ACTION Authority Submission in response to Draft ICRC 2006/07 Fares Determination

April 2006

Introduction

This submission is provided in response to the ICRC's draft determination released on 12 April 2006. ACTION had sought an increase of 6% in overall fare revenue in response to cost increases over and above that of normal CPI increases. ACTION's case appeared to be straight forward, over the past four years fares had only been increased once for CPI in 2004/05 with effect from 4 July 2005. The previous fare change had been in July 2002 when the Government introduced a *"one fare anywhere"* fare system based on a single zone. The fare prices introduced were calculated based on the single zone fare and not a weighted average of single and multi-fare levels with the government funding the revenue shortfall.

Since that time, whole of government Enterprise Bargaining arrangements have seen pay rises to ACT Government employees more in line with their Commonwealth colleagues at 4% pa rather than the past increases of 1.5%. Over the same period we have also seen the cost of fuel increase significantly over that previously budgeted. In 2002/03 diesel fuel was budgeted at an average of $0.74 per litre and this year we have been experiencing an average cost of around $1.15 per litre. These prices are net of GST and with the bulk discounts expected with the purchase of volumes ACTION uses.

Over the same period we have also been moving to implement a Fleet Replacement Strategy that extends the operational life of our buses from 12 years to 20 years. While this has led to a significant reduction in the capital requirements for replacing the fleet, it has also meant an increase in our ongoing maintenance costs. These include the additional requirement for engine and transmission rebuilds and the cost of maintaining all the components of an older bus in service.

The comments made in the ICRC's draft determination are therefore considered by ACTION to be not only unfair but fail to recognise the measures that have been taken in order to make ACTION as efficient as is possible in the Canberra environment.

On the basis of the evidence available, ACTION believes that a fare revenue increase of approximately 10% was warranted but was concerned not to impact the travelling public to that extent and only sought an increase of 6%.

This submission will highlight the efforts made by ACTION to meet budget expectations and the forces that have been moving costs upwards and seeks a reconsideration of the draft price direction granting only a CPI increase.

Costs

Employee expenses have increased over the past several years in response to whole of government wage rises and other conditions of service changes granted after several years of below CPI rises. It was to be expected that wage rates would need to catch up to the market, as it had been increasingly difficult to attract and retain staff to positions within ACTION when similar roles performed in the Commonwealth were paid at significantly higher rates.

During the same period the cost of diesel fuel has increased from a budgeted 74 cents per litre in 2002/03 to costing an average of about $1.15 in 2005/06. The ICRC noted that fuel was "only" 11% of ACTION's costs. However, with employee expenses at 71% and fuel 11%, 82% of the total operating expense (excluding depreciation and interest), our true cost base, has been affected by increases well above the CPI.

The ICRC's analysis of our cost increases has characterised the increases as an increase in inefficiency. No analysis of what constitutes efficiency has been offered. It should be clear that measuring cost against service delivery on its own is not a measure of on-road efficiency, but on its own may be a measure of changes in cost effectiveness.

During the past two years, with funding from the government, ACTION has also introduced new express services that have been a key to increasing levels of adult patronage. ACTION has also reviewed its night time network and introduced a new demand responsive system known as *Flexibus.* This system reduced the number of buses and staff required at night but generally increased suburban services from a 90 minute frequency to 60 minutes and trunks from 30 minutes to 20 minutes. Some small on road savings were made but were offset against increased overhead costs to operate the night time booking system which is essential to the demand responsive system.

Cost increases experienced by ACTION have almost solely been due to the wage rises from EBA and fuel costs. Other smaller components of the increases are due to maintaining buses for 20 years rather than 12 and the costs of implementation of the new buses that cannot be capitalised against the project. It is estimated that the total extra cost of maintaining the buses to age 20 is approximately $1m per year. These costs flow from the additional engine and transmission rebuilds that are incurred and the cost of maintaining the other components of an ageing vehicle. The extra operating costs are incurred offsetting the capital savings of approximately $4.5m per annum on the capital cost of fleet replacement.

Under a 12-year bus replacement cycle with a fleet of 360 buses it would be necessary to replace 30 buses per year at approximately $450k per bus or $13.5m pa. The introduction of a 20-year operating life reduces the yearly turn over to 20 buses per year or $9m pa capital requirement.

This is obviously a beneficial position for the Territory, however, additional funding for maintenance has only been provided in 2005/06 and at present this funding does not extend into the forward years.

Comments by the ICRC that ACTION's budget projections forecasts some form of cost saving are incorrect. ACTION's forward budgets are practically flat due to central budget processes and the granting of certain funding top-ups in single year grants rather than increasing ongoing underlying base funding. This requires ACTION to make submissions for funding increases to maintain the current level of services. The Commission notes that previous budget forecasts may "have been shown to be unduly optimistic". Previous budgets during EBA negotiations have not included estimates for wage and salary rises so as to not provide any explicit guide to parties involved in the negotiations.

Later adjustments have been made to all agencies budgets reflecting the negotiated outcomes. However, agencies are only funded for that part of their budgets paid for by direct government funding. Those agencies that have part of their operating costs covered by external fees and charges are expected to recover that proportion of pay rises from those sources.

ACTION has recently announced Administrative savings measures totalling $700k aimed at meeting the current budget forecasts for next year. Currently a review of management practices in the workshops is examining what efficiencies can be made to reduce costs and increase productivity. ACTION will be examining patronage trends and numbers and will be reviewing service levels to ensure that the appropriate resources are allocated where necessary. Additional measures are under investigation and will be the subject of a formal proposal to the ACTION Board within the next few months.

Farebox Recovery

Farebox recovery is not a measure of efficiency and should not be used as such. All things being equal, it may be used as an indicator of growing patronage and yields. However, patronage numbers and revenue analysis are a more accurate and appropriate measure. Farebox recovery is more a measure of government fares policy and funding arrangements. The current fares are artificially low at request of the government and revenue shortfalls from this policy met from budget.

The ICRC has made comment regarding the apparent lack of progress in improving the farebox recovery. The timeframe that was quoted was at the mid point of a fare price freeze initiated by the ICRC. No indication of any analysis of what could be a reasonable farebox recovery was given. Such an analysis would have been a useful input to the debate given the critical comments made in this area.

A point that should be noted is that ACTION's farebox recovery is calculated against its total costs, which includes a number of functions not carried out by comparable operators in other states. A more accurate measure for comparison purposes should exclude those government functions, such as call centre and network timetabling, which are undertaken by separate government departments in other jurisdictions.

Patronage

Growth of Adult patronage has been strong against the Sustainable Transport Plan targets. ACTION has made significant improvement to the provision of direct express services that have been popular with adult commuters. Revenue growth from this market segment is important in developing additional services which in turn continue the growth trend.

The ICRC has also commented regarding the slight reduction in the number of Concessions boardingsthat have been recorded over the past few years. Our comments regarding this trend pointed out that the number of concession cards on issue had greatly reduced was misunderstood to mean that eligibility had been tightened. This is not the case. The reason concession cards are down is because the economy has been buoyant and the reduction in unemployment has meant that fewer people were eligible to use concessions. This reduction has masked a real increase in usage that has become more apparent now as near record low unemployment has stabilised. Year to date to the end of March, Concession boardings are up 2.6% over the same period last year.

Schools patronage has been slowly declining since they peaked at over 30,000 boardings per day with the combination of changes involving the free school travel scheme in late 2001 and the establishment of a one zone student fare in January 2002, in advance of the broader removal of the zonal system in July 2002. Prior to the "SSTS" daily school boardings were around 27,000 and our numbers are now generally between 28,000 and 29,000 per day. More recent declines have been attributed to a reduction in school enrolments.

Because Concession and School patronage are so susceptible to external influences such as weather and school term changes, patronage targets are now expressed in terms of the modal split adult journeys to work. This is a measure that we can have a direct influence over by providing appropriate services at times that suit commuters. Given the success of the "Expresso" services, it is expected that more direct services will be planned for future network changes.

It is often said that ACTION is a monopoly provider, but we are in competition with every private motor vehicle in Canberra.

Fleet replacement costs.

Another significant cost that has been borne by government is the cost of replacing the fleet. Over the past 4 years the government has expended $28M on 74 new low floor accessible buses of which 54 are powered by the more environmentally friendly fuel CNG. Together with the already accessible buses included in the fleet, we now have 25% of the fleet accessible.

Some consideration should be given to including these additional capital costs in determining a reasonable contribution through the fare price. Through scheduling we have been able to service more than 40% of the network with accessible buses with only 25% of the fleet being accessible.

Conclusion

The ACTION Authority and the ACT Government, through the Department of Urban Services, presented a joint submission requesting a fare increase of 6% so that the users of ACTION services made some small contribution to the growing cost of those services. The submission demonstrated that cost increases over the past year had more than justified a fare increase of 10%, however, the submission only requested a 6% rise. The fact that, in the short term, the ACT Government had covered the increased costs from budget should not be used as a reason to prevent some cost recovery from bus users.

Labour cost increases in line with the wider community and the ACT and Commonwealth public service should not be regarded as the introduction or increase of inefficiency. Fuel cost increases are a legitimate cost and it should not be expected that the government and ACT taxpayer pick up the full cost of these unavoidable expenses.

In the face of increasing costs the Government had agreed not to reduce services and asked that a funding arrangement between Treasury, Urban Services and ACTION be developed that properly funds the operation of the public transport network. To date, negotiations have not led to an agreed position. A new Cabinet submission has been prepared and is awaiting consideration at a future Cabinet meeting.

ACTION recommends that the ICRC reconsider its draft determination in the light of the information provided and agrees to a fare increase of 6% as requested.