ICRC

independent competition and regulatory commission

Draft Report

Determination of ACTION Bus Prices for 2006–07

Report 9 of 2006
April 2006

The Independent Competition and Regulatory Commission (the Commission) was established by the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) to determine prices for regulated industries, advise government about industry matters, advise on access to infrastructure and determine access disputes. The Commission also has responsibilities under the Act for determining competitive neutrality complaints and providing advice about other government-regulated activities.

The Commission has three commissioners:

Paul Baxter, Senior Commissioner
Robin Creyke, Commissioner
Peter McGhie, Commissioner.

Submissions, correspondence or other enquiries may be directed to the Commission at the addresses below:

The Independent Competition and Regulatory Commission
PO Box 975
CIVIC SQUARE ACT 2608

Level 7 Eclipse House
197 London Circuit
CIVIC ACT

The secretariat may be contacted at the above addresses, by telephone on 6205 0799, or by fax on 6207 5887. The Commission's website is at www.icrc.act.gov.au and its email address is icrc@act.gov.au or ian.primrose@act.gov.au.

For further information on this investigation or any other matters of concern to the Commission please contact Ian Primrose, Chief Executive Officer, on 6205 0779.

Foreword

The Minister for Urban Services wrote to the Commission on 10 January 2006 to advise that, as the referring authority for ACTION buses for price inquiries for regulated industries under the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act), he was issuing an industry reference to the Commission. The reference was for the investigation and making of a direction for the prices to apply for ACTION bus services in the period from 1 July 2006 to 30 June 2007.

The minister attached two instruments, one notifiable and the other disallowable, to the reference setting out the terms of reference for the Commission. The notifiable instrument (N12006–1) referred to the investigation in the following terms:

> Under subsection 15(1) I refer to the Commission the matter of an investigation into the determination of prices for public passenger bus services provided by ACTION.
>
> The Commission, in conducting its investigation into the determination of prices, shall determine a price path capable of being applied for the period 1 July 2006 to 30 June 2007.

The disallowable instrument (D12006–2) declared the following:

> Under 16(1) I specify the following requirements in relation to the conduct of the investigation:
>
> (a) the final report is to be provided, by 19 May 2006, to the Minister for Urban Services in relation to determined public passenger bus service prices for the period from 1 July 2006 to 30 June 2007;
>
> (b) a draft report in relation to determined public bus passenger services for the period from 1 July 2006 to 30 June 2007 is to be provided to the Minister for Urban Services and made available for public examination and consultation in accordance with section 18 of the Act; and
>
> (c) the determination should consider the impact on ACTION's cost of fuel prices.

This document is the draft price determination on which comment is sought from interested parties. All communication with the Commission in relation to this investigation should be directed to:

Senior Commissioner Paul Baxter
Independent Competition and Regulatory Commission
PO Box 975
Civic Square ACT 2608

or by facsimile to 6207 5887 or email to icrc@act.gov.au.

Paul Baxter
Senior Commissioner

12 April 2006

Contents

1 Introduction

1.1 Commission's role

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

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

Under s. 20A, a price determination 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 a 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 its pricing determination. These include, among other matters:

- 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
- any arrangements that a person providing regulated services has entered into for the exercise of its functions by some other person.

1.2 Inquiry process

The release of this draft report represents the second stage in a process which is established under the provisions of the ICRC Act. The draft report is made available for public comment. The timing for the finalisation of this inquiry is set out below.

Event	Date
Release of issues paper	20 February 2006
Close of submissions on issues paper	20 March 2006
Release of draft report	12 April 2006
Close of submissions on draft report	15 May 2006
Release of final report	19 May 2006

In its issues paper, released in February, the Commission outlined what it saw as some of the major matters involved in its current review of ACTION's fares. A number of submissions on the issues paper were received, including a joint submission from ACTION and the Department of Urban Services.

2 ACTION

2.1 Overview

The ACTION Authority (ACTION) was established in 2002 as a statutory authority subject to the corporate governance requirements of the *ACTION Authority Act 2001*. Under this legislation, the ACTION Authority took over all the operations and responsibilities of the former Australian Capital Territory Internal Omnibus Network, also known as ACTION, which had operated as part of the Department of Urban Services (DUS). The new ACTION is in its fifth year of operating as a statutory authority under the ACTION Authority Act.

According to the ACTION Authority's 2001–02 Annual Report, the key benefits of this organisational change included:

- a board comprising industry, business and community members
- clarification of commercial and social objectives
- alignment of the ACTION Authority with other publicly owned transport providers
- a five-year contract for provision of services, giving employment security to staff.

The ACTION Authority is accountable to the Minister for Planning.[1]

ACTION is contracted to provide Canberra's public and school bus services. The current five-year contract expires in December 2006. In addition, ACTION provides charter bus services, using available staff and vehicles during what would otherwise be down time. ACTION also provides special needs transport to a variety of agencies in Canberra.

At 30 June 2005, the major features of ACTION's operations were:

- 700 full-time equivalent employees
- annual operating costs for 2004–05 of $83.9 million, of which $15.7 million was recovered through the farebox
- two depots (Belconnen and Tuggeranong)
- an operational fleet of 391 buses.

Under s. 5 of the ACTION Authority Act, ACTION's functions are:

(a) to provide an effective, affordable and accessible public transport network within its area of operation; and

(b) without prejudice to paragraph (a), to operate on a sound commercial basis; and

(c) to maximise the sustainable return to the Territory on its investment in the authority; and

(d) to perform services to the community in accordance with any agreement with the Minister; and

(e) to implement any directions from the Minister under this Act; and

(f) to exercise any other function given to it under this Act or another Territory law; and

[1] The reference for this inquiry was, however, issued by the Minister for Urban Services as the minister with portfolio responsibility for transport authority matters.

(g) to carry out activities incidental to its other functions.

According to the ACTION Authority's 2005–08 Strategic Plan, ACTION will strive for:

- Excellence in customer service
- Assisting people with disabilities
- Unity with our people, unions and management
- Diversity in our work place
- Friendly and supportive workplace
- Providing safety within our transport system
- Providing sustainable accessibility
- Delivering value for money
- Being environmentally responsible.

The ACTION Authority lists its key strategic priorities as:

- Increase patronage
- Improve economic sustainability
- Improve environmental sustainability and accessibility.

2.2 2003–06 price determination

In its previous price determination on ACTION fares, handed down in May 2003, the Commission directed that fare prices for 2003–04 and 2004–05 should be held steady, followed in 2005–06 by an increase equivalent to the Canberra All Groups CPI for the previous year. A weighted average fare increase of 2.5% across all ACTION's ticket categories commenced in July 2005. This was the first fare increase since ACTION moved to a single-zone fare structure in July 2002.

2.3 Operating environment

The factors in ACTION's operating environment that the Commission must take into account in making its price determination have changed significantly since 2003. For example:

- The ACT Government has developed the Sustainable Transport Plan (STP) as part of The Canberra Plan, an overarching document which provides the vision and framework for action for Canberra. Increased use of public transport is a major goal of the plan, and the ACT Government is putting in place measures to help ensure this occurs.
- There have been delays in the development of a new funding model for ACTION services. It was hoped that a new, more appropriate funding model would be in place before the expiry of the current price determination.
- The contract between DUS and ACTION is set to expire in December 2006, and new arrangements need to be put in place before then to ensure continuity of services.
- Since the Commission's first price determination in 1999, ACTION's farebox cost-recovery level has not experienced any material increase as a result of fare increases. In fact, it fell to record low levels in 2004–05.

3 Issues considered by the Commission

3.1 Scope of Commission assessment

Under Part 4 of the ICRC Act the Commission, in reaching a pricing 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 4 factors is detailed below.

However, in undertaking this review the Commission notes that the period over which its price determination will apply is confined to12 months from 1 July 2006. In light of the specific focus of the reference, the Commission has reviewed the wider issues, as required under the Act, in terms of the nominated timeframe only. The Commission notes that many of the issues raised in this chapter will require more substantive analysis at the time of the next three-year price determination.

3.2 Costs and efficiencies

Under Part 4 of the ICRC Act, the Commission in completing a determination is required to consider cost and efficiency factors, as detailed below:

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

3.2.1 Operating costs

Table 3.1 illustrates the operating costs incurred by ACTION over recent years and, importantly, since the 2003 price determination.

Table 3.1 Budget and actual operating costs ($'000), 2002–03 to 2004–05

	Budget 2002–03	Actual 2002–03	Budget 2003–04	Actual 2003–04	Budget 2004–05	Actual 2004–05
Employee expenses[a]	43,281	45,928	46,519	49,484	50,144	54,450
Administrative expenses	17,736	17,673	18,385	19,538	18,933	22,282
• bus running and maintenance	n/a	10,906	n/a	11,623	n/a	13,226
• other	n/a	6,767	n/a	7,915	n/a	9,056
Depreciation and amortisation	4,875	4,824	5,288	5,115	5,338	5,786
Interest	1,172	1,276	1,204	1,023	1,054	1,047
Other	1,255	1,136	290	745	1,542	328
Total	**68,319**	**70,837**	**71,686**	**75,905**	**77,011**	**83,893**
Fares revenue	14,665	15,712	15,054	15,543	16,046	15,669
Farebox cost-recovery	**21.4%**	**22.2%**	**21.0%**	**20.5%**	**20.8%**	**18.7%**

n/a = not available

a Includes superannuation
Source: ACTION Annual Reports

The Commission notes the following:

- Actual operating costs for 2003–04 increased by 7.2% over those for 2002–03; and costs for 2004–05 increased by 10.5% over those for 2003–04.
- Operating costs have been consistently well over budget. Actual costs exceeded budget by 5.9% in 2003–04 and by 8.9% in 2004–05.
- Employee expenses and bus running and maintenance expenses together constituted over 80% of total costs.
- The farebox cost-recovery rate has continued to fall, in the face of escalating costs and no growth in revenue.

As changes in operating costs may simply reflect changes in budgetary priorities, the most useful approach is to compare ACTION's major budgeted operating costs with its actual results.

Employee expenses

For 2003–04 and 2004–05, employee expenses rose by 7.7% and 10.0% respectively. For the same periods, employee expenses were over budget by 6.3% and 8.6%. ACTION indicated in its 2004–05 Annual Report that the major reason for these overruns was increased employee salaries (10.7% in 2003–04 and 9.8% in 2004–05), stemming from the whole-of-government enterprise bargaining agreement (EBA). In its March 2006 submission to the Commission, ACTION cited the whole-of-government EBA as causing a 21% increase in employee expenses between 2002–03 and 2005–06. Over the same period, employee numbers rose only 3.4%, suggesting the primary reason for the increases in employee expenses was increases in real wages and salaries.

Administrative expenses

The past two financial years reveal increases of 10.6% and 14.0% over the previous years' actual results. For the same periods, administrative expenses were 6.3% and 17.7% over budget. Bus running and maintenance expenses rose by 7.2% and 13.8% over the same periods. ACTION's 2004–05 Annual Report and its recent submission to the Commission attribute these rises to increasing fuel prices (62% since 2002–03) and increasing maintenance costs (14% since 2002–03) related to both the ageing of its fleet and newer fleet replacement with increased levels of technology.

Fuel costs

ACTION's bus fleet uses mainly diesel fuel with a small but growing proportion of compressed natural gas (CNG). In 2002–03, average diesel fuel costs for ACTION were $0.78 per litre. During 2003–04, 2004–05 and, using estimated and interim figures, 2005–06, average diesel fuel costs were $0.83, $0.98 and $1.14 per litre respectively. Since 2002–03, fuel costs, as a proportion of total bus running expenses, have increased from 88.6% to reach an estimated 91.5% in 2006.

In 2004–05, when ACTION started running CNG buses, the average cost of CNG was $0.96 per litre. In 2005–06, interim figures and estimates suggest the average cost of CNG fuel will actually decrease by 15.4% to $0.81 per litre. Thus, an increasing shift to CNG buses could see a reduction in the weighted average cost of fuel.

ACTION's bus fleet has increased its transport task in recent years. In 2003–04, it covered approximately 2.4% more kilometres than in 2002–03; in 2004–05, it covered 1.5% more

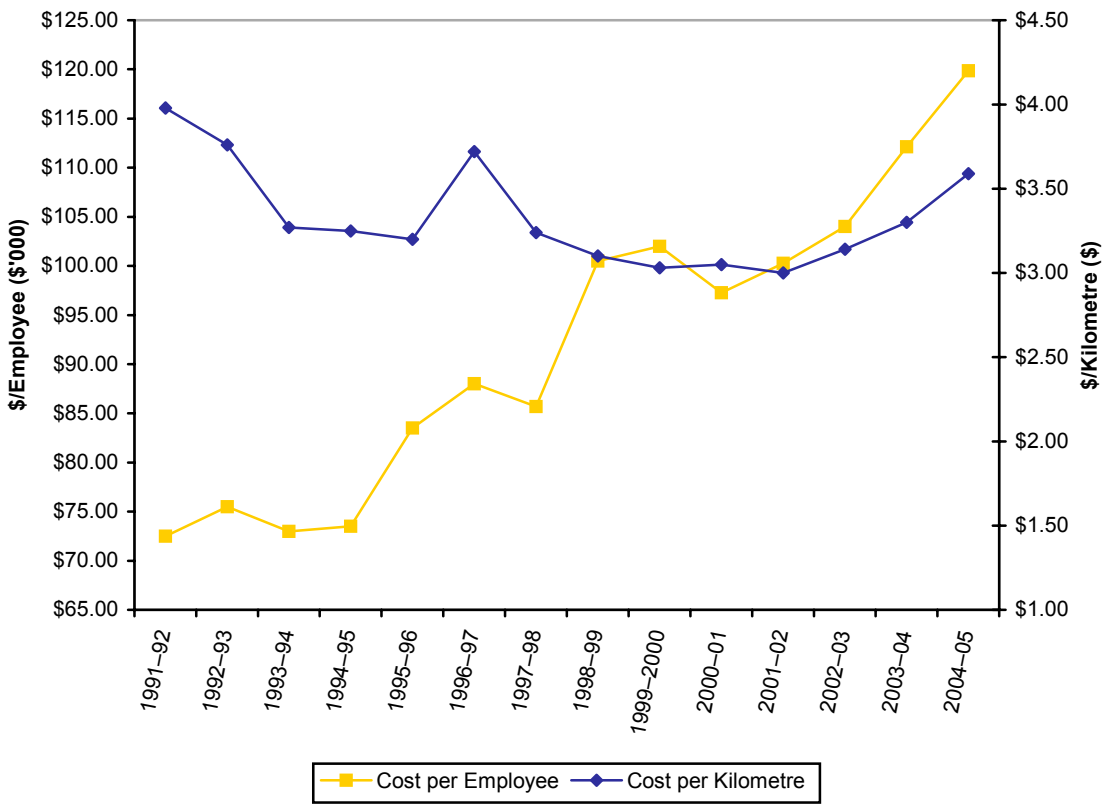
kilometres than in 2003–04. Over the same periods, total fuel costs rose by 7% and 21% respectively. Estimated figures for 2005–06 suggest ACTION will travel 2% more kilometres and fuel costs will increase by 18.3%.

In 2004–05, CNG buses accounted for approximately 6% of total kilometres travelled; in 2005–06 this is expected to increase to 11%. Although the introduction of CNG buses will undoubtedly help reduce ACTION's fuel costs, the fleet is still overwhelmingly reliant on diesel buses.

3.2.2 Operating efficiency

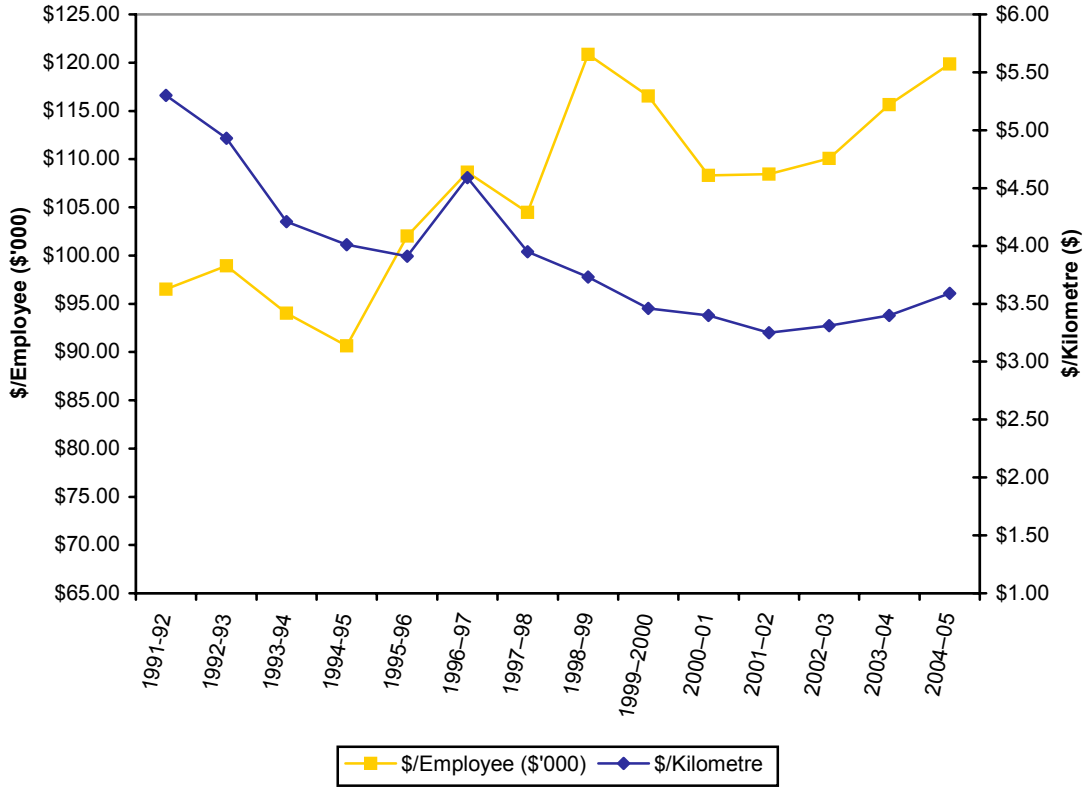
To measure operating efficiency, the Commission has previously relied on measures of total operating costs per kilometre and total operating costs per employee. The Commission has updated these measures, and the new measures are illustrated in Figure 3.1 and Figure 3.2. The first figure indicates the trend in nominal terms (that is, expressed in dollars of the day), while the second figure indicates the trend in real terms (that is, all observations are expressed in 2005 dollars).

Figure 3.1 Operating efficiency in nominal terms



Source: ACTION annual reports and 2003 ICRC price determination

Figure 3.2 Operating efficiency in real terms



Source: ACTION annual reports and 2003 ICRC price determination

The charts clearly indicate that the improvements achieved between 1999 and 2001 have largely been reversed.

Operating costs per employee

The Commission notes that:

- Since the 2003 price determination there has been a marked trend upwards in cost per employee, with an average increase of 6.2% per year.
- In its previous price determination, the Commission noted that ACTION's cost per employee had been stable since 1998–99 and had, in fact, decreased a little. Given increasing employee costs, this good performance was put down to decreasing employee numbers.
- Although employee numbers increased over the period, this does not explain the significant increase in operating costs per employee, which is largely attributed to the EBA.

Operating costs per kilometre

The Commission notes that:

- Operating costs per kilometre have increased quite significantly and are trending upwards at an average of 6.1% per year.
- Previously, the Commission noted that, as a result of improved network efficiencies on the part of ACTION, operating costs per kilometre had actually dropped despite a rise in total operating costs.

- As the total number of kilometres travelled by ACTION's fleet of buses has not changed significantly since 2001–02, the significant increase in the cost per kilometre can be explained only by reference to the increases in total costs identified in Section 3.2.1.

The Commission noted in its previous price determination that ACTION had done well in containing costs throughout 2000 to 2002 and, in contrast to earlier results, had come in close to budget. The two-year price freeze and subsequent one-year CPI fare rise determined by the Commission in 2003 were intended to encourage ACTION to take a more proactive approach to pursuing further internal efficiencies in costs, particularly given the evidence of further potential efficiency savings of between $2.6 million and $9 million.

ACTION advised the Commission in its March 2006 submission that a report produced by Indec Consulting Proprietary Limited (Indec) in 2004 concluded that ACTION's 'cost disabilities' (operating efficiencies) amounted to approximately one million dollars, taking account of the cost of government ownership, route network size, average speeds, and other factors used to make direct comparisons between ACTION and other public operators. According to ACTION's advice, where its operating costs are higher than those of best practice private operators, this is because of 'transmission of business rules, industrial relations constraints, policy settings and the mandated use of government services'. The Commission notes that it was an Indec report produced in 2002 that indicated potential achievable savings of $2.6 million, as reported in the 2003 price direction. In light of the more recent findings, ACTION believes that the 'achievement of substantial further efficiencies should not be assumed for the purpose of determining future price paths'.

The Commission is concerned that there appears to be a significant departure from the previous advice about what constitutes an efficient bus operator, particularly in light of recent financial performance that not only shows that there has been no further efficiency improvement but, in fact, suggests that there has been a marked reversal in the trend.

The Commission further understands that ACTION is currently undertaking a review of the operations of its workshops, implying that there may be further efficiency improvements available.

The Commission acknowledges that a number of factors impact upon ACTION's operations that would not necessarily be the case under different ownership conditions. However, the Commission has not been furnished with evidence to confirm the proposition that ACTION operates as efficiently as it could and that there are no opportunities for further improvements.

In view of these potentially conflicting positions, the Commission does not propose to investigate these issues in detail during this price determination but considers that it would be appropriate for a thorough analysis to be undertaken as part of the next three-year price determination.

3.2.3 Forecast costs

Table 3.2 indicates projected operating costs for ACTION as indicated in the 2005–06 budget papers.

Table 3.2 Forecast operating costs ($'000), 2005–06 Budget

	2005–06	2006–07	2007–08	2008–09
Employee costs	53,708	54,376	55,139	55,835
Administrative expenses	21,264	21,631	21,919	22,476
Depreciation and amortisation	6,306	6,218	6,050	5,475
Interest	966	883	798	744
Other	915	637	637	637
Total	**83,159**	**83,745**	**84,543**	**85,167**

Source: ACTION 2005–06 Budget Paper

ACTION has budgeted for cost increases of approximately $0.6 million per year for the next four years. ACTION's 2005–06 Budget Paper provides the following reasons for these modest increases:

- employee and superannuation expenses—further costs from the recent EBA wage increases will continue to accrue but will be offset by budgeted reductions in Comcare payments
- maintenance and fuel costs (as part of administrative expenses)—ACTION estimates the recently increased fuel and maintenance costs will be offset by $0.719 million in expected decreases in fuel and communications expenses
- depreciation and amortisation—the steady decline in depreciation is presumably explained by sales of buses previously retained for future sale
- other expenses—the higher figure in 2005–06 is due to the estimated loss on sales of buses that were originally planned for in 2004–05.

It should be noted that ACTION has budgeted for cost increases well under recent CPI figures for the Australian Capital Territory (ACT). Over the past four years, the ACT's CPI has been between 2.3% and 3.1%.[2] ACTION has budgeted for modest average increases in employee expenses and administrative expenses (its two main cost categories) of only 1.3% and 1.9% respectively. This would suggest that ACTION believes it can generate some form of cost saving or minimisation.

In its 2005–06 Budget Paper, as objectives for the year ahead, ACTION lists further network improvements with shortened travel times, and continued workplace reform to improve productivity further and reduce costs. Exactly what this means for ACTION's costs is unclear, as there are few details about the exact nature of these plans. This comment is potentially at odds with the comment ACTION made, in its March 2006 submission to the Commission, indicating that it did not expect to be able to achieve any further efficiency improvement.

The Commission notes that, in the past, ACTION's forecasts of costs have been shown to be unduly optimistic, as is evident in Table 3.3.

[2] Australian Bureau of Statistics, *ABS Cat. No. 6401.0: Consumer Price Index, Australia*, Canberra, 2005.

Table 3.3 Forecast, budget and actual operating costs, 2002–03 to 2005–06

Year	Forecast $'000	Variance %	Budget $'000	Variance %	Actual $'000
2002–03	69,053	–1.1	68,319	3.7	70,837
2003–04	68,836	4.1	71,686	5.9	75,906
2004–05	70,258	9.6	77,011	8.9	83,893
2005–06	78,114	6.5	83,159	n/a	n/a

n/a = not available; 'Forecast' refers to forecasts for future years in successive budget papers

Source: ACTION annual reports and budget papers

Given consistent large variances between ACTION's forecast, budgeted and actual results, the reliability of ACTION's current forecasts is doubtful. The Commission also notes that this trend of higher than forecasted costs was previously highlighted as a concern in the 2003 price determination. ACTION's performance since the 2003 price determination gives the Commission little confidence in the accuracy of the current forecasts.

3.3 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 the standard of regulated services (s. 20(2)(a))
- standards of quality, reliability and safety of the regulated services (s. 20(2)(b))
- the social impacts of the decision (s. 20(2)(g))
- the effect on general price inflation over the medium term (s. 20(2)(j)).

3.3.1 Pricing

The Commission's 2003 price determination provided for a freeze on fares for the first two years and a CPI increase in the final year of the three-year determination. In 2005–06, a fare adjustment was approved, resulting in a weighted average increase in revenue of 2.5%. Table 3.4 presents this fare increase by ticket category.

Table 3.4 ACTION fare structure, 2002–03 to 2005–06

Ticket category	2002–03 and 2003–04 $	2005–06 $	Change %
Adult			
Cash			
• Single Trip	2.40	2.50	4.2
• Shoppers Off-peak Daily	3.50	4.00	14.3
• Daily	6.00	6.40	6.7
Non-cash			
• Faresaver 10	21.00	21.40	1.9
• Weekly	23.50	24.00	2.1
• Monthly	80.50	80.00	–0.6
Concession and student			
Cash			
• Single Trip	1.30	1.30	0.0
• Pensioner Off-peak Daily	1.30	1.30	0.0
• Daily	3.00	3.20	6.7
Non-cash			
Faresaver 10	10.50	10.70	1.9
• Weekly	11.75	12.00	2.1
• Monthly	40.20	40.00	–0.5
• School Student Faresaver 10	7.50	8.00	6.7
• School Term	55.00	55.00	0.00

Source: ACTION website and ICRC 2003 price determination

A key to this pricing strategy was the hope that keeping prices frozen during the development of Canberra's overall transport strategy would encourage greater patronage.

3.3.2 Patronage

Table 3.5 presents passenger boarding figures and yearly variances for ACTION across its major ticketing categories.

Table 3.5 Boardings, 2001–02 to 2004–05

	Boardings '000 patrons				Yearly variance %		
	2001–02	2002–03	2003–04	2004–05	2002–03	2003–04	2004–05
Full-fare	4,613	4,708	5,019	5,220	2.06	6.61	4.00
Concession	5,779	5,821	5,940	5,757	0.73	2.04	–3.08
Subtotal	**10,392**	**10,529**	**10,959**	**10,977**	**1.32**	**4.08**	**–0.17**
School	5,397	5,232	5,266	5,172	–3.06	0.65	–1.79
Total	**15,789**	**15,761**	**16,225**	**16,149**	**–0.17**	**2.95**	**–0.47**

Source: ACTION annual reports

In aggregate, ACTION's patron numbers have shown little improvement since the previous price determination and, except in 2003–04, have actually dipped. There is, however, a noticeable improvement in the number of full-fare passengers. Furthermore, interim figures for 2005–06, and media reports, indicate that this trend has continued, producing record high passenger numbers.

Year-to-date figures from ACTION indicate that, as of January 2006, passenger numbers were up 3.9% from those of the July to January period in the previous year, as indicated in Table 3.6.

Table 3.6 Boardings, interim data, 2005–06

	July–January boardings '000 patrons				Variance	
	2002–03	2003–04	2004–05	YTD 2005–06	2004–05 to YTD 2005–06	
Full-fare	2,822	2,875	2,945	3,282	11.4%	337
Concession	3,460	3,493	3,385	3,420	1.0%	35
Subtotal	**6,282**	**6,368**	**6,330**	**6,702**	**5.9%**	**372**
School	2,748	2,646	2,517	2,487	–1.2%	–30
Free	52	48	50	52	4.0%	2
Total	**9,082**	**9,062**	**8,897**	**9,241**	**3.9%**	**344**

YTD = year-to-date

Source: ACTION March 2006 submission

ACTION's 2004–05 Annual Report explains this increase in full-fare passengers with reference to its new Xpresso service, which started in September 2004. Xpresso is an express bus service aimed at providing more direct and timely routes to and from major workplaces (the city centre, Russell, Parkes and Barton) for Canberra's adult commuters. In addition, direct services are now operating between the Belconnen and Tuggeranong interchanges and the Belconnen and Woden interchanges, bypassing the city centre.

There may, however, be some impact from increased fuel prices. As fuel prices rise, public transport presumably becomes relatively more attractive and cost effective for many people. ACTION, in its March 2006 submission to the Commission, notes that there is evidence from other states' public transport providers that they have seen an increase in patronage. The extent to which the recent rises in patron numbers can be explained by this effect is uncertain but the Commission notes that, should fuel prices decrease, there may be a corresponding reduction in full-fare patrons. In contrast, a reduction in public car-parking spaces, particularly in the city, and a small increase in parking fees, may have resulted in some movement to buses.

As part of the ACT Government's STP, ACTION has been given a set of ambitious patronage targets. ACTION has been charged with the task of increasing its share of adult journey-to-work trips from 6.7% in 2001 to 9% in 2011 and 16% in 2026. In its March 2006 submission to the Commission, ACTION indicated that its 2004–05 performance result of 7.7% of such trips was higher than the base target of 7.5%. In order to reach the 2010–11 target of 9%, this market needs to increase by almost 24% or an annual average of 3.6%. ACTION indicated that improved infrastructure and customer information, as well as network enhancements, were the means by which the targets would be achieved. Specifically, these measures included: real time information, with visual display providing customers with regular updates of services; additional bus priority lanes and intersections; dedicated busways; enhanced interchange and security facilities; more express services; and a greater number of direct routes, covered at higher average speeds.

3.3.3 Social impacts

Since the Commission's 2003 price determination, ACTION's patronage profile has changed little, with concession ticket holders continuing to provide ACTION with its major source of total revenues and accounting for two-thirds of all boardings. The Commission has previously noted

that, given price inelasticities in the market, it would appear that people with no other choice but public transport are ACTION's primary users.

ACTION notes, in its March 2006 submission to the Commission, that declining sales of school concession tickets could be attributed to declining school enrolments (down from 60,974 in 2001 to 60,050 in 2005, covering both government and non-government schools). Numbers of other concession card users are also down, attributed to a 'significant reduction in ACTION transport concession cards issued by Centrelink between 2002–03 and 2004–05, down 26% or 3,360 cards'. This suggests that any adverse social impacts which have occurred over the period may be more attributable to changes in broader government policy about who is eligible for such concessions than to explicit changes in services by ACTION.

Nevertheless, the Commission is concerned that any price increases should not impede the access to public transport of those who need it most. The average 2.5% price increase in 2005–06, as part of the 2003 determination, does not appear to have unduly affected these passengers, given that both the single cash concession fare and the Pensioner Off-peak Daily ticket, which is the most widely used concession ticket, were left unchanged.

There is a broader policy issue in relation to how ACTION satisfies its dominant concession market while targeting more full-fare commuter passengers. The Commission notes that any future price determinations would need to take account of any alleged adverse impacts of services on those who need access most.

In the previous price determination, the Commission noted that bus transport charges were estimated to comprise around 0.3% of an average Canberra household's weekly expenditure. As a result, any fare increase would have a negligible impact on the ACT CPI. (No data were available on the proportion of household income that bus transport charges represent for a household that uses buses regularly.) Since the previous determination, new data from 2003–04 have revealed no significant change in the proportion of weekly household expenditure going towards bus transport fares. In fact, the proportion spent on bus fares has dropped to just under 0.2%.[3] The Commission, therefore, reaches the same conclusion as previously: any modest fare increase would be likely to have an insignificant impact on the ACT CPI.

3.4 Financial viability

Under Part 4 of the ICRC Act the Commission in completing a determination is required to consider financial viability factors, as detailed below:

- an appropriate rate of return on any investment in the regulated industry (s. 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 (s. 20(2)(i)).

3.4.1 Government contribution to funding

Table 3.7 presents a breakdown of ACTION's various forms of government funding.

---

[3] Australian Bureau of Statistics, *ABS Cat. No. 6535.0.55.001: Household Expenditure Survey, Australia, 2003–04*, Canberra, 2005.

Table 3.7 Categories of ACTION's government funding ($'000)

	Actual 2001–02	Actual 2002–03	Actual 2003–04	Actual 2004–05	Budget 2005–06	Forecast 2006–07	Forecast 2007–08
Pricing CSO	15,817	12,830	13,333	15,297	n/a	n/a	n/a
General route off-peak CSO	9,948	10,007	10,353	11,878	n/a	n/a	n/a
School services CSO	14,328	5,686	5,812	6,668	n/a	n/a	n/a
Government disabilities CSO	n/a	16,108	15,937	18,284	n/a	n/a	n/a
Concessional travel payments	4,912	4,912	5,025	5,226	n/a	n/a	n/a
Special needs transport	1,533	1,723	1,793	1,826	n/a	n/a	n/a
Total government user charges	**46,538**	**51,266**	**52,253**	**59,179**	**59,834**	**60,098**	**61,311**
Operating injection	4,398	-	-	-	-	-	-
Capital injection	5,650	1,550	13,149	3,945	8,440	114	-
Total	**56,586**	**52,816**	**65,402**	**63,124**	**68,274**	**60,212**	**61,311**

CSO = community service obligation, n/a = not available

Source: ACTION annual reports and budget papers

Overall, the data show an increased trend in government funding to date, with some significant reclassifications since the Commission's 2003 price determination. In particular, the single largest CSO-designated payment is for 'Government disabilities CSO'. It is interesting to note that, despite reductions in 2004–05 in the numbers of adult concession and school concession patrons (see Table 3.5), the payments under 'Pricing CSO' and 'School services CSO' have continued to rise.

As was noted in the previous price determination, ACTION received 'operating injections' as part of its service purchase agreement. These payments seem to have been intended to relieve current budget pressures. With the suspected reclassification of these payments, much of the previously limited transparency has been lost.

Major asset funding for ACTION is provided through capital injection in the year in which the asset is acquired. Consequently, this figure varies from year to year depending on the needs of ACTION. Notably, the large injection in 2003–04 was primarily to cover the initial acquisition of ACTION's new fleet of CNG buses. The large capital injection figure budgeted for 2005–06 is a continuation of the funding for the CNG buses.

3.4.2 Cost recovery

As was noted in the Commission's 2003 price determination, despite the withdrawal of the School Student Transport Scheme and restricted application of concession fares for health card holders, ACTION has found it hard to achieve levels of farebox cost-recovery similar to those achieved before it became a statutory authority. Table 3.8 presents ACTION's actual operating results and cost-recovery figures from recent years and the budgeted figures to 2007–08. Table 3.9 summarises the changes between years.

Table 3.8 Net financial position and cost-recovery rate ($'000)

	Actual 2001–02	Actual 2002–03	Actual 2003–04	Actual 2004–05	Budget 2005–06	Budget 2006–07	Budget 2007–08
Revenues							
User charges ACT Government	50,936	51,271	52,253	59,179	59,834	60,098	61,311
User charges non-ACT Government	15,943	16,927	16,890	17,049	17,322	17,752	18,203
Other	0	753	1,417	1,011	259	228	233
Subtotal	**68,879**	**68,951**	**70,560**	**77,239**	**77,415**	**78,078**	**79,747**
Costs							
Employee expenses	42,575	45,928	49,484	54,450	53,708	54,376	55,139
Administration expenses	17,205	17,673	19,538	22,282	21,264	21,631	21,919
• Bus running and maintenance	n/a	10,936	11,623	13,226	n/a	n/a	n/a
• Other	n/a	6,737	7,915	9,056	n/a	n/a	n/a
Depreciation and amortisation	4,734	4,824	5,115	5,786	6,306	6,218	6,050
Interest	1,602	1,276	1,023	1,047	966	883	798
Other	1,163	1,136	745	328	915	637	637
Subtotal	**67,279**	**70,837**	**75,905**	**83,893**	**83,159**	**83,745**	**84,543**
Operating profit/loss	**1,600**	**–1,886**	**–5,345**	**–6,654**	**–5,744**	**–5,667**	**–4,796**
Fares	14,434	15,712	15,543	15,669	16,022	16,452	16,903
Farebox cost-recovery	**21.5%**	**22.2%**	**20.5%**	**18.7%**	**19.3%**	**19.7%**	**20.0%**

Source: ACTION annual reports and budget papers

Table 3.9 Revenue and cost growth (%)

	2002–03	2003–04	2004–05	2005–06	2006–07	2007–08
Total revenue growth	5.5	2.3	9.54	0.2	0.9	2.1
Farebox growth	8.9	–1.1	0.8	2.3	2.7	2.7
Govt revenue growth	0.7	1.9	13.3	1.1	0.4	2.0
Total cost growth	**5.3**	**7.2**	**10.5**	**–0.9**	**0.7**	**1.0**

Source: ICRC calculations

In relation to these results, the Commission notes the following:

- Although total revenue grew significantly (from $69 million to over $77 million) in the first two years after the 2003 price determination, this was accompanied by a reduction in farebox revenue.
- Total costs grew by 17.7% in the same period (primarily due to increased employee expenses and bus running expenses).
- Operating losses deteriorated considerably, rising by almost $5 million annually between 2002–03 and 2004–05, and are forecasted to continue at this level.
- Cost-recovery rates deteriorated and have been assumed not to have reached previous levels.

The Commission acknowledges that its previous price determination did not provide for increases in fares in the first two years, and that, in part, the cap on prices contributed to a lower

cost-recovery rate. However, the Commission expected that, fare elasticities notwithstanding, the fare freeze would provide an incentive for greater patronage and correspondingly higher revenue, in association with other service improvements. While the patronage trend at this stage is positive, particularly with increases in full-fare paying passengers, this is not translating into significant farebox revenue increases.

The Commission was prepared to allow a reasonable time for the beneficial effects of its 2003 determination to take effect, but is concerned that in the area directly unaffected by its determination—that is, ACTION's operating costs—increases have escalated significantly and become the major contributors to the deteriorating cost-recovery rate.

At the time of the previous price determination, DUS indicated that the ACT Government desired to maintain the cost-recovery rate at around 22% for three years, then move towards a long-term recovery rate of 30%. This target rate now seems even less achievable. Even if patronage growth continued in accordance with STP targets, fares would need to increase by well in excess of 30% to achieve the target. As was previously noted by the Commission, a balance must be struck between farebox cost-recovery and affordable fares. Where this balance lies is still in question.

3.4.3 Rate of return

In its 2003 price determination, the Commission noted the inherent difficulty of estimating a rate of return for a loss-making public transport business, while noting the continuing need to establish clear investment guidelines for asset acquisition and replacement. These concerns are still relevant.

Previously, the Commission indicated its concern with ACTION's lack of a coherent forward-planning investment strategy. Furthermore, it believed any such strategy should be linked to the establishment of an appropriate funding model. It was expected that a new funding model would be in place by the end of 2003. The Commission notes that, as of March 2006, there is still no formal funding model in place.

Since the previous price determination, ACTION has formulated what would appear to be a more purposeful and strategic fleet replacement program. In its 2004–05 Annual Report, ACTION refers to its fleet replacement program as a 'strategic response to the Government's sustainable public transport agenda' which will also assist with ACTION's obligation to conform to national standards for accessible public transport. Part of ACTION's fleet replacement program is a recommendation to acquire 20 new buses per year over the long term. ACTION cites this proposal as allowing it to 'achieve an optimum and efficient fleet profile'.

The Commission acknowledges that such a strategy is a greater consideration for the longer term price path, while noting ACTION's comment, in its March 2006 submission to the Commission, that the failure to acquire new buses means that older buses may require higher levels of maintenance.

3.4.4 Funding models

The Commission expressed concern in its 2003 price determination that a formal funding model was necessary to provide the appropriate focus, not only for ACTION's internal decision making but also for the Commission's deliberations. To this end, the Commission commended the establishment of a funding model as soon as possible. While discussions have continued between the Treasury, DUS and ACTION, the Commission understands that no agreement has been

reached to move away from the current deficit funding approach used to fund ACT Government agencies.

The Commission is concerned that this does not send the right signals to agencies such as ACTION to ensure that operations are conducted as efficiently as possible. In essence, deficit funding through budget deliberations ensures that annual shortfalls are automatically made up. Thus, whatever pricing decision the Commission makes, the financial incentives for ACTION remain unchanged.

The Commission believes that these are critical issues for establishing a longer term price path, and will revisit these issues during the next price determination.

3.5 Environmental issues

Under Part 4 of the ICRC Act the Commission, in completing a determination, is required to consider environmental factors, as detailed below.

3.5.1 Ecologically sustainable development

Sections 20(2)(f) and 20(5) of the ICRC Act refer to the principles of ecologically sustainable development. These principles are also stated in s. 7(2) of the *Territory Owned Corporations Act 1990* (ACT), as modified by application of s. 4(1) of that Act.

The aim of the government's STP is to 'achieve a transport system that has lower overall costs, particularly lower greenhouse gas emissions, lower air pollution, reduced accidents and lower health costs, and provides more transport options for the community'.[4] The key to this plan is the increased use of public transport, through ACTION. In fact, the STP has set ambitious targets for ACTION: a 9% share of adult journey-to-work trips by 2011 and a 16% share by 2030.

In its March 2006 submission to the Commission, ACTION indicated that in the year to date it was ahead of its targets in respect of the STP measures, as a result of network refinements and evening Flexibus and Xpresso services.

Of further note is ACTION's progress with the addition of new CNG buses to its fleet. At the end of the 2004–05 financial year, over 6% of ACTION's fleet consisted of the new CNG buses. ACTION has since locked in funding to raise this to 10% of its fleet by the end of 2005–06. ACTION cites these new CNG buses as providing equivalent performance to diesel power but with reduced emissions, noise and long-term costs.

3.5.2 Demand management

Section 20(2)(h) of the ICRC Act refers to considerations of demand management and least cost planning.

---

[4]ACT Planning and Land Authority, *The Sustainable Transport Plan for the ACT*, ACT Government, Canberra, 2004, p. ii.

On the basis of the transport demand elasticity study commissioned by DUS in 2003, the ACT Government recommended, as part of the STP, that demand responsive transport options be investigated for the running of off-peak bus services and services on routes with low patron numbers.[5] ACTION's new Flexibus services are designed to address this issue.

3.6 Fare adjustment options for 2006–07

There are three broad alternatives which the Commission believes are viable for ACTION in 2006–07. The Commission could determine that:

- there will be no change, leaving fares at their 1 July 2005 level
- fares will increase by the CPI

  or
- fares will increase on a CPI plus X basis, where X represents explicit compensation for cost increases outside ACTION's control that are in excess of CPI, with particular reference to the impact of fuel cost.

In assessing the relative merits of each of these, the Commission notes that the timeframe is a limited 12-month period only, and that there are substantive policy and operational decisions which will impact on a longer term, sustainable price path. The Commission does not consider it appropriate to proceed with a price decision for this short period that might prejudice the appropriateness of a longer term decision.

Therefore, for this inquiry, the Commission is limited to focusing on a few salient issues. If fares remained unchanged, the cost-recovery rate would at best remain relatively unchanged, with any increase in passengers leading to only modest nominal farebox revenue increases. This would result in greater government deficit funding, with increasing pressures on the government's overall budgetary position.

If fares were increased by the CPI only, this could not be seen as unreasonable, given the average reduction in fares in real terms over the past three years. It is also a standard adjustment measure for agencies to apply. Given the modest impacts of such an adjustment, it should lead to a small improvement in the cost-recovery rate.

Given the adjustments which have been made already to government funding to cover, among other things, fuel increases, the Commission considers that an explicit adjustment of fares for such movements would invite correspondingly downward adjustments, were fuel prices to fall in the future. In any event, fuel costs are but one component of ACTION's total operating costs and, while the unit costs are outside its control, other operating parameters and costs are subject to internal reviews.

The Commission is concerned that these other costs appear to be on a rising trend and that the progress evident at ACTION at the time of the previous price determination, in terms of cost control, appears to have stalled. The Commission proposes to revisit these issues at its next review.

---

[5] ACT Department of Urban Services,. *Final Report: ACT Transport Demand Elasticities Study*, ACT Government, Canberra, 2003.

After assessing these various factors, the Commission is of the view that for this 12-month determination a CPI-adjusted weighted average price increase is appropriate.

4 Draft price determination

In its 2003 price determination on ACTION fares, the Commission noted three main areas of concern which influenced its deliberations about appropriate fare levels. These were:

- ACTION's level of operating efficiency
- the funding of ACTION's services by way of deficit financing, referring to additional top-up funding received by ACTION through the community service obligation arrangements and other payments
- the absence of any overarching strategy for public transport in the ACT.

The Commission noted that, during the period in which it had made price determinations, some progress had been made by ACTION to improve its efficiency. Although there was some disagreement about the level of potential productivity and efficiency that ACTION could achieve, ACTION nevertheless had indicated a willingness and a capability to introduce changes, in work practices and service provision, that had manifested in lower unit costs of service provision. The Commission expected to see those trends continue through the following three years as part of the existing contract with DUS.

Unfortunately, an analysis of ACTION's performance over the past three years suggests that not only has the improving trend stalled but, apparently, the trend has been reversed, particularly in terms of labour costs. At the time of the previous determination, the Commission had been assured that the new EBAs would facilitate an improved productivity environment that should ensure that controllable operating costs would not continue to increase.

Despite the limited nature of the current review, the Commission is very concerned that the recent strong increases in costs appear to reflect in large part significant real labour cost increases in the absence of productivity improvements. Employee numbers have increased while total business activity, as reflected by increases in patronage, has increased only slightly. More significant, however, is the fact that unit costs per employee have also increased markedly. This means that, regardless of what staff increases occurred to ensure new bus services could be provided for passengers, the unit costs for all staff on average have increased significantly in real terms.

The Commission understands that ACTION has recently embarked on a review of its workshop operations and costs. This suggests an acknowledgment of potential inefficiency, and a review of published costs over the past three years indicates that this is not a recently emerging issue. In its March 2006 submission to the Commission, ACTION considers that there is 'minimal scope for ACTION to achieve substantial efficiency improvements unless there are significant changes to government policy'. While the Commission acknowledges the role of government policy in affecting ACTION's activities, it believes that, given past performance, ACTION needs to ensure vigilance is applied to its cost base on a continuous—not periodic—basis, and that it is unlikely that ACTION has already achieved optimal efficiency.

The Commission notes that the other major increases in ACTION's costs are linked to fuel costs. However, while they are to a large extent outside ACTION's control, these represent only around 11% of total operating costs. Thus, an increase of 20% in fuel costs should lead (other things being equal) to an increase of only 2.2% in total operating costs. ACTION acknowledges that it has already been substantially compensated for recent fuel increases, through increased government

contributions. Despite strong increases in fuel prices, the Commission is of the view that the largest and most significant contribution to increased costs over the past year or so has been labour costs. Given the budget and forecast data provided by ACTION at the previous review, the scale of this increase was not the outcome which the Commission expected to see during its current determination.

The second major concern expressed in the Commission's 2003 price determination was about the way ACTION was funded. Because the farebox cost-recovery rate is low—less than 20% (and lower now than it was three years ago)—the dominant funding source for ACTION is the ACT Government. The Commission expressed its desire in 2003 that, by the time of the next review, a more transparent funding model, providing a more effective framework for the Commission to make decisions about reasonable fare changes, would be in place.

Government funding is currently provided through designated CSO classifications and through more general deficit financing payments to cover both fleet acquisition and shortfalls on operating costs. The Commission understands that the revenue payments by way of CSO specification are not directly linked to the number of passengers or services explicitly identified as CSO recipients. As indicated in ACTION's most recent annual report, the contributions incorporated more general payments 'due to increased service input costs notably wages from the Enterprise Bargaining Agreement and diesel costs'.[6]

The Commission understands that, despite extensive negotiations, no agreement has yet been reached on an appropriate funding model for ACTION. The Commission is concerned about the continuing lack of transparency resulting from the continuation of the current arrangements of deficit funding. The Commission is obliged to consider the relevance and reasonableness of those fare levels for the travelling public in light of the full suite of issues impacting on a set of operations and services that will require in excess of $65 million of public money in the current year to support.

In addition, the Commission understands that the relationship between ACTION and DUS will change from 1 July 2006, with the government providing a direct appropriation of funds to a range of statutory authorities, including ACTION. As a result, ACTION will not be funded through DUS's purchasing its services under a contract agreement. Nevertheless, ACTION will be required to enter into a service contract with the Road Transport Authority on behalf of the Territory. The Commission understands the government will announce the final arrangement in the near future.

At a broader level, the Commission also understands that ACTION's administrative, funding and service-level arrangements could be influenced by the strategic and functional review of the ACT public sector and services currently being undertaken by the government.

It is not presently clear to the Commission what effect these proposed changes will have on ACTION's operating environment. However, the Commission is strongly of the view that the absence of an explicit and transparent funding model materially reduces the incentive for and discipline on ACTION's board and managers to ensure that its services and operations are provided as efficiently as possible. Increasing deficits are automatically made up by government funding, regardless of the amounts involved. Whether this is good public policy is an issue for the

---

[6] ACTION Authority, *Annual Report 2004-05*, p. 100.

government. From the Commission's position, this situation makes its price-setting task difficult because the funding parameters are blurred.

The third area of concern raised by the Commission in its 2003 determination was the question of a public transport strategy. Since the previous determination, the government has announced the STP, and specified targets for public transport to increase its share of adult journey-to-work trips over the next decade. Recent increases in patronage appear to be the product of new services and the effect of higher fuel prices on private car usage. Whether these increases are sustainable and can be further encouraged to achieve the STP's target is unknown. That will require a number of specific actions over the next few years. From the Commission's position, significant increases in patronage to meet these targets under current fare levels will lead to higher net operating costs through the provision of more services in peak periods. This relates back to the funding arrangements and, in the absence of a transparent structure, a continuing and open-ended funding obligation on the part of government.

The Commission's current remit is to provide for only a one-year price determination, to take effect from 1 July 2006. It is not clear at this stage how the above issues will be resolved. Within this context, the Commission has considered a range of pricing options: from leaving fares at their current levels to increasing them to compensate for any significant variations in bus costs.

Leaving fares at their current levels would lead to a further deterioration in ACTION's farebox cost-recovery rate. The Commission adopted a neutral fare position for the first two years of its previous determination, in support of evidence of improved efficiencies as well as in support of more patronage. There is no substantive evidence that current fare levels or modest increases would significantly deter patronage and seriously jeopardise the realisation of STP targets. Those targets are more likely to be influenced by further service improvements than by price changes. On the other hand, the Commission is concerned that operating efficiency improvements may have stalled and that its previous minimal fare adjustment determination did not assist in encouraging further improvements.

In considering whether fares should be increased, the Commission is mindful of the wider issues which require more substantive analysis. It is also essential for all parties to keep in mind that the Commission is required to ensure that the travelling public is protected from monopoly power. The Commission would be derelict in its statutory duty if it were to simply increase fares, when ACTION's costs increased, without applying pressure on ACTION to improve its cost control. The Commission considers that it has two realistic options:

- an increase to reflect recent changes in the CPI

  or

- an increase in excess of the CPI to reflect specific increases in ACTION's costs.

The Commission's reference specifically mentions fuel prices, but government funding levels have already taken into account increases in fuel prices. To incorporate these into an explicit component of any fare increase could be interpreted as 'double dipping', with ACTION receiving financial compensation for these increases both in the farebox and in government payments. In any event, fuel costs amount to only around 11% of ACTION's total operating costs.

The Commission is also concerned to ensure that any decision which it makes for the 12-month period from 1 July 2006 will not be inconsistent or prejudicial to the decision it makes for the subsequent three-year price path.

To this end, the Commission proposes that, for the 12 months from 1 July 2006, the weighted average price cap be increased by the extent to which the Canberra-based CPI has increased for the 12 months ending March 2006.

The Commission's choice of an average price cap is designed to provide ACTION with some flexibility to adjust individual fares. While this fare adjustment is unlikely to have a significant effect on raising the cost-recovery rate, it may at least arrest its decline and serve the purpose of providing a ceiling on government contributions. However, this depends on ACTION's management and control of its costs, as well as more explicit predetermined funding commitments from government. Clearly, more analysis of this is required.

The Commission proposes to investigate in more detail all aspects of ACTION's operations and performance, as part of the next price determination. The Commission expects that, by that time, funding and contract arrangements between ACTION and the government will have been finalised.

Appendix 1 Industry reference

Australian Capital Territory

Independent Competition and Regulatory Commission (Reference for Investigation) Notice 2006 (No 1)

Notifiable instrument NI2006–1

Made under the *Independent Competition and Regulatory Commission Act 1997*, s. 15 (Nature of industry reference)

1 Name of instrument

This instrument is the Independent Competition and Regulatory Commission (Reference for Investigation) Notice 2006 (No 1).

2 Commencement

This instrument commences on the day after notification.

3 Referral

Under subsection 15(1) I refer to the Commission the matter of an investigation into the determination of prices for public passenger bus services provided by ACTION.

The Commission, in conducting its investigation into the determination of prices, shall determine a price path capable of being applied for the period 1 July 2006 to 30 June 2007.

John Hargreaves MLA
Minister for Urban Services

10 January 2006

Australian Capital Territory

Independent Competition and Regulatory Commission (Terms of Reference) Determination 2006 (No 1)

Disallowable instrument DI2006–2

made under the *Independent Competition and Regulatory Commission Act 1997*, s. 16 (Terms of industry reference)

1 Name of instrument

This instrument is the Independent Competition and Regulatory Commission (Terms of Reference) Determination 2006 (No 1).

2 Commencement

This instrument commences the day after notification.

3 Declaration

Under 16(1) I specify the following requirements in relation to the conduct of the investigation:

(a) the final report is to be provided, by 19 May 2006, to the Minister for Urban Services in relation to determined public passenger bus service prices for the period from 1 July 2006 to 30 June 2007;

(b) a draft report in relation to determined public bus passenger service prices for the period from 1 July 2006 to 30 June 2006 is to be provided to the Minister for Urban Services and made available for public examination and consultation in accordance with section 18 of the Act; and

(c) the determination should consider the impact on ACTION's cost of fuel prices.

John Hargreaves MLA
Minister for Urban Services

10 January 2006

Appendix 2 Submissions

Submissions on the issues paper were received from the following organisations and individuals:

- ACT Department of Disability, Housing and Community Services
- ACT Department of Urban Services–ACTION Authority (combined submission)
- ACTCOSS (ACT Council of Social Services)
- ANUgreen (a part of The Australian National University)
- Ken Lamb (private submission)
- Paul Meyer (private submission).

Electronic copies of the submissions can be downloaded from the Commission's website at www.icrc.act.gov.au/transport/actionbuses. Alternatively, hard copies can be obtained by request from the Commission's offices at Level 7, Eclipse House, 197 London Circuit, Canberra, or by phoning 6205 0799.

Glossary and abbreviations

ACT	Australian Capital Territory
ACTION	ACTION Authority
ACTION Authority Act	*ACTION Authority Act 2001*
CNG	compressed natural gas
Commission	Independent Competition and Regulatory Commission
CSO	community service obligation
DUS	ACT Department of Urban Services
EBA	enterprise bargaining agreement
ICRC Act	*Independent Competition and Regulatory Commission Act 1997*
Indec	Indec Consulting Proprietary Limited
STP	Sustainable Transport Plan