTION's incentives to attract additional passengers are not skewed towards adult fare-payers in preference to, or at the expense of, concession passengers. While concessions are currently funded through the nominal apportionment of government funding, the funding level does not appear to match the full value of concession fares.

ACTCOSS raises the related concern that the strategic indicator presented in the ACT Budget includes only adult passenger boardings, and the accompanying information appears to indicate that this is further restricted to journey-to-work trips<sup>11</sup>. There appears to be no indication as to whether the term 'adult' indicates adult fare-payers or its more usual meaning. In any case, it appears that bus passengers who are employed and pay full fare are currently being prioritised over others, a conclusion supported by recent changes in passenger composition.

While ACTION has an important role to play in greenhouse gas abatement and traffic management, these roles should not supercede the basic need for accessible and affordable transport for all members of the community. Indeed, it seems reasonable to suggest that increased passenger numbers are equally useful in reducing greenhouse gas emissions, regardless of the fare paid or the purpose of the trip.

ACTCOSS would encourage the ACT Government to expand its indicator of public transport success to include all additional bus passengers. Any targets for fare recovery should similarly be inclusive of revenue forgone through concessions, as otherwise ACTION is further prompted to prioritise adult-fare passengers over those paying concession fares.

ACTCOSS raises a second issue in relation to the Commission's request for comments on the fleet replacement program and capital funding. ACTCOSS is not in a position to make comment on alternate capital funding models, but would stress the importance of maintaining ACTION's progress towards converting its fleet to disability accessible buses, and of ensuring that any new funding arrangements do not compromise this objective.

## **CONCLUSION**

ACTCOSS thanks the Commission for this opportunity to comment on this pricing review. Our main points we feel are important in considering the impacts of pricing on low income households and people experiencing disadvantage are:

- Service levels must be maintained and improved for people who are not full-fare paying commuters;

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<sup>11</sup> Department of Treasury (2005) *ACT Budget 2005-06* Paper No.4, pp. 230-231

- The short pricing period means that excessive changes should not be introduced;
- Concession fare costs should not be raised above CPI;
- Additional price increases should not be included in the price determination due to increased fuel costs;
- There should be a wide-ranging, publicly open process for determining future funding models for ACTION.