

Our Ref:

Dr Tom Parry  
Chairman  
Independent Pricing and Regulatory Tribunal  
PO Box Q290  
QVB Post Office  
NSW 1230

16/6/03

Dear Dr Parry

**Re : Review of fares for private bus**

The Public Interest Advocacy Centre (PIAC) is a non-profit community legal centre based in Sydney. Established in 1982 it strives to foster a fair and just society by empowering disadvantaged citizens, consumers and communities through strategic legal and policy intervention in public interest issues.

PIAC acknowledges the legitimate claim by the Bus and Coach Association (BCA) for an adjustment to fares charged by private bus providers which takes account of outstanding issues arising from the introduction of the ANTS system. However, we have serious reservations about the validity of the proposal for a further increase in fares supposedly related to movements in the cost index.

We raised a number of concerns with the cost index model when the Tribunal examined fares for private buses in 2002. Chief among these was that the index is overly generous insofar as it imposes very little discipline on the operators or the suppliers of the goods and services they utilise. In effect, the model appears to ensure that rises in fares will be granted almost automatically.

In recent times there has been a disparity in the level of fare rises being sought by the BCA and State Transit respectively. The written submission by the BCA to the Tribunal fails to explain the reasons for this. However, PIAC believes it is appropriate that the private bus operators face the same kind of discipline commonly experienced by businesses in other industries. We note, for example, that even monopoly businesses in network industries are required to deliver increasing efficiencies and to apply pressure to the cost of their upstream inputs. In the case of private bus operators this seems especially important given that prices paid by bus users have been rising each and every year and at a rate greater than inflation.

The BCA itself has highlighted a further issue of the relationship between fares and costs with data detailing the disparity in the rate of return being achieved by the various private operators. According to the BCA's written submission, the cost index approach has resulted in a rate of return on assets of between 3.4% and 10.75%. Similarly, the BCA has reported that their members are earning a return on equity in a range between -1.65% and 15.5%. It appears, then, that the cost index model is serving neither the interests of consumers or the industry. Perhaps the only certainty has been a steady increase in the fares paid by the users of private bus services.

PIAC is not at all clear about the overall financial position of the members of the BCA. We question, for example, the extent to which the existing non-commercial contracts between private operators and the Ministry of Transport allow the businesses to over-recover their costs.

In addition, we would point out that the effect of these contracts is to provide a significant level of direct public support for what is otherwise a private industry. This gives particular importance to the question of the social impact of any fare increases which might be granted to the private operators.

We note the forecast by the BCA that present service levels are unsustainable without an increase in fares. While PIAC is sensitive to issues of service quality we would be concerned if these predictions were used by the Tribunal as a basis for justifying fare rises. Without a detailed auditing of existing service levels the claim about the sustainability of quality is almost meaningless.

Finally, PIAC welcomes the suggestion of the BCA that the Government should examine the appropriate balance of fares and direct subsidies in meeting the revenue needs of the private operators. We understand that this might take place as part of the Parry Inquiry commissioned recently by the Minister for Transport. However, we are concerned that the BCA nonetheless is pursuing fare increases before the Parry Inquiry has concluded.

Yours sincerely  
Public Interest Advocacy Centre

Jim Wellsmore  
Senior Policy Officer