

Our Ref:

Dennis Mahoney  
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Independent Pricing and Regulatory Tribunal  
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20/6/03

Dear Dennis

**Re : Review of fares for public transport**

These brief comments are made in response to the fares proposals submitted to the Tribunal by State Transit and CityRail. We trust they will assist the Tribunal in making a determination.

The fares proposals submitted by the agencies place community organisations such as PIAC in a difficult position. On the face of it, the proposal for a CPI adjustment in fares for the next twelve months seems sensible in the context of the Ministerial Inquiry into public transport. Yet, we note that the effect of such an increase would be to compound the concerns expressed by ourselves and other organisations at the time of the previous fares determination by the Tribunal.

In particular, PIAC has been critical of the paucity of information which has been provided by State Transit and CityRail to support their previous proposals for fare increases. We accept that a fully detailed submission to the Tribunal is best left till after the conclusion of the Parry Inquiry and Government decisions concerning its recommendations. However, the lack of detailed information on the costs faced by the providers in the past makes it difficult for community organisations to accept that even a CPI increase is justified.

Once more, both agencies have indicated that future proposals for fare increases will argue that their customers are able, if not willing, to bear higher prices without making any change in their use of public transport services. PIAC accepts there is considerable evidence about the price inelasticity of demand among current users of public transport. However, by using this inelasticity to make the case for fare increases the agencies effectively are taking advantage of the many people who rely on public transport to get to work or school or to access basic services such as health care.

PIAC is concerned particularly by the reliance by State Transit and CityRail on arguments about cost recovery. Sydney Ferries has made an explicit request for an incremental increase in addition to a CPI adjustment which would address what it describes as a gap between full cost recovery and farebox revenue.

No doubt these issues will be considered by the Parry Inquiry. However, the assertion about an imperative for cost reflective pricing should not be used as the basis for granting a fare adjustment, even one as moderate as a CPI-only increase. To put it simply, employing the principle of full cost recovery to set fares carries the strong implication that public transport fares will need to rise by 100% or more. This clearly is not feasible in terms of both political realities and social impact.

The alternative, however, has been for the agencies continually to point to the level of direct Government funding for public transport services and imply that this is an unreasonable or unwarranted state of affairs. Thus we have seen in recent years a series of fare proposals which represent marginal changes in the balance between farebox and Government funds and which cannot address adequately the somewhat competing principles of cost recovery and affordability of public transport.

State Transit, in its latest submission to the Tribunal, has sought to portray its proposal for bus fare increases from a 'commercial perspective'. We question the nature of the 'commercial' pressures on State Transit or CityRail. It is clear, for example, that neither are compelled to operate as commercially successful enterprises as is the case for those businesses covered by the *State Owned Corporations Act*.

The Parry Inquiry provides an opportunity for the NSW Government to commit itself to public support for what is, after all, a system of public transport services. Pending the outcomes of the Inquiry we call on the Tribunal to reject arguments about cost reflectivity and the proportion of revenue raised from the farebox.

PIAC is pleased to see that State Transit and CityRail again have made available some figures on their proposed capital spending. We believe the community is more likely to support adjustments to fares if it can be shown that the extra revenue will be used to benefit the community, for example through the provision of better services. Unfortunately, the minimal detail provided by the agencies can hardly contribute to a better understanding by the community of the capital investment decisions of these two providers.

We note that State Transit have pointed to the costs arising from the requirement that the average age of their bus fleet be no higher than twelve years. PIAC accepts that some costs will result from this requirement. The question is whether or not these costs ought to be met by the users of public transport. In our view, the requirement concerning the age of the bus fleet is the result of a political decision on the part of the NSW Government. In other words, while capital investments are appropriately factored into the setting of fares we believe the prices paid by bus users should not include additional costs which result from a decision about fleet age.

In a similar vein, CityRail have pointed to the recent restructuring of the rail sector to underpin their proposal for a CPI-only adjustment to fares. The implication is that fare increases are

justified by the restructuring. This equally could be portrayed as an attempt to pass on to the users of public transport the costs of the failed earlier restructure – a program which demonstrably has produced no benefits for the users of CityRail services.

Sydney Ferries have reported to the Tribunal the outcome of a recent review of its work practices. To the extent that additional resources are needed to underpin safety for staff and customers PIAC supports greater investment in this area by Sydney Ferries. However, we note that Sydney Ferries report that farebox revenue contributes only some 50% of total costs. Thus, as is the case with Sydney Buses and CityRail, the important question for the Tribunal is whether all the additional revenue can be raised through fare increases without an accompanying negative social impact.

Yours sincerely  
Public Interest Advocacy Centre

Jim Wellsmore  
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