

Mr James P Cox
Chief Executive Officer
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office, NSW 1230

27 September 2006

Dear Sir,

Review of Bus and Ferry Fares 2006

I offer this submission in relation to the above reviews and to address, more specifically, the degree of public subsidy across the different modes of public transport (Rail, Bus and Ferry). I note the degree of public subsidy (expressed as a percentage of "Cost Recovery") was a factor considered by IPART in June this year when making determination relating to rail fares.

"Cost Recovery"

This is an inadequate measure to support a case for an increase in fares. The "Cost Recovery" rate can slip and continue to decline in response to poor management of the assets and resources. In the absence of any information confirming that real costs have been simultaneously driven down (or held stable, in real terms), the case justifying an increase in fares based on declining "Cost Recovery" is flawed. Awarding fare increases without due scrutiny of (and link to) cost performance, effectively shifts further funding burden onto travellers (new dollars into NSW Treasury) in a way which does not offer any driver for improved cost performance from the managers of the transport service. IPART should give consideration to changes that offer incentives to limit the total pool of funds required to operate the service.

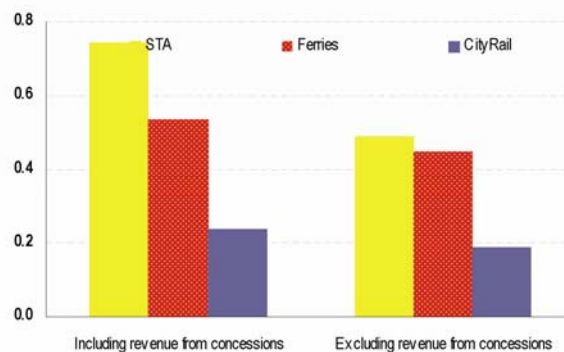
Financial Position of Monopoly Operator

The NSW Government (the ultimate owner and operator of SFC and STA on behalf of NSW taxpayers) currently administers a state annual budget of approximately \$44 billion. This annual budget has more than doubled in the last eleven years. Delivery of the state's aggregated monopoly services (pre-indexation) now costs the people of NSW more than twice as much as it did eleven years ago. Even after indexation for inflation and growth, the revenue position of the Monopoly Operator is at a historic high. The case for increased revenues to NSW Treasury (by way of further burden-shift to user pays, or by any other means) cannot be made. On the contrary, a compelling case exists for the introduction of cost-control mechanisms for those charged with the responsibility of managing the state's assets.

Cost recovery of different modes of public transport

The following table is reproduced from the IPART Determinations Report dated June 2006.

Figure 3.6 Cost recovery of various modes of public transport in Sydney



Data source: RailCorp.

From the same report, IPART is quoted on page 16 as follows:

“The Tribunal considers that the following factors are important in deciding on an appropriate level of cost recovery for CityRail:

- *Cost recovery in other modes of public transport – large differences between the cost recovery of modes of transport may affect consumer decisions on modes of travel and government decisions on future investment in infrastructure...*”

When considering the case for an increase in CityRail fares earlier this year, IPART noted the relatively high proportion of public subsidy as demonstrated by Figure 3.6. At that time, the CityRail case for fare increases argued the merits of “balancing” the degree of public subsidy across the transport modes (an outcome that would be served by increasing the CityRail farebox revenue).

If IPART identified some merit in balancing the degree of public subsidy across the modes, and applied this (even in just a small way) to help justify the case for an increase in CityRail fares earlier this year, then IPART must again review this factor now, with respect to ferries and buses.

Reapplication of the philosophy of “balancing the public subsidy” establishes a case not to increase ferry and bus fares, but to **reduce** them.

Yours sincerely,

(original signed)

Mitchell Geddes