ICRC

INDEPENDENT COMPETITION AND REGULATORY COMMISSION

FINAL DETERMINATION

ACTION PRICING FOR THE PERIOD 1 JULY 2001 TO 30 JUNE 2003

MAY 2001

FINAL DETERMINATION

ACTION PRICING

FOR THE PERIOD

1 JULY 2001 TO 30 JUNE 2003

MAY 2001

FOREWORD

This is the Commission's final report on its investigation into and determination of prices for public transport bus services provided by ACTION in the ACT for the period from 1 July 2001 to 30 June 2003.

The Minister for Urban Services issued a reference to the Commission in September 2000 for the determination of prices for a medium term following the expiration of the current prices on 30 June 2001. As required by the Independent Competition and Regulatory Commission Act 1997, the Commission issued its draft report in February 2001 and thereafter undertook extensive consultation with ACTION, government agencies, community groups and individuals. The consultation process included written submissions and oral depositions to the public hearing on 2 April 2001.

The Commission considers that in making its determination the requirements of the ICRC Act and the reference have been met. The Commission notes that the reference sought a price path for the period to 30 June 2004, while the Commission has provided a price path for a shorter period to 2003. In reaching its determination for the shorter period the Commission has sought to balance the need for stability over the next two years with a need to stimulate further efficiencies in ACTION's operations. The Commission has acknowledged that the next twelve months will be difficult for ACTION with a number of changes occurring in its operating environment that could ultimately influence the price of service provision. At the same time there are matters of which the Commission has been critical over several years, such as the lack of transparency about the level of community service obligations and the deficiencies in the level of fare box recovery. These are issues that will require ACTION to make considerable efforts in additional to those already taken to achieve an efficient outcome for the consumer.

While there are issues about which the Commission remains concerned there is a need for the provision of a stable environment in which to address those matters and a need to provide an adequate level of revenue. For that reason the Commission has determined an initial real increase of 2% for 2001-2002, and an increase equal to the Consumer Price Index for 2002-2003. The Commission expects to consider ACTION's progress on the matters in its next report early in 2003.

Paul Baxter
Senior Commissioner

TABLE OF CONTENTS

1. INTRODUCTION

The Independent Competition and Regulatory Commission (ICRC) is established under the Independent Competition and Regulatory Commission Act 1997. The Commission's roles include the determination of prices for regulated industries: as a monopoly service provider ACTION is a regulated industry under the Act. The Commission undertakes investigations and determinations of pricing matters under the terms of references issued by a Minister.

On 26 September 2000, the Minister for Urban Services issued a reference to the Commission to conduct an investigation into and determine prices for public transport bus services provided by ACTION within the Australian Capital Territory for the period from 1 July 2001 to 30 June 2004. The reference required the Commission to report to the Minister by 18 May 2001, to enable prices to take effect from 1 July 2001. The terms of reference for the investigation are included as Attachment A.

The following requirements are specified in the terms of reference in relation to the conduct of the investigation:

> *The Commission in conducting its investigation into the determination of prices shall determine a price path capable of being applied over a period of 3 years* [from 1 July 2001 to 30 June 2004].
>
> *The Determination should consider current and projected patronage trends and any other noticeable trends flowing from the previous 1 July 2000 fare increase. This analysis should include a consideration of probable impact on, and adequacy of, fare box recovery levels.*
>
> *The Commissioner shall also examine and provide advice upon the current CSO funding model.*

This report is the final price determination. Submissions received by the Commission and transcripts of the public hearings can be obtained from the Commission's website (www.icrc.act.gov.au) or by contacting the Commission on 62050799.

2. SUMMARY OF FINAL PRICE DIRECTION

The principal features of the Commission's price direction for ACTION for 2001-02 and 2002-03 are as follows:

- the Commission has determined a two year price path from 1 July 2001 to 30 June 2003.

- The increase in average fare prices for the financial year 2001-02 should not exceed the sum of the increase in the ABS Consumer Price Index All Groups for Canberra for the 12 month period ending March 2001, less the estimated impact of the goods and service tax (GST), plus two percentage points.

- The increase in average fare prices for the financial year 2002-03 should not exceed the sum of the increase in the ABS Consumer Price Index All groups for Canberra for the 12 month period ending March 2002 excluding the GST impact.

- In the light of the size of the discounts available for the purchase of periodical tickets, the allowable increase in the average fare should be focused on reducing the discounts for these tickets. This should be addressed by raising the fares of periodical tickets rather than lowering the cash fares. The Commission suggests that discounts should be no greater than 15%.

- Consistent with government policy, concession tickets should be set at 50% of the full adult equivalent ticket and student tickets, where they are still applied, at 35%.

- Given the range of different fares available, ACTION is required to submit to the Commission for formal endorsement at least three weeks prior to any new fare increase being announced, a revised fare table which indicates which fares it proposes to increase while ensuring that its average fare prices weighted by the expected patronage in 2001-02 and 2002-03 do not exceed the above caps.

- This direction covers the next two financial years, 2001-02 and 2002-03.

The Commission estimates that the CPI figure for Canberra for the current year, after adjusting for the GST, is 3.94%. Allowing for a further 2% real fare increase, the Commission is capping the average fare price increase in 2001-02 to 5.94%. As public transport charges are estimated to comprise only around 0.4% of an average household's weekly expenditure, the Commission believes that the effect of this price direction on the CPI will be negligible, less than 0.1%. The Commission notes that some members of the community may be subject to hardship, but there is already a widely used bus concession policy available. If the negligible increases are considered to create significantly greater hardship, the Commission believes that it is for government to consider the use of other wider social safety net policies.

The Commission had canvassed in the draft direction the alternatives of bringing down either a one-year or a three-year direction. It had suggested that there may be greater merit in the former rather than the latter. However, a major change to ACTION's operations was announced in the ACT Budget on 1 May 2001 that removed fares for eligible school students from 1 September 2001. This will have a significant effect on reducing ACTION's farebox revenue and will, in 2001-02, also increase costs in order to set up an appropriate monitoring mechanism for the new scheme. Clearly, the new school transport arrangements will not be effectively bedded down until well into the second half of financial 2001-02, i.e. after the beginning of the 2002 school year. By that time, the CSO arrangements should also be finalised, representing funding of services rather than reimbursement on a per capita basis.

As part of these new arrangements, the ACT Government is also providing funds for new buses which themselves will be in general service, allowing older buses to be cascaded into school services. These new buses are expected to satisfy disability requirements and be more environmentally-friendly fuel-using buses.

On a more general funding note, the Commission remains strongly of the view that all CSO payments should be clearly and separately accounted for. Even if they are eventually wrapped up into a single payment to ACTION under the terms of the service level agreement between DUS and ACTION, their components should be transparently identifiable.

A further issue for the Commission was whether ACTION is to be made a statutory authority. Two bills have yet to be debated by the Assembly, and it is not clear at this stage which direction will be taken. Arguments for and against a statutory authority have been made. However, the key issue of concern to the Commission, in this and subsequent pricing directions, is the need for greater transparency in funding matters. Over the next 12 months, it will become clear whether ACTION will be made into a statutory authority. If it is, it will have up to a year to establish appropriate processes before the Commission is required to investigate potential fare changes. If it is not, sufficient time will have elapsed to see to what extent the ACT Government has instituted alternative, appropriate measures to ensure transparency.

Another major issue which the Commission had raised refers to the need for an integrated land use and transport strategy for the ACT and a framework within which appropriate objectives and functions for a public transport operator can be established and monitored. To date, most of the Government's efforts on environmental policy appear to be centred on national forums, such as greenhouse programs, but there have been moves towards encouraging higher density developments in the inner suburbs of Canberra, particularly in North Canberra. These developments reflect a desire to promote greater urban consolidation which will minimise transport costs. More needs to be done to enunciate a clear policy, and a broader strategy will need to take into account alternative modes of transport and the cost and provision of car parking. Again, the Commission believes that the issue

of a price direction for two years should provide sufficient time for substantive progress to be made by the Government to determine the overarching objectives which it and the community wish ACTION to pursue and for which explicit funding is agreed.

This latter issue goes to the heart of the funding and price setting dilemma which the Commission faces. A commercial fare structure for bus operations in the ACT is not easy to determine. However, the Commission has indicated that if ACTION operated at minimum service levels, it could achieve cost savings in the range of $13-17 million annually. Clearly, ACTION is running services which are uncommercial, i.e. lead to incremental costs exceeding incremental revenues. Some of the submissions to the Commission have focused on the social obligations which ACTION has in providing services for low income, socially disadvantaged members of the community. The Commission is concerned that such arguments may be used to justify the provision of all services in their current form irrespective of their cost and their suitability for the transport tasks. Running substantially empty buses around the suburbs of the ACT may not necessarily be the best way of improving access for the disadvantaged. Whatever level of services are decided will come at a cost. The Commission believes that those decisions should be made in the full knowledge that, within a broader integrated strategy, they are the most cost-effective means of achieving those objectives.

Without that explicit determination, the Commission cannot make any sensible long-term decision about appropriate farebox cost-recovery rates. As a result of this May's Budget, ACTION's farebox cost-recovery rate for 2001-02, without any fare increases, is expected to fall below 20%. Even at around 25%, the cost-recovery rate was never going to be radically transformed by fare determinations made by the Commission. A number of submissions to the Commission suggested that, because the rate was so low and because of the broader social charter of ACTION, there was little justification for increasing fares at all.

This therefore raises the broader question of where in the cost-recovery spectrum should the Commission be seeking to place ACTION. At one extreme, a case could be put for not having fares at all on the basis that its operations are substantially a social service. However, without any price signals, decisions about routes and service levels may become even more difficult to make. Furthermore, it has been suggested to the Commission a "free" service may encourage over use and vandalism. On the other hand, more commercial fare structures may lead to reduced patronage and a downward spiral of further reduced services and patronage. However, evidence suggests that, at least at the margin, the markets for ACTION's services are relatively price inelastic. That is to say that passengers are captive, either because of they are making journeys to work and do not have available private cars, or because they are low income and disadvantaged users with no financial capacity to afford transport alternatives.

In making its price determination, the Commission has had to weigh up the apparently conflicting influences. It believes that its price direction sends the right

signals to ACTION to continue its improvements in becoming more efficient and does not materially impact adversely on consumers. It also acknowledges that ACTION has incurred additional costs from higher fuel prices and other imposts, such as workers' compensation claims, which are largely a result of its being in government ownership. By providing a direction for two years, the Commission is also seeking to provide some stability in the price-setting process. Some of the issues which the Commission has raised over the last two years have shown little progress, and the Commission is putting ACTION and DUS on notice that it expects to see substantive progress on the above issues over the next two years. As a result, the Commission expects that its next price direction can be undertaken in an informed environment where progress on these outstanding issues has been made.

In particular, the Commission expects that the following steps will have been completed by the time the next price review commences at the end of 2002:

- a detailed independent scrutiny of ACTION's costs
- detailed formal benchmarking of ACTION's costs
- a review of ACTION's pricing strategy, covering the relationship between single and discount fares, the number of zones and the role of shared zones
- up-to-date market research on price elasticities

The outcomes of all of these aspects will provide solid and important evidence for the Commission's next deliberations towards the end of 2002.

3. INDEPENDENT COMPETITION AND REGULATORY COMMISSION

The Commission was initially established as the Independent Pricing and Regulatory Commission (IPARC) under the *Independent Pricing and Regulatory Commission Act 1997* (ICRC Act). The functions of Commission are set out in section 8 of the ICRC Act. In setting prices, the Commission is directed by section 20 (1) to make a price direction at the end of each investigation under a reference, as follows

> *…the Commission shall decide on the level of prices for services…and give a price direction accordingly to each person providing regulated services.*

In section 20(A) a price direction must include a direction about the pricing of regulated services in the form of either or both of the following:

> *(a) a price, a maximum price or both a minimum and maximum price for each regulated service;*
> *(b). a maximum total amount (**revenue cap**) that may be earned by a person providing regulated services from the provision of those services;*

Section 20(2) of the Act provides that the Commission consider a number of issues in making a price decision. These include, inter alia:

> *the protection of consumers from the abuse of monopoly power…*
>
> *standards of quality, reliability and safety…*
>
> *the need for greater efficiency…*
>
> *an appropriate rate of return…*
>
> *the cost of providing the regulated service…*
>
> *the principles of ecologically sustainable development…*
>
> *the social impacts of the decision*
>
> *considerations of demand management and least cost planning*
>
> *the borrowing, capital and cash flow requirements…*
>
> *the effect on general price inflation over the medium term; and*
>
> *any arrangement that a person providing regulated services has entered into for the exercise of its functions by some other person.*

4. ACTION

The Australian Capital Territory Internal Omnibus Network (ACTION) is an ACT Government owned enterprise supplying bus services throughout the ACT.

ACTION had 694 full time equivalent employees in 1999-2000, and incurred annual operating costs of $71 million with revenue derived from operations of around $18 million and explicit government contributions of $48 million to maintain the current level of service, as shown in the 1999-2000 budget.

ACTION has two depots, from which its fleet provides services. These are located at Belconnen and Tuggeranong. The operational fleet status as at December 2000 totalled 347 buses, with an average age of just over eight years. The fleet requirements are determined by significant peak periods.

ACTION and the ACT government have established an ownership agreement, which sets guidelines and performance requirements which are intended to ensure the government receives the best possible return through efficient operation and professional management of ACTION. The agreement has been determined through consultation with the Minister for Urban Services, the Minister for Health and Community Care and the Minister for Education and Training. The ownership agreement covers efficient management of finances, assets and staff, in line with the policy goals of the ACT government and in light of ACTION's past performance. One significant aim of the ownership agreement is to quantify appropriate minimum service level requirements between the Department of Urban Services as purchaser and ACTION as provider.

According to the ownership agreement, ACTION's mission is to provide the ACT community with an efficient, effective and accessible passenger transport service. This is achieved by:

- improved customer service;
- increased people involvement;
- creation of a positive community profile; and
- increased commerciality with the ultimate aim of providing the owner with a commercial rate of return on its equity in the business.

The major corporate objectives of ACTION are as follows:

- subject to the requirements of government policy and legislation, to operate as a customer service oriented entity along business like lines;

- to use benchmarking to operate at least as efficiently as alternative service providers and to provide quality, value for money services in all aspects of ACTION's operations;

- to use financial practices and maintain accounts and records which satisfy the requirements of the Financial Management Act 1996, including the associated ACT Accounting Policy Manual modelled on the requirements of the Australian Accounting Standards, and which fairly present ACTION's financial position and operational cashflow results for planning and reporting purposes;

- to adopt high standard operating practices to safeguard the environment and health and safety of staff; and

- to provide a productive and satisfying work environment for staff, and a commitment to high standards of human resource management based on equal employment opportunity.

5. ISSUES CONSIDERED BY THE COMMISSION

Under Part IV of the Independent Pricing and Regulatory Commission Act 1997, the Commission in completing a Determination is required to consider a number of factors and indicate what regard it has had to each factor. The Commission's assessment of each of the Part IV factors is detailed below.

5.1 Costs and Efficiencies

Under Part IV of the Independent Pricing and Regulatory Commission Act 1997, the Commission in completing a Determination is required to consider cost and efficiency factors, as detailed below:

- *the cost of providing the regulated services (Part IV 20.(2e));*
- *the need for greater efficiency in the supply of regulated services to reduce costs to consumers and producers (Part IV 20.(2c)); and*
- *any arrangements that a person providing the regulated services has entered into for the exercise of its functions by some other person (Part IV 20.(2k)).*

5.1.1 Operating Costs

ACTION's financial statements indicate that the organisation recovers significantly less than the accrual-based costs of providing the services. Over the past six years, farebox cost recovery has fallen within the range of 22.7% to 24.7%. The results are illustrated in Table 5.1.

Table 5.1: Operating costs ('000)

	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
Employee costs	39,099	38,414	42,473	42,658	46,280	44,635
Administrative expenses						
- Bus running & maintenance	7,289	7,240	7,149	7,356	8,068	9,784
- Other	6,188	7,139	7,781	6,568	6,959	7,444
Depreciation & amortisation	7,496	7,467	7,368	7,041	6,418	5,181
Interest	8,345	6,851	6,381	3,441	2,428	2,154
Other expenses	-	-	-	-	1,519	1,634
TOTAL	68,417	67,111	71,152	67,064	71,672	70,832
Fares revenue	16,429	15,676	17,235	16,583	16,266	16,617
Farebox (cost recovery)	**24.0%**	**23.4%**	**24.2%**	**24.7%**	**22.7%**	**23.5%**

Source: ACTION

As can be discerned from Table 5.1, total operating costs in 1999-2000 fell slightly, relative to 1998-99. Employee costs fell in line with staff reductions (full time equivalent ACTION staff fell from 712 in 1998-99 to 694 in 1999-2000.) There were also large reductions in depreciation and amortisation expenses, together with lower interest payments – a combined reduction of 17% in 1999-2000. The reduction in

depreciation costs in 1999-2000 is largely attributable to ACTION's decision to extend bus life from 15 to 20 years. The fall in interest costs is associated with the ageing of ACTION's fleet.

It is worthwhile comparing ACTION's *actual* 1999-2000 results with previously *budgeted* 1999-2000 results. On this basis, actual operating costs were over 10% higher than operating costs budgeted for in 1999-2000. The comparative position in April 1999 is indicated in Table 5.2 below:

Table 5.2: ACTION's budgeted and actual 1999-2000 operating costs ($'000)

	1999-2000: Budgeted	1999-2000: Actual	Difference
Employee costs	39,521	44,635	5,114
Administrative expenses	12,893	17,228	4,335
Depreciation and amortisation	5,720	5,181	(539)
Interest	2,114	2,154	40
Other expenses	3,607	1,634	(1,973)
TOTAL	63,855	70,832	6,977

Source: ACTION

Although actual employee costs decreased by some $1.6 million in 1999-2000, relative to 1998-99, they were still $5.1 million higher than originally budgeted for.

ACTION indicated that $0.5 million of this difference was due to a rise in workers compensation premiums. Another $1.5 million was due to an unexpectedly high level of absenteeism: 14 days per employee per year rather than the anticipated 5 days. ACTION's current performance on absenteeism is significantly above that of comparable operators. By way of comparison, publicly available data from the STA indicate that absenteeism on Sydney Buses ranged from 11.5 to 11.8 days per annum between 1990/91 and 1993/94.

ACTION indicates that a further $2.4 million in higher employee costs was due to the higher than anticipated costs of implementing Network 99 in 1999-2000. Some 125,000 additional hours were put into the new network (at an average cost of $20.20 per hour). The remaining $0.7 million in higher costs was attributable to delays in realising EBA objectives relating to enterprise bargaining and the implementation of Network 99.

Higher than anticipated fuel costs in 1999-2000 were responsible for $1.7 million of the $4.3 million blow-out in administrative expenses. The average cost of fuel in 1999-2000 was $0.83 per litre, compared with $0.63 per litre in 1998-99. In addition, an extra $0.6 million in expenses was incurred due to an increase in fuel consumption because of higher bus kilometres associated with new network services.

Other factors responsible for the increase in administrative expenses include higher than expected Network 99 publicity costs, mandatory IT modernisation, funding of legal settlements from accidents and increased communication costs (each

accounting for $0.5 million). The Commission acknowledges that ACTION's ability to affect some of these imposts (such as mandatory IT modernisation) is limited.

Relatively low wholesale sales tax costs were largely responsible for the smaller than expected "other expenses" figure.

While the Commission acknowledges that some cost components may lie largely outside ACTION's control, it is nevertheless concerned at the extent of the cost overruns which the implementation of Network 99 appears to have produced in both 1998-99 and 1999-2000. In the March 2000 direction, the Commission noted that the total additional costs of implementing Network 99 in 1998-99 were estimated as $4.5 million higher than previously estimated by ACTION, to which the abovementioned $2.4 million in unanticipated employee costs alone has been added in 1999-2000.

As noted in the previous price direction, this confirms the need for ACTION to be more conscious of the nature of its cost structure in making expenditure forecasts. The Commission previously emphasised the need to develop a route profitability model as one step that would assist in cost planning. However, as noted in Section 5.1.3, ACTION's progress toward development of such a model has been slowed by a variety of factors.

In its *Response to the ICRC Draft 2001 Price Determination*, ACTION expressed reservations about the above comparison of budgeted 1999-2000 results with actual operating costs, due to the fact that actual operating costs in 1999-2000 were some $840,000 lower than in 1998-99 and that this period included the difficult transition to a new network.

The Commission acknowledges that ACTION's actual operating costs fell in 1999-2000 from the previous year but was concerned that the fall turned out to be far less than what it had been led to expect from earlier budgeted indications.

Whilst it is understood that the period in question was a difficult one for ACTION, this only reinforces the point that a better understanding and control of costs must be a priority. Equally, it should be noted that recent data suggest ACTION's budgeted and actual costs for 2000-01 are much more closely aligned than was the case in 1999-2000. Data for the year-to-date as at February 2001 indicate that operating expenses are some $0.8m below budget, while forecast operating costs for 2000-01 made in March 2001 suggest ACTION's operating costs will exceed budget by only $0.7m.

5.1.2 Efficiency

ACTION's December 2000 submission indicates that it continues to make progress towards implementing its Enterprise Bargaining Agreement (EBA). According to ACTION, some $9.5 million of the estimated $10.5 million in annual savings had

been achieved by the end of 2000. Table 5.3 indicates ACTION's progress towards implementation of its savings and efficiency goals.

Table 5.3: ACTION reform savings

	EBA Target	Progress	Comments
Cash Savings			
		$ '000	
Fully implemented			
Transport Officers - reduction in staff	892	892	Fully achieved
Transport Officers - saving in support vehicles	15	15	Fully achieved
Drivers - on bus ticket sales	20	20	Implemented in January 1999
Drivers – mealing	199	199	Implemented in January 1999
Drivers - trainee rates	160	160	Implemented in January 1999
Workers Comp Savings due to income protection	100	100	Implemented in January 1999
Additional savings from Feb '98 agreement	350	350	Implemented in January 1999
Drivers - late night running/area services	250	250	Implemented in Jan 2000.
Review of Cleaning, Fuelling and Clippies – SNT			Implemented July 1999
Drivers - casual spares	280	280	Implemented January 2000
Drivers - saving in bus numbers	385	385	Implemented Jan 2000
Drivers - reduction in numbers	250	250	Implemented Jan 2000.
Drivers - school bus review	250	250	Implemented Jan 2000.
sub-total	*3,201*	*3,201*	
Partially implemented			
Workshops - reduction of 19 indirect staff	985	885	Further staff reductions to be negotiated
Administration – reduction of 24 staff	1,265	1,165	Mostly Implemented
Workshops - transfer of 28 multiskilled drivers	681	600	4 Yet to transfer
Workshops - reduction of 14 direct staff	681	600	Further staff reductions to be Negotiated during 2000/01
sub-total	*3,612*	*3,250*	
Not yet implemented			
Drivers - reduction in absenteeism	300	-	Strategies being implemented
Drivers - satellite depots	100	-	Under investigation
Drivers - additional part time broken shifts	200	-	Under investigation
Drivers - sign times	200	-	Now Considered Unachievable
Review of Disciplinary Procedures	100	-	Agreement reached
sub-total	*900*	-	
Total Cash Savings	***7,713***	***6,451***	
New Measures (replacing unachievable savings)			
Uniforms		100	Implemented July 2000
Tyre Management		100	Implemented July 2000
sub-total		200	
Service Improvements - must be paid for by increased revenue			
Fully implemented			
Drivers - increased productive hours	1,448	1,448	Implemented in January 1999
Drivers - on bus ticket sales	15	15	Implemented in January 1999
Transport Officers – after hours ticket sales	20	20	Implemented in January 1999
Total Service Improvements	***1,483***	***1,483***	
Reduction in Wage Increase previously proposed	*1,323*	1,323	Implemented in January 1999
Total Identified Benefits from Reforms	**10,519**	**9,457**	

Source: ACTION

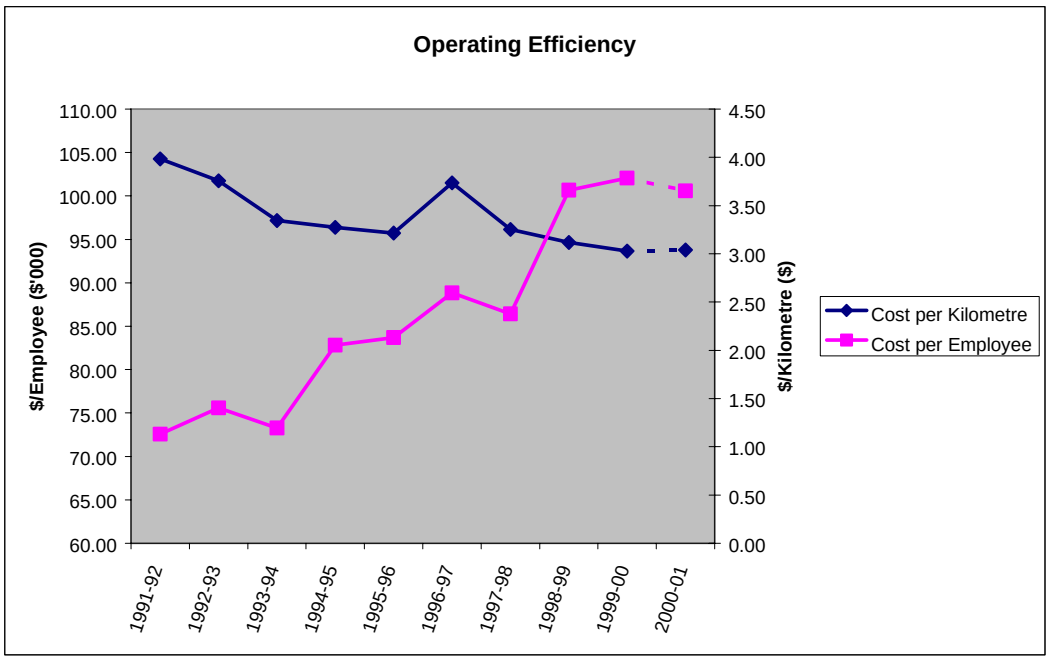
ACTION's progress towards implementation of EBA objectives to date has been substantial and is worthy of note. The Commission understands that $250,000 of the

remaining $1 million in efficiency improvements will be achieved in the balance of 2000-01 and the remainder in the first half of 2001-02.

The Commission also notes that the number of full time equivalent employees continued to fall, from 712 in 1998-99 to 694 in 1999-2000. ACTION's bus kilometres in 1999-2000 totalled around 23.4 million - slightly higher than in the previous year. Bus kilometres are anticipated to fall in 2000-01 to around 22.5 million, as the full year effect of modifications to Network 99 takes effect.

Figure 5.1 indicates recent trends in ACTION's performance and particularly illustrates the effects of ACTION's progress towards implementation of the EBA.

Figure 5.1: Operating Efficiency



Source: ACTION

As noted in the last price direction, the large increase in costs per employee in 1998-99 was associated with the implementation of Network 99 and a decrease in staff numbers. The above chart also suggests that the impact of these effects had stabilised in 1999-2000.

In the previous price direction, the Commission pointed out that, after excluding increased costs associated with tax equivalent adjustments, costs per employee still increased by 9% in 1998-99 on the previous year. While data for 1999-2000 indicate that costs appear to have levelled off in real terms, it remains to be seen if this will continue in 2000-01. As indicated in the above chart, ACTION suggests that costs per employee will fall in 2000-01. Given that the full year effects of the modifications to Network 99 will be felt by then and given the history of the last decade, when apparent cost stabilisation has been followed by marked increases, the Commission

expects that ACTION's forecast of a unit reduction would occur. The Commission will be closely monitoring this indicator.

ACTION has made some progress in reducing costs per kilometre, which fell from $3.12 in 1998-99 to $3.03 in 1999-2000. This represents a 3% decline in year on year terms though, as the above graph indicates, the trend towards cost reductions has flattened out in recent years. Such progress is especially notable in view of the fact that it was achieved in a situation where diesel prices (which made up some 12% of ACTION's operating costs in 1999-2000) rose from $0.63 per litre in 1998-99 to $0.83 per litre in 1999-2000. This is suggestive of some gains in network efficiency terms, and would appear to be associated with falling employee numbers (and costs) while system kilometres increased under Network 99. However, the Commission notes that the outcome is heavily influenced by the reduction in depreciation and amortisation costs as a contribution to total costs.

In spite of rising parts costs, ACTION's maintenance costs have also declined – from $0.29 per kilometre in 1998-99 to $0.27 per kilometre in 1999-2000, as indicated in Table 6.4. Total costs have declined by some 5.5%. This has been driven in large part by a fall in workshop staff numbers, although the Commission also acknowledges that ACTION's relatively low costs in this area are probably associated with the relatively young age of its fleet[1]. At the same time the Commission notes that maintaining such a young fleet may not be optimal and that maintenance costs must be balanced against replacement costs. The issue of optimal fleet replacement strategy is further discussed in Section 5.3.3.

Table 5.4: ACTION's maintenance costs (November 2000 estimate)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	Est. 2000-01
Maintenance Costs:										
. parts	5,449	1,166	2,544	2,151	1859	1784	2029	2371	2883	2900
. mechanics wages	6,010	5,704	4,859	4,854	3991	3847	3857	3664	2538	2665
. apprentices	622	496	365	227	146	66	45	95	164	194
. cleaners/ fuellers	637	694	643	317	335	343	309	496	676	602
Total	**12,718**	**8,060**	**8,411**	**7,549**	**6,331**	**6,040**	**6,240**	**6,626**	**6,261**	**6,361**
Maint/per Kilometre	**0.67**	**0.40**	**0.40**	**0.36**	**0.30**	**0.32**	**0.30**	**0.29**	**0.27**	**0.28**

Source: ACTION

Although the fall in costs during 1999-2000 is a significant accomplishment, the Commission also notes that costs are anticipated to rise in 2000-01, mainly driven by an anticipated increase in the mechanics wage bill.

[1] Last year's determination cited a range of $0.21 to $0.44 for per kilometre for public sector bus maintenance costs by various operators. ACTION's *Response to the ICRC's Draft Price Direction* accepts that maintaining a young fleet may not be optimal, but suggests young fleets may experience higher maintenance costs due to their use of more advanced technology. No quantitative evidence is offered, however, to support this contention.

Overall, ACTION appears to have made considerable progress in implementing the objectives of the EBA. However, the Commission is not clear whether greater efficiencies could have been achieved. The Commission notes the INDEC 1998 Efficient Costing Report which suggested that ACTION could have achieved a cost outcome around 26% lower than the 1996-97 actual costs. Moreover, an efficient cost outcome could lower costs by between 33% and 40%, depending on whether a profit margin was taken into account.

These differences represented significant implications for ACTION. INDEC were subsequently commissioned by ACTION in 2000 to update the 1998 report to reflect the changes which had taken place over the intervening years, particularly the introduction of Network 99 and the EBAs. Comparisons between the two reports are somewhat complicated, not least because some of the original 1998 savings estimated by INDEC appear to have been varied by ACTION at the time. The 2000 report notes that the previous INDEC estimate of achievable costs of $51.4 million in 1996-97 prices should be updated to $63.7 million in 1999-2000 prices. This figure was compared with projected 1999-2000 total operating expenses of $70.2 million. The difference is now $6.5 million or around 9% of actual costs, compared with the previous 26%, indicating apparently good progress towards meeting achievable costs. However, it appears that some of ACTION's real unit cost increases over the period have been added into the achievable cost target, which overstates ACTION's improved performance.

Nevertheless, the Commission notes that ACTION has made improvements over recent years but there remains scope for more to be done.

5.1.3 Forecast Costs and Efficiency

Table 5.5 provides actual 1999-2000 operating costs and ACT 2001-02 budget estimates for ACTION's operating costs over the next five years, as presented in May 2001.

Table 5.5: ACTION's Forecast Operating Costs ($'000) – May 2001

	1999-00 Actual	2000-01 Budget	2000-01 Expected	2001-02 Budget	2002-03 Estimate	2003-04 Estimate	2004-05 Estimate
Employee Costs	44,635	42,150	41,952	40,916	40,788	40,790	41,377
Administrative Expenses	17,228	15,360	17,782	19,369	17,369	17,418	17,917
Depreciation and Amortisation	5,181	4,740	4,705	4,756	4,768	4,774	4,780
Interest	2,154	1,800	1,800	1,485	1,172	857	814
Other Expenses	1,634	2,560	1,094	1,665	1,255	1,314	1,369
TOTAL	**70,832**	**66,610**	**67,333**	**68,191**	**65,352**	**65,153**	**66,257**

Sources: ACTION, ACT 2001-02 Budget Paper No. 4
NB: Employee costs include superannuation expenses

The Commission notes that the May 2001 forecast operating costs presented above are generally lower than ACTION's November 2000 estimates, presented in the Draft

Price Direction. For example, expected/estimated total operating costs for 2000-01 and 2004-05 are some $1.5 million lower and $6.5 million lower (respectively) than those estimated in November 2000. ACTION has indicated that one reason for this change is a new expectation that any cost increases, in areas such as employee costs, must be offset by equivalent savings.

The May 2001 estimates presented above suggest that ACTION's forecast employee costs are expected to decline from their 1999-2000 levels in 2000-01. ACTION has indicated that a fall in the workers' compensation premium (by $0.5m) in 2000-01 is part of the reason for the short term decline in employee costs. However, ACTION has identified increased workers' compensation claims due to the ageing of its workforce as a potential source of future cost pressures (the average median age of ACTION employees is 52 years). Accordingly, ACTION has projected forward an annual workers' compensation premium of $2 million in future years.

Total estimated employee costs between 2000-01 and 2002-03 are between $2.1 and $3.2 million higher than those provided in ACTION's April 1999 forecasts, presented in the March 2000 Price Direction. ACTION indicates that one reason for this discrepancy is that the April 1999 forecasts did not allow for CPI adjustments, which have typically been written into enterprise agreements.

Allowing for CPI adjustments of some 2% per annum and increased workers' compensation costs of $0.5 million per annum would seem sufficient to explain the discrepancy for 2001-02 and 2002-03. The Commission estimates, however, that additional costs of some $2.0 million remain unaccounted for in 2000-01. This analysis implies that some of the unanticipated employee costs experienced in 1999-2000 (such as higher absenteeism and Network 99 running costs as well as delays in meeting EBA targets) may have been carried over into the estimates for 2000-01.

As noted above, ACTION's current rate of absenteeism is 14 days per employee - well above that of the previously estimated 5 days per employee. ACTION have now set a target of 10 days absenteeism per employee, which is estimated to yield savings of $0.3 million per annum.

The Commission is concerned that such a target would still seem to allow for a relatively high level of absenteeism and notes that such savings are still well below the amount of unexpected costs ($1.5 million) experienced due to absenteeism in 1999-2000. ACTION's *Response to the ICRC Draft 2001 Price Determination*, however, indicates that the estimate of $0.3 million is a minimum estimate for EBA purposes and that actual savings are likely to exceed this.

The ACT's 2001-02 budget papers indicate that administrative expenses for 2000-01 are expected to be some $2.4 million more than budgeted for, mainly due to the

higher costs of parts ($0.5 million), ticketing and associated overheads ($0.44 million) and the reclassification of insurance premiums ($0.94 million) from other expenses[2].

In addition, in its 2001-02 budget, the ACT government announced a policy of permitting free bus travel to school students who live outside of a certain radius of schools. This will add $1.5 million to administrative expenses in 2001-02 due to the additional costs associated with the processing of applications. It is anticipated, however, that the administrative costs associated with running the scheme will not be as great in the years after 2001-02.

As indicated previously, ACTION's fuel costs rose from a budgeted $0.63 per litre to $0.83 per litre during 1999-2000. Diesel fuel costs continued to rise during 2000-01, reaching a peak of $0.99 a litre in late 2000. ACTION has indicated that diesel costs of $0.90 have been built into its forward estimates.

Fuel costs are effectively outside ACTION's control. The Commission notes, however, that while fuel prices remain volatile, more recent evidence suggests that the cost pressures cited by ACTION may ease in the medium term. In particular, signs of a slowdown in global economic activity already appear to have contributed to a recent fall in fuel prices, and as a consequence it may not be reasonable to assume that fuel prices will remain at their current levels throughout the forecast period.

Additional IT expenses also contributed to higher costs faced by ACTION in 1999-2000. ACTION has continued to implement an IT modernisation program, as mandated by the ACT government, resulting in $0.5 million in unexpected costs in 1999-2000.

ACTION has also cited CPI and interest rate increases and adverse currency movements as offsetting the impact of the removal of wholesale sales tax and contributing to higher maintenance costs. Such factors played a role in the $0.5 million increase in parts costs in 2000-01, cited above.

The Commission notes, however, that ACTION's fleet is relatively young and could be expected to be less affected by such factors than many other bus operators[3]. As indicated above, interest payments are forecast to decline over time, with the ageing of ACTION's fleet. Depreciation is relatively stable in future years, reflecting the application of straight line methodology to the fleet.

---

[2] The Commission notes, however, that the budget administrative expenses estimate itself was some $2.3 million higher than April 1999's estimate of administrative expenses. Even allowing for increased fuel costs and the application of indexation, a rough estimate suggests administrative costs in 2000-01 are $1.4 million higher than originally estimated in April 1999.

[3] ACTION's average fleet age was 8.36 years in 1999-2000. This compares with the STA's average age of 11.8 years in 1999-2000. As noted in Footnote 1, ACTION suggests that the inclusion of new technology on buses may increase its maintenance costs.

Estimates developed by ACTION, and reported in the March 2000 Price Direction, suggested that refinements to Network 99 would yield cost savings of some $3 million. ACTION also stated that, after such modifications, service levels would be reduced but would still be 7% higher than pre-Network 99 levels.

It is worth comparing these estimates with subsequent developments. After the initial introduction of the new network, ACTION made downward revisions to its service levels in September 1999, January 2000 and further adjustments in September 2000. The reductions amounted to a total cut of some 66,000 hours from the initial service levels introduced in January 1999, and would appear to allow for annual savings of $1.6 million in 2000-01. ACTION's December 2000 and April 2001 submissions to the Commission indicated that, after these reductions, service levels will be 10% above what they were prior to the introduction of Network 99.

Thus, the final Network 99 service levels appear to be slightly higher than those proposed at the time of the previous price direction. Moreover, whilst it is understood that some savings referred to by ACTION in the previous price direction would have been made within the 1999-2000 financial year, it is unclear to the Commission whether or not the target of $3 million in cost savings, referred to last year, will be fully realised. ACTION's April 2001 submission notes that the full year effect of the reductions, combined with EBA savings, contributed "significantly" to the reduction in operating costs from $70.8 million in 1999-2000 to $67.3 million in 2000-01. However, how much of this is due to the reduction in Network services is not specified.

The Commission has previously expressed its concerns over the need for effective cost controls over the network. At the time of the last price direction, ACTION indicated that it would have a route profitability model developed during the first half of 2000, and the Commission suggested that this work be undertaken as a matter of urgency.

ACTION's December 2000 submission and March 2001 Response indicated that the route profitability model developed was overly complex and resource intensive, and that a revised, simpler model would be available shortly. ACTION has also noted that it has conducted analysis of underperforming routes in the interim and pointed out in its April 2001 submission that part of the delay in introducing the route profitability model was due to financial constraints.

The Commission appreciates that ACTION faces financial limitations and that it has various interim means of analysing route profitability and performance. As the preceding analysis suggests, the Commission remains concerned that each new set of future estimates would appear to set operating costs at higher levels than previously. The high levels of unanticipated expenditure would suggest the need for improved systems of cost monitoring and control. As a result, the Commission strongly requests that a systematic model for assessing the financial performance of all routes is well in place and operational before the Commission's next price review.

5.1.4 Contracting Out

The Commission expressed concern in previous price directions that ACTION had undertaken little investigation of potential outsourcing activities. The March 2000 Price Direction made particular note of ACTION's proposed outsourcing of bus refuelling and cleaning. The Commission expressed the view that not enough had been done by ACTION in the past to achieve non-core savings. The Commission indicated that if marked progress had not been made by the time of the current Price Direction an investigation of the contracting out of maintenance functions should be undertaken.

During the course of 1999-2000 ACTION conducted a review of its bus cleaning and refuelling arrangements. It was decided to opt for an internal restructure rather than contracting these activities out. ACTION indicated, on the basis of current costs, that the new arrangements will reduce expenditure in this area from $860,000 per annum to an estimated $602,000 per annum in 2000-01. This is equivalent to a cost per bus of $1,734 per annum – or a 26.5% reduction over the previous year's costs. ACTION has now also fully outsourced the provision of tyres, which it expects will return savings of $100,000 per annum.

If this is achieved this progress will be worthy of note, although previous studies suggest that there may still be a gap between the cleaning and refuelling costs currently achieved by ACTION and those which would be achieved by a private operator.

As noted previously, total maintenance costs fell by some 5.5% between 1998-99 and 1999-2000, but an increase of some 1.6% is anticipated for 2000-01. ACTION's maintenance costs of $0.27 per kilometre for 1999-2000 compares to estimates cited in last year's review of $0.21 to $0.44 per kilometre for other public bus operators. Allowing for both inflation and the current, relatively young age of ACTION's fleet, this suggests that ACTION is still not operating at best practice levels.

The Commission is therefore of the opinion that, while progress has been made in the areas such as maintenance, there is still room for further improvement and continued investigation of the possibilities offered by outsourcing. ACTION has indicated that reviews of the stores and maintenance areas will be conducted over the next six months. The Commission will closely monitor the outcome of these reviews.

5.2 Consumer Protection

Under Part 4 of the ICRC Act, the Commission in completing a determination is required to consider the following consumer protection factors:

- *the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of regulated services (Section 20.(2)(a));*

- *standards of quality, reliability and safety of the regulated services (Section 20.(2)(b));*

- *the social impacts of the decision (Section 20.(2)(g));*

- *the effect on general price inflation over the medium term (Section 20.(2)(j)).*

5.2.1 Pricing

In its last determination, the Commission provided for ACTION to raise its average fares for 2000-01 in line with the growth in the Canberra Consumer Price Index for the 21 month period ending December 1999, plus one percentage point. This produced an average increase in the order of 3.6%. A further net 8% increase was applied across all fares to reflect the net impact of the GST, yielding a total average price increase of 11.6%.

Table 5.6 compares 1999-2000 fares with those introduced after the last price direction:

Table 5.6: 1999-2000 and 2000-01 fares

	One Zone		All Zones	
	1999-2000	**2000-01**	**1999-2000**	**2000-01**
Adult				
Cash				
Single Trip	$ 2.00	$ 2.30	$ 4.00	$ 4.40
Shopper's Off Peak Daily	n.a.	n.a.	$ 4.00	$ 4.40
Daily	n.a.	n.a.	$ 7.00	$ 8.40
Non-cash				
Faresaver 10	$ 17.00	$ 18.40	$ 34.00	$ 36.80
Weekly	$ 17.00	$ 19.80	$ 34.00	$ 38.00
Monthly	$ 55.00	$ 65.00	$ 110.00	$ 120.00
Concession and School Student				
Cash				
Single Trip	$ 1.00	$ 1.20	$ 2.00	$ 2.20
Pensioner Off Peak Daily	n.a.	n.a.	$ 1.00	$ 1.20
Daily	n.a.	n.a.	$ 3.50	$ 4.20
Non-cash				
Faresaver 10	$ 8.50	$ 9.20	$ 17.00	$ 18.40
Weekly	$ 8.50	$ 9.90	$ 17.00	$ 19.00
Monthly	$ 27.50	$ 32.50	$ 55.00	$ 60.00
School Student Faresaver 10	$ 6.00	$ 6.50	$ 12.00	$ 13.00
School Term	$ 45.00	$ 49.50	$ 90.00	$ 99.00

Notes:
1. If an Adult Single Trip ticket is issued, a 1 hour transfer ticket is available on request at no extra charge.
2. Off Peak = Weekdays 9am-4.30pm and after 6pm and all day weekends and public holidays.
3. Students are not eligible to use the Pensioner Off Peak Daily tickets.
4. The All Zone Concession School Term Ticket may be available to students of families on a low income.
5. Adult Shoppers Off Peak Daily and Adult Daily and Pensioner Off Peak Daily and Pensioner Daily tickets are sold on the bus by the driver in All Zone format only.

6. n.a. = not applicable
7. 1999-2000 fare structure was actually introduced in January 1999. 2000-01 fares reflect price increases implemented on 1 July, 2000.
Source: ACTION

The Commission notes the ACTION observation that some confusion still exists within the community regarding the operation of the zonal fare structure. The Commission recommends that ACTION develop a cost effective strategy to improve the understanding of current and potential customers regarding the zonal fare structure, particularly given its perceived implications in terms of overriding and ticket misuse.

5.2.2 Revenue Implications

ACTION still believes that it represents around 5.25% of all passenger trips around Canberra – the same figure as reported in last year's Price Direction. However, as noted in the previous Price Direction, Network 99 was initially intended to raise ACTION's passenger trip share to 6%.

In fact, ACTION indicated in its December 2000 submission that overall patronage was some 4% lower for July-October 2000 than in the corresponding period of the previous year. ACTION suggested that the last round of fare increases would have been responsible for a decline in revenue, had it not been for revenue protection initiatives. Later ACTION data also indicate that passenger boardings between July 2000 and-February 2001 were 4.2% lower than for the same period in the previous year. However, as discussed below, it is apparent that much of the decline can be explained by a fall in student boardings during the Sydney Olympic Games.

Examining the boardings data for the period more closely (Table 5.7), it is evident that developments in the adult, concessions and student market differed. Adult boardings during July-October 2000 actually increased by 3.1% over the same period in 1999, while concessions fell by 2.3%, student boardings decreased by 12.1% and miscellaneous ticket boardings fell by 20.6%. The largest absolute reduction was in student boardings, over 92%.

Much of the fall in student boardings was, in fact, associated with the conduct of the Sydney Olympic Games in September 2000, which reduced the third school term by two weeks. It should also be noted that miscellaneous tickets include free passes provided to Inspectors and other ACTION staff. Thus, some boarding variations in this category may not relate directly to pricing or revenue considerations.[4]

It is therefore instructive to exclude student and miscellaneous boardings and to examine adult and concession boardings alone (roughly 70% of total boardings). This indicates that boardings for these two groups combined dropped by only 0.03%

[4] In fact "Miscellaneous free passes" boardings dropped by nearly 9,000 during the period in question.

during the period. While incomplete, these data suggest that, in broad terms, boardings were not unduly affected by the last round of fare rises.

Table 5.7: Comparison of July-October 1999 and 2000 boardings

	July-October 1999	July-October 2000	Change	Percentage change
Adult	1,590,801	1,640,544	49,743	3.1%
Concession	2,181,085	2,130,168	-50,917	-2.3%
Sub-total	3,771,886	3,770,712	-1,174	-0.03%
Student	1,699,288	1,493,268	-206,020	-12.1%
Miscellaneous	79,326	63,001	-16,325	-20.6%
Total	**5,550,500**	**5,326,981**	**-223,519**	**-4.0%**

Source: ACTION

Later ACTION chart data for 1999, 2000 and the early months of 2001 also suggest an unusually large fall in student boardings during the Olympics, but an eventual recovery to levels more consistent with previous years after this time. Such data also suggest that adult boardings in the second half of 2000 were generally above those recorded in the same period in 1999 and between those recorded in 1999 and 2000 in the early months of 2001. Concession boardings for early 2001 were also below those of 2000 but generally above those recorded in 1999. These charts are provided below:

Figure 5.2: Full Fare Patronage Comparison

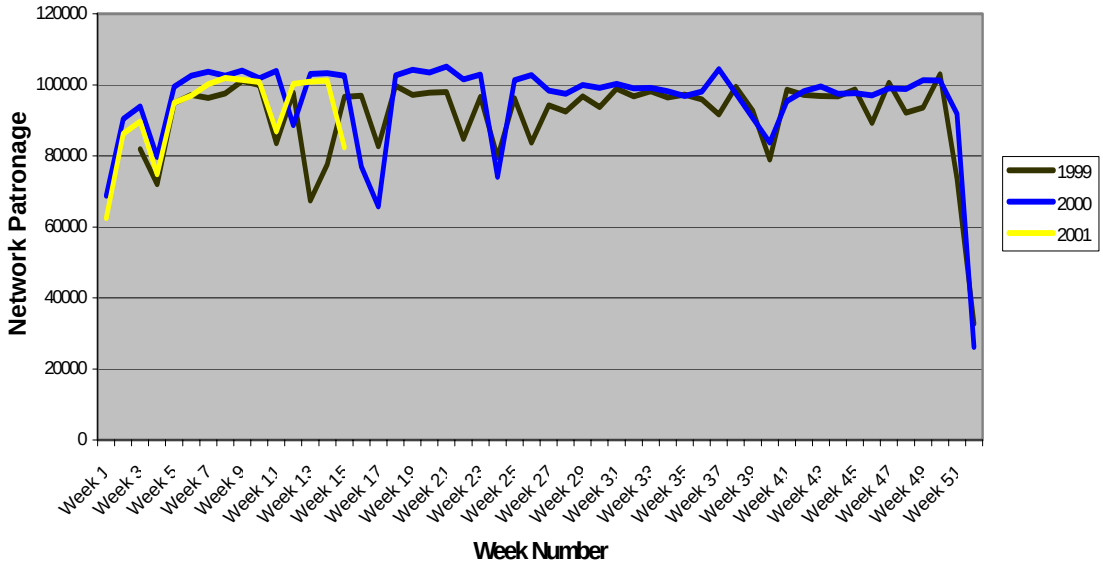


Figure 5.3: Concession Fare Patronage Comparison

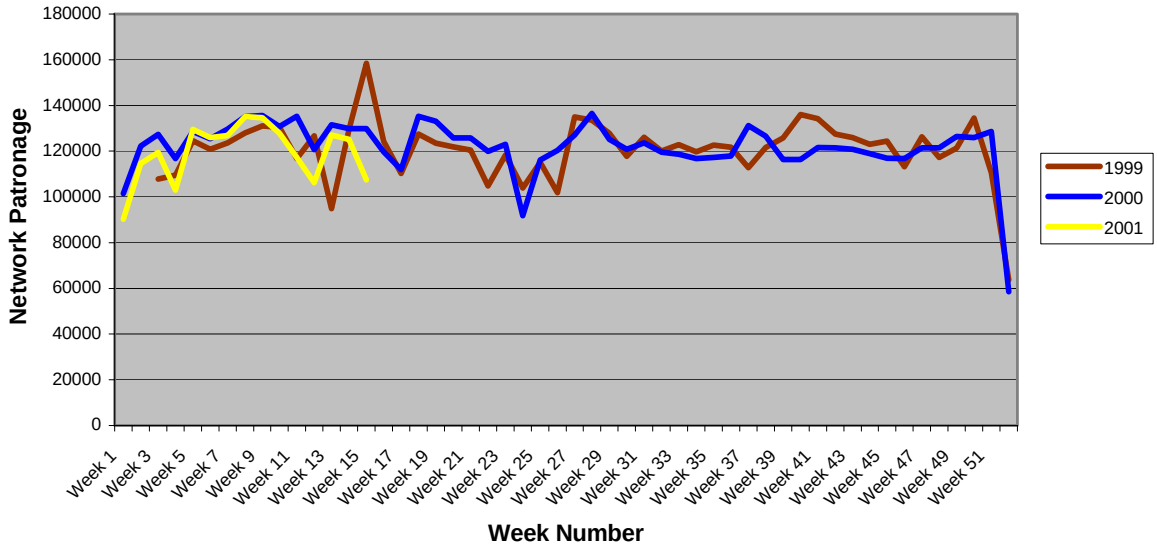
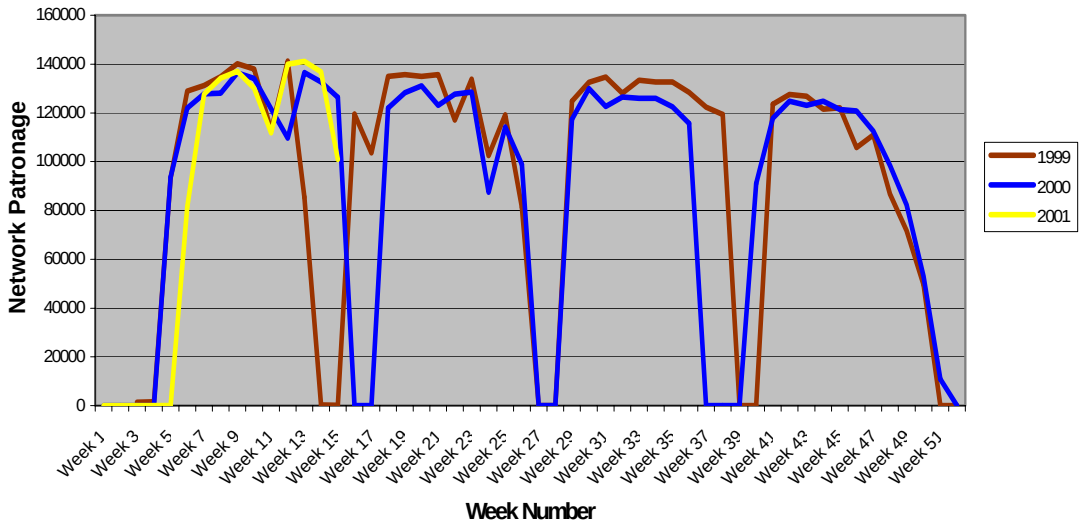


Figure 5.4: School Fare Patronage Comparison



Taken together, this evidence suggests that while there may have been some weakening in the adult and concession markets (most particularly in early 2001), a large part of the post July 2000 drop-off in patronage can be traced to the impact of the Olympics on the school student market. It should also be recalled that there is nothing particularly surprising about modest falls in patronage *per se*. Assuming that the price elasticity of demand for ACTION services is not perfectly inelastic, some drop-off in patronage would be expected as a result of the July 2000 price increases.

Table 5.8 compares ticket revenue for a number of non-cash adult and concession fares between September and November 1999 and the corresponding period in 2000[5].

Table 5.8: Comparison of available September-November 1999 and 2000 revenues

	September-November 1999	September-November 2000	Change	Percentage change
Adult				
--Faresaver 10	$ 725,883	$ 783,895	$ 58,012	8.0%
-Weekly	$ 170,884	$ 158,387	-$ 12,497	-7.3%
-Monthly	$ 287,430	$ 347,260	$ 59,830	20.8%
Total	**$ 1,184,197**	**$ 1,289,543**	**$ 105,346**	**8.9%**
Concession				
--Faresaver 10	$ 161,381	$ 148,810	-$ 12,571	-7.8%
-Weekly	$ 67,031	$ 58,495	-$ 8,536	-12.7%
-Monthly	$ 86,543	$ 109,108	$ 22,565	26.1%
Total	**$ 314,955**	**$ 316,412**	**$ 1,458**	**0.5%**
Total Adults and Concessions	**$ 1,499,152**	**$ 1,605,955**	**106,803**	**7.1%**

Source: ACTION

The available data indicate that overall adult and concession non-cash revenue increased by roughly 7.1% ($107,000) during this period. Adult ticket revenue rose by $105,000 (8.9%), while concession revenue rose by 0.5%.

Breakdowns for adult tickets indicate that weekly ticket revenues fell by 7.3% during the period, but that revenue for faresaver and monthly tickets rose by 8% ($58,000) and 20.8% ($60,000) respectively. Concession weekly ticket revenues also fell (by 12.7%), as did concession faresaver revenues (down 7.8%). However, a rise in concession monthly revenues (by 26.1%) more than compensated for these falls.

While the above analysis excludes adult and concession daily tickets and adult and pensioner off-peak tickets, a comparison of boardings for July-October 1999 and 2000 indicates that usage of all of these tickets increased (with the exception of concession daily tickets). Assuming rides per ticket were constant over time and taken together with the post July 2000 fare increases, this suggests that combined revenues for these ticket types should be higher than in the same period during the previous year. While data on cash fares were not directly available, an analysis comparing boardings data in July-October 1999 with the same period in 2000 suggests that adult cash fare revenue increased by $22,000 (2.3%) while concession fare revenue increased by $38,000 (5.7%).

[5] The ticket types excluded from this analysis were: adult daily, concession daily, adult shopper off-peak and pensioner off-peak daily. Student tickets were excluded due to volatility associated with the change in school term starting times and the staging of the Sydney Olympic Games.

The Commission acknowledges that some of the increase in revenue collections for certain ticket types may have been due to the impact of more vigilant revenue protection and public education measures and, as indicated below, it supports the further development of such efforts. However, it is not clear that such measures are solely responsible for revenue increases, as implied by ACTION.

While data limitations and substitution effects inhibit comparisons, in some cases, such as adult faresaver tickets, there appears to have been limited change in boardings between the two years but a marked change in revenues[6]. This suggests a relatively inelastic response to fare changes among adult faresaver patrons. It should be noted that adult faresaver patrons make up a significant passenger market: ACTION data for July-October 2000 suggest that they accounted for roughly one third of all adult boardings during this period.

Thus, taken together, the above analysis suggests that, once the volatility associated with one-off events such as the Olympics has been allowed for, the July 2000 fare increases have contributed to an increase in farebox revenue while having relatively little effect on boardings. However, analysis of both revenue and boardings data suggests a drift from weekly to (relatively cheaper) monthly tickets. As discussed below, this suggests the need to reduce the discount on monthly tickets to improve passenger yield.

Notwithstanding the ACT Government's decision in the May 2001 budget to offer free school student transport, the Commission remains concerned about the relatively low level of farebox revenue projected for ACTION for 2001-02 and thereafter. A review of revenue forecasts presented in the May 2001 budget, when adjusted for reduced school student revenues, suggest that, although revenues between 2001-02 and 2003-04 were projected to increase on present levels, they would still be lower than the December 1999 forecasts presented in the last price direction.

The capacity to increase farebox revenue via patronage growth would appear very limited. ACTION's own farebox revenue projections provide for patronage growth of 1% per annum. However, the Commission continues to be of the view that it is unrealistic to embark on a pricing path that assumes future patronage growth. As suggested in the March 2000 price direction, even growth of 1% per annum tied to underlying ACT population growth will be difficult to achieve within a cost-effective network.

Accordingly, the Commission believes that ACTION should review a number of aspects of its pricing strategy with a view to increasing average passenger yields over and above any general increase in fare levels.

---

[6] Available boardings and revenue data differ somewhat in the scope of their coverage, and ACTION data comparing July-October 1999 and 2000 suggest that adult faresaver boardings increased by 1.4%.. ACTION data for the July-November period suggest moderate change (a 3.3% increase) in adult faresaver boardings.

On both efficiency and equity grounds, a key objective associated with the January 1999 introduction of the zonal fare structure was to improve the relationship between the fare paid and distance travelled, relative to the former flat fare structure. Data for July-October 2000 provided by ACTION reveals that 81% of adult faresaver tickets and 88% of concession faresaver tickets sold are one zone tickets. Similarly, 92% of adult cash tickets and 94% of concession cash tickets sold in the same period were one zone tickets. However, as noted below, previous analysis suggests that 75% of cash tickets should be single zone. This suggests that the new fare structure has largely failed to establish a relationship between the fare paid and distance travelled.

This outcome is tied to the number of zones, associated zonal boundaries, the basis of the fare calculation and the level of fare evasion (specifically overriding). The Commission suggests that ACTION review the potential of the following fare system changes to improve the relationship between the fare paid and distance travelled and/or improve average passenger yields:

- Review the revenue dilution impact of the shared fare zones around the Belconnen and Woden town centres;

- Assess the merits of replacing the existing 'all zones' fares by specific two and three zone fares; and

- Review the relationship between one, two and potentially three zone fares to ensure that it is optimal in terms of maximising farebox revenue.

The Commission would appreciate having the results of this analysis available for its next price determination..

Last year's price direction included an estimate by ACTION that revenue protection measures could recover between $200,000 and $350,000 per annum at a cost of $80,000. ACTION indicates that these expectations have been met. In addition to the two already in place, two new revenue protection officers were appointed at a cost of $80,000 in March 2000 and cash fares are projected to be $350,000 above budget.

While ACTION's progress in farebox revenue protection measures is notable, it may prove cost-effective to further increase the level of enforcement, particularly in the short term, to reduce the level of over-riding. For example, an analysis of the ACTION passenger origin-destination survey undertaken prior to the introduction of the new zonal fare structure suggested that 75% of single trip (i.e. cash) tickets purchased should be one zone tickets (before allowance is made for the shared zones). Analysis of boardings data provided by ACTION for July-October 2000 implies that 93% of total actual cash boardings (or 92% of adult cash boardings) used one zone tickets, a difference of 18%. If, in fact, the proportion of adult one zone trips tickets fell to (say) 80% (i.e. making a notional allowance for the impact of

shared zones), annual farebox revenue would increase by around $100,000, everything else being equal.

The Commission would also encourage ACTION to conduct a review of its product range, specifically the potential to withdraw or re-position low yielding products. The Commission notes that Brisbane Transport recently withdrew its weekly and monthly tickets, which it is understood has increased farebox revenue without adversely impacting on patronage. There would appear to be merit in ACTION reviewing the Brisbane Transport experience.

In the event that ACTION concludes that weekly and monthly tickets should be retained and in the light of recent patronage data, the Commission is of the view that the effective discounts offered on these tickets, relative to the single trip ticket, should be around 15%. The effective discounts afforded by both weekly tickets and monthly tickets both lie well outside the range. Effective adult discounts, relative to one-zone single trip tickets, are estimated at 28% (weekly tickets) and 34% to 37% (monthly tickets).

The higher relative discount enjoyed by adult monthly ticket purchasers may partly explain the apparent drift from adult weekly tickets to monthlies. Adult weekly boardings for July-October 2000 were 16.5% lower than for the corresponding period in 1999, while boardings using monthly tickets increased by 17.9%[7]. Reducing the discount on monthly tickets, in particular, would help improve passenger yield.

The Commission also notes that the effective discount offered by the FareSaver 10 has increased from 15% to 20%. The Commission believes that this discount should be reduced to 15%. Given the apparently inelastic demand for adult faresaver tickets, referred to earlier, and the prominence of this ticket within the adult market, the Commission feels that reduction of this discount should be a priority.

The ACTION submission notes that use of the 'transfer ticket' is increasing and '… may need to be reviewed if it continues to erode the single cash fare revenue.' The Commission is not convinced that any justification exists for the withdrawal of the transfer ticket. Implicitly, ACTION customers needing to transfer between services to complete their journey receive a lower quality of service relative to those who are able to complete their journeys on a single vehicle. It would therefore seem illogical for those customers who need to transfer to pay a higher fare (i.e. second single fare) relative to those completing their journey on a single vehicle.

In addition to potential fare system re-structuring and increased farebox revenue protection measures, the Commission believes that there is scope to raise the general level of ACTION fares as a means of contributing to an improvement in farebox cost recovery.

---

[7] Boardings figures are for adult one zone and all zones tickets combined. A similar trend was observed for concession fare boardings, with weeklies down 26.7%, but boardings using the monthly, tickets increasing by 2.2%.

As suggested in previous price directions, the demand for ACTION services is understood to be highly inelastic. Previous ACTION demand modelling has used fare elasticities for individual products ranging from –0.15 to –0.25, consistent with an overall average of –0.2. This implies that, other things being equal, each 1% increase in real fares would only be expected to reduce ACTION patronage by around 0.2%. This is relatively low by interstate and international standards and reflects the fact that the 'captive' bus user is dominant in the overall ACTION customer profile.

Further support for the conclusion that the demand for ACTION services is highly inelastic is provided in the Department's submission, which cited results of the *2000 Survey of ACTION Services* and findings of Bureau of Transport Economics (2000).

The 2000 Survey of ACTION Services reported that:

- 54% of non-users would only contemplate public transport if they lost their private transport or ability to drive

- 79% of non-users stated that they did not use bus services because they were too inconvenient or because they had their own private vehicle.

BTE (2000) reviewed national and international experience regarding the capacity to effect mode shifts. It was concluded that there is a natural tendency for persons to travel independently (generally for convenience reasons) and for this tendency to increase with income. As suggested by the Department, the dispersed nature of Canberra suburbs, high private motor vehicle ownership rates and relatively high income levels would seem to support this view. However, the Commission notes that any future opportunities for substantive changes in bus patronage would need to be viewed in the light of an integrated land use and transport strategy for the ACT.

Notwithstanding the available evidence, the Commission notes the concern expressed by ACTION regarding the capacity to retain its market in the event that fares are increased beyond CPI (i.e. real fare increases). Although the Commission believes that there is a strong body of evidence that points towards the demand for ACTION services being highly inelastic, it is suggested that ACTION undertake market research directed at providing robust fare elasticity estimates for the ACTION market. The results of this research can then be applied to the modelling of future ACTION fare changes in subsequent Commission price directions.

5.2.3 Student Fares

The Commission notes that, as a result of the ACT's 2001-02 budget, free transport will be offered to school students between 7.30 AM and 5.30 PM outside of a specified radius from Canberra schools as from 1 September 2001[8].

Whilst the level of school student fares is therefore less of an issue than in the past, school students living within the specified radius, students travelling outside of the specified hours and all tertiary students will continue to be offered discounted tickets.

The decision to offer free transport to school students would seem to reinforce the Commission's previous statements on the need to differentiate discounts applicable to school students from those applicable to students attending tertiary institutions. The Commission again notes that the current student fare structure revolves around school terms. Whilst it is understood that consideration is being given to altering tertiary student terms, the current situation would seem particularly incongruous given the recent changes to school student transport arrangements.

In addition, no progress has been made in the past in determining what level of discount should be applicable to tertiary students. Whilst this is an issue which needs to be resolved at a government policy level, the Commission is disappointed at the lack of development in this area. With the recent decision to offer free travel to school students, the need to clarify policy in this area has become particularly pressing.

Given that the purchase of student tickets will continue to be relevant to a number of student sub-groups, the issue of the current level of student ticket discounting bears closer examination.

In the last review, the Commission found that discounts applicable to student term fares exceeded those mandated by government policy, i.e. 35% of the adult single trip cash fare on a per ride basis. Accordingly, the Commission directed that student tickets be set at 35% of the full adult equivalent ticket.

Based on average ride data recently supplied to the Commission and current prices, student one zone term tickets currently appear to offer prices which are 33% of an adult single cash fare on a per ride basis, while all zone term tickets are 34% of an adult single cash fare on a per ride basis.

This suggests that another small increase in student term tickets may be warranted.

It is understood that the average ride data on which these estimates are based incorporates the past travel behaviour patterns of both school and tertiary students.

---

[8] To be eligible to apply for the scheme, relevant school students must live at least 1.6 kilometres from a primary school or 2.0 kilometres from a high school. In addition, all Kindergarten to Year 2 pupils will be permitted to travel for free, regardless of distance.

As such, the existing data may not fully reflect the particular characteristics of the tertiary and (remaining) school student markets to which student tickets will now apply. The Commission acknowledges the data problems in this respect, and suggests that revised data on the travel characteristics of the student market be gathered at some point after 1 September 2001.

5.2.4 Social Impacts

In analysing the social impact of price and policy changes, the Commission has previously noted that ACTION has an extensive system of concession fares, applying to pensioners, students and the disabled. In fact, student and concession boardings accounted for nearly 70% of total boardings during July-October 2000. In addition, CSO payments, excluding general deficit funding payments, continue to account for over 70% of ACTION's total operating revenue.

As was the case in past years, many passengers appear to have benefited from a move towards periodical tickets, such as monthlies, over the past year. In addition, some concession fares continue to be offered at heavily discounted rates relative to their adult equivalents.

For example, combining the latest available average ride data with current fares suggests that the average fare per ride of a pensioner off-peak daily ticket is approximately one-third that of an adult off peak daily. In addition, the concession daily, concession weekly (one zone and all zone) and adult monthly one zone tickets would all appear to cost less than 50% of their adult equivalents on an average fare per ride basis, although the extent of discounting is not as great as for pensioner off-peak daily tickets.

The particularly heavy discounting applied to pensioner off peak weekly tickets also appears to have had impacts *within* the concession market. While pensioner off-peak boardings were up by 8.6% during July-October 2000 compared to the same period in the previous year, sales of concession daily tickets fell by some 7.5%. As concession daily tickets appear to cost some 43% of their adult equivalents – compared to 33% for off-peak daily tickets - there is an obvious incentive to switch to pensioner off-peak daily tickets, which, in turn, erodes yields.

In the previous price direction, the Commission indicated that, if the 50% threshold were to apply to the $1 pensioner concession, the fare should be raised to $1.50 under the then prevailing fare structure. In the event, the fare was raised only to $1.20 at a time when other fares were also raised. As a consequence, this ticket still represents a concession well in excess of 50%.

As a result, the Commission again suggests that pensioner off peak daily tickets be set at 50% of the equivalent adult ticket price (on an average per ride basis) and that care should also be taken to maintain the same 50% concession benchmark against adult fares for all other ticket types. Whilst this may imply an increase in the cost for

some concession fares, such changes would only be restoring fares to levels set by previous policy benchmarks.

ACTCOSS' submission to the Commission suggested that proportionally more low-income earners use ACTION buses and that increasing fares and reducing the scale of the concessional discounts would unreasonably disadvantage those in the community who could least afford to pay. In particular, it also criticised tying the level of concession fares to full fare rates. In addition, the Conservation Council raised concerns that, with the increasing ageing of the population, an increasing number of people with lower incomes will be dependent on buses.

ACTCOSS referred to the ACT Poverty Task Force's report (Taskgroup Paper No. 3, Table 7 and Appendix) which indicated that those members of the community in poverty in the ACT spend more of their household expenditure on transport (13%) than the corresponding population in Australia at large (11.5%). The data, however, indicate that, while the average household in poverty in the ACT spends $95.60 per week on transport, "public transport fees" only constituted $4.20, or 4.4% of the transport budget and only 0.6% of the total weekly household budget.

In considering the social impacts of its decision, the Commission believes that increases in concession fares within the proposed overall price cap of this determination, consistent with government policy on concession levels, is unlikely, on average, to lead to any major adverse social impacts on ACTION's customers. Even if the increase in the weekly public transport budget of an average household in poverty were to increase by 6%, consistent with this price direction for 2001-02, this represents a weekly increase of only 25 cents.

However, a significantly larger increase would occur if the 50% concession benchmark for pensioner off-peak daily ticket were applied. Under current fares, the pensioner ticket would increase from $1.20 to $1.80. If the average fare increase associated with this price direction were applied to the same tickets for 2001-02, the fare would rise to $1.90 in 2002-03. Rather than moving immediately to restore the 50% concession benchmark, ACTION might consider applying the move in two steps over the course of this direction, eg. an increase of around 35 cents from July 2001 and the remainder from July 2002.

The Commission acknowledges that a number of issues raised by ACTCOSS and the Conservation Council cover broader social policy. While the Commission is obliged to take account of the social impacts of its decisions, it is not responsible for setting social policy. This is fundamentally a role for the government, and the Commission has only sought to ensure that concession fares be set in accordance with government policy. Changes in the nexus between full fares and concessions are for the government to determine, not the Commission.

5.2.5 Effects of Pricing Proposals on the Cost of Living

The Australian Bureau of Statistics conducts a Household Expenditure Survey covering all States and Territories. Bus transport charges are estimated to comprise around 0.3% of an average Canberra household's weekly expenditure (ABS Cat. No. 6535.0 1998-99).

Therefore, the Commission is of the opinion that a fare increase corresponding to an increase no greater than last year's Canberra CPI (exclusive of the net impact of the GST) plus two percentage points for 2001-02 and an increase no greater than this year's CPI for 2002-03 will have a negligible impact on the overall Canberra CPI for 2001-02 and 2002-03 (i.e. less than 0.1%)

5.3 Financial Viability

Under Part IV of the Independent Pricing and Regulatory Commission Act, 1997, the Commission, in completing a determination, is required to consider the financial viability factors, as detailed below:

- *an appropriate rate of return on any investment in the regulated industry (Section 20.(2)(d));*

- *the borrowing, capital and cash flow requirements of persons providing regulated services and the need to renew or increase relevant assets in the regulated industry (Section 20.(2)(i)).*

5.3.1 Government Contribution to ACTION/CSO Funding

Table 5.9 details ACTION's results for 1998-99 and 1999-2000 and the forecast operating statement as reported in the May 2001 budget:

Table 5.9: Forecasted Operating Statement ($'000) – May 2001

	2000-01	2001-02	2002-03	2003-04	2004-05
Expenditure	(67,333)	(68,191)	(65,352)	(65,153)	(66,257)
Revenue	18,196	14,372	15,048	15,749	15,749
Government Contributions	43,075	47,541	44,372	41,420	42,308
Operating Deficit/Surplus	(6,062)	(6,278)	(5,932)	(7,984)	(8,200)
Operating Injection	3,624	4,398	4,093	4,093	4,093
Abnormal Items					
Operating Deficit/Surplus after Abnormal and extraordinary items	(2,438)	(1,880)	(1,839)	(3,891)	(4,107)
Capital Contribution from Government	0	4,200	1,260	1,260	1,260
Accumulated Funds at the end	39,381	41,701	41,122	38,491	35,644

Source: ACT 2001-02 Budget Paper No. 4

It should be noted that revenue estimates between 2001-02 ad 2003-04 assume CPI growth of some 3% per annum and ACT population growth of roughly 1% per annum.

The last two price directions expressed concern about the forecast rundown in accumulated funds due to continued ACTION deficits in future years. Current forecasts suggest that accumulated funds will not be run down to the extent believed in the last price direction, albeit largely because of changes in ACT government policy announced in the 2001-02 budget.

The 2001-02 ACT budget announced the provision of free bus travel to school students between 7.30 AM and 5.30 PM on weekdays outside of a 1.6 kilometre radius for primary students or 2.0 kilometre radius for high school students. In addition, concession travel was also extended to holders of Health Care Cards. The combined effect of these initiatives was to decrease fares revenue by $3.5 million (as from 2001-02) and increase CSO payments by $5.8 million in 2001-02 (although some of this increase is a one-off payment and associated with scheme start-up costs).

Regardless of this change in policy, the Commission notes that ACTION's operating deficits (before abnormals) for 2001-02 to 2003-04 are some $1 million to $1.5 million higher than reported in the March 2000 Price Direction. The Commission understands that one reason for this is that, even after allowing for the "lost" student and health card users revenue, farebox revenue forecasts provided by ACTION in the previous price direction were overly optimistic.

As was reported in the March 2000 Price Direction, government contributions have traditionally been the major means through which ACTION's accumulated savings are protected. Government contributions actually increased markedly in 1999-2000, as indicated in Table 5.10. With the policy changes announced in the ACT's 2001-02 budget, this trend is set to continue.

Table 5.10: Government Contribution ($'000)

	1996-97	**1997-98**	**1998-99**	**1999-00**
Pricing CSO	16,340	13,376	14,189	17,839
General Route Off-Peak Services CSO	9,038	7,779	9,455	9,262
School Services CSO	9,387	9,684	9,780	9,592
Concessional Travel Payments	3,501	3,606	4,159	4,301
Special Needs Transport	1,022	1,922	1,712	1,637
Resources Provided Free of Charge	-	31	-	-
Sub-total	39,288	36,398	39,295	42,631
General Subsidy/Injection for OR	3,000	1,000	2,326	5,241
Total	**42,288**	**37,398**	**41,621**	**47,872**

Source: ACTION

Information provided by the Department as part of its December 2000 submission indicates that CSO payments for 2000-01 are some $40.8 million, with an additional $3.6 million operating injection. ACTION's forecasts, however, indicate CSO payments of $42.7 million in 2000-01, with a $3.6 million operating injection.

The Department's December 2000 submission to the Commission also suggests that CSO figures no longer accurately reflect actual services delivered to market segments and that the division of CSO components is largely notional. The Department suggests that CSO divisions be removed from the 2001/02 Budget Papers and replaced with a single funding figure (a term payment) in line with the Service Level Agreement (SLA) indicating the Department as the purchaser and ACTION as the provider.

The Commission is concerned that this might lead to a reduction in transparency, as it has called for greater transparency in the reporting and allocation of CSO payments in previous price directions. Indeed, in the March 2000 price direction, the Commission expressed its concern that the calculation of CSO payments may not fully represent the value of services which ACTION provides and stated its expectation that clearer and more justifiable CSO payments were necessary as part of the conversion process to a statutory authority. The policy changes announced in the ACT Budget 2001-02 and the introduction of additional CSO payments would seem to lend weight to these arguments.

The Commission also noted that the Department's suggestion for abandoning the current reporting of CSOs is based on its interpretation of a Commonwealth Grants Commission (CGC) paper: *Urban Transit - A Concessions and Other Payments Approach*. However, the issue in this paper is that the CGC has difficulties in comparing CSO payments as a basis for grant equalisation because such payments are structured differently across jurisdictions. The Commission does not believe that this should be taken as support for a claim that reporting of CSO payments be abolished. On the contrary, the Commission believes that, for the purposes of determining government policy in terms of funding requirements for ACTION, there is a need to ensure that CSO payments are appropriately defined, measured and accounted for.

This is critically important for the Commission's price setting role, in which it needs to take account of:

- Commercial fare levels and hence any net cost difference resulting from the current fares relative to commercial fares (i.e. pricing and concession fare CSOs)

- Minimum service levels (specified by the Department) and hence any incremental net costs for providing actual service levels relative to MSLs (i.e. service level CSOs)

- Best practice cost levels and hence any net cost difference between actual costs and best practice cost levels, for the current level of service (i.e. "cost inefficiency" CSOs)

Providing this information requires a breakdown of ACTION's financial performance (i.e. its "deficit") broadly along the lines currently adopted (although there is no specific "cost inefficiency" CSO in the current framework).

A further breakdown of these factors for different types of specific groups of services (such as school or general route services) would have the following merits:

- avoiding setting fares that produce unintended cross subsidies between different service types

- if services such as school transport need to be funded from a separate source (or not), making transparent the costs of school services – given the introduction of free school student services, the likely increase in patronage and its costs will need to be carefully monitored.

Therefore, the Commission is strongly of the view that ACTION's deficit should continue to be broken down into separate CSO payments for transparency and management control purposes, particularly as the current SLA represents the purchase of all provided services by ACTION, rather than a series of defined services which explicitly distinguish between commercial and non-commercial services.

In the March 2000 price direction, the Commission noted that government funding support (in total) for ACTION was at a higher level than previously projected. However, forecasts prepared in November 2000 (and thus excluding the introduction of new CSO payments in the 2001-02 budget) indicated that government funding support *again* exceeded the (already higher) levels projected in the last price direction.

The size of these increases is indicated in Table 5.11. According to ACTION's figures, total government support for ACTION in 1999-2000 and the following four years will be between $1.3 million and $4.6 million higher than estimated in December 1999 (excluding new CSO payments for school students and Health Card Holders announced in the 2001-02 budget):

Table 5.11: ACTION Additional Government Funding Requirement ($'000)

1999-2000	2000-01	2001-02	2002-03	2003-04
2,757	1,321	2,582	3,751	4,681

Source: ACTION
NB Figures include Government Operating Injection but exclude new CSOs resulting from policy changes announced in the 2001-02 budget

Whilst the additional CSO funding in the 2001-02 budget was a policy decision out of ACTION's control, the reason behind the earlier increases, noted above, is not clear to the Commission. The Commission remains concerned at ACTION's continued heavy reliance on government support. Given historical experience, there is a danger that both the "old" CSO payments and the new ones associated with the initiatives announced in the 2001-02 budget will continue to increase beyond initial projections over time.

The Commission is therefore concerned that government contributions are essentially deficit financing and that any attempts to aggregate those payments only reinforces the funding difficulties facing ACTION.

ACTION has acknowledged the Commission's concerns with respect to the transparency and precision of CSO payments and has stated that it does not see CSOs as a form of deficit funding. The Commission notes that ACTION agrees that CSO funding should continue to be broken down into its separate components and should be seen as an explicit and legitimate reflection of government policy and not as an unjustified and misguided criticism of ACTION's financial management. To this end, ACTION has commissioned its own report on the appropriate level of such CSO funding. The Commission supports ACTION's efforts in promoting greater explicit treatment and transparency with CSOs.

5.3.2 Cost Recovery

Cost recovery for 2000-01 is forecast by ACTION to be 24.0%, as shown in Table 5.12, below. With the changes announced in the 2001-02 budget, ACTION will lose a substantial amount of the revenue it currently gathers from school students and Health Care Card holders from the 2001-02 year on. As such, farebox cost recovery is expected to fall significantly, as indicated in Table 5.12.

In order to assist in comparability with previous years and price directions, the Commission has prepared an "Adjusted Farebox Cost Recovery" line item. This line reflects what farebox recovery would have been if there had been no change in policy towards school students and Health Care Card holders[9].

[9] Revenue foregone by ACTION due to the policy changes is understood to be a constant $3.55 million per annum: $3.150 million due to the introduction of free school student transport and $0.4 million due to the extension of concession benefits to health card holders. Thus, $3.55 million has been added back to actual forecast revenues for 2001-02 and beyond to produce the Adjusted Farebox Cost Recovery line.

Table 5.12: Cost Recovery Trend

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Fares	16,583	16,266	16,617	16,600	13,327	14,003	14,704	14,704
Operating Costs	67,064	71,672	70,832	**67,333**	**68,191**	**65,352**	**65,153**	**66,257**
Farebox Cost Recovery	**24.7%**	**22.7%**	**23.5%**	24.0%	19.5%	21.4%	22.6%	22.2%
Adjusted Farebox Cost Recovery	**24.7%**	**22.7%**	**23.5%**	24.0%	24.7%	26.8%	28.0%	27.6%

Sources: ACTION and 2001-02 Budget Paper 4

The Commission notes that farebox cost recovery was higher in 1999-2000 than in the preceding year and appears to have increased again in 2000-01. However, an examination of the adjusted farebox cost recovery line suggests that implicit cost recovery levels are below those forecast for 2000-01 in the last price direction (26.6%). The out years continue to show more modest cost-recovery expectations, reflecting essentially lower revenues.

Even allowing for the recently announced policy changes, ACTION's current and forecast cost recovery has continued to fall below previous expectations. Despite modifications, higher than anticipated costs associated with the introduction of Network 99 continued to have an impact in the 1999-2000 financial year. At the same time, the movement towards periodical tickets (such as monthlies) has eroded yields.

The Commission believes that the fare increases initiated on 1 July 2000 have assisted in improving farebox recovery in the 2000-01 financial year. It suggests that a further round of fare increases, in combination with changing ticket price relativities and expenditure restraint, would seem to be necessary to ensure an improved farebox recovery performance in future years.

Failure to improve farebox revenue implies that ACTION will continue to receive high levels of government support into the future. This, in turn, implies a large ongoing subsidy from ACT taxpayers to ACTION users. The Commission acknowledges that modest changes to fare levels will only make very small changes in the farebox cost-recovery rate, and it raises the fundamental question as to what is an appropriate cost-recovery rate for a bus operation in the ACT.

There is no necessarily "right" answer to the question, and it falls very much within the broader issue of government policy for the bus operation within the wider integrated transport context. This should address the appropriate balance between users of the system paying a reasonable contribution to its costs and the community at large being obliged to underwrite a range of services. In the absence of any clear and definitive position at this time, the Commission believes that a more efficient level of operations, combined with a continuing move towards a greater contribution from users, will help to reduce the level of community subsidy and to help ensure that bus users' transport decisions are more accurately priced.

Over the next 18 months, the Commission expects that a clearer picture should emerge about the scope and activity of bus operations as part of a wider transport strategy and the implementation of the full effects of the changes in school services. Associated with that clarity should also come greater funding transparency, reflecting explicit community obligation payments. With ACTION continuing to pursue efficiency improvements, this outcome should assist the Commission in determining an appropriate farebox cost recovery target for ACTION.

5.3.3 Rate of Return

The Commission acknowledges that assessment of a "rate of return" for businesses such as the provision of public transport can present special difficulties. This is because such businesses, as a whole, are typically loss making and require government support to balance their books. However, acknowledgement of this fact does not preclude the need for public transport providers to establish clear investment guidelines for asset acquisition and replacement.

In its last price direction the Commission expressed concerns about several aspects of ACTION's proposed fleet replacement plan. The Commission's concerns included:

- the lack of any assessment of new investments according to prescribed rate of return criteria, or of any clear investment guidelines for bus acquisition and replacement, consistent with commercial practice;

- an average fleet age (8.4 years) below that of the cited optimal age (10 years) and that of operators such as the STA, raising questions over the need for major expenditure on replacements;

- a "lumpy" age profile for the current fleet which seemed to imply excess capacity before 2007-08 and a shortfall in capacity between 2007-08 and 2015-16;

- the appropriateness of an 18 year age limit for ACTION buses given the problem of a shortfall in capacity;

- the choice of bus types and sizes; and

- the budgetary impacts and benefits of smoothing out funding peaks.

ACTION has indicated that a review of the fleet replacement plan has been undertaken. At present, this is still in draft form and full details have not been released to the Commission.

However, ACTION's December 2000 submission indicates that the new fleet replacement plan proposes an average bus life of 12 years (rather than the previous optimum of 10 years), a maximum life of 20 or 21 years and the evaluation of extra maintenance costs against the cost of purchasing new buses. The Commission has previously suggested that ACTION's fleet is quite young when compared to operators such as the STA. The average age of ACTION buses in 1999-2000 was 8.36 years, while that of STA buses was 11.8 years – suggesting that there may be some leeway for ACTION in allowing for a slightly older fleet if this is deemed optimal.

While the details are not yet available, these proposals would appear to go some way to addressing the Commission's previous concerns about the extent of proposed fleet replacement given the relatively young age of ACTION's existing fleet. In addition, as the Commission previously suggested, and ACTION have recognised, extending the maximum age limit of buses from 18 to 20 or 21 years would, in principle, assist in resolving the problem of fleet lumpiness and a future shortfall in capacity. However, it is not yet clear to the Commission how the proposed replacement program relates to forecast network requirements.

At the same time, both ACTION and the Commission have recognised the impact which implementation of the Commonwealth's *Disability Discrimination Act* (1992) (DDA) will have on the replacement of its fleet. As ACTION is required to have at least 25% of its fleet accessible by 1 July 2005 (and 100% by 2020), this would seem to necessitate initiation of a fleet replacement program sooner rather than later.

In recognition of this, ACTION's April 2001 submission indicates that meeting the 2005 deadline will require the purchase or modification of 38 buses and that meeting the 2020 deadline will require a continuous program of bus purchasing of 20 buses per annum from 2003-04 onwards.

Thus, it should be noted that, even allowing for the mandatory requirements of the DDA, ACTION's revised purchasing schedule calls for the purchase of 20 new buses per year, in comparison with the 25 suggested in the past. Whilst the Commission is not in possession of the details behind these figures, this suggests that ACTION may have made some progress in balancing the requirements of the DDA with the need for financial prudence.

The Commission notes that the ACT May 2001 budget provided $4.2 million for ACTION to acquire additional buses. At current prices, this suggests that at least 10 new buses should be acquired and introduced into the fleet, allowing some of the existing fleet to be redirected to school services. Annual capital injections thereafter are given as $1.26 million up to 2004-05, providing for the purchase of three buses per year.

Again, the Commission expects that the forward fleet acquisition program will take into account the range of capital and recurrent costs for different technology options to ensure that its acquisition is based on appropriate life cycle costings.

5.3.4 Minimum Service Levels

As a part of its last price direction the Commission estimated that the net cost of service provision would be reduced by $11.5 million if ACTION were to operate to Minimum Service Levels (MSL) only. The Commission has since re-examined its estimate of the net cost savings of operating at MSL. The reasoning behind – and impact of - this re-evaluation is given in Table 5.13:

Table 5.13: Impact of Re-estimation of MSL

Factor	Estimate in March 2000 price direction	Estimate for current price direction	Impact on previous estimate of net costs	Reasoning
Variable cost rate	$2.17 per revenue kilometre	$2.50-$3.00 per revenue kilometre	Increase in avoidable costs by $4.6-$7.9m	An allowance should be made for factors such as medium term efficiency measures and the differentiation between variable costs for peak and off-peak services. As many avoidable services occur during off-peak periods, this would seem a relevant issue. ACTION's own recent reform measures suggest that a significant quantum of costs could be considered variable in the medium term. The previous variable cost rate therefore appears too low to reflect medium run cost changes.
Service level elasticity	0.5	0.25	Reduction of revenue loss by $1.2m	The previous estimate of elasticity of 0.5 appears higher than most other Australian and international evidence would suggest. In addition any service reductions would occur to lesser used services, and would have less of a patronage impact than if applied across the board. Evidence presented by ACTION as part of their December 2000 submission suggests that Network 99 produced a 5% increase in patronage for a 20% increase in service. This suggests a service level elasticity of 0.25.
ACTION service level changes (Jan and Sept. 2000)	Network operates as at August 1999	Network operates at 2000-01 service levels	Fall in net costs of $1.2m	ACTION has refined and scaled back Network 99 since the time the last estimates of operating at MSL were made. Current operating levels therefore reduce the potential for cost savings.
Total impact			**$13.7-17million**	

Source: Booz Allen & Hamilton analysis

Thus, this revised analysis suggests that savings of some $13.7-$17 million per annum could be obtained if ACTION were to operate at MSL only. This is an aggregate result. The Commission acknowledges (as it has in the past) that some

individual routes, which are above MSL, may be worth operating if revenues exceed costs.

ACTION's willingness to substantially modify its service levels after the introduction of Network 99 is also acknowledged as a positive step by the Commission. As noted above, steps undertaken after the time of writing of the last price direction have effectively moved ACTION closer to MSL operations.

The Commission would expect that ACTION's modifications to route and service structures in the wake of Network 99 have allowed for a clearer understanding of which services have previously operated, and/or continue to operate above MSL requirements. It would also expect that the analysis associated with such network changes would serve as the basis for the determination of route CSO payments. As yet, however, the Commission has not seen any systematic evidence that this is indeed the case.

Given the ambiguities that surround this issue, the Commission feels that there is a clear need for better definition and quantification of MSLs. It has previously urged ACTION to develop a route profitability model, which would assist in such quantification. ACTION has, however, indicated that the full implementation of such a model has been delayed until later this year.

The Commission suggests that such modelling, and other steps in support of the quantification of MSLs, be undertaken as a matter of urgency.

It should be noted, however, that the Department's December 2000 submission equates ACTION's required level of service to its current level. By this interpretation, the Department is purchasing the services constituting Network 99 as modified, not a defined set of MSL services. All ACTION services offered are effectively seen as being undertaken at the request of government, with none being provided on a commercial basis. On this basis, there is little to be gained at the present time from assessing the cost implications of operating beyond ACTION's nominal MSL standards.

The Commission does not feel that such a position is tenable. It believes that commercial considerations form a part of service level decision-making. It is worth noting that the introduction of Network 99 represented a 20% increase on previous service levels, but that subsequent service reductions reduced this to a 10% increase. This would suggest that the given level of ACTION service at any one time cannot simply be taken as a "de-facto MSL", but that service level decisions should be, and are, subject to commercial considerations.

The Commission has also re-examined the issue of assessing the "best practice commercial price" for the services ACTION currently operates. In the March 2000 price direction, the cost for an efficient private operator to run ACTION's existing network in 2000/01 was given as $63 million (including a profit margin of $5 million), while ACTION's expected costs were $66.3 million.

The figure for efficient private operations included an estimate of operating expenditure of $58 million. This, in turn, was reliant on a figure of $102.59 per service hour (for 565,000 hours) which ACTION indicated was derived from INDEC 1998's report, *ACTION Review of CSO Framework and Efficient Cost for CSO Services*.

In the *Draft 2001 Price Determination,* the Commission noted that INDEC's July 2000 report *Operating Cost Savings at ACTION* attempted to update INDEC's 1998 report. However, there was little discussion in the July 2000 INDEC report of how the efficient costs target should be updated.

In its *Draft 2001 Price Determination,* the Commission suggested that the original figure of $102.59 per service hour was an over-estimate, that an efficient private operator was more likely to experience costs in the order of $70-$80 per service hour and that there appeared to be some uncertainty in the July 2000 INDEC report as to what distinguished achievable from efficient costs. Based on these facts, the Commission has previously suggested that an updated efficient cost figure for 1999-2000 might be in the order of $54 million.

In its April 2001 submission, ACTION included details of INDEC's latest report *Operating Cost Savings at ACTION* (March 2001). This report identified ACTION's efficient costs for 2000/01 as $55.5 million - consistent with the figure suggested by the Commission in the *Draft 2001 Price Determination*. Given estimated operating costs of $67.3 million in 2000/01, this suggests that the gap between ACTION's costs and those of an efficient private operator is $11.7 million, rather than the $3.3 million suggested in the March 2000 Price Determination.

Both the July 2000 and March 2001 INDEC reports examined the issue of ACTION's current level of achievable costs. INDEC's review of achievable costs was complicated by changes in service levels and EBAs as well as cost savings. In addition, it would appear that some of ACTION's real cost increases over the period were inappropriately added into the achievable cost target. Thus, while INDEC estimates that ACTION's achievable costs are now some $64.1 million (in 2000/01 prices), there is clearly some uncertainty as to what distinguishes achievable from efficient costs, and more detailed analysis may be required in this area.

Given the large gap between efficient and actual costs and the uncertainties over the calculation of achievable costs, the Commission recommends that a detailed cost review be undertaken as a matter of urgency. This would assist in the development of more explicit MSLs, as part of an enhanced service level agreement between the Department and ACTION.

5.4 Environmental Issues

- *The principles of ecologically sustainable development referred to in subsection 7 (2) of the Territory Owned Corporations Act 1990, as modified by virtue of subsection 4(1) of that Act (Part IV 20.(2f)).*

- *Considerations of demand management and least cost planning (part IV 20.(2h)).*

5.4.1 Ecologically Sustainable Development

In its last price direction, the Commission acknowledged the importance of ecologically sustainable development (ESD) and the need for improved pricing and valuation of environmental resources. The Commission acknowledged – and continues to acknowledge – that major price rises could result in customers switching to other forms of transport, such as cars, which have higher environmental costs. However, given the low elasticity figures, it is unlikely that modest price rises will have a materially adverse effect on modal split.

In the last two price directions, the Commission has expressed its disappointment with the lack of progress ACTION had made in introducing CNG or other low emission buses. The introduction of such buses with improved environmental technology would increase the externality benefits of ACT public transport.

With the capital injection announced in the May 2001 budget for the acquisition of buses, the Commission expects that the choice of buses will take account of the benefits of alternative fuel and bus technology to establish the most effective buses for ACTION's requirements.
As noted in the March 2000 price direction, the ACT government has issued a Greenhouse Strategy and a discussion paper on integrated land use and transport planning. ACTION has indicated that an inter-departmental committee is continuing to examine the issues and is yet to make any recommendations. The Commission accepts that integrated transport planning is a lengthy process and that such deliberations may go on for such time.

As it has in the past, the Commission accepts the need to balance revenue expectations and financial imperatives for ACTION with environmental considerations and the maintenance of public transport patronage. The Commission remains of the view that its price direction does not unduly impact on the usage of public transport in the ACT and thus does not inhibit the realisation of broader environmental objectives[10]. Accordingly, it does not believe that the proposed fare increases in this price direction will have a major effect on future patronage growth.

---

[10] As already noted, evidence for this can be found in the modest overall declines in patronage during late 2000/early 2001 compared to the same period in the previous financial year, despite the fare increases.

The Department of Urban Services has reiterated the point, made many times in the past, that Canberra's high income levels, dispersed nature and high car ownership rate, makes it difficult to achieve environmental objectives through attracting people onto public transport. The Department has also noted that under-utilised public transport can have a more deleterious effect on the environment (in terms of greenhouse gases) than private vehicles. On the other hand, the Department has pointed out that the Government has sought to promote urban consolidation through the redevelopment of parts of north Canberra and, by so doing, attempting to encourage a greater use of public transport.

The Commission acknowledges these difficulties. However, as the Department itself points out, the issue of under-utilised public transport is, in a large sense, a supply side rather than a pricing matter. The Commission agrees with the Department's suggestion that the most appropriate way to tackle this issue is through the setting of appropriate MSLs and the rationalisation of schedules.

5.4.2 Demand Management

ACTION's December 1999 submission did not discuss demand management issues in detail. In the previous price direction, however, the Commission noted that there was scope for improved demand management in areas such as weekend services (which carried about 8% of weekly patronage and consumed 12% of resources) and night services (which carried 2.5% of passengers and consumed 10% of resources). The Commission also expressed concern about the level of increase in services during off peak periods and called for close attention to be paid to route patronage

ACTION indicated at the time of the last price direction that it would re-examine the issue of demand management in the context of modifications to Network 99. In particular, evening service frequencies were to be relaxed from 60 to 90 minutes, while service frequencies would be relaxed from 30 to 40 minutes on low patronage daytime routes. In addition, selected school and non-school routes were to be amalgamated.

The Commission notes that the specification of Minimum Service Level (MSL) standards for 2000-01 calls for evening service frequencies of 90 minutes on all routes, with more frequent services on higher patronage/major routes, particularly on Friday and Saturday nights. Therefore, if ACTION has implemented its proposals, many of its night time routes would be running at or near MSL. ACTION has estimated that overall service levels have been reduced from 20% above pre-Network 99 levels in January 1999 to 10% above such levels at present. ACTION has indicated that, as a part of recent modifications to Network 99, a number of school and non-school routes have been amalgamated. Others have been withdrawn in areas of poor patronage and transferred to areas of high demand.

However, the Commission was also informed that ACTION's evening services are typically running on an hourly basis. In fact, were ACTION to run its evening

services on a 90 minute basis, as originally suggested, it would be operating at the minimum service levels specified in the current (2000-01) MSL agreement. This suggests that there has been little change in evening service frequency since the last price direction and that misallocation of resources in this area may still pose a problem.

While the Commission understands that many cutbacks have occurred in low patronage and/or evening services, it is not possible to assess any improvement in ACTION's demand management without more detailed information.

ACTION has indicated that it continues to face strong competition in the school charter area. Last year's price direction noted that ACTION's spare capacity had been reduced with the introduction of Network 99, thus limiting the opportunities for charter work. ACTION argues that, as a consequence, its charter revenue is projected to remain at around the $500,000 mark in 2000-01 – similar to the figure of $530,000 recorded in 1998-99 and considerably lower than the figure of $626,000 recorded in 1997-98.

On an *a priori* basis, however, it could be expected that the modifications to Network 99 would have freed up some bus capacity. While the Commission requested clarification in its draft price direction as to whether such additional capacity could be employed in charter-related work, it notes that ACTION's school services are likely to undergo significant change with the removal of school student fares.

ACTION received a one-off benefit from Olympic-related work in both Sydney and Canberra during September 2000. Net revenue from such activity is estimated to have been some $250,000-$300,000.

A number of submissions to the Commission indicated that the provision of public transport was a matter of public policy and that concerns about balancing costs and therefore services to demand would inevitably lead to a further downward reduction in services. The Commission notes that the provision of services cannot be divorced from an analysis of the demand for those services and that it may not be appropriate for buses to run on services that are known to attract no or very few passengers. Resolution of appropriate forms of public transport access must be made at a government and community level, and may lead to changes in which demand is satisfied. The Commission reiterates its view that effective demand management strategies should be made in the context of a broader integrated land use and transport strategy.

5.5 Proposed Fare Adjustments from 2001-02

In reaching a final price determination, the Commission has been mindful that the last price direction included a relatively large increase associated with the implementation of the goods and service tax (GST). However, it has also been mindful that a number of issues discussed in the previous price direction have still not been resolved. For example, no decision has yet been made on whether

ACTION will become a statutory authority. Also, there appears to be a continuing and increasing call by ACTION on government funds just to balance its cash books, without consideration of the additional funding made available for the introduction of free school student services in the May 2001 budget. Furthermore, despite discussions about the need to make the purchaser-provider arrangements more explicit, with particular regard to minimum service levels, suggestions have been made that the different CSO payments be collapsed into an aggregate payment, principally because of the difficulties of accurate measurement of the component parts.

The Commission is concerned about any moves that would dilute the transparency of CSO payments to ACTION as this would reduce the effectiveness of determining appropriate price levels. However, the Commission is conscious of the need to provide sufficient time for substantive changes to take place and that uncertainty about future years' price directions may cloud the decision-making process.

The Commission is also aware that the recent changes announced in the May 2001 Budget will take some time to bed down. It is likely that it will take a full year from now before new school services are clearly established, reflecting new patterns of demand. If ACTION is made a statutory authority, it will take a little time to establish clear corporate governance procedures and transparency in the provision of government funding. If ACTION is not made a statutory authority, the challenge is for the Department to put in place explicit and transparent mechanisms that provide clear guidance to ACTION on its funding arrangements.

The Commission was asked to provide a three-year medium term price path for ACTION. It canvassed in its draft price direction the possibility of issuing only a one-year determination. In the light of the evidence presented to it and the recent Budget measures, the Commission believes that an appropriate decision is to provide a two-year determination. This will provide a measure of certainty to ACTION on its farebox revenue base and will provide with a reasonable period of time to have the above outstanding issues resolved. This time period will also provide with sufficient time to undertake analysis relating to detailed cost studies and fare structure reviews which the Commission has already mentioned in this direction.

The Commission's deliberations over the past couple of years have been frustrated by the absence of sufficient substantive progress in a number of areas, where the time between requesting information and analysis and having to make a determination has been too short for the material to be produced. As a result, the Commission strongly requests ACTION to embark on detailed research as identified after these recently announced changes have been put in place so that a constructive debate about the role and performance of ACTION can properly inform the price-setting process. Making only a one-year price determination would see the recent cycle of partial analysis repeat itself, with no clear benefit to ACTION or the Government.

In making its determination, the Commission believes that there is a compelling case to move towards higher real fares because of the low elasticities and the need to shift more of the recovery of ACTION's costs on to the users and away from the taxpayers. Nevertheless, the Commission is cognisant of the issues associated with transport policy in the ACT and the role and functions which ACTION should be expected to fill. A number of submissions raised social and environmental issues which are fundamental to the objectives and operations of public transport. In essence, those submissions argued that, within the existing operating environment, ACTION provides the only significant means of transport of low-income households and a potentially significant role in improving the environment by reducing car use.

The Commission's remit does not extend to these issues of broader government policy. It is obliged to make its determinations on the basis of analysis in relation to its legislative responsibilities, although it acknowledges that it needs to take account of these wider issues. The Commission believes that these broader issues, which were raised last year and are no less pressing this year, remain unresolved. It believes that more convincing progress needs to be made by all major stakeholders towards resolving those issues before the Commission's next price determination in two years' time.

In particular, ACTION and the Department need to finalise an effective service level agreement that explicitly defines the minimum services which the government wishes to underwrite in the light of an integrated transport strategy. ACTION and the Department should also complete more detailed analysis to specify appropriate and targeted CSO payments commensurate with government objectives and the need for greater transparency and accountability.

A real price increase of 2% is proposed from July 2001, followed by a CPI adjusted price increase to take effect from July 2002. While these are likely to have only a minimal effect in increasing the farebox cost recovery rate, the Commission believes that the current concession fares policy reflects the community's willingness to support the relatively disadvantaged. It also believes that it is necessary to highlight the difficulties of sustaining a bus operation without clearly defined government objectives and funding priorities. The Commission believes that it is inappropriate to label ACTION as an organisation which requires significant sums of public monies because it is inefficient when its charter and structure are largely dictated by government policy and most of its revenue comes from an explicit statement of concession support. Such a position has been furthered confirmed by the removal of school student fares and the further reduction in farebox revenue. If government wishes to sustain a bus operation in the ACT, its role within an integrated transport strategy needs to be explicit. Only when this is done can the Commission make sustainable medium-term price path directions which can be focused on encouraging further efficiency within the framework of satisfying community objectives and appropriate farebox cost recovery targets.

ATTACHMENT A: Terms of Reference

AUSTRALIAN CAPITAL TERRITORY

INDEPENDENT PRICING AND REGULATORY COMMISSION ACT 1997

REFERENCE FOR INVESTIGATION UNDER SECTION 15

AND

SPECIFIED REQUIREMENTS IN RELATION TO INVESTIGATION UNDER SECTION 16

INSTRUMENT NO. OF 2000

Reference for Investigation Under Section 15

Pursuant to subsection 15(1) of the Act, I refer to the Independent Competition and Regulatory Commission (the "Commission") the matter of an investigation into the determination of prices for public transport bus services provided by ACTION within the Territory from 1 July 2001.

Specified Requirements in Relation to Investigation Under Section 16

Pursuant to subsection 16(1) of the Act, I specify the following requirements in relation to the conduct of the investigation:

(a). The final report is to be provided to the Minister of Urban Services in relation to determined public transport prices for the period from 1 July 2001 to 30 June 2004 by 18 May 2001;

(b). A draft report in relation to determined public transport prices for the period from 1 July 2001 to 30 June 2004 is to be provided to the Minister for Urban Services and be made available for public examination and consultation in accordance with Section 18 of the Act - by 14 February 2001;

The Commission in conducting its investigation into the determination of prices shall determine a price path capable of being applied over a period of 3 years.

The Determination should consider current and projected patronage trends and any other noticeable trends flowing from the previous 1 July 2000 fare increase. This

analysis should include a consideration of probable impact on, and adequacy of, fare box recovery levels.

The Commissioner shall also examine and provide advice upon the current CSO funding model.

Dated this day of 2000

BRENDAN SMYTH

MINISTER FOR URBAN SERVICES

ATTACHMENT B: SUBMISSIONS TO THE INQUIRY, 2 April 2001

ATTENDEES AT THE PUBLIC HEARING

Department/Agency	Presenters Names
ACTION	Guy Thurston, Richard Filewood and Peter Wallace
Urban Services	Alan Traves and Jean Butler
Canberra resident	Geoff Quayle
Conservation Council	Kathryn Maxwell, Nick Davies and Julia Richards.
Parents, Friends and ACT Schools Association	Jim Collins, Mark Bergsma and Lisa Skelly
ACTCOSS	Marianne Vreugdenhil and Graeme Evans

SUBMISSIONS TO THE INQUIRY

Department/Agency	Representatives
ACTION	Guy Thurston, Richard Filewood and Peter Wallace
Department of Urban Services	Brian MacDonald
APFACTS	Jim Collins, Mark Bergsma and Lisa Skelly
Care Inc	
Canberra Resident	Geoff Quayle
Canberra Resident	M G Whybrow
Conservation Council	Kathryn Maxwell, Nick Davies and Julia Richards
ACTCOSS	Marianne Vreugdenhil and Graeme Evans
Canberra Resident	David Fairbairn
Canberra Resident	Dudley Horscroft

ATTACHMENT C: SUMMARY OF SUBMISSIONS

ACTION

- ACTION is supportive of price paths being determined on a yearly rather than a three-yearly basis.
- ACTION is supportive of the Commission's view that CSOs should be clearly identified and funded.
- ACTION is concerned with the impact the price rise of 1 July 2000 has had on patronage, particularly as the bulk of the price rise related to tax rather than to increased revenue.
- ACTION believes that the appointment of two additional revenue protection officers (rather than price increases) helped improve farebox cost recovery during 2000-01.
- ACTION's operating costs are continuing to trend downwards as it meets its EBA targets and its understanding of its cost structure has improved since the implementation of Network 99.
- ACTION intends to implement a route profitability model in the near future. However, ACTION is not reliant on such a model to produce MSL calculations and other costing analyses.

Department of Urban Services

- ACTION has a relatively stable but low level of patronage
- ACTION receives significant funding from Government to provide the current level of service (frequency and span of hours) at the determined fares
- Fare box recovery rates need to be increased
- Minimum levels of service must be maintained for school students and for other community members with limited transport options
- Fare concessions should continue to be available, particularly for people on low incomes
- The Government is committed to a long-term plan for the provision of accessible public transport
- Provision of under-utilised services has a negative greenhouse gas emissions outcome

- Over 50% of adult Canberrans in surveys have regularly indicated their unwillingness to utilise public transport with 79% expressing an ongoing preference for private vehicle travel

Conservation Council

- The Commission's Terms of Reference should be broadened to include an assessment of the efficiency and effectiveness of all transport modes that receive public funding directly or indirectly (e.g. roads, parking areas, health police etc.)

- The ACT Government should implement an integrated transport service in the ACT.

- The ACT Government should stop making savings by cutting ACTION's services and increase CSO levels so that ACTION can provide a more frequent bus service, encouraging usage.

- The zonal system is unfair and should be replaced with a time based (90 minute) flat fare.

- ACTION should maintain the current discounts on books of 10, weekly and monthly tickets to reward the frequent bus user.

- Cyclists should be encouraged to use ACTION services via improved bicycle parking facilities at interchanges and a trial of bicycle racks on buses.

- Environmental impacts should be tackled through establishing more transit lanes, increasing service frequency to every 15 minutes, using cleaner fuels, installation of two validation machines to speed up boarding, more direct and faster routes and changing traffic signals in buses favour.

ACTCOSS

- A detailed study of the transport needs of ACT residents and their ability to afford public transport should be undertaken and that this should form the basis of all decisions on public transport

- No in crease in bus fares should occur because this will adversely affect the ability of low income earners to access this vital community service

- Night time bus services should not be reduced

- Concession fare discounts should not be reduced. Rather, they should be based on an assessment of what people on low incomes can afford, not a percentage of full fare prices

- In seeking to persuade people to use public transport, a long-term view of the opportunities of effecting behavioural change among potential users should be taken

- There should be no requirement for ACTION to continually improve its farebox recovery because the wider benefits to the ACT community and Government from its operations are vast

- The zonal system should be reviewed and a more equitable pricing structure put in place

- Community service obligations to ACTION should be set at an appropriate level in recognition of the needs of the community and the wide benefits ACTION provides to the community

Care Inc

- Care Inc supports the comments made by ACTCOSS in its submission.

- The Draft Determination's discussion of social impacts does not consider the impact of the Determination on affordability and accessibility of ACTION services from the perspective of vulnerable customers.

- The Commission made no reference to the work of the ACT Poverty Task Group in its Draft Determination. If such references were made, the Commission could respond more effectively to issues of consumer protection, described under Section 20(2) of the ICRC Act.

APFACTS

- Zonal anomalies such as the town centre orientation of the zonal system unfairly disadvantage many non-government school students.

- Student and family safety should be taken into account when arrangements associated with student travel are considered.

- Financial information on a range of CSO categories (rather than a single CSO figure) should be reported by ACTION.

- Since there is no direct adult equivalent of the student term ticket, such a term ticket should be seen as equivalent to 2.5 adult monthly tickets. If student fares are to be set at 35% of adult (monthly) tickets, this would imply fare rises of between 34% (for all zone tickets) and 45% (for one zone tickets).

Geoff Quayle

- Bus services should be more direct, with improved connections with feeder services at interchanges and with more feeder services tailored to the evening peak

- All services should operate to a clock face timetable

- Area buses should be introduced for night time services and follow a fixed route in the vicinity of interchanges

- The differential between pre-paid and cash fares should be increased and be regarded not as a discount but as a penalty for cash, with a study undertaken to determine the effect of the current fare payment system on boarding times

- The contribution made by ACTION towards meeting government environmental goals should be taken into account in determining fares

- The Commonwealth Government should be reminded of the importance of locating employment in the town centres, including Gungahlin rather than Civic or Barton

M G Whybrow

- Route profitability models are not appropriate for public services such as ACTION, and other issues such as service levels safety should be considered when making decisions on what services ACTION should run.

- Concessions should be set at 70% (not 50%) of full fare paying passengers, with the exception of senior citizens, school children and possibly the unemployed.

- Canberra is too small for the current three zone system.

- Problems exist in the logistics and support network, and the basic causes of the continuing financial losses have not been dealt with.

- The new zonal system was not clearly explained by staff on the ACTION helpline and at interchanges, leading to a downturn in ACTION's relations with the public.

David Fairbairn

- Reviews should be three yearly rather than annual.

- The present three zone system should be changed to north-side and south-side zones, with an inter-zone area around Lake Burley Griffin.

- Express services should be restored and a Government Express service should run to major government agency workplaces.

- In order to increase fare revenue ACTION should lower prices, park 'n' ride concessions and charge premium prices on express services should be offered.

- Rather than increasing fares in line with CPI, ACTION should (if the current zonal system is kept) introduce $2.30, $3.30 and $4.40 cash fares for 1,2 or 3 zone trips.

Dudley Horscroft

- A three-year price direction may not be able to allow for unforeseen factors.

- The Commission should undertake research to determine if an increase in ACTION's fares represents an abuse of monopoly power.

- Traffic lights in certain areas should be synchronized or have their cycle lengths altered so as to facilitate the smooth running of ACTION services.

- Some buses on an hourly service run within a few minutes of another hourly service in a similar area. Services could be improved by adjusting timings so as to provide a half hourly service over combined route sections.

- Fare increases should be more heavily loaded on peak hour travellers who can better afford to pay for them.

- The Commission should investigate the possibility of route tendering by examining the UK and Melbourne experiences. This may be the best way to promote efficiency in the provision of Canberra bus services.

- The Commissioner should support the actions of DUS and ACTION to agree on specifications for replacement/additional buses for Canberra rather than "more of the same" over the next few years.

- ACTION bus purchases should be delayed till 2004 so as to be sure of meeting DDA requirements.

- ACTION fares should rise by 5% as from 1 July 2001, with no further increase before 1 July 2004.

- ACTION should investigate the possibility of contracting with taxi operators to provide for more frequent services.

- A CSO which provides for a specific MSL target should be developed. The text of the MSL agreement should also be inserted as an appendix to the final determination as a matter of public record.

- The benefit to road users from ACTION services, wider shared zones and the advantages of smart cards should be explored by the Commission.

- There is no real need for a route costing model as, in general, buses of a certain size cost the same to run. The peak/off peak division is more important with many buses apparently lying idle during the off-peak.

- The ACTION fare structure should be altered based on the above points (further details of proposed fares contained in submission).