HOW TO RESTORE VICTORIAN RAILWAYS FINANCES AND REDUCE FREIGHTS AND FARES

The Land Values Research Group Submissions to the Victorian Parliamentary Public Accounts Committee Inquiry on Railways, 1972.

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For the collection analysis and distribution of information upon the incidence and effects of public charges upon land values:

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THE LAND VALUES RESEARCH GROUP SUBMISSIONS TO THE PUBLIC ACCOUNTS COMMITTEE RAILWAYS ENQUIRY

PART I — INTRODUCTORY

1. These submissions are made by the Land Values Research Group, whose headquarters are in Melbourne. This body, whose members give their services in an honorary capacity, has made and published many factual surveys and reports over the last 27 years, mainly on the incidence and effects of municipal rating systems on particular municipalities and on relative development between the Australian States as shown by key indicators of economic and social progress.

2. It is noted that the terms of reference of the inquiry are:

Generally, to conduct an examination of the accounts of the Victorian Railways and the operation of that undertaking including, in particular, consideration of the following matters:—

(a) the viability of the Victorian Railways as a transport system;

(b) the profitability or otherwise of the Victorian Railways, differentiating between urban and country services and passengers and freight;

(c) the effects of intrastate and interstate competition on railways results, especially constitutional problems;

(d) comparison of operations and results with other railway systems;

(e) the form and presentation of accounts; and

(f) the basic principles connected with the structuring of capital investment, loan advances from the Government, interest charges and depreciation of assets.

Accordingly our submissions herewith are directed mainly to the matters mentioned under item (a) and to lesser extent those mentioned under items (b), (c), (d) and (f).

3. The Railway system is one of a limited number of developmental services provided by the State Government directly, through semi-governmental bodies or through local government authorities with authority delegated from the State Government — without which services civilised living at present population densities and living standards would be impossible. These services include the railways, tramways, and buses, roads, electricity, gas, irrigation, domestic and industrial water supply and sewerage.

4. Of these services this submission is primarily concerned with the railways and only indirectly concerned with the others, to which they are related as components of that environment. The main interest of these others to this Inquiry is that there are certain features related to their finance which are or should be of common application to them all. Hence comparisons with these others can, at some points, prove helpful in considering the railways case.

PART II — VIABILITY OF THE VICTORIAN RAILWAYS AS A TRANSPORT SYSTEM

(Vide term of reference (a))

(1) Reasons for Concern

5. The Victorian railway system is vital to the livelihood and well-being of the people in this State. Nevertheless the very fact that the first matter to be investigated in this inquiry is concerned with its viability meaning its capacity for living in certain conditions of en vironment - indicates a questioning of the possibilities that the railway system may be incapable of living and thriving in the environ ment in which it finds itself, or that condi tions of that environment are defective and need changes to allow the railways to serve the needs of the community properly

6. The reasons for concern on the viability of the railways system are seen in statistics taken from Appendix No. 7 to the Victorian Railways Annual Report for the year ended 30.6.70.

7. From these it is found that the Victorian Railways working expenses charged to railway revenue over the last six years for which they are available have risen from a total of $99,326,000 in 1964-65 to $118,558,000 in 1969-70, giving an increase of $19,232,000. In the same period gross revenue rose only from $100,253,000 to $105,054,000, giving a revenue increase of only $4,801,000 despite substantial increase in rail fares in 1968-69.

8. With the addition of net interest charges, exchange on interest payments and contributions to the national debt sinking fund (which

are not charged as working expenses against revenue) the total railway deficit met by the State Government in this period rose from $2,267,000 to $20,996,000. The deficits have increased progressively over the period.

9. These figures suggest that the railway finances are in a serious condition and that the system will break down unless some radical changes are made.

10. We submit that the reason for these increasing deficits lies in the basically unsound and inequitable method adopted for recovery of railway costs. Unless this is altered to a more sensible and equitable basis there is no real solution to the railway finance problems. At this point it is appropriate to look at the basis of those charges.

(2) WHAT IS THE CURRENT BASIS OF RAILWAY CHARGES?

11. The general principle aimed at in Victorian Railways Department finance is that those using the service should contribute towards its costs according to the extent of their use. This is modified, without altering the guiding principle, by subsidiary considerations as to what the market will bear for particular types of business.

12. Contribution according to benefit received is both an equitable and commonsense basis of distribution of costs but the method of giving effect to it in the Railways Department is glaringly defective and the net result a travesty of that principle. The failure to apportion the costs truly according to benefit given to the beneficiaries from the service is directly responsible for the financial difficulties experienced by the Railways Department and State Government. It is also probably the major factor tending to centralisation of population in the metropolitan area over many years and the curtailment of development in rural areas of the State.

13. The defects referred to in charging according to use are not accepted by choice of the Victorian Railways Department itself but have been imposed on it by past Governments The Victorian Railways Department has become increasingly aware over the last 50 years that the failure of Governments to allow it to apply the principle of charging over the full field of beneficiaries was putting its finances into an impossible position and making it appear that the Victorian Railways Department was unable to run this important public utility except on the basis of increasing losses made up by the taxpayers of this State. The Victorian Railways Department (and other bodies) have sought changes in its charter to allow it to rectify this position and enable a realistic evaluation of its profitability to be given but their representations have not yet been accepted.

14. This Inquiry now gives the opportunity for these defects in its charter to be examined thoroughly and recommendations to be made by the Committee to enable its finances to be put on a sound basis for the future. In our submissions we first state the full requirements of the principle of charging according to benefits received and the changes that this necessitates to present practice. We then cite evidence extending over many years where the Victorian Railways Department and other bodies have sought these changes. We then present our practical proposals for consideration of the Public Accounts Committee and show in some detail how they would operate upon Railways Finances and the effects upon various groups and areas in the State.

15. As currently applied the Victorian Railways charging structure is based on the assumption THAT THE USER OF THE SERVICE IS THE ONLY FINANCIAL BENEFICIARY FROM ITS EXISTENCE, who should pay in charges for freights and fares all annual costs linked with capital outlay on the railways, as well as the annual costs of operating it. This assumption is untrue and contains within it the seeds of self-destruction to any public utility following it to its logical conclusion.

(3) WHO BENEFIT FINANCIALLY FROM RAILWAY SERVICES?

16. There are two classes of financial beneficiaries from the existence and continued operation of the railway services each of which should pay its share of the cost of those services:

A. Land-Owners as such

17. Land owners as such are major beneficiaries from the mere existence and availability of the railway service, even though they themselves may not be rail users. The rental