

INDEPENDENT PRICING AND REGULATORY TRIBUNAL
PRIVATE BUS AND FERRY FARE REVIEW WORKSHOP

Tribunal Members

Dr Tom Parry - Chairman
Mr James Cox
Ms Cristina Cifuentes

Held at the Meeting Room 2, Level 2
44 Market Street, Sydney NSW 2000

On Thursday, 26 June 2003, at 2.00pm

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1 MR COX: Good afternoon, ladies and gentlemen. Let me
2 welcome you to the workshop on private bus and ferry fare
3 review. I just want to introduce myself. My name is
4 Jim Cox and I'm a member of the Independent Pricing and
5 Regulatory Tribunal. With me on my left is Tom Parry, who
6 is the chairman of the tribunal, and I would say he will be
7 here for at least some of the session.

8
9 DR PARRY: I have to leave at afternoon tea.

10
11 MR COX: Also with me is Cristina Cifuentes.

12
13 I want to point out that this is, in some respects, a
14 fairly limited inquiry in that we are just looking at fare
15 setting issues. There are some broader issues that have
16 been raised in submissions that unfortunately we will not
17 be able to address as part of this review - issues such as
18 social policy and industry structure - and I do regret
19 that, but the nature of the advice that we have been asked
20 to provide to the government is to look just at these fare
21 issues.

22
23 In particular, we will be interested in issues such as
24 what should be the movement in fares between those that
25 apply now and those that should apply after September 2003.
26 We will look in a great deal of detail at the cost index
27 models that have been provided in submissions and we will
28 also look at some alternatives to these models for fare
29 setting, particularly on the non-commercial side.

30
31 So those are the things that we have been particularly
32 asked to provide advice on and will indeed provide the
33 focus of our report to the Minister for Transport.

34
35 In this context, obviously, we are very interested in
36 everything you have to say to us this afternoon. An agenda
37 has been circulated, and I will just run through that for a
38 second. As you will see, there are four sessions. The
39 first one looks particularly at the bus commercial
40 contracts and then the second one looks at the bus
41 non-commercial contracts. That is a fair whack on buses,
42 and that will take us through to afternoon tea.

43
44 Then after afternoon tea we have a session on ferries
45 and then we have another session on issues for buses other
46 than those concerned with the contracts, and we hope to
47 finish at about 5 o'clock.

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1
2 The way we will do it is for each of those sessions
3 there will be a brief introduction by a member of the IPART
4 secretariat who will talk about some of the key issues that
5 have been raised in submissions and our own views and
6 thinking so far as it has been evolved to date. We will
7 then go around the table and ask each person sitting at the
8 table to provide their comments on the submissions.

9
10 What we would like to do then is give each speaker
11 about five minutes to give their points of view. We will
12 go one speaker after another so they can just move around
13 the table and we will try to allow each speaker to speak
14 without interruption so that we can, indeed, get the
15 benefit of their views. Then after that there will be a
16 general discussion around people sitting at the table and,
17 if there is sufficient time, we might also allow questions
18 and comments from people sitting at the back of the room.

19
20 I will try to enforce those rules reasonably strictly
21 because we are concerned that everyone should have their
22 say and that we have the benefit of everyone's views, and I
23 do apologise in advance for any brutality that may be
24 exercised in doing that. I hope you will bear with us.

25
26 I think that is all I need to say about the agenda. I
27 might just run around the table and get everyone to
28 introduce themselves and perhaps explain a little bit about
29 what their interest is on matters related to private buses
30 and ferries and then move on to the first session.

31
32 So if I start off, I am Jim Cox, a member of the
33 tribunal.

34
35 DR PARRY: Tom Parry.

36
37 MR MAHONEY: Dennis Mahoney, program manager transport
38 with IPART.

39
40 MR SANCHEZ: Alex Sanchez, member of the Transport
41 Advisory Council.

42
43 MR WELLSMORE: Jim Wellsmore from the Public Interest
44 Advocacy Centre. We are interested in low-income
45 consumers.

46
47 MR SKAROTT: Steve Skarott from Matilda Cruises. We are

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1 here to talk about our submission.
2
3 MR CRIBB: David Cribb from the Charter Vessel Association
4 representing private ferries.
5
6 MR D'APUZZO: Frank D'Apuzzo, managing director of the
7 Bus Lines Group. We operate in country regions of
8 New South Wales roughly 210 vehicles, and we are here to
9 support our application on fare increases.
10
11 MR MELLISH: Darryl Mellish, the executive director of the
12 Bus and Coach Association, to support the private bus
13 industries application for fare increase and change in
14 non-commercial rates.
15
16 MS CIFUENTES: Cristina Cifuentes, tribunal member.
17
18 MR LEE: John Lee, TCA, soon to be the Ministry for
19 Transport.
20
21 MR COX: I will ask Dennis Mahoney to begin.
22
23 MR MAHONEY: The first session concerned about the bus
24 industry cost index really begins on page 3 of the notes
25 that were sent out a couple of days ago to the round-table
26 participants. Without going over the same ground, our
27 focus is clearly the bus industry cost index, or the BICI,
28 as it is called, summarised in appendix 1 in those notes.
29
30 I think the individual costs we have laid out in our
31 notes, where we might want to modify the BCA individual
32 items and why. One of our tribunal members pointed out
33 yesterday at a briefing that we should also have a look
34 again at the bond yield which has come down considerably in
35 the June quarter.
36
37 If we were to go ahead with those suggestions and make
38 some recommendations to the tribunal and the tribunal were
39 to accept those changes that we have mentioned in the notes
40 and we were to reduce the bond yield as well, we would be
41 looking at an increase in the cost index itself instead of
42 being the 5.59 per cent, something under 5 per cent,
43 possibly as low as 4.6 per cent, but we are yet to do the
44 number crunching on that.
45
46 The other part of the notes talks about some
47 conceptual issues when trying to splice in a new cost item,

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1 whether it be a new type of bus or a totally new cost such
2 as tolls that have never been levied before, and we also
3 had an outside consultant look at alternatives to the cost
4 index and interstate practices on using cost indexes, or
5 the like, and also look at the cost index item by item. We
6 are happy to make that consultant's report available to
7 anyone that is interested, but the summary of it is that
8 they thought that the cost index approach was still a very
9 viable approach, limitations or not, and going through it
10 item by item, there were a few comments suggesting changes
11 which I think we put in the category of tweaking the index
12 rather than fundamentally changing its character.
13
14 There were two other items that I would just like to
15 touch on, Mr Chairman. One concerned the adjustment for
16 the new tax system. We previously agreed by looking at
17 some work that the BCA had submitted to us on the basis of
18 work that had been done for them by, I think,
19 PricewaterhouseCoopers that we had missed a 0.75 per cent
20 adjustment - I think we had both missed it - and now the
21 BCA were saying could we have that adjustment. I think, in
22 principle, the tribunal had agreed to that.
23
24 The issue from the BCA point of view I think
25 Mr Mellish will address when he comes to talk about the
26 notes that he's distributed today. It can be summed up by
27 the chart that is on page 4 of the notes. If the tribunal
28 were to grant the ANTS adjustment for this year, there
29 would still be the last couple of years of lost revenue.
30 However, we would have to use a proxy of the fare increase
31 in some sense of lost revenue for the BCA. So I think we
32 should have some discussion on that.
33
34 A compounding factor, if everybody very politely puts
35 a big X through the second-last paragraph on page 4 I
36 personally would be most grateful since it is nonsensical.
37 It turns out that if we were trying to adjust for total
38 revenue in terms that would be the equivalent revenue in
39 today's dollars over the last three years, we would want
40 to, in fact, work out what is the equivalent fare rise you
41 would need now to make the net present value of the last
42 three fare increases come up under either scheme, whether
43 we had given you the ANTS or not at the right time.
44
45 It turns out that that would require a fare increase
46 this year not of something like the order of 5 per cent
47 plus another 0.75 but something totalling 7.4 per cent.

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1 The reason for not doing any compounding is we didn't think we
2 resolved this until February this year. So I think,
3 again, we would be reticent to suggest that the compounding
4 was appropriate as if it had happened, the ANTS adjustment
5 as if it had happened.

6
7 Then, lastly, at the top of page 5 we talk about
8 delayed implementation adjustment. Normally these are
9 annual fare reviews that take place around about 1 July
10 through implementation. We think it is a reasonable case
11 that the BCA have made and, for that matter, although the
12 ferries haven't made it, we think it is also reasonable to
13 give this extra adjustment for the delayed implementation
14 until 1 September. I think that is enough from me,
15 Mr Chairman.

16
17 MR COX: We might go first to the bus and coach.

18
19 MR MELLISH: Thank you, Mr Chairman. The Bus and Coach
20 Association would like to submit to the tribunal that the
21 cost index approach that it is using is the only index that
22 is currently approved between the TCA, the Transport
23 Coordination Authority, and the BCA. We see lots of
24 strengths and weaknesses in the system, but we don't
25 believe there are any other options for us to use at this
26 present time.

27
28 We are working with government on different methods of
29 funding the bus industry and looking at contract reform,
30 but in the absence of having information that can dictate
31 otherwise, we believe that there is no option but to use
32 the existing index, and we have discussed in our
33 application the pros and cons of various alternatives.

34
35 We also would like the tribunal to be aware that fares
36 are the primary influence on all the revenue generated for
37 the private bus industry. The fares determine the SSTS
38 payments and the fares determine the revenue from the fare
39 box, so there is no other subsidy payments that the
40 operators receive to meet their contract requirements.

41
42 The contracts require a minimum service level and
43 presently what is being experienced in the industry is that
44 the service levels that are contracted, the revenue that is
45 generated from those service levels is proving insufficient
46 to meet the costs of running the business plus upgrading
47 the assets and replacing the assets where needed. So the

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1 determination of the level of fares, until there is a
2 different funding mechanism, is a major impact on the
3 financial status of the industry, and I hope that the
4 tribunal will refer to my notes that I have left on your
5 table about that viability study, because I think it is
6 important to the industry.

7
8 I would like, also, to remind the audience that the
9 cost index measures change from one year to another, so the
10 starting point for this index has been what IPART approved
11 last year and we have measured the changes from one year to
12 the next.

13
14 I have tabled for you in this blue folder (indicating)
15 notes on each of the issues that have been raised by IPART,
16 and the ones that have been mentioned today are also
17 covered in here. On the ANTS adjustment, our position is
18 that the graph that has been drawn, which is on page 4, is
19 a proper indication of the adjustment that is needed and,
20 as Dennis said, the gap between the dotted line and the
21 fixed line is what the BCA has applied for to recover. It
22 leaves it to IPART to best decide how to recover it. In a
23 sense, we would prefer it not to go into fares; we would
24 prefer some other funding mechanism to provide it so that
25 fares did not go up by that factor.

26
27 The reason for that is that the gap in fares between
28 ourselves and the STA is continuing to grow, and we would
29 prefer to see the gap narrow. So the basis for funding for
30 the industry should be not only related to fares;
31 profitability and revenue should be delinked from fares,
32 the BCA contends.

33
34 On the specific issues that we have been asked to
35 address regarding the BICI model, I have reported in the
36 paper that Green Slip premiums have been included, as they
37 have been in previous years. So the index uses the known
38 knowledge at the time to update the model so that it
39 reflects, as best we can, the cost pressures that have been
40 on the industry. So that is no change, and you will note
41 that not only is the green slips handled in this way, but
42 wages, super, workers comp, payroll tax and insurances are
43 all handled in this way. So it is consistent with last
44 year and it is consistent with the current method.

45
46 The next question we are asked is about fuel. Our
47 position is that this submission has been done in a timing

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1 that was adjusted because of the election, and we believe
2 that the period from March to April is the most appropriate
3 period to capture the movements in fuel. We have adjusted
4 the way that fuel is captured in accordance with IPART's
5 requests last year, so we have done specifically what IPART
6 have requested, and we consider when you are looking a year
7 ahead that using the period that we are talking about is
8 still the most appropriate period to adjust for fuel costs.
9

10 The CPI question that we have been asked, our position
11 is that we are receptive to consider any CPI calculations
12 available that are suitable to the industry. The method
13 that we picked was the same as the one that IPART selected
14 last year. We used an Econtech letter this time rather
15 than what was posted on the Econtech web site, because the
16 Econtech web site now doesn't contain the submission.
17 Econtech is the same sort of CPI that IPART itself uses.
18 If there is a better, more appropriate industry method for
19 CPI, we would be happy to encompass it, but as it stands at
20 the moment, we have used what we thought was consistent, or
21 what is consistent, with last year and agrees with IPART.
22

23 We believe it is essential that the increase requested
24 is approved. We acknowledge that the problem for the
25 passenger is significant, but in the absence of a method of
26 funding where the taxpayer can take a share, we believe
27 there is no other option but to apply for the increase like
28 we have.
29

30 MR COX: Thank you very much. We might move on now to the
31 Transport Coordination Authority.

32
33 MR LEE: At this stage I wouldn't offer many comments at
34 all. I'm just happy to receive further commentary from the
35 different players here today, thank you, chairman.
36

37 MR COX: Alex?

38
39 MR SANCHEZ: Mr Chairman, I couldn't add much more to
40 what's already been said other than to argue that I think
41 IPART have allocated the costs appropriately and I think it
42 is a fair judgment on their part, a recommendation to you
43 from the secretariat.
44

45 MR COX: Thank you so much. Jim?

46
47 MR WELLSMORE: Thank you, chairman. Just briefly, we have

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1 made a written submission, and that pretty much sets out
2 our broad views. PIAC isn't in a position to talk about
3 specific numbers. We just don't have the length of
4 experience with these issues that the other stakeholders
5 perhaps do and we don't have the resources to sort of dig
6 down into some of these issues.
7

8 Our basic position is based on our view that pretty
9 much every year bus fares go up. They seem to go up by a
10 rate much larger than the sort of general rate of
11 inflation. Whilst we can accept that certainly some costs
12 for the operators will rise from time to time, really, what
13 we would be looking for is a greater level of confidence on
14 our part and the part of the customer that is paying these
15 prices that the increases in costs - almost sort of
16 inevitable increases in costs, it seems - are actually
17 reasonable.
18

19 So we are actually very happy with the work the
20 secretariat has done and the sort of rigour that they are
21 bringing to bear on the sort of claims that have been put
22 forward from the operators about their costs. We think it
23 is important that some kind of pressure on costs does come
24 from the regulator and then, in turn, does come from the
25 operators back on to their suppliers.
26

27 From our perspective, it sort of probably shows in the
28 long term there is a need for an overhaul of the BICI, but
29 in the short term we think there are clearly some questions
30 in our mind about the appropriateness of some of the costs
31 that are being put forward from industry.
32

33 I take the point that was made about whether people
34 might want to delink prices and profitability, but from our
35 perspective, based on the figures as we understand them in
36 the BCA submission, there is a tremendous kind of range or
37 variation of profitability of the operators and it seems to
38 us that, really, that underpins some of our concerns about
39 the adequacy of a BICI as a model and, again, in turn it
40 suggests to us that costs, given that some operators are
41 clearly very profitable, probably need to be looked at, as
42 I say, with a bit more rigour.
43

44 So, yes, we certainly do welcome the proposals from
45 the secretariat. Thanks.
46

47 MR COX: Chartered Vessels Association?

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1
2 MR CRIBB: We don't have any comments, personally,
3 Mr Chairman, on this issue.
4
5 MR SKAROTT: Nothing from us.
6
7 MR COX: I wonder if there are any further comments from
8 the Bus and Coach Association on what's been said so far.
9
10 MR MELLISH: If I could, I would like to refer the
11 tribunal to attachment 1 of the paper that you have in
12 front of you. It is the scope of industry viability study
13 which has been commissioned by the government. It is to
14 put to bed once and for all the issue raised by the
15 Public Interest Advocacy Centre, and that is about the
16 profitability of the industry.
17
18 We understand that this report shows that the majority
19 of the metropolitan private business industry is barely
20 profitable and is earning returns on investment less than
21 government bonds. When that report is available we would
22 like to provide it because we believe it shows that the
23 cost efficiency of the industry is higher than in other
24 states and in certainly any comparison with the government
25 operator in New South Wales. We understand the comments
26 about the range of profitability, but we believe that the
27 facts won't support that conclusion.
28
29 MR COX: Thank you. Any further comments from members of
30 the panel?
31
32 MR LEE: Can I just ask a question of the BCA with regard
33 to the move to new for old. You put in a low floor bus.
34 What percentage of the total fleet that make up the
35 234 contracts would be low floor at this stage?
36
37 MR MELLISH: We don't know that, John. There is a comment
38 in the IPART report here that TCA has been asked for that
39 information and has been unable to provide it. We,
40 similarly, don't have that information. It is in Dennis's
41 report that he has asked TCA for it.
42
43 The difference in the vehicle is, as you know, Euro 3
44 engines require an emission standard which is mandatory
45 from 1 January. So the old vehicle does no longer exist.
46 The new vehicle is all you have to comply with the law and
47 that is why we have submitted - and in Dennis's submission

1 he has accepted that as being the reality of the market.
2 There is not the old vehicle available because you have to
3 meet emission standards.
4
5 MR MAHONEY: If I may say, you also made an attempt to
6 take out any extra costs from the bus - as I recall,
7 airconditioning isn't in the old model, so you have taken
8 out the cost of airconditioning in the new model.
9
10 MR MELLISH: That's correct.
11
12 MR MAHONEY: That still leaves some extra costs because it
13 is a new bus, but it seems to me that if you ever have to
14 adopt CNG buses, if the budget papers are any guide, you
15 will be up for not \$400,000 a year but \$600,000 a year.
16 The tribunal will have an interesting time thinking about
17 how to take that on board when it comes.
18
19 MR MELLISH: That certainly is a weakness in the existing
20 system. There are a number of issues that the industry is
21 unfunded for and we look towards this increased
22 relationship with government to work on how to solve it.
23
24 MR D'APUZZO: Could I comment on that, please,
25 Mr Chairman. The way this works, John, as you're aware, is
26 this basically creates a basis for providing for these
27 vehicles in the future. The fact that this increase now
28 comes into play doesn't mean that you can now afford to go
29 out and buy 10 new of these buses. The fact that we now get
30 a small increase in the fares basically builds up reserves
31 to replace these vehicles when the time comes. It's not as
32 if we can now go out, because of this fare increase, and
33 buy 10 new of these types of vehicles, but it has to start
34 at a particular point in time.
35
36 We have mentioned the fact that the BICI is
37 inefficient and doesn't provide for certain things. One of
38 the things it doesn't provide for, and I think it is things
39 that we need to address in the future, is the capacity of
40 these vehicles - the number of passengers we are carrying
41 is reducing, some of the efficiency of these vehicles is
42 reducing. In actual fact, you need to have more vehicles
43 to carry the same number of people. Those sorts of things
44 are reflected in the model. Darryl is pointing out to me
45 that the capacity is detailed in the report, so maybe we
46 should refer to that.
47

1 MR MAHONEY: Instead of carrying 54 passengers, it will
2 carry 49 seated, is that in essence it?
3
4 MR MELLISH: Attachment 4 of our submission actually goes
5 into some detail and shows you the effect of not only
6 low-floor vehicles but Euro 3 and other technology changes
7 and the impact on capacity, so if I can refer you to our
8 attachment 4 it has the full details in there.
9
10 MR D'APUZZO: Other areas are the fact that the DDA is now
11 part of reality for the bus operator. Accelerated
12 replacement is also something that is not reflected in the
13 model that we also need to provide for. Again, it is a
14 failure of the model in that we are not given an increase
15 for those sorts of factors. Again, it is all relevant to
16 how effective and efficient is the model for the future.
17 There are lots of other outside factors that the model does
18 not consider as well.
19
20 MR MELLISH: The figure Dennis was after is a 20 per cent
21 loss in productivity as a result of reduced licensed adult
22 seating capacity because of those changes.
23
24 MR LEE: Are there any other impacts on running costs,
25 maintenance?
26
27 MR MELLISH: There are, and they are in this report.
28
29 MR LEE: It is only a net decrease of 20 per cent or is
30 that capacity?
31
32 MR MELLISH: A net effect.
33
34 MR SANCHEZ: I think the BICI is stale, if I can comment,
35 and it is high time that we had a good look at the stale
36 BICI and looked at putting the whole data collection system
37 for the bus sector on a firmer footing, both public and
38 private, so that we can begin the process of some honest
39 evaluation and benchmarking across the two sectors. There
40 are a lot of claims and counterclaims. I find, and
41 probably my colleague here, Jim Wellmore, the whole system
42 a bit of a challenge to work through, and it would help if
43 we had a greater level of clearness and disclosure between
44 the two sectors and between various performance data and
45 cost indices across the two. .
46
47 MR MELLISH: The industry supports that.

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1
2 MR COX: That seems to imply a fairly major data
3 collection exercise to be coordinated by someone.
4
5 MR MELLISH: It can be major, but there are also five or
6 six key indication points. KPIs would be a useful starting
7 position.
8
9 MR D'APUZZO: There are some figures quoted. The study
10 has revealed some numbers, compared the two, so I refer you
11 to that.
12
13 MR SANCHEZ: Sure.
14
15 MR COX: It sounds to me what people are saying is that
16 perhaps we are stuck with a BICI for this year but moving
17 on we ought to turn our minds to how a more accurate
18 representation for costs in the bus industry might be
19 shown.
20
21 MR MELLISH: We contend the performance and cost of the
22 industry will be confirmed in the independent viability
23 report.
24
25 MR COX: Any further comments? If not, Darryl, can you
26 clarify this: we talked about the ANTS adjustment and you
27 are saying that you prefer that to fares. How do you think
28 we should treat it this year? Should we assume that this
29 other revenue is likely to be forthcoming or it is unlikely
30 and put it in the fares for lack of anything better?
31
32 MR MELLISH: We have no evidence that there is another
33 funding source, but we asked the Government - we believe
34 that there is no choice for the industry but to request
35 that it be included in the fares.
36
37 MR SANCHEZ: I do not want to labour the point but one of
38 the issues that is really important is the issue of
39 transparency and disclosure and let's not hide subsidies in
40 whether they should be there or not. I don't have a
41 difficulty with subsidising either the private sector or
42 the public sector according to some clear need or
43 identification of what the subsidy is designed to do but we
44 should ensure that it is disclosed and obvious and not try
45 to hide it in either the fare or some other concessional
46 arrangement.
47

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1 MR MELLISH: That is supported by the industry as well,
2 full transparency.
3
4 MR COX: Would anybody at the back of the room like to
5 make any comment?
6
7 MS THORBURN: Nadine Thorburn, Harris Park Transport
8 Company. I put in a submission to the issues paper. I
9 would like to bring to the tribunal's attention that in
10 regards to some services in New South Wales, and I am
11 talking specifically city bus services, there are a number
12 of costs that are borne by those particular services that
13 are not taken into account with the BICI index. You
14 referred to tolls and so forth, so I was just hoping that
15 could be noted.
16
17 MR COX: Thank you. Any further comments on the issues
18 from anybody?
19
20 MR D'APUZZO: Can I comment on the fare increase?
21 Elasticity is an issue as the price goes up. We lose more
22 passengers and again it is a problem, another deficiency in
23 the BICI, and it is a reason why we the BCA are saying that
24 it would be beneficial for the public if the whole increase
25 was not borne by the passenger. Of course, we need, as we
26 mentioned earlier in our submission, the increase to cover
27 our costs so there is no alternative for us except to go
28 for what we believe we need to cover our costs but, if as
29 mentioned in the ANTS adjustment, if some of that were
30 borne in some other way and the fare increase not be as
31 high as we indicated it should be then it will be of
32 benefit to both the industry and the travel public. That
33 is why we put that point forward.
34
35 MR WELLSMORE: From our perspective, we make this clear in
36 our written submission, we think there is a fair amount of
37 transparency around ANTS and that it is a fair cop
38 basically. As with bringing in the GST, the beef for your
39 customers is with someone else. We certainly have no
40 reason to question the numbers that have been presented by
41 the secretariat about what is an appropriate level of
42 recovery for those costs. For us, yeah, that is probably a
43 legitimate pass-through. As I say, from our point of view
44 some of those other costs and the growth in those costs is
45 more of concern to us in terms of whether those ought to be
46 passed through, whether they should be borne by the fare
47 paying customer.

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1
2 MR COX: Another person at the back of the room?
3
4 MR MILES: Allan Miles, Action For Public Transport, a
5 consumer group. John asked a question before about did he
6 know what percentage of buses had such-and-such a feature
7 and Darryl didn't have the figures. Then Darryl mentioned
8 something about KPIs of buses and the problems there might
9 be with the data collection system, is it feasible to have
10 some sort of data collection on say half a dozen - I assume
11 you are talking about the standards of buses themselves.
12
13 MR MELLISH: Not only that but a range of performance
14 indicators.
15
16 MR MILES: Let's talk about the standard of buses. I
17 could probably name half a dozen what we politely call bus
18 dribblers who could tell you the engine and chassis number
19 of every bus in New South Wales. They could compile a data
20 base of how many high- or low-floor or airconditioned or
21 non airconditioned 25-seaters or non 25 seaters are around!
22
23 MR MELLISH: If I can respond to a comment made before
24 about the terms of reference and exclusion of a social
25 policy and industry structure, my reading of the terms of
26 reference very much relate to the fares and how they affect
27 social policy. Part of our submission was to try to have a
28 benefit for the pensioner and unemployed and have a
29 reduction in that fare so that the passenger would pay less
30 but the reimbursement would compensate the difference. Is
31 that outside it, because the fare itself is what I am
32 talking about?
33
34 MR COX: I believe that social policy concessions are
35 issues of policy for the government and not ourselves.
36
37 Perhaps we should draw this session to a close. I
38 guess what I am left with, tell me if I have got it wrong,
39 for this year we are probably stuck with something like
40 BICI, we started out to correctly calculate that, and that
41 for next year we should have some better representation of
42 what the cost structure of the bus industry actually is.
43
44 MR MELLISH: Related to the funding structure, so that if
45 we don't advance on a different funding structure we will
46 be in the same position next year.
47

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1 MR COX: We should look at the cost index either way.
2
3 MR SANCHEZ: Pragmatically, yes.
4
5 MR MELLISH: We decided when we were going to look at the
6 cost structure this time that we would agree to do it on
7 the non-commercial rate, but the commercial rate it was
8 decided not to do because of the bus reform agenda
9 announced 18 months ago.
10
11 MR COX: There seems to be a need to look at that again in
12 our process, if nothing else.
13
14 MR SANCHEZ: I said the BICI was stale.
15
16 MR COX: Thank you very much. Now, session 2.
17
18 MR MAHONEY: Bus non-commercial contracts: From the
19 tribunal's point of view I think part of it is appendix
20 number 2 which compares the costs that were derived from
21 the PwC model up until this year with the costs now derived
22 by the Institute of Transport Studies ITS model as laid out
23 in appendix 2. If you just look at that for the moment,
24 you can see that comparing the year 2002, which is in the
25 normal type, that is the PwC model, then of course the ITS
26 is in italics, there are really two major differences at
27 this level. One is in the introduction of a different
28 concept other than return on investment with depreciation
29 thrown in. In fact, the numbers on that, if we were to
30 look at the PwC numbers for the return on investment plus
31 the spares and depreciation, that number comes to something
32 like about 18 per cent lower.
33
34 Let me reverse that, you need to increase that number
35 by about 18 per cent to get to what under the ITS model is
36 shown as the annualised capital cost, ACC, including
37 interest free interest, and a risk premium and spare bus
38 allowance, so we are struggling a little bit because it is
39 a new concept. We are struggling to come to grips with the
40 ITS model so we have started by saying let's compare it to
41 what we know. That is one major difference as much
42 conceptual as in terms of absolute numbers, but the
43 absolute numbers are quite large as I said. It's 33,000
44 compared to 28,000.
45
46 The other major change is in the bus related costs
47 line. It is probably unfair just to look at that line

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1 because there have been a few transfers between other
2 distance related costs into the bus related costs, so if we
3 add the bus related costs and the other distance related
4 costs together for the moment and compare them in the two
5 models the rise is about 21 per cent. There is a major
6 rise in the revenue required per bus under the new model so
7 that is a concern I would have thought from the tribunal's
8 point of view to get to the bottom of that rise and the
9 soundness of the new methodology that David and his team
10 have introduced.
11
12 Just in passing, the actual rise this year for the ITS
13 model compared with the 2002 model was quite small, so the
14 big issue really is the switch of models, I would have
15 thought, from our point of view rather than the size of the
16 rise for this year on the new model.
17
18 In order to help a little I have taken something that
19 was for the tribunal members, this is on the overhead,
20 which is a truncated version of that - it is also in these
21 notes that I have not been referring to - it is a truncated
22 version of the calculation of the annualised cost of
23 capital and the only thing I would like to point out is
24 that old buses, in this case a 15-year-old bus, has a
25 market value of \$60,000, a very big annualised capital
26 cost. It is hard to get our heads around that since we
27 have been so used to the idea of the older the bus the less
28 capital cost it would have, a depreciation related concept,
29 so I think that is the major issue that we have to deal
30 with on the conceptual side.
31
32 One thing that might help us is to see the PwC model,
33 what it would look like for 2003, if that is constructible from
34 the data that is available. Apart from that, we would have
35 some issues about the high risk premium that is there for
36 both models, 7.81 per cent for ITS and the 8 per cent that
37 was used for the PwC models. We have some comments about
38 that on page 6 of the handout that we circulated. We also
39 are fundamentally worried about the one bus one contract
40 approach for reasons we gave there as well.
41
42 Again, Darryl in his comments has some things to say
43 about that so I think I will leave it there.
44
45 DR PARRY: I am not sure I actually understand
46 non-commercial contracts, so maybe you can help me. What
47 I think I understand is that these are essentially school

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1 student transport scheme arrangements outside the urban
2 areas; is that right?
3
4 MR MELLISH: Yes.
5
6 DR PARRY: Again, I have read somewhere, there are over
7 1800 of these contracts?
8
9 MR MELLISH: The issue paper from TCA--.
10
11 DR PARRY: Every bus has its own contract?
12
13 MR MELLISH: Yes.
14
15 DR PARRY: What does this bus do? What does a typical
16 common non-commercial contract bus do? Give me a life in
the
17 day of a bus.
18
19 MR MELLISH: It runs a specified route to collect
20 children, take them to school, pick them up from school and
21 take them back the specified route.
22
23 DR PARRY: Is that all it does under the contract?
24
25 MR MELLISH: Yes.
26
27 DR PARRY: Does it do anything else?
28
29 MR MELLISH: It can do other things under other
30 arrangements. Some operators use the bus for school
31 charter in the middle of the day. Predominantly, remote
32 areas, it is used for that school service.
33
34 DR PARRY: It sits there for the rest of the day?
35
36 MR MELLISH: Yes. We have put in a submission to utilise
37 that vehicle in all sorts of ways but at the moment it is
38 one contract, one bus. There is an approach on community
39 courtesy travel that we would like to see that resource
40 better utilised.
41
42 DR PARRY: Again it might be in the papers, I apologise if
43 it is - there are so many issues papers - what would be an
44 average number of students or student kilometres that a
45 non-commercial contract bus might actually carry, twice a
46 day?
47

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1 MR MELLISH: A category four bus - it has to be above a
2 certain figure to be a category 4 bus. If there was a
3 lesser number of students it would be category 3 or 2.
Category 4 is 40 or
4 41, so above that number, of students.
5
6 MR D'APUZZO: 42.
7
8 DR PARRY: 42 students, average, twice a day?
9
10 MR MELLISH: Yes.
11
12 DR PARRY: What sort of distance?
13
14 MR MELLISH: It varies enormously. The number of
15 kilometres varies enormously. The average is about five
16 hours a day and something like 250 kilometres, quite long
17 distances.
18
19 MR D'APUZZO: More than 250 kilometres a day.
20
21 DR PARRY: Again, the problem I have, I said half jokingly
22 to my colleagues that in my next life I want to be a
23 category 4 Mercedes bus. For a capital cost of about
24 \$231,000 I will be paid \$100,000 a year to work twice a
25 day, school days only. It does not add up. I don't
26 understand it. What am I missing?
27
28 MR MELLISH: The contract system is there for regional and
29 rural New South Wales so that the Government's decision on
30 education and free school travel is to allow these children
31 access to school.
32
33 DR PARRY: Has anybody done any work on what it might cost
34 to have a couple of mini vans with seatbelts?
35
36 MR MELLISH: I don't know the answer to that. The
37 Department of Education has certainly made enormous savings
38 by having school buses operate those distances because the
39 number of schools and the number of teachers that they
40 provide are significantly different.
41
42 DR PARRY: That was not my question. I was not saying
43 having more schools closer to students, having different
44 forms. Has the Institute of Transport Studies looked at
45 this in terms of some smarter ways of solving - don't get
46 me wrong, I am not saying we don't carry school kids to
47 schools in distant locations - smarter ways of doing it,

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1 that is, less expensive to the taxpayer and arguably even
2 safer.
3
4 PROF HENSHER: The question has to be answered in terms of
5 a much broader question of regulatory reform rather than
6 highlighting this particular sector. Clearly there are
7 huge grounds for mapping the vehicle to the appropriate
8 products in the market and there are examples where
9 community transport might be more appropriate than a large
10 bus or even a taxi. Other situations are where a bus is
11 better than a train. It is a bigger issue on contract
12 reform.
13
14 DR PARRY: I accept that. Thanks.
15
16 MR MELLISH: Can I just contribute to the non-commercial
17 contract discussion. We believe that IPART's view that
18 this is a new model is incorrect. We contend that the PwC
19 model is in fact a loose term used to describe the non
20 commercial contract required revenue model and is not
21 proprietary to PricewaterhouseCoopers. What we have done
22 this time is precisely what TCA and IPART requested us to
23 do both in past submissions and in minutes and documents
24 that I can find. We were required to undertake a review of
25 the cost by survey and we were asked by IPART to
26 specifically address the capital costs and move away from a
27 depreciation model.
28
29 This is not a new model in that sense. Others who
30 worked on it previously were Travers Morgan and the
31 University of Sydney and Pricewaterhouse. The term
32 Pricewaterhouse is loosely applied to the model itself, so
33 this is not different and one of the comments in the paper,
34 in the handout, is that it says the issues paper requested
35 the previous PwC model be submitted. That is incorrect.
36 What was requested, if I can refer you to page 2 of the
37 handout that I have given you, it confirms that what we
38 have submitted is precisely what was required by the
39 Government, TCA, and in fact requested by IPART's reports
40 in previous years. With your permission I would ask if
41 Professor Hensher could comment on each of the issues
42 raised in the paper that IPART has circulated.
43
44 MR COX: Yes.
45
46 PROF HENSHER: With 5 to 7 minutes I will be quite
47 selective because there is a lot more than 7 minutes of

1 commentary in our document. I would like to start off by
2 noting that the methodology that we are proposing through
3 the annualised cost to capital, ACC as it is known, is
4 indeed not a new methodology. It may be new to the
5 non-commercial contract area but it is well accepted in the
6 finance and accounting area and indeed we use it as a way,
7 if you like, of correcting some of the deficiencies in the
8 previous model.
9
10 One of the objectives of our work was to review the
11 existing model, both in terms of its conceptualisation and
12 in terms of the data sources that it used to form its
13 judgment on the calculations. As a result there were new
14 surveys undertaken last year to update the cost data and
15 other related data as well as a total review of we will
16 call it the PwC depreciation model. Maybe I should start
17 off by explaining what annualised cost to capital is
18 because it is clearly central to this issue. It is a
19 method of working out how much money a bus operator through
20 its capital assets that it recoups each year in order to be
21 able to replace that asset at the end of its economic life
22 with a vehicle of equal quality without diminishing its
23 consideration to the service levels.
24
25 Outside in the market we have some major restrictions
26 on the operators under the current act of an average age of
27 12 years that have quite substantial influences on the
28 market value of those vehicles in terms of the cost of
29 replacing them at a certain age given that there is not as
30 open a market as one would like to think for this product
31 given these restrictions on purchasing.
32
33 In the ACC formula, through the surveys we identified
34 - and this is something that was not done before - the
35 actual composition of the fleet from a sample of operators
36 in terms of their age. Also with advice from industry we
37 identified the market value of those vehicles for the given
38 vintage. We were able to come up with an appropriate
39 annualised cost for a vehicle of each vintage given the
40 category of the vehicle, category 1, 2, 3, 4, appropriately
41 agreed on and selected, the MercOH1418 in category 4, for
42 example.
43
44 We then took a weighted average of the annualised
45 costs based on the proportion of the fleet of each of the
46 current ages to come up with our figure of the weighted
47 average as distinct from the Pricewaterhouse unweighted

1 average annualised cost of capital. In terms of that
2 figure at the end a vehicle of 15 years old, that is the
3 oldest age of a vehicle on the market, and in order for
4 them to be able to replace that asset with one of
5 equivalent quality at that time, allowing for a residual
6 value of 5 per cent, they would actually have to recoup the
7 equivalent of \$60,000 approximately. That is why that
8 figure is high in the latter years.

9
10 Importantly, these figures have also got to be linked
11 to the notion of risk premium. This is an industry where
12 in working out the annualised cost of capital, which is
13 based on depreciation and on opportunity cost of capital as
14 defined by the real rate of interest, we have fed into that
15 formula the minimum risk interest rate to come up with an
16 annualised cost of capital as if you had financed that
17 asset under the best conditions of raising funds.

18
19 We also acknowledged that, over and above that, there
20 is a risk of fund raising in terms of debt servicing
21 because the actual money they have to borrow is going to be
22 charged back at a higher interest rate than that amount.
23 So in working out the risk premium over and above the
24 amount that is in the ACC model, we have to take that into
25 account as the additional cost of servicing the debt over
26 and above the minimum risk rate of interest and add on to
27 that other sources of risk that are associated with this
28 industry, one being this constraint on the average age of
29 the fleet, which has substantial influences on their
30 performance, another one being the risk or the uncertainty
31 of possibility of introducing competitive tendering, and
32 the other one is also - which is normally argued to be not
33 an issue, but it is an important one - is that there is
34 huge risk on the demand side.

35
36 The IPART documents talk about monopoly rights as a
37 way of protecting this market, and that is true on the
38 supply side, but of course what we have to understand,
39 which I think is the big challenge for this industry, is it
40 is the patronage growth and the loss of patronage and how
41 do we support an industry to try to get that patronage,
42 which is a demand side issue, and there are certainly no
43 monopoly rights on the demand side.

44
45 DR PARRY: We are talking about non-commercials, aren't
46 we?
47

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1 PROF HENSHER: Indeed.

2
3 DR PARRY: I missed the entire --

4
5 PROF HENSHER: The issue there is that there are children
6 being driven to school by their parents instead of using
7 buses. That is not an insignificant part of the market.

8
9 I would agree that if you are talking about
10 route-based operations, it is also an issue, but it is
11 equally an issue in the school bus market.

12
13 I would also encourage, though, better data to test
14 this point, but to some degree, the anecdotal evidence and
15 the work that we have done on looking at exposure to risk
16 and safety issues to do with buses has shown that there has
17 been some detrimental promotion of the use of buses to
18 carry kids to school, which has led to a struggle to try to
19 recoup that market when those people have been led away and
20 are being carried to school by mums and dads.

21
22 MR MELLISH: Could I ask our country bus operator to reply
23 to that?

24
25 MR D'APUZZO: I would like to answer through you,
26 Mr Chairman, Dr Parry's question, and that is that he would
27 like to come back as a category 4 non-commercial bus
28 operator in his next life.

29
30 DR PARRY: Just as a bus, not an operator.

31
32 MR D'APUZZO: They are \$96,000 per annum. The first thing
33 that needs to come off is what goes to the federal
34 government, the GST. So \$96,000 becomes \$88,000, and a bus
35 is a very expensive item of plant to operate. When you
36 consider that most of that is now an actual
37 operational-type cost in the actual costs - so money you're
38 paying out, not money you're keeping - \$54,800 of that
39 \$88,000 is money you're expending, and then what is left
40 over is maybe something that you might be able to keep, and
41 that is only \$33,000, of which, of course, your \$230,000 on
42 a bus after 15 years or 16 years, as we saw earlier on the
43 overhead, is worth zero, so you write off \$230,000 over the
44 16 --

45
46 DR PARRY: But you depreciate it.

47

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1 MR D'APUZZO: It is amortised over that period of time,
2 yes. On top of that, let me tell you that the \$230,000 on
3 a bus you buy today in 16 years time will not cost you
4 \$230,000, so you would have to reinvest maybe \$500,000.
5 So with the amount you pay annually, you need to also
6 provide for the fact that the bus costs you more when you
7 eventually need to replace it.
8
9 So if you look at the breakdown of the \$96,000, there
10 is possibly, possibly, a profit of \$11,000, and that is
11 your return, your risk-free return.
12
13 DR PARRY: For the year.
14
15 MR D'APUZZO: So \$11,000 is all you have to live with.
16
17 MR MELLISH: Shall we continue on the other items?
18
19 MR COX: Perhaps a couple more minutes for David.
20
21 PROF HENSHER: We reviewed all individual items in the
22 Pricewaterhouse model, in addition to replacing the
23 previous measure of capital cost, and we found that there
24 were some items that had not been included in the past and
25 that it was important that we included them. We classified
26 things appropriately, and that is all set out in the
27 document that we presented to you in response to all your
28 questions.
29
30 These are things, if I could just give you an example
31 of them, about BCA membership appropriately being applied -
32 that is, on a per bus basis - and there is a discount for
33 the number of buses. We took into account the fact that if
34 an operator has two contracts they get a discount on their
35 BCA membership for buses, and that was built in. We have
36 to appreciate that all our calculations of cost items are
37 averaged or weighted average across the sample of
38 observations in the particular category in order to make
39 sure that we get some degree of representation.
40
41 We are asked a question about the comprehensive
42 insurance. For example, it is over twice as expensive for
43 category 4 buses as for category 1 buses. Well, they
44 happen to be substantially larger vehicles, they are worth
45 more, so you would expect that insurance to be much higher.
46
47 On communications by bus type, we find that as you

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1 move to category 4 compared with category 1, there is a lot
2 more requirements there - you carry more students, there is
3 more checking through the code of conduct on the buses, so
4 there is more expense involved in that. That information
5 comes from the Bus and Coach Association and is influenced
6 by their code of conduct and is reflected in the survey
7 data.
8
9 Nearly all the data items we have tabled are based on
10 the surveys undertaken with the operators. As to the
11 question about why would there be a cost for higher
12 replacement bus and a spare bus allowance, I think there
13 might be been concern here that we were double counting.
14 In fact, that is not the case, because some operators do
15 use a spare bus and others have to hire in a vehicle when
16 they need one for specific activities. So I can assure you
17 that all items where there may be a question about double
18 counting are not double counted, and through the averaging
19 process we have applied the appropriate component according
20 to which one applies to that operator.
21
22 Another example would be cost of depots. Some small
23 operators do not have depots, they operate out of their
24 house, but they are not allowed to leave their bus parked
25 on the road, so there is an offroad parking cost. That
26 might apply to some operators and the depot costs would
27 apply to other operators. The depot cost we have treated
28 the same as we have treated the capital cost of the
29 vehicle.
30
31 I might leave it at that. They are just examples of
32 the items that we were asked to comment on and we have the
33 appropriate response.
34
35 MR COX: We might get back to you later.
36
37 MR LEE: I'm a little bit puzzled, mainly about the risk
38 premium, because there is a celebrated case currently
39 acting out on the north coast and I'm receiving letters of
40 complaint about how the receiver has bungled up the sale of
41 those contracts. I'm receiving complaints because small
42 operators are unable to access the 53 non-commercial
43 contracts on a piecemeal basis. I'm just wondering why
44 there are so many risk takers out there wanting to
45 participate in such a procurement process. I suppose now,
46 having met with the Isolated Children's Parents Association
47 only on Tuesday -

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1
2 DR PARRY: Where did you meet them, John?
3
4 MR LEE: In the city. I think what was most notable about
5 their commentary was that these services, yes, they are the
6 lifeblood of the community, but they are also a very, very
7 secure and stable form of business or employment for a lot
8 of the people who are able to secure a non-commercial
9 contract.
10
11 I don't really believe the argument that it is really
12 in competition with the car, because, as Frank rightly
13 points out, the average travel is 250km and there aren't
14 very many farmers out there who choose the car to take
15 their kids to school for two and a half hours each morning
16 and afternoon. So I would challenge that.
17
18 I suppose the other point I would make about these
19 non-commercial contracts is there is a tolerance already
20 built in for loss of school students attending that might
21 live along that route. I've got some of my people here,
22 but I heard the numbers that a category 1 might take - is
23 it 15 students? But that service continues up until there
24 is eight students riding on that service. So there is
25 nearly a 50 per cent drop-off provision that is already in
26 the contract.
27
28 So from where I sit, I still don't believe the
29 arguments that have been put before us would really
30 demonstrate that a high-risk premium should apply. I
31 actually think it is quite the opposite.
32
33 MR MELLISH: The premium that has been applied, as you can
34 see on table 4, we think is commensurate with the risk
35 taken, and we believe it is going to be shown to be low
36 compared to similar bus operations in other states which
37 will come from the report that is currently being
38 commissioned.
39
40 MR MAHONEY: Sorry table 4?
41
42 MR MELLISH: Page 4 of the handouts that we have. Where
43 we comment specifically on the risk premium figure and how
44 it was calculated. Can I ask my colleague to comment?
45
46 MR COX: I wouldn't mind if someone could comment on how
47 you did work it out.

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1
2 MR POINTER: Graham Pointer, I worked at ITS on the model
3 as well. I think the approach that we took with the risk
4 premium was primarily based on looking at what IPART had
5 done in the past, and the majority of risk premium work we
6 could find was based on utilities, and utilities is the
7 major indicator of risk in New South Wales - that's what
8 the experience has been with IPART.
9
10 So we had a look at that and saw that 6 per cent was
11 across the board and said, right, if they apply 6 per cent
12 to a large stock listed company that can spread its debts
13 quite a far way, then you look at the smaller operator, bus
14 operator, which has a relatively larger proportional
15 capital cost related to return, there was an implied higher
16 risk involved when you outline the assets.
17
18 We outlined a number of other reasons, including
19 legislative changes over the time, and mentioned that once
20 it drops down to eight there is that 50 per cent leeway.
21 IPART mentioned that it seldomly happens, but I would argue
22 that it is a very real cost to the operator because there
23 is that chance that it goes away. That is a risk of the
24 business. There is a chance that eight kids will stop
25 going to school and it will drop away and with the average
26 age requirements - sorry, going back to the capital cost of
27 the vehicle, the average age requirements require that that
28 capital cost remains quite high. If the average age was
29 30, there would be no arguments because they wouldn't be
30 hit for the refinancing, and so on, year after year, so I
31 feel that it is well based.
32
33 MR MELLISH: That is fairly close to the IPART benchmark
34 for utilities.
35
36 MR COX: I think the 6 per cent, you see, is the market
37 risk premium to equity, not a premium on the total rate of
38 return. I think it does require further decision by
39 ourselves.
40
41 PROF HENSHER: I would just like to mention on this the
42 comparison with the car, that is a very minor component.
43 It is not going to make a big difference. It is the other
44 issues that matter.
45
46 MR LEE: If I could continue on with some of those, and I
47 understand there is 1,800 contracts. I will be interested,

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1 through the TCA, to provide to IPART the number of
2 contracts which have actually been concluded because of a
3 lack of student numbers. As a percentage, I think IPART
4 might find that interesting. I'm happy to provide that.

5
6 What I might also like to provide is I notice there is
7 a statement about competitive tendering of these contracts.
8 I think it might be helpful for IPART if I were to
9 provide - again, probably in percentage terms - the number
10 of contracts that have renewed again after that five-year
11 period. So there will be, if you like, an assessment of
12 what level of risk is really there when you look at the
13 total of the number of contracts.

14
15 I suppose my last point, which is a very general
16 point, more to the industry than to IPART, is, you know,
17 there is a lot of anecdotal information out there that it
18 is good to be in the non-commercial bus industry rather
19 than, say, the president of the association in the
20 metropolitan commercial bus industry, and we all know the
21 realities of life, that there is only a certain amount of
22 subsidy or funding available in a given state. Some would
23 argue that on percentage terms and on service more of that
24 is going into these contracts rather than the commercial
25 contracts.

26
27 PROF HENSHER: I would like to make a comment on that, and
28 I don't disagree with that relativity. I think that is
29 spot-on. But I also would like to say that when one is
30 doing these comparisons, and it is all about relative risk,
31 from other work we have done related to this whole issue of
32 how operators survive, there is no doubt the evidence is
33 building up very strongly that many of the commercial metro
34 operators are surviving by cross-subsidising the services
35 or route operations through charter. If this was
36 eliminated, they would be in serious trouble, absolutely
37 serious trouble. So, in a sense, they are
38 cross-subsidising the government, in my view, at the moment
39 in terms of the commitment.

40
41 DR PARRY: Sorry, that is an exciting proposition. What
42 is the rough proportion of total revenues to the average
43 privately operated bus operator that come from a fare box
44 of any kind other than a government contribution, SSTS or
45 pensioner concession payment?

46
47 PROF HENSHER: When you say "fare box", you include

1 charter?

2
3 DR PARRY: Yes, you just said they would go broke without
4 charter.

5
6 PROF HENSHER: I would prefer to answer in terms of what
7 proportion of their revenue comes from charter and tour as
8 distinct from other activities.

9
10 DR PARRY: Total revenue.

11
12 PROF HENSHER: It varies quite clearly, but if one had to
13 strike an average, it is anything from 10 to 15 per cent on
14 average.

15
16 DR PARRY: In non-metros, non-commercials?

17
18 PROF HENSHER: No, it's not. I'm talking purely - if we
19 are going to start comparing some basis in terms of risk, I
20 think I just wanted to clarify that point.

21
22 DR PARRY: That's charter. What's fare box?

23
24 PROF HENSHER: Relative to SSTS and reimbursements?

25
26 DR PARRY: Total.

27
28 PROF HENSHER: Once again, that varies. That would be
29 about 25, 30 per cent. I might need to ask Stephen Rowe
30 from Busways.

31
32 MR ROWE: Fare box for a metro operator could vary from
33 over 50 per cent down to 10 per cent, depending. It could
34 be substantially higher than 50 per cent. SSTS is a minor
35 part of the revenue.

36
37 MR LEE: I was going to be in agreement if he was going to
38 say it was SSTS that was actually cross-subsidising those
39 things, but you chose the charter --

40
41 PROF HENSHER: I would be willing to say SSTS is keeping
42 the off-peak alive in most operations in the business -
43 that includes STA, by the way. They both are making
44 contributions. I like to bring in the charter tour because
45 it is outside of the bounds of what we are talking about
46 here and it is an important contribution to the efficiency
47 of these operators. It is showing their entrepreneurship

1 to survive.
2
3 MR MELLISH: That is also spot-on on the financial
4 viability study showing the interrelationships. I think it
5 is high risk in looking at broad averages like that but it
6 certainly is in the report.
7
8 DR PARRY: We have not seen much on the charter before,
9 which is why it is interesting.
10
11 MR COX: Alex, do you have any comment?
12
13 MR SANCHEZ: No, Mr Chairman, other than to broadly say
14 that I enjoyed the insights and found them very
15 interesting, but it just seems to me, at face value, the
16 importance of the SSTS to the private bus sector and
17 reiterates the points that I make in my submission about
18 looking at their impacts and looking at reforming that,
19 putting it on a firmer footing.
20
21 I don't enjoy hearing comments from operators to say
22 that the SSTS subsidises a particular part - the SSTS is a
23 school transport scheme. If they need a subsidy, it should
24 be disclosed in another way. I think we are all grown ups
25 now and we should be able to do that by now.
26
27 MR MELLISH: We support the principle with transparency.
28 There is a different funding mechanism required.
29
30 MR SANCHEZ: Whatever the funding mechanism, you look at
31 the SSTS and it is blown out to nearly half a billion
32 dollars. It buys you a lot of public transport.
33
34 MR LEE: Actually, if you look sort of in ratio terms, in
35 the metropolitan areas of Sydney, if you include Newcastle
36 and Wollongong, you have approximately \$125m directly in
37 SSTS. In regional New South Wales you have about \$250m.
38 So it is buying a lot of regional school bus services. You
39 would agree with that, Darryl?
40
41 MR MELLISH: I would agree, yes.
42
43 PROF HENSHER: Are we willing to say we are getting better
44 value for money in the regions?
45
46 MR LEE: I wasn't saying that.
47

1 PROF HENSHER: I was just asking.
2
3 MR LEE: I wasn't saying that.
4
5 MR MELLISH: What people don't realise, Mr Chair, about
6 SSTS payments is there is a capacity component so that you
7 receive a percentage of a percentage as a fare per eligible
8 student. The industry doesn't set the eligibility, the
9 government sets the eligibility, but that buys a capacity,
10 bearing in mind some days more children carry than others.
11 You still have to provide the capacity. So we need to
12 solve that capacity issue as well as the right fare and the
13 separation, and the transparency.
14
15 MR COX: Jim Wellsmore?
16
17 MR WELLSMORE: This is a hard one for us. We are not
18 terribly literate about lots of these ACC models, and so
19 forth. We can't say for sure. I suppose our question,
20 though, is - well, before the question, I suppose, comes
21 the point of view that we would take at PIAC, which is, to
22 a large extent, SSTS, yes, is actually a subsidy to a
23 private industry. It may well be the private industry
24 can't survive that SSTS, but I think that reinforces our
25 viewpoint that it is a subsidy that is otherwise keeping
26 operators or an industry that might otherwise be not viable
27 alive.
28
29 That, for us, then raises a question of - again, we
30 are not literate enough to really know, but the suspicion,
31 I guess, would be that there is some degree of
32 over-recovery currently of costs dedicated to SSTS and, you
33 know, your question is, in fact, are the contracts actually
34 overcompensating for those? I mean, one model, another
35 model? I don't know. There is more than one way to skin a
36 cat, obviously, but unless the argument is that people are
37 going under, that they are not surviving with the current
38 model, then PIAC's not really able to comprehend why there
39 ought to be a pretty significant hike in the sorts of costs
40 recovery that is being granted to the non-commercial stuff.
41
42 We just don't accept the stuff about risk. Yes, the
43 utilities is an interesting example, but you're not
44 comparing apples with apples at all. It is one thing to
45 throw on the table the possibility of commercial tendering,
46 but, I mean, when are we going to see that? Perhaps if we
47 did, these arguments might not be actually even being

1 aired, they wouldn't be necessary. But I don't think we
2 are going to see competitive tendering in the short term or
3 the medium term, for that matter.

4
5 I don't know, again, it is about one's literacy about
6 these things, but I'm a bit dubious about the claims that
7 are being made about the replacement costs for equipment
8 if we are actually adjusting those costs to real dollars
9 over the sort of 15 years or whatever it is going to be.
10 Again, it seems to me to be possibly overstating the case a
11 little bit. But, as I say, we are not accountants and we
12 are not economists, so possibly everything I have said is
13 wrong. But I have said it now, it is in the record, so
14 there we go.

15
16 PROF HENSHER: I would just like to make one comment. We
17 are dealing here with replacement costing, not historical
18 costing. I think that is an important issue. The values
19 we are working on here are the best estimates of what we
20 think the cost of replacing that asset is likely to be in
21 the future. If we actually want to replace them with
22 assets of equivalent quality, this is what we are talking
23 about. If we want a diminution in the quality of the
24 asset, and I believe we don't want that, then these numbers
25 would be lower.

26
27 I also would argue strongly that there is more of a
28 risk of things we have left out than things we have put in,
29 and I think in that sense we are being rather conservative
30 in protecting the industry in terms of this major
31 commitment of the cost of the asset.

32
33 So there are other ways of solving this problem, but
34 that is a different agenda to do with reform in terms of
35 what's --

36
37 DR PARRY: Just so I'm clear, the depreciation figure that
38 we have, for example, in the category 4, is an equivalent
39 asset depreciation allowance?

40
41 PROF HENSHER: Yes.

42
43 MR COX: Chartered vessels, do you have anything you would
44 like to add?

45
46 MR CRIBB: No, not in this conversation.

47

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1 MR SKAROTT: No.

2

3 MR MELLISH: Just for clarification, we were talking
4 sometimes in general terms about SSTs. We should realise
5 that the session we are in now is the non-commercial
6 contract session and not the per head fare, but a number of
7 comments have been made that related to the per head.

8

9 MR COX: I understand that the conversation got a bit
10 broader.

11

12 MR MELLISH: This is related to the bus provision.

13

14 MR COX: Yes. I wanted to ask David Hensher one question.
15 It was about the 5 per cent residual value fare in year 16.
16 Why 5 per cent?

17

18 PROF HENSHER: That is a very good question, and one of
19 the pieces of data that is based on talking to those who
20 buy and sell vehicles and getting a good sense as to what
21 is the best estimate for the type of vehicle we are talking
22 about given its age. So there is a lot of experience in
23 the derivation of that figure. There has been no formal
24 survey of taking a survey of vehicles, for example, but
25 talking to experts in that business.

26

27 MR COX: Because something that is quite valuable in
28 year 15 has almost no value in year 16, and that has a
29 significant effect.

30

31 PROF HENSHER: It is weighted average, of course, and we
32 are talking about very few vehicles of that age. So its
33 effect is not that great, actually.

34

35 MR COX: I wonder if there are any other comments or
36 questions from members of the panel. People in the back of
37 the room?

38

39 MR POINTER: I just wanted to respond to the question that
40 was put by Dennis very early on about why the bus-related
41 costs that were included in what has been termed the PwC
42 model vary quite a bit to what we found in the surveys. To
43 sum it up quite shortly, I would say that the numbers used
44 in the PwC model were actually from 1995 and they have been
45 factored from then using inflation, and so inflation hasn't
46 accounted, so obviously surveys need to be done over time
47 because some things move with inflation, some move below.

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1
2 With insurance there was big differences. So there is
3 a bit of variation there. Also, costs, especially for
4 legislative administration and appliance, were found that
5 they weren't accounted for in the 1995 data and that has
6 added quite a sum to the amount. So with the data
7 collection we have a better idea of what is going on at the
8 moment.
9
10 In terms of the risk premium, I wish we did have
11 apples to compare it with, but there is nothing in
12 Australia or world-wide. It would have made my job a lot
13 easier.
14
15 MR D'APUZZO: Just a couple of points of clarification,
16 one for John. You're right, John, if the bus is travelling
17 half of the 230km per day - 115km or 120km each day - a
18 parent will not carry the kid the full length of the
19 journey, but the kids who live closer to town, 5km, 10km
20 out, there is a risk that those kids will drop off and they
21 will walk to school, ride their bike or be driven by their
22 parents. I just wanted to clarify that. Not every child
23 travels.
24
25 MR LEE: Speaking to parent groups, it is more about
26 procreation than it is about close proximity to town
27 centres; it is about the number of children that farmers
28 are having now. That is what it is about. That is the
29 only risk, where they used to have six they now only have
30 four or five families that live along that road. True,
31 that is what the parents say. You operate in Dubbo, you
32 would probably have started to experience that.
33
34 MR D'APUZZO: The second point of clarification in
35 relation to return on equity - this is for you, Jim - the
36 way that non commercial contracts, sorry, the model has
37 been worked out, we are talking about equity because we are
38 talking ownership of the bus.
39
40 MR COX: We will need to give some thought to that. Any
41 other comments from people at the back of the room?
42
43 MR MAHONEY: One question, the cost of the bus in BICI, a
44 new bus is about \$400,000. The cost of a new bus in the
45 survey was about \$230,000. Are we talking about different
46 buses?
47

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1 MR MELLISH: Yes, quite different.
2
3 MR MAHONEY: Both called category four?
4
5 MR MELLISH: No. The categories only relate to non
6 commercial contracts.
7
8 MR MAHONEY: Thank you.
9
10 MR COX: I would like to seek some clarification from
11 Dennis at this point. We have discussed in some detail the
12 model put before by the Institute of Transport Studies. I
13 am not entirely clear how we propose to use that. Are we
14 going to use the model to provide weights for the new index
15 so we will increase payments by the increases in the index
16 or somehow are we linking payments to the model?
17
18 MR MAHONEY: I am not clear on the question.
19
20 MR COX: How are we going to use the model, whether it is
21 the PwC or the ITS model, in making recommendations about
22 changes to payments for non-commercial services?
23
24 MR MAHONEY: Other than the required revenue falls out of
25 the bottom of the ITS model.
26
27 MR COX: You are using this to determine required revenue?
28
29 MR MAHONEY: There is not an index as such, it is required
30 revenue, a dollar figure. There is no index per se.
31
32 PROF HENSHER: We formatted the spreadsheet to do the
33 calculation, given the kilometres and category and the
34 hours, identical to what was there before.
35
36 MR MAHONEY: I may have confused you by talking about the
37 year from 2002 to 2003 being a small rise.
38
39 MR COX: To summarise, we discussed a number of the inputs
40 in the model and there are probably a couple we feel we
41 should do some further work and investigation on and
42 perhaps need to have some discussions with Dennis and
43 Darryl to try to work through some of those.
44
45 Thank you so much.
46
47 SHORT ADJOURNMENT

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1
2 MR COX: Ladies and gentlemen, we will resume with the
3 third session, which is on issues to do with ferries. I
4 will ask Dennis Mahoney to speak briefly to this segment.
5
6 MR MAHONEY: The session on ferries is summarised on page
7 7 of the handout that we gave the round table participants.
8 It is really summarised again in appendix 3 on page 11, the
9 details submitted by the Charter Vessels Association on
10 behalf of four of the operators and, just to help, we made
11 a comparison with STA cost movements. They are broadly the
12 same sort of answers. There is quite a bit of variation
13 with the weights changing and the price rises are quite
14 different, but I think we have discovered that diversity is
15 par for the course in all these averaging processes.
16
17 Without going into the detail, we see a few things we
18 would like to change in the CVA cost increase, but broadly
19 speaking the 10 per cent is not much different after we do
20 the changes we mentioned there. More importantly, perhaps,
21 is that the CVA observes a gap between the private ferry
22 fares and Sydney ferry fares. There is a sense possibly
23 also that the maximum fares aren't even appropriate.
24 David, given that he has given us a one-page handout, will
25 cover that, and more, so I don't think there is any need
26 for me to introduce any further.
27
28 MR COX: Thank you.
29
30 MR CRIBB: Just in case you have forgotten who we are,
31 David Cribb from the Charter Vessels Association and next
32 to me is Steve Skarott, General Manager of Matilda, which
33 operates the largest private ferry operation in New South
34 Wales. I want to emphasise it is "private ferries" and not
35 the STA ferries. Mr Chairman, I presume that because we
36 have only got a quarter of the program instead of half the
37 program that IPART generally agrees with our submissions,
38 so I will not take too much of your time.
39
40 We would like to re-emphasise the points on the
41 handout, and the first point is that, as Dennis just noted,
42 the increase in costs last year was about 10.5 per cent.
43 We don't have any real problem with the adjustments
44 proposed in the paper that was handed out before this
45 meeting by IPART which would bring the increase down to
46 about 9.5 per cent. Perhaps of more significance to the
47 industry is that for the first time this year as our

1 information gathering procedures among the private
2 operators became more sophisticated it has become clear
3 that overall the operators are losing money and this has
4 probably been because historical fare increases, which as
5 most of you would know have been less than those awarded to
6 Sydney Ferries over the years, was probably before IPART
7 got involved in the process and may have been more ad hoc
8 and we are very anxious in the industry that the losses
9 being incurred, the negative returns on investment, be
10 addressed in this fare round as well as the recovery of
11 last year's operating costs of around the 10 per cent that
12 we talked about a little while ago.
13
14 We are also concerned that two of the operators out of
15 the six are operating at fare levels about \$1 less than
16 this third point on the page than most of the others. The
17 others are all operating at a fare increase of around
18 \$4.50, which is around that charged by Sydney Ferries on
19 Sydney Harbour, and we are at a loss to understand why two
20 of the operators are around the \$3.50 model and we don't
21 understand how they could possibly be expected to make
22 money at a fare which is significantly lower than the \$4.50
23 given the fact that the operating costs are similar.
24
25 It is important to understand that the industry is
26 very heavily regulated. Numbers of staff are determined by
27 the Waterways Authority. Wages are determined by the
28 Industrial Relations Commission. Vessel safety and other
29 issues are also determined by Waterways and there is very
30 little left to the operator, particularly as he buys other
31 things in the marketplace the same as everybody else, fuel
32 and spares, so it is entirely unlikely that somebody
33 operating at a level of \$3.50 compared to \$4.50 has costs
34 that are related in the same way.
35
36 We point out the disparity of the Sydney Ferries. I
37 mentioned a little while ago that historically Sydney
38 Ferries have had higher fare increases than private ferries
39 have. This has not been the case in the last couple of
40 years but historically in the period shown there in the
41 examples, it means that private ferry fares over the period
42 shown would be operating - our ferries would now be
43 operating at a fare about 11 per cent less than Sydney
44 Ferries.
45
46 It is also important to point out, which is not in the
47 notes, that while Sydney Ferries cost increases last year

1 were about 10 per cent, they have only sought a price
2 increase from IPART this year of CPI, which is whatever you
3 think that is, 2.5 to 3 per cent, and that will result in
4 Sydney Ferries only recovering 50 per cent of their
5 operating costs from the fare box - 50 per cent from the
6 revenue they receive from fares and the concessions they
7 receive from government like the SSIS. As a consequence,
8 even if private ferries received the same fare again this
9 year as Sydney Ferries do, they will have to be 100 per
10 cent more efficient to make a living and that is not
11 conceivable, once again because wages and even crewing are
12 determined by regulators. Fuel is determined in the
13 marketplace. Spares are determined in the marketplace and
14 so it goes on. There is no way that private operators
15 could be so much more efficient that they can operate and
16 recover all their costs when they are allowed to charge
17 only the same fares as Sydney Ferries.

18
19 What is the solution to all this? We think that one
20 of the solutions is don't regulate the fares at all.
21 Private ferries have competitors the same as other modes of
22 transport do. There has been a mention in the bus
23 discussion about school students being delivered by car as
24 opposed to by bus. In our situation private ferries have
25 competitors such as road transport and water taxis and
26 private boats. We believe that operators in individual
27 locations are well able to make judgments about what fares
28 they can reasonably charge to maintain volume and not drive
29 away customers and that a possibility therefore would be to
30 deregulate fares altogether.

31
32 This has also been suggested to us by officers of IPART
33 and whilst there is some reluctance amongst operators to
34 trust the Government to continue to provide individual
35 contracts if the government can no longer put their foot on
36 the fares, we would like during the period between this
37 round and the next round, if we don't get fare deregulation
38 this time, to have discussions with IPART about how this
39 might be implemented in the next fare round.

40
41 We would also like to note that because costs incurred
42 during one year aren't recovered but are only compensated
43 for at the end of the period by a fare rise for the next
44 period that we would like to see fare rises reviewed on a
45 regular basis as opposed to this time slipping an extra
46 couple of months. We know that this will be addressed in
47 future years, but we are concerned about what is happening

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1 this year.

2
3 Finally, if I might just comment on something that
4 Dennis said in an earlier session about the compensation
5 for this delayed implementation this time, we didn't
6 actually request this in our paper because we were given
7 assurances by Dennis even before discussions started that
8 this would be volunteered by IPART and so we didn't ask for
9 it. But we are very happy it has been volunteered and we
10 are very happy it will happen.

11
12 MR MAHONEY: Volunteered by the secretariat, not by IPART.

13
14 MR CRIBB: We will assume it is going on.

15
16 MR COX: We note your support.

17
18 MR CRIBB: If I could just say that that really completes
19 the Charter Vessel Association emphasis on the points we
20 wanted to make, but Steve Skarott from Matilda would like
21 to make a few comments.

22
23 MR SKAROTT: Matilda made its own submissions into fare
24 prices and I would just like to emphasise too that our
25 major increases in the cost base of running Matilda Ferry
26 Services has occurred over the last three years. These
27 cost increases have been referred to IPART for
28 consideration in the fare price reviews. The current level
29 of costs in running our services are higher than the
30 revenue achievable given that maximum fare prices are set
31 by the DOT. Therefore we currently have services with a
32 negative rate of return and for us to better our
33 performance in rate of return we need to combat the
34 significant increases that have been imposed on us in
35 recent years. We would like to request that considerable
36 fare price increases be achieved in this year's assessment
37 to allow us to recoup our position and, as David
38 highlighted, what has been evident in the past is that we
39 have received too little too late.

40
41 Most notably, the Waterways Authority of New South
42 Wales has called for a review into the charging system for
43 all wharves within Sydney Harbour. That review is
44 currently underway. We have been advised that that review
45 will be completed by the end of the year and the launch of
46 these new fees will take place in early 2004. We would
47 like to ask how ferry operators such as Matilda and other

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1 private operators can recoup these fees that will be
2 introduced and, secondly, we received notice last month
3 from the Waterways Authority of a new fee on wharves it has
4 recently acquired management of and for these fees to begin
5 immediately.

6
7 Under the current process of fare prices we can't
8 recoup these because our cost indexes are only passed on
9 for the next year. We feel that these are significant and
10 are continually overlooked.

11
12 Further to that, I would like to say that we are happy
13 to provide and be fully cooperative in any financial
14 information or service standards and quality standards
15 information that IPART requires in further assessing the
16 financial stability of private ferries and in particular
17 Matilda crews to assist in making a determination. I would
18 like to also ask if there are any concerns over what
19 information has been provided to date and, if there is
20 anything specific, that we could further provide to assist
21 in this round.

22
23 MR COX: Thank you. The Bus & Coach Association, do you
24 wish to say anything?

25
26 MR MELLISH: No.

27
28 MR LEE: A couple of questions for David and Steve: I
29 understand that these weren't given on notice so if you
30 can't answer them I would be happy to hear through IPART
31 what they might be. I am wondering, the percentage of
32 concession fares that you have as a total of your revenue?

33
34 MR SKAROTT: Around 15 to 18 per cent.

35
36 MR SANCHEZ: What type?

37
38 MR SKAROTT: Both SSTS and pension.

39
40 MR CRIBB: Can I say something about that. It varies a
41 lot from operator to operator, as you would understand, and
42 I don't have the information for all the operators, but
43 Matilda is speaking for itself.

44
45 MR LEE: The new wharf fees from Waterways, have you
46 factored that into your price increase for this year?

47

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1 MR SKAROTT: No, we were only notified about these fees
2 after our submission had taken place.

3
4 MR LEE: How substantial were the fees?

5
6 MR SKAROTT: We were actually made aware in late May that
7 they were to begin at 1 June and are \$20,000 per annum.

8
9 MR LEE: Per wharf?

10
11 MR SKAROTT: For one wharf. The other wharves have not
12 begun.

13
14 MR LEE: What were the fees? Did there use to be a
15 charge?

16
17 MR SKAROTT: No, zero.

18
19 MR LEE: Specifically on surveys, it would appear the
20 percentage increase that you are seeking is quite
21 substantial. What response do you think you will get from
22 customers to that size of increase and do you have any
23 comments on the elasticity issues?

24
25 MR SKAROTT: A difficult question to answer. No comment
26 at this stage.

27
28 MR LEE: I notice with the BCA submission there was quite
29 a detailed graphical explanation or information about
30 average incomes of your different users and I am just
31 wondering for ferry users, is there a similar sort of
32 average that is included in your submission and what that
33 is?

34
35 MR SKAROTT: No, it is not included in the submission. We
36 haven't acquired that data.

37
38 MR CRIBB: We don't have that information. The only
39 information I could point to in regard to that is the
40 information in the Sydney Ferries document. I guess it is
41 reasonable to point out that the demographic of ferries,
42 Sydney Ferries customers, is not the same as the
43 demographic of our customers because many of them are
44 regional, as you would understand.

45
46 MR LEE: I suppose, David, from previous discussions with
47 you, one of the operators being the Cronulla Bundeena ferry

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1 service, it might be charging that amount because the
2 market has determined that is the rate it has to charge,
3 otherwise there is an impact on the number of customers
4 using the service.

5
6 MR CRIBB: You are talking about the low fare that they
7 charge?

8
9 MR LEE: Yes.

10
11 MR CRIBB: They are very concerned about the low fare they
12 charge and in our submission there is a quotation from
13 their accountant that if they don't get a fee increase of
14 15 per cent this year, they will be out of business.

15
16 MR LEE: That is all I have.

17
18 MR SANCHEZ: Only to draw to the attention of the tribunal
19 and to others here, in the issues paper there is quite some
20 decent work on income levels in the Sydney Ferries
21 catchment, both household and weekly, and suffice to say I
22 don't think there are a lot of crocodile tears you will
23 hear from me about an increase in prices for ferry services
24 when you look at the personal and household incomes. I just
25 make that comment, that you will not get a lot of tears
26 about the harbourside Sydneysiders from me.

27
28 MR WELLSMORE: I am probably in a similar position to
29 Alex, I suspect. I suppose we would think that the claim
30 around differential pricing has probably got a fair bit of
31 merit to it, perhaps more than a 10 per cent whack across
32 the board. We can certainly understand the position that
33 has been put, somebody trying to get by on \$3.50 while
34 somebody else is on \$4.50, and the idea would be to close
35 that gap over a period, not just in one hit, but I don't
36 know whether that is over to the tribunal to have a price
37 path given that we are still dealing with annual rounds.
38 Apart from that, I would be interested to know in terms of
39 the losses whether they are concentrated in one particular
40 area, like charters or your regular passenger transport
41 fares or whatever?

42
43 MR CRIBB: If I can respond to that point, all the
44 operators, all the private ferry operators with the
45 possible exception of Steve, who has other craft than the
46 ones he operates as ferries, do charters with their
47 ferries, they might do weddings or whatever and Christmas

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1 functions, and all of them for the purposes of this
2 submission have dissected their ferry operating revenue and
3 costs from their total revenue and costs, so what we are
4 submitting to IPART in this round as in other rounds is the
5 revenue and costs and return on investment of the private
6 ferry operations for which government sets the prices.

7
8 If, for example, you take the Dangar Island ferry
9 service which operates from Brookland to a small island in
10 the Hawkesbury River, that company also operates a
11 wonderful product called the Last Riverboat Postman that
12 takes the mail up the Hawkesbury River for the same price
13 they did 25 years ago but they make their money by taking
14 tourists and so they subsidise the Dangar Island ferry from
15 that service. At Bundeena they only have one vessel and
16 most of the work that vessel does is the private ferry run
17 and it does not have much opportunity to subsidise its
18 business, so they are in real difficulties, which is the
19 point I made to John a few minutes ago. Whilst the guy
20 operating the Dangar Island ferry service does not want to
21 continue to operate at a loss, his whole business will not
22 go down the tube as a consequence. Nevertheless the
23 argument is there that the ferry service is losing money in
24 both cases, one less important to the operator because of
25 the additional revenue he has.

26
27 MS CIFUENTES: Most of my questions have already been
28 asked, thank you, John. One area I am interested in, this
29 may apply differentially, is whether you can give the
30 tribunal any idea of what proportion of trips are weekend
31 trips as opposed to week day trips and whether that would
32 have any implications for pricing and profitability?

33
34 MR CRIBB: The answer to that is I don't know at the
35 moment but I was asked this question over the phone briefly
36 yesterday by one of your officers, Sheridan, in fact, as
37 she anticipated the fact I might get asked a question about
38 whether I thought differential pricing at weekends would be
39 an advantage.

40
41 I made a few phone calls to operators, including
42 Steve - and he might want to talk about this himself - and
43 the response I got from the ones I was able to get to, off
44 the top of their heads, as it would have been for me, was
45 that Cronulla thinks it's a great idea because they believe
46 the people who travel on their service at the weekends are
47 different people to the ones who travel during the week

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1 and, therefore, would not be used to paying \$4 if they were
2 then charged \$5 at the weekend.
3
4 Palm Beach Ferries had exactly the opposite attitude.
5 They said that they would find it very difficult to charge
6 more at the weekends where their regular users during the
7 week were being charged a different amount if they were
8 then travelling at the weekends. Of course this is a
9 problem for them because with a lot of the places they
10 service it is more or less the only way of getting there,
11 like the places on the other side of Pittwater. So if
12 someone goes on Saturday to do shopping, it may be the same
13 person who goes to work during the week. They would see
14 the difference.
15
16 Steve from Matilda - he might want to talk about this
17 himself - said he was unwilling to make a decision. He was
18 a bit suspicious about it and wanted to give it a lot more
19 thought and do some analysis.
20
21 The only other operator I spoke to was also a bit
22 concerned about it and wanted to do some more work on it.
23 So we don't have the data yet. But there are some concerns
24 as I have just said.
25
26 MR SKAROTT: Yes, we do at Matilda have the data to submit
27 and we could do that. Where we saw a problem in it is that
28 your traditional Monday-to-Friday customer is no longer
29 Monday to Friday. Some are Tuesday to Saturday, some are
30 Sunday to Monday. It would be very difficult to charge
31 them extra on the weekends because their work commitments
32 may include the weekends.
33
34 So if you were looking at trying to put the price on
35 the tourism dollar on the weekend or the discretionary cost
36 dollar, or whatever, it doesn't fit perfectly because a lot
37 of commuting happens on the weekend as well as weekdays.
38 So I don't see what you would cover by doing that.
39
40 MS CIFUENTES: Rather than trying to separate it by
41 weekend and during the week or tourist versus non-tourist,
42 what about time of day - peak/off-peak.
43
44 MR SKAROTT: I think by ticket more than time of day. So
45 if you're a regular commuter, you buy a ticket which is a
46 10 or 20 pass, or whatever, and that way you achieve a
47 lower ticket price, but as a base we are allowed to charge

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1 a higher ticket price - that is, what we charge for one-off
2 or return trips - but for the 10 pass or 20 pass or
3 multi-pass, their ticket price is discounted back to that
4 lower social-needs level.
5
6 MS CIFUENTES: Do you have a view on that, off the top of
7 your head?
8
9 MR CRIBB: No, but can I say something else on that
10 subject? It was pointed out to me this morning by the
11 integrated ticketing people - I presume everyone is aware
12 of the electronic ticket thing that is coming - that it
13 would be quite easy to program the ferry operators'
14 charging system, which is basically what Steve is saying, I
15 guess, to differentiate between regular people and
16 irregular people.
17
18 So at the weekends, for example, you could ensure that
19 your regular weekday customer coming over to buy groceries
20 on Saturday still gets the same fare as he got on Friday,
21 whereas the person who arrives casually, like me, to go to
22 Mackerel Beach or Ettalong, or somewhere, can have a higher
23 amount of money taken from my card swipe. But at the
24 moment that may not be possible.
25
26 MR MAHONEY: I don't see that this has got anything to do
27 with the issue. Why can't you do that now?
28
29 MR CRIBB: You can't identify people readily now.
30
31 MR MAHONEY: That is nothing to do with ticketing. You
32 said you had the data, Steve. Do you do that now?
33
34 MR SKAROTT: No, we can't afford to charge anything less.
35 We are already in the red.
36
37 MR MAHONEY: So that is where it is relevant, because you
38 want an increase in the fares. In fact, you want the
39 ceiling lifted completely so you can start to do these
40 things.
41
42 MR SKAROTT: Exactly right.
43
44 MR CRIBB: That's the real issue. That is the deregulator
45 fare issue I talked about some time ago.
46
47 MR MAHONEY: Thank you.

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1
2 MR COX: Are there any further comments from members of
3 the panel at this stage? Would anyone in the audience
4 like to say anything?
5
6 MR MILES: I have lots of questions if someone else wants
7 to go first?
8
9 MR COX: You seem to be the only one that is anxious to
10 speak at this stage.
11
12 MR MILES: I'm the only commuter here. Alex is sort of
13 semi-government today.
14
15 MR SANCHEZ: No, I'm about to go on the train to pick the
16 kids up.
17
18 MR MILES: Allan Miles, action for public transport. The
19 last one first. I'm very surprised that David and Steve
20 have only mentioned at the last minute these concession
21 tickets. My investigations found that the Bundeena ferry
22 has weekly tickets, Matilda has FerryTens, the Palm Beach
23 ferry has FerryTens and cheaper return tickets. All of
24 those can allow for people who travel weekdays and do their
25 shopping on Saturdays and there is no electronic thing
26 necessary for that. It happens now.
27
28 It seems to me that many of the private ferries don't
29 have a lot of publicity - Matilda excepted - and I have
30 heard anecdotes of people who say, "Oh, was there a ferry
31 at the bottom of the hill? I didn't know that."
32
33 The area of discounts, also, you're saying that you
34 need these high prices to maintain your revenue and you'll
35 go broke without it, yet the three main companies - Palm
36 Beach, Cronulla and Matilda - all have the discounts,
37 TravelTens or weekly tickets. So I find that a bit hard to
38 marry up one with the other.
39
40 Furthermore, a suggestion I made in our submission was
41 that none of the ferry companies, or none of the bus or
42 railway companies, have intermodal tickets apart from State
43 Transit. In other words, there could be a market for the
44 Palm Beach Ferry to have intermodals with the bus at
45 Palm Beach or with the train at Woy Woy, and perhaps some
46 of the buses as well. I have lots of doubts about the
47 information going around here.

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1
2 MR COX: Do you want to respond?
3
4 MR CRIBB: I just want to respond on the intermodal thing.
5 The Charter Vessel Association approached the STA a few
6 years ago to see if private operators could have access to
7 an intermodal arrangement, and it was declined at that
8 time. We are going to try again this year, but in the past
9 we have been unsuccessful in organising anything.
10
11 MR COX: Any further comments from the back of the room?
12
13 PROF HENSHER: Just a point which could be useful in doing
14 comparisons with other modes. When you introduce services
15 like your charter, for example, that you have mentioned -
16 that is very important to you, similar to the private bus
17 operators - what assumptions do you make when you are
18 actually deciding on what set of costs you should assign to
19 charter and what you should assign to the other services in
20 order to work out the extent to which you are recovering
21 costs on the non-charter component?
22
23 MR SKAROTT: I will just clarify: in Matilda's
24 circumstance, we have a designated ferry vessel fleet only
25 for ferry transport. So we don't have to do that. So that
26 would be a question only for David. We don't have to
27 dissect.
28
29 MR CRIBB: I actually don't know how each operator does
30 this, and it depends on how sophisticated their accounting
31 system is, but they obviously can identify direct costs
32 like fuel and labour. How they actually price these things,
33 and so on, I don't have that information.
34
35 MR MAHONEY: And one operator has said to you, "Don't come
36 back to me again and ask the question, because I can't
37 answer you."
38
39 MR CRIBB: That's true.
40
41 MR MAHONEY: That's in your submission.
42
43 MR COX: Any further comments?
44
45 MR SKAROTT: I would like to answer that one about the
46 signage and the marketing. We often approach the relevant
47 authorities - the Sydney Harbour Foreshore Authority and

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1 the Department of Planning - for signage, increased
2 signage. It is constantly rejected. Those places are
3 generally reserved for STA, so we don't get a look-in in
4 the areas that we have requested. So that is part of the
5 reason we are not as prominent as we would like to be and
6 should be.
7
8 MR MILES: Can I ask another question? I was rather
9 surprised, Steve, that you said you proposed an X per cent
10 increase in fares but you have no idea how it will affect
11 the customers. Shouldn't you have thought of that first?
12
13 MR SKAROTT: It certainly will have an effect. I didn't
14 want to comment on it was my answer.
15
16 MS CIFUENTES: This is really terribly hypothetical, but
17 let's assume that fares were completely deregulated as of
18 whenever - tomorrow. What would be your response? Would
19 you still look to increase your fares by 30 per cent or
20 would you stagger it?
21
22 MR SKAROTT: Our customers are the most important people
23 in our business, so we would certainly look after our
24 customers. We feel that we are regulated by our customers
25 just as much as we are regulated by the TCA and the
26 Waterways Authority.
27
28 So we would, I guess, work together with our customers
29 and consult and probably undertake analysis and studies
30 with them to see where we could push things to. But, yes,
31 if it was deregulated, yes, we would be pushing increases.
32
33 MS CIFUENTES: Presumably this 30 per cent figure would be
34 a minimum; is that right?
35
36 MR SKAROTT: Our request was for under 30 per cent - I
37 think it is 24 per cent - and that would be our minimum,
38 yes.
39
40 MR CRIBB: Can I respond to that, too? There are a
41 couple of points I would like to make about this. The
42 first is that the companies that are in real difficulties,
43 like Cronulla, for example, would put the fares up by what
44 they had to put them up by and if the passengers stopped
45 coming they would go out of business, but if they don't put
46 them up they go out of business, too. They are in a no-win
47 situation; they have to do something.

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1
2 The second point is we will be making a submission to
3 the current transport inquiry about the relative recovery
4 of costs by Sydney Ferries compared to the relative
5 recovery of costs by ourselves and the disadvantage that
6 our industry faces from a heavily subsidised public service
7 with which some of our members - not all, but some of our
8 members - such as Steve, are competing. We make a bit of a
9 two-pronged approach about this.
10
11 MR COX: Listening to the discussion, it seems to me that
12 there is a fair degree of sympathy for the points you are
13 making.
14
15 MR CRIBB: That is why we only got 25 per cent of the
16 time.
17
18 MR COX: If that is not the case, I would like to hear
19 about it. It seems to me that most people seem to be
20 broadly agreeing that fares do need to increase because of
21 costs, differential fares and need to -
22
23 MR SANCHEZ: At face value I would, the only caveat being
24 elasticities. The disappointing aspect from our point of
25 view would be if people transferred from use of a ferry to
26 use of a private motor vehicle, for example, and there can
27 only be a judgment on that based on signs and the
28 elasticities of these things.
29
30 With that caveat, I can't see how somebody going
31 across Palm Beach and Dangar Island is going to use their
32 motor vehicle, or, for that matter, Cronulla to Bundeena -
33 it is a long journey. But there may be a different case in
34 the inner harbour. For what it is worth, I have the same
35 approach to the STA Ferries. There is no different.
36
37 MR LEE: In some respects, I think some of the views that
38 have been expressed are a little bit counterintuitive, I
39 think is the right phrase, in that it is important to care
40 for the customers, but after a 24 per cent increase in
41 their fares they won't feel as though you have cared very
42 much for them. They will actually feel quite put out by
43 the size of that increase.
44
45 I think it is about managing both the operators'
46 expectations about the level of fare increase and also
47 about what the community can absorb in a given year, and it

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1 is also important that if it is higher than what it has
2 been historically, that that is communicated in a very
3 effective way.

4
5 I understand the current TCA has provisions about
6 advertising and communicating fare increases, but it might
7 need a special campaign if it was quite a sizeable amount.
8 I think there would have to be a commitment to that sort of
9 community awareness campaign about the current costs
10 recovery and the like.

11
12 MR COX: Also, if you could indicate to people where fares
13 are going so it is not 10 per cent forever - 10 per cent a
14 year forever.

15
16 MR SANCHEZ: Maybe it might just have an effect on asset
17 prices near the harbour.

18
19 MR LEE: It is also about defining the externalities,
20 Darryl, like you also have in the bus industry. If the
21 cost of fuel has gone up 10 per cent, it is important you
22 tell your customers that that is a real cost.

23
24 MR COX: Thank you very much. That is probably as far as
25 we can take it.

26
27 MR CRIBB: Would you mind if we are excused from the next
28 session, Mr Chairman?

29
30 MR COX: You are most welcome to leave, but we are happy
31 to have you should you wish to stay.

32
33 We will move on to the other issues on buses. I might
34 ask Dennis to introduce that session.

35
36 MR MAHONEY: The objectives, I think, are just to talk
37 about all the other issues. I actually think it is
38 probably more to hear from the round-table participants
39 than me. As you can tell from page 8, we didn't get much
40 chance - which means I didn't get much chance - to write
41 down a lot of insightful comments. Of course, all I have
42 written down is insightful, but that is irrelevant. It is
43 almost a clean page. So I would rather we just discussed
44 it. I think that is where the value is.

45
46 There are five headings there. One is a catchall
47 anyway, so I would like to hear from the round table as to

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1 what the other issues are from their point of view on
2 buses.

3
4 MR MELLISH: Mr Chairman, thank you. Just using the dot
5 points that are provided, starting with financial
6 viability, we hoped that at this hearing we would be able
7 to show you the financial viability study that has been
8 commissioned. We are unable to do that but we would
9 request to be able to provide it to you when it is
10 available.

11
12 The industry is confident that it will show a serious
13 financial viability problem and it will be supporting the
14 1998 audit that was done by KPMG. So we would like the
15 tribunal to take into account the financial viability of
16 the industry, and particularly the reliance on fares for
17 revenue and profitability as I mentioned before.

18
19 I have tabled for you the scope of the viability
20 study, which shows the sort of performance indicators which
21 are being measured. The questionnaire that they used was
22 also part of the IPART submission. So we would just like
23 to have the opportunity to table that to you when it is
24 available on the financial aspects of the industry.

25
26 MR COX: Thank you.

27
28 MR MELLISH: If I move on to fare structure and products
29 which are listed, in our submission we have undertaken a
30 survey on the fare products and structure that do exist,
31 and they are referred to in page 25 of our submission.
32 There are a number of examples there which are a little bit
33 different to what Allan said, but they are from the direct
34 survey of metropolitan operators.

35
36 We believe that as fare and concession equity moves
37 forward, the number of fare products available and the way
38 that ticketing and fares are constructed will become less
39 complicated, more equitable and easier for the passenger.
40 At the moment, the range of fare products on issue for a
41 passenger thinking about government, non-government, rail,
42 bus, is overly complicated and we would like to see a
43 simplification of that and we believe that integrated
44 ticketing technology is an opportunity to establish that
45 framework in advance of the ticketing technology rollout so
46 that at least there are some goals that can be worked
47 towards even if they can't be implemented straightaway.

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1 That is set out in our submission, Mr Chairman.
2
3 Service quality. The reason we raise that as another
4 issue is that BCA has now submitted for the second year in
5 a row a proposal to collect data for the director-general
6 to require operators to collect data. That hasn't been
7 taken up. We, again, think it is important to start
8 collecting data. We suggested a data set involving
9 reliability, patronage, customer feedback, service levels
10 and fleet information - the very basic first step to start
11 collecting performance data from the industry. So far that
12 has not been accepted.
13
14 We also proposed that a service quality index be used
15 on a regular basis in a partnership with government where
16 the index could be used as a method of making some sort of
17 assessment of service quality within the industry. In our
18 submission we also propose that we would like to see a
19 return to the regime of audit and compliance that is called
20 for under the existing system.
21
22 We believe that standards need to be maintained and
23 that a component of that is that there is a proper audit
24 and compliance regime, and we believe there is evidence
25 over the last five or six years that there has been a
26 decline in those resources available to government to
27 undertake the task. So we also welcome recent discussions
28 with the director-general about looking at the
29 accreditation and regulation model, and we know there are
30 some structural changes in place there and we see the
31 importance of having both self-regulation and an
32 independent level of regulation important to safety and
33 service quality, which is also included in our submission.
34
35 On the environmental and social impacts, we really
36 think there is a major opportunity to get people out of
37 their car and encourage the use of public transport. The
38 best way you can improve the environment and the social
39 impacts is by using government policy to take affirmative
40 action to make public transport more attractive than a car.
41 We think that the tribunal could at least make comments in
42 that regard, even if it is not able to directly relate it
43 to fares. We think it is right in the terms of reference.
44
45 On the other issues, which is the last dot point - it
46 has been touched on by people in this room - the equity
47 issues that exist for the passenger we believe are not

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1 sustainable. The pension excursion ticket, the
2 reimbursement policy, having people in the western suburbs
3 treated differently to people in the eastern suburbs as far
4 as fare equities go, we believe IPART should have a strong
5 statement regarding those equity positions, and that is
6 included in our submission.
7
8 They are the statements, Mr Chairman, that we had in
9 the other issues to highlight, and they are certainly
10 included in our submission.
11
12 MR COX: Alex, do you have anything to add?
13
14 MR SANCHEZ: I have to actually get back to Liverpool by
15 6pm to collect children, so if I may speak quickly.
16
17 MR COX: Yes.
18
19 MR SANCHEZ: The last point I would like to make is
20 regarding the performance assessment regime, or the lack
21 thereof. We strongly urge IPART to make a strong
22 commitment to the performance assessment regime and a
23 strong commitment to the setting of a timetable.
24
25 The history of it is that the performance assessment
26 regime came about, if you like "as a compromise" to the
27 concept of competitive tendering. At face value, it seemed
28 an appropriate compromise where we thought the
29 decision-makers' belief was that competitive tendering
30 wasn't a feasible option in terms of customer benefit;
31 replace it with a benchmarking model. The problem that
32 exists at the moment is that neither of the two systems
33 exist. You don't have benchmarking and you don't have a
34 competitive tendering model. In fact, the current Act
35 provides for virtual automatic renewal based on meeting
36 minimum service levels which, let's say, don't have the
37 greatest hurdles attached to them.
38
39 So the customer is left without an instrument of
40 change down the end of the contract. That is clearly
41 unacceptable.
42
43 The performance assessment regime had a number of
44 stillbirths. I think it is about time that it be anchored
45 in, including a timetable. Some time ago I recommended to
46 IPART that before the public bus operators were entitled to
47 fare increases they needed to have a customer charter, or

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1 something of that ilk. I think it is not unfair to ask
2 that a similar system be put in place going forward. So
3 that is the performance assessment regime.
4
5 The issues of school student transport subsidy have
6 been raised. I won't repeat that. But I will reiterate
7 what Darryl said about the pension excursion ticket. I
8 agree that it is arguably beyond the scope of this inquiry.
9 I also understand that there are other elements of
10 government looking at this, including Professor Parry's own
11 review. Nevertheless, it would be appropriate for IPART to
12 comment on its distortionary impact if for no other reason
13 than it draws it to the attention of decision-makers as
14 well.
15
16 On the social and environmental aspects, again,
17 another distortion is the distortion in the taxation system
18 which applies equally to across the public sector - across
19 the public transport, urban transit. Again, it is an issue
20 of raising these to the surface, and where a public inquiry
21 can do that, it can only benefit the system. I'm sorry, I
22 do have to skedaddle, otherwise I'm in trouble.
23
24 MR COX: John?
25
26 MR LEE: I suppose I would just like to confirm what
27 others have said, and that is that it would appear that the
28 current contractual regime that is in place may have
29 satisfied its natural life and it might be coming to an end
30 for how relevant it is for current operators.
31
32 I think comments about MSLs, about previous tests for
33 financial viability and the inability for the state to
34 perform some of its obligations under the current contracts
35 all contribute to that limitation, and I understand there
36 are discussions between the agency and the central agencies
37 to look at proposing a review into some of these matters.
38 I think it will be important for IPART to be kept informed
39 of that progress when the government takes the decision to
40 make that public.
41
42 MR COX: Jim?
43
44 MR WELLSMORE: Thank you, Jim. If I could just add my
45 voice to the request, I suppose, that the tribunal see its
46 way to making some kind of statement about the concessions
47 question. Bearing in mind that, yes, it really is outside

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1 the scope of what the tribunal is doing, but--
2
3 MR COX: It would only be a sort of passing comment.
4
5 MR WELLSMORE: I suppose, in our view, they have never
6 been quite helpful. I suppose the thing is if there is
7 enough of us that come here and say, "Can you please say
8 this?", hopefully that has some weight as well. Yes, I say
9 we certainly understand that it is outside of the
10 tribunal's remit in the current instance.
11
12 I can't say too much more, really, about quality of
13 service, to be honest. I actually would have hoped that
14 some of my colleagues from the other community sector
15 organisations could have been here and given their views on
16 these matters. They are much sort of closer to the
17 coalface, I guess, in lots of these areas.
18
19 I would like to give every encouragement to the
20 private operators around the performance data collection
21 and the audit compliance regimes. I would have to agree
22 that that seems to be a very good starting point for any
23 sort of quality improvement, or even measurement of
24 quality. You have to start somewhere. That is by no means
25 to suggest - I'm not in a position to suggest; I'm not
26 trying to suggest - that quality service levels are poor,
27 are below the optimum at all. I don't know. Perhaps it is
28 difficult for anybody to really know. But that probably
29 concludes all I've got to say.
30
31 MR LONGTON: John Longton, representing the Commuter
Council.
32 I have been to previous meetings and I must say it is quite
33 ironic to see John Lee sitting over there. In his last
34 role he was managing Westbus and now he is on the other
35 side of the table, so you have a wealth of background there
36 to work from.
37
38 I did put in a submission and I did look at quality
39 service. One of the things that was omitted was the
40 quality of the buses. I think that is part of quality
41 service, yet the BCA did not see fit to include that as a
42 requirement.
43
44 When you stand a government bus beside a private bus,
45 there is quite an enormous difference. We are wondering
46 why, they are all called public transport, but quite often
47 the buses come out of the same factories and yet there are

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1 basic things that I have argued now long over 15 years that
2 finally the private buses have actually introduced such as
3 push stop buttons which you can reach. The old buses, I
4 would say 70 per cent of the fleet still exists where they
5 are very high in the ceiling, the little old ladies can't
6 reach them, yet the act says it has to be conveniently
7 located. Certainly a pull cord, you have to get out of
8 your seat and you have to get across to the other side of
9 the bus, so we have been pushing this issue for years.

10
11 The latest buses, I will talk about Westbus, because
12 that operates in the area I live, it is one of the biggest
13 operators so they are a good benchmark, but they are now
14 introducing these press buttons that you can reach. For
15 some unknown reason, in a government bus every seated
16 person can reach the buttons. A private bus, they still
17 haven't put enough in for everybody to reach. That seems
18 to be a problem particularly for the elderly, they have to
19 get up to get to the stop buttons which, of course, is
20 dangerous if the bus stops suddenly.

21
22 Another issue is lighting. For some unknown reason, I
23 had a friend that would travel on the first Westbus to
24 Sydney before they went down the M2 and he used to be able
25 to walk out his front door and jump on the bus and get it
26 right to his front door of work here near the Queen
27 Victoria Building. Winter came, he can no longer read his
28 paper on the bus because the lighting is so poor, the
29 lighting levels are so poor. It is quite amazing. I see
30 buses on the M2 now coming home of a night and the driver
31 has turned the lights out. It is a long journey. People
32 travelling on public transport, one of the main recreations
33 is reading, yet it is not being catered for properly.

34
35 Another issue that has me most concerned is the
36 private bus companies seem to have decided to omit the rear
37 doors. As a mass public transport system, the Government
38 buses operating in the city, if they didn't have rear doors
39 it would be absolute chaos. I can tell, when you see buses
40 coming down the Windsor Street from the Hills and
41 Parramatta area and all the school kids are up the back and
42 you have to wait for the school kids to get out, it is
43 chaos. I can't understand why the rear doors have been
44 taken out of the new buses.

45
46 If you look at most new buses, no rear doors. Very
47 strange. A public transport system seems to need these

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1 conveniences to make them operate more conveniently. The
2 time you have to stop at a bus stop to let people on and
3 off is tripled, probably longer, because of no rear doors.

4
5 Another big problem which we have been complaining
6 about for 15 years is that Government buses give you when
7 you approach it from any direction, you can see the route
8 number so you know, if there is a bus pulling in, you know
9 where it is going, and Parramatta is an excellent example
10 of this. The buses face west in front of the major
11 shopping centre like Westfield, the people approaching from
12 the east therefore can't see the front of the bus, they
13 have to run to the front of the bus to see where the bus is
14 going. If they could do like with a government bus, look
15 to see the route number and say, "that is not my bus, I
16 don't have to hurry", or, "yes, that is my bus, if I don't
17 hurry I will miss it".

18
19 With bus services not all that frequent, you can
20 imagine the disadvantage to people if they miss it. They
21 don't even know they have missed it, by the way, because
22 with the massive traffic congestion buses do not run to
23 timetable, I don't blame them for that, therefore how do
24 you know whether because it is a time the bus should be
25 there, you have no idea if it is your bus. The only way to
26 tell is by route number. Private bus companies buy
27 ex-government buses and the first thing they do is cover up
28 the route numbers, refuse to use them. It seems there is a
29 policy that the first thing they do is cut it out so it no
30 longer works.

31
32 They are things that are very important to encourage
33 use, convenience of the customers, yet none are being
34 catered for.

35
36 DR PARRY: I will ask Darryl to comment.

37
38 MR MELLISH: I did mention fleet information when I talked
39 about service quality, so I did not neglect it. The
40 tribunal understands that there is a major difference in
41 the way that the STA is funded compared to private
42 operators and the way that their vehicles are supported by
43 the taxpayer, that there is a major difference there. I
44 would like to ask one of our bus operators if they would
45 not mind responding to the other specific items because I
46 think it is worth giving comment from an operator, Stephen
47 Rowe.

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1
2 MR ROWE: In regards to rear doors, I can speak for
3 Busways, there are some buses being made now without rear
4 doors. Operators are doing that because they are concerned
5 about capacity issues on buses. What has happened is that
6 the low floors have actually reduced capacity. Putting a
7 rear door in means you lose another four seats basically.
8 That is part of that push there. I fully agree with you in
9 terms of loading and unloading, you are much better off
10 having them. Unfortunately, there are costs and also
11 capacity issues which the industry is struggling with.
12 "Destos", I tend to agree with you, unfortunately funding
13 in the past has not really covered us putting in side and
14 rear "destos", something we are exploring at the moment.
15
16 A "desto" for a bus, electronic, probably has a
17 10-year life. You have to consider that over things you
18 could do in the industry. I tend to agree to a large
19 degree, there are a lot of government buses running around
20 with pull cords, as there are a lot of private operators
21 with the press button.
22
23 MR LONGTON: I was mentioning new buses.
24
25 MR ROWE: We really don't disagree with you. Lighting, the
26 only thing I could think of on the M2 is that there is a
27 safety issue because you get reflections from the
28 windscreen that makes it hard for the driver to actually
29 see. It is like driving your car with the light on, you
30 could understand the issue. That could be part of the
31 problem. Maybe it is a bus design thing, maybe it could be
32 overcome by good bus design, it can be tricky, though.
33
34 MR COX: Any further comments?
35
36 MR LONGTON: I was at another meeting before this
37 unfortunately, but is that all the items you are covering
38 on your discussion paper?
39
40 MR COX: We have worked our way through on contracts,
41 non-commercial contracts and Sydney Ferries. This is
42 really just the end session.
43
44 MR LONGTON: There were environmental issues.
45
46 MR COX: If there are issues, I am happy to give you five
47 minutes for that.

1
2 MR LONGTON: Thank you. The question you raise. I fully
3 support the private bus company's situation of this funding
4 inequity. That is one of the major issues, but then if you
5 look at the issue, I was just reading in the paper today,
6 sorry, in the IPART discussion paper, where you did
7 actually point out that looking at private bus revenue in
8 Sydney that the total full fares revenue you estimated at
9 about \$62m but you said the school bus revenue was actually
10 \$331m, plus another \$30m for concession fares.
11
12 In the paper only yesterday the company King Brothers
13 which has collapsed on the North Coast, of which everybody
14 is probably aware, in evidence given in court yesterday the
15 company manager said that 90 per cent of the revenue that
16 King Brothers received on its bus services was through
17 school bus subsidies. I appreciate it would be higher in
18 the country than the city but, as you can see, it would be
19 70 per cent in the city perhaps. That seems to be an
20 enormous amount of revenue.
21
22 In my submission I pointed out that it is quite
23 obvious that the school bus business is the core of a
24 private bus company's operations. That is where they are
25 making the big money. To then expect them to put on more
26 and more buses to operate in peak hour is really not in the
27 best business interests of companies. I understand that
28 because everyone keeps calling them "public transport".
29 They are not that in the true sense, they are private
30 companies that are running buses and trying to make a
31 profit doing that carrying passengers and really the idea
32 of public transport is a system to provide a system for the
33 public, I thought.
34
35 It is impossible for private bus companies to give the
36 same level of service as the Government, so I understand
37 and support their complaints. It is only in recent times
38 they have actually started to say that there should be some
39 sort of subsidy so they can provide a service equal to what
40 the Government buses do, which are heavily subsidised. We
41 all realise that. The buses are bought for them. The
42 Department of Transport should be telling us how do they
43 justify their argument that a private bus system operating
44 in Western Sydney, yet it does not operate in any other big
45 city in Australia, will have subsidised systems? In the
46 USA, the land of free enterprise, the bus and light rail
47 are owned by the city and the private operator just

1 operates it. The costs are enormous to buy buses and
2 replace them.
3
4 Operators have to make a profit, so what will suffer?
5 They have to buy the buses and the more buses they buy the
6 bigger the outlay for the company and that can be quite
7 dangerous. Quite often it might even mean having to buy a
8 new depot. It can be forced to do that in a new area, so
9 they are reluctant to buy more buses because it is bad
10 business, it is over expenditure. To have the buses for
11 peak hours but there in the middle of the day, to sit there
12 for the rest of the day and not make any money, that is bad
13 business too.
14
15 It is unfortunate Mr Lee has left because he should be
16 taking note of these issues. We have a system in Western
17 Sydney which does not seem to operate successfully anywhere
18 in the rest of the world.
19
20 The tribunal quite rightly noted in its discussion
21 paper that there was poor feedback on services and
22 performance. It is directly related to the Public
23 Transport Act, that it didn't require that to happen, it
24 was an act that was produced as a self-regulating act. It
25 was a Greiner government initiative and it is what you
26 would call a self-regulating act and that is how it
27 operates, therefore there is no requirement for any
28 reporting.
29
30 I have to ask the question, so far as the performance
31 of this act there does not appear to be, nobody has
32 confirmed, that most acts also have some way of ensuring
33 they are complied with. There does not seem to be any
34 mechanism in this act to provide any penalties or any way
35 of making sure a company operates correctly because there
36 seem to be no penalties or obligations under the act or any
37 action to be taken if a company does not perform to its
38 requirement. It seems astonishing that that does not
39 appear to be there. Why would the bus companies, who know
40 there are no penalties, get terribly upset about an act
41 they have to comply with?
42
43 MR COX: Thank you for those comments. Darryl, anything
44 you wish to respond to?
45
46 MR MELLISH: One brief comment, that the existing act and
47 contracts do provide for the Director-General to require

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1 information from operators. There is a mechanism there.
2 John Lee said before that it was sufficient or not to
3 introduce the performance measures that the government may
4 require is debatable but there is a mechanism under the
5 existing act and contracts for the Director-General to
6 request information from operators on performance and other
7 things.
8
9 I certainly support the views about audit and
10 compliance and service quality.
11
12 MR D'APUZZO: There are penalties under the act. The
13 penalty is you lose your business. Accreditation
14 requirements are safety and quality related. You have
15 minimum service levels, age of bus and standard fares, plus
16 all the relevant safety issues. If you don't comply with
17 those, you lose your accreditation, which means you can't
18 operate the service. You lose your contract. It is a very
19 heavy penalty. No business. Your investment is thrown out
20 the door.
21
22 MR LONGTON: Last year in my submission I did submit
23 numerous clippings out of the Daily Telegraph where there
24 were two separate occasions they carried major features
25 about poor performance of Westbus and the community
26 inundated the Telegraph with complaints and all we
27 understood happened was the Director-General had a meeting
28 with them and told them to lift their game. That seems to
29 me to be not quite good enough. If a company is going to
30 perform badly there should be some carrot or some penalty
31 there to make sure that they do try harder. Obviously
32 Westbus admitted it just dropped the ball, so to speak, but
33 nothing happened, they are still there.
34
35 MR COX: I think all that we can do is to draw these
36 points to the attention of the Department of Transport.
37
38 I think we are close now to our advertised closing
39 time. I suggest we draw the line here and conclude. We
40 have noted the issues people have raised, in particular the
41 ones that people feel should be drawn to the attention of
42 the Government, and we will certainly do that.
43
44 Moving forward our main task is to produce
45 recommendations for fares to take effect from 1 September.
46 That will require us to make a decision I suppose about the
47 middle of August. We are now at the end of June so I guess

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1 there is an opportunity for people to make further comments
2 to us if they wish to do that, but they should do so in the
3 next couple of weeks. If they do that, we will in a
4 position to consider them.
5
6 There are also a number of issues that we will need to
7 discuss particularly with the Bus & Coach Association and
8 the Charter Vessels Association, and we will do that over
9 the next few weeks also.
10
11 Thank you very much for your attendance today and for
12 your constructive participation in the events of the
13 afternoon, which have been of great assistance to the
14 tribunal in advancing our thinking on these issues. Thank
15 you very much.
16
17 AT 5PM THE WORKSHOP CONCLUDED
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