

Mr Paul Baxter,
Senior Commissioner
Independent Competition
and Regulatory Commission
Level 7 Eclipse House
197 London Circuit
CANBERRA ACT 2601


Dear Mr Baxter

Draft Report Determination of ACTION Bus Prices for 2006/07

I am writing in response to the ICRC's Draft Report - *Determination of ACTION Bus Prices for 2006/07*, to provide comments by the Department of Urban Services.

The Department notes the Commission's proposal 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.

However, the Department does not agree with this proposal and continues to support, instead, the position taken in its joint submission with ACTION, to the Commission, that ACTION should be able to implement an overall fare increase of 6% for 2006/07.

The Department strongly supports the Commission's proposition that ACTION should take a proactive approach to pursuing internal efficiencies in costs. Impending changes to administrative arrangements in the areas of shared services will provide the opportunity to increase efficiencies in ACTION's operations, in areas such as corporate services.

In the meantime, it should be recognised that the most recent comprehensive analysis of ACTION's "efficiency" compared with other private and public operators, produced by Indec Consulting (which supercedes the 2002 Indec report suggesting \$2.6m in potential achievable savings) clearly concludes that the achievable savings are much less than this amount and there is very limited scope to reduce costs given the current environment in which ACTION operates. Until such time as any contrary analysis is available and/or ACTION's operating environment changes substantively, the Department of Urban Services does not consider that the perceived failure of ACTION to achieve further efficiency improvements justifies holding ACTION fare increases to no more than CPI.



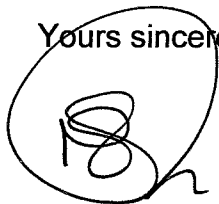
As many of ACTION's cost drivers are outside ACTION's direct control, eg wages under the EBA and fuel costs, and are increasing at a rate greater than CPI, it is appropriate that users of ACTION services make a proportionate contribution to meeting these increased costs.

The Department of Urban Services agrees with the ACTION Authority that a 6% increase would be appropriate having regard to the need to balance a suitable contribution from the patrons of ACTION to its running costs and the need to ensure that fare levels do not adversely impact upon patronage levels.

In endorsing a 6% increase in 2006/07, the Department of Urban Services considers this would result in the ACT continuing to have relatively low public transport fares and the Department also notes that other jurisdictions have implemented or are considering substantial fare rises for public transport. For example, the ICRC may be aware that the Tasmanian Government Prices Oversight Commission recently recommended up to a 50% increase in MetroTas adult bus fares over the next three years (notwithstanding MetroTas currently already recovers 39 per cent of its costs through fares revenue).

Should you require any further information the contact officer in this Department is Ms Karen Greenland on telephone 62076244.

Yours sincerely

A handwritten signature in black ink, appearing to be 'MZ', enclosed within a hand-drawn oval.

Mike Zissler
Chief Executive

8 May 2006