D05/11005

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARING INTO PRIVATE & PUBLIC BUS FARES REVIEW
Tribunal Members

Dr Michael Keating AC, Chairman
Mr James Cox
Ms Cristina Cifuentes   Held at Meeting Room 2, Level 2
44 Market Street, Sydney, NSW, 2000

On

Friday, 28 October 2005 at 9.30am
.28/10/05 1
Transcript produced by ComputerReporters

THE CHAIRMAN: Good morning. My name is Michael Keating. For those who don't know me, I am the chairman of IPART. On my left is James Cox, who is the Tribunal's Chief Executive Officer and full-time member. On my right is Ms Cristina Cifuentes, who is the Tribunal's part-time member.

I think it might be useful if we were to go round the table and ask people to introduce themselves.

MR LEE: Good morning, Mr Chairman. My name is John Lee, the Director-General of the Ministry of Transport.

MR WILSON: Roger Wilson, Acting Chief Executive of the State Transit Authority

MR MELLISH: Darryl Mellish, the Executive Director of the Private Bus Association.

MR AUSTEN: John Austen, reliability and strategy in the Independent Transport Safety and Reliability Regulator.

MR REGAN: Len Regan, representing the Lower Hunter Councils' Transport Group.

MR GOODING: Alex Gooding, Executive Director of the Western Sydney Regional Organisation of Councils.

MS GENNERY: Joan Gennery, Transport Development Officer for Western Sydney Community Forum.

MR WADIWEL: Dinesh Wadiwel, Senior Policy Officer, Council of Social Service of New South Wales.

MR MILES: Allan Miles, Action for Public Transport, a consumer organisation.

MR MAHONEY: I am Denis Mahoney with IPART as the Program Manager, Transport.

MS TOWERS: Fiona Towers, from the IPART Secretariat.

THE CHAIRMAN: First I'd like to begin by thanking you all for coming here today. The purpose of this hearing, as I think you will appreciate, is to assist the Tribunal in its deliberations in determining the fares of the private and government buses in the Sydney metropolitan region. We

also will be making recommendations to the Director-General on private bus fares outside the metropolitan region on fares determined under commercial and non-commercial contracts.

I think you will all appreciate that we are not going to make any decisions today and, in fact, what we are here for today is to seek your assistance in helping us consider the various issues including those canvassed in the submissions by the Ministry of Transport, the Private Bus Association and other interested parties. This public hearing in fact forms part of a consultation process that the Tribunal is required to take.

We have two transcribers at the end of the table who are going to be recording the proceedings and the transcript will be publicly available on the IPART web site in a few days. May I ask that you speak up to assist the transcribers.

The hearing will run as follows: the first session is quite a long one. It addresses the issues relating to bus fares within the Sydney metropolitan region. The second session after morning tea deals with issues surrounding private bus operators outside the metropolitan area that run regular passenger routes and the STA's Newcastle services.

The final session will discuss any issues surrounding revenue requirements for non-commercial contracts, and I am definitely aiming to finish this session by 12.30 because we have another hearing this afternoon on ferries. Dennis Mahoney from the Secretariat, who introduced himself a minute ago, will start us off with an outline of issues to be discussed in the first instance and I'll then chair the discussion around the table.

In order to ensure that discussion proceeds smoothly on all topics to be covered, can I ask that you keep your initial remarks reasonably succinct and to the point. For obvious reasons I also ask that speakers not be interrupted. Following the speakers who have been called on, I'll then invite further, more general discussion, and questions or comments between participants. If you think we have missed an important issue, that will be your chance to raise such a matter or at the general discussion stage. Dennis over to you.

MR MAHONEY: Thank you, Mr Chairman. In order to focus our thinking in this first session on metropolitan bus fares, we have asked three questions. The first one is a broad one: should the approach to fare setting be the CPI plus X approach, as put forward in the ministerial inquiry into sustainable transport, commonly known as the Parry Inquiry, and then how much should fares be adjusted in line with that approach, if that approach were to be adopted? Secondly, should the structure between some of the fares be altered, primarily thinking of the relationship between TravelPass fares, the TravelTen fares and the single fares; and then, thirdly, because service improvements are so important - in fact, they are half of the formula of the CPI plus X; they are the X part - how much weight should be given to either demonstrated or likely service improvements. Then another question will be how to translate a qualitative list of improvements into a quantitative fare adjustment. So those are the three broad questions that we think will help focus the discussion.

Our starting point, the CPI plus X, comes from the Parry inquiry. Last year the Tribunal's public hearing on bus fares was focused more on bus reform and the move to fare harmonisation. In a sense this is the first opportunity the Tribunal has had to discuss how the harmonised fares might be increased in this year and subsequent years. The approach that is on the table from the Parry Inquiry is: CPI plus X, where the CPI hopefully is self-explanatory - whatever the rise is in the Sydney CPI - plus X being some factor for fare increase related to service improvements that have been made by the government and private bus operators in the metropolitan area.

In fact Parry mentioned five ways the government might address the prospective funding gaps. Two of those recommendations concern us here today. One is the efficiency gains that Parry saw or hoped would be made by the operators; the other was the CPI plus X approach. "Identified service improvements" was the term used by the government in its response to Parry and even the CPI increase itself was allegedly to be subject to meeting efficiency targets.

As we mentioned in the discussion notes that we distributed for this session, no targets for efficiency have been set for metropolitan buses yet, or at least

Tribunal is not aware of them. We do understand, however, that there are some pending in line with recommendation 20 in the Unsworth Review, which talked about:

Where possible State Transit should be required to make targeted efficiency savings to reduce the level of CSO payment.

That being community service obligation payments.

The government's response to Unsworth was to indicate that there would be some published data coming out in due course. The only published measures that might be considered efficiency measures that are available to the Tribunal would be the key performance indicators (KPIs) of Sydney Buses, and the discussion notes show some of those improvements. We also listed a few of those improvements separately before considering the service improvements in detail later in the discussion notes and I'll come back to those in a little while.

How the CPI plus X approach might have worked historically has been of interest to some people, so we have just included a review of past fare increases and compared them with the Sydney CPI. Those of you who took the few minutes to deduct one from the other will see that, most of the time, the Tribunal's behaviour over the last five or six years has been effectively to give an above-CPI increase in any case. So there has been no specific reference to X, where X is now service improvements, but we included that in the discussion notes because we thought that would be of interest to some people.

Of course those fare increases were actually determined in the light of all the matters that the Tribunal has to take into account in section 15 of the IPART Act, being a dozen or so matters.

If we were to adopt the CPI plus X approach this year, the minimum weighted average rise that would be considered for private buses - assuming the Tribunal was happy that there had been at least some efficiency gains that would grant CPI - would be a rise of 2.46 per cent because that has been the rise in the Sydney CPI for the year ended June this year compared with the year ended June last year.

In the past, the Tribunal has considered taking not just the financial year CPIs but the latest available CPI. Since that came out the other day, just for interest, the rise in the CPI on average in the 15 months to September was 2.86 per cent. That is just to indicate that the Tribunal may want to discuss two different CPIs depending on whether the September quarter is included or not. In general it is not the numbers that are crucial at this stage. It is the general approach, namely, whether the CPI plus X approach is the most appropriate or indeed the only one on the table at this point.

When we come to the practical application of the CPI plus X approach in this review, in the notes that we circulated we presented what was purely an illustrative example to show the orders of magnitude involved and the issues that that might lead to. In particular, because it's an illustration - the number was arbitrary - we chose to illustrate what would happen if we increased all the single tickets by 3.75 per cent.

Because we started off with fare harmonisation, there's no such thing as there used to be, being the STA master fares schedules, where, of course, all the unrounded fares were there and the Tribunal applied the increase to those unrounded fares. We have now started off effectively with what is both a rounded fare schedule and a master fare schedule where the fare harmonisation has everything down to the nearest 10 cents. So when we come to rounding, whatever that illustrative 3.75 percent rise is, it turns out that rounding dictates that the fare rise will be a little higher, possibly up to another 0.50 percent or more, just because of the rounding to the nearest 10 cents that is involved on fares. We have illustrated that in the discussion notes for single tickets. In an attachment to the discussion notes we have put in what that would do in the TravelTens and the TravelPasses.

In the discussion notes as well, we showed you that if we put all of the 3.75 per cent rise into action across singles, TravelTens and TravelPasses, the overall rise will be about 4.5 per cent. That is purely a rounding effect. Instead of being 3.75 - 4.5. Because that was illustrative, our interest then was to try a few other percentage increases and see what the effect of rounding is. Those of you who have the notes will notice that table 4 in the middle of page 5 shows you the range of weighted average fare rises and what the increase would be in the

different ticket components - singles, TravelTens and TravelPasses.

The issue with TravelTens is that the Ministry has asked the Tribunal to consider reducing the discount on TravelTens from what is currently an average discount - in fact, I don't think we have calculated an average, we just have a change that varies from something well below 20 per cent to something well above 20 per cent.

The Tribunal last year was unsure that 15 per cent was the appropriate discount rate. The consumer group stakeholders were also concerned that that might be a bit low, and the Ministry was to come back to the Tribunal this year with a bit more argument as to why 15 per cent would be a more appropriate discount than, say, 20 per cent as an example.

In the discussion notes we indicate from work done for Sydney Ferries that in only two of the six or seven jurisdictions that the Sydney Ferries report looked at were the discounts below 20 per cent. Two of them were at 20 per cent and the other two were above 20 per cent.

So, in other words, the evidence that at least the Tribunal has seen on the size of equivalent TravelTen discounts is, at best, mixed.

We understand now that TravelTens won't be introduced into the private bus side of the metropolitan network until TCard begins, so perhaps that takes a little bit of the urgency out of deciding this matter for the Tribunal.

That said, the evidence is still mixed on that issue, and I am sure the Tribunal would like to hear some discussion on the appropriateness or otherwise of what discount will apply to TravelTens.

We now move on to what you would call the "X" part of the CPI plus X approach. For those of you following the notes, I am up to the middle of page 5 concerning service improvements. One thing about service improvements is they are perhaps a bit like beauty: they are in the eye of the beholder. So we have attempted to relate some changes in the key performance indicators for Sydney Buses to try to quantify some of the service improvements as they translate into those key performance indicators, and that was summarised for us in table 5 on page 6.

Much of the improvement in terms of fleet wheelchair accessibility and age and fleet airconditioning was related to the introduction of new buses in the last 12 months. One issue might be to try to say that if we're going to talk about giving some sort of fare adjustment for service improvements, how much has it cost STA to implement these service improvements or to implement the changes that have led to these service improvements. So STA have provided us with some figures on what the cost of the new buses was. The Authority purchased 182 new buses last year, at a cost of $94m. For those of you who like to calculate, that is an average of $516,000 per bus, presumably all on-road costs.

The other important thing to think about there is that 182 is about 10 per cent of the fleet, and given that the average age of the fleet is to be about 12 years, you could say that in some sense that 182 is not much more than a replacement activity, and it would have to go on every year. I think I worked out that you would need about 150 buses a year to keep the average age of 12 years.

I am seeing a shaking of heads, so we will hear from STA shortly I am sure.

In one sense, one could think of those 182 buses as part of an ongoing replacement program, and so how much should the fare adjustment be? $94m is a quarter, roughly speaking, of the annual operating costs of STA. That is a sizeable investment, I would have thought, for STA. How that translates into a fare rise is up for discussion.

There is a list of some other service improvements that we have highlighted there. We have put in bold the ones that we think are actual improvements, for those people who have the notes, and then the MOT listed quite a few others that they considered to be either service improvements that have been demonstrated or that are imminent, and we simply left it that we would invite participants to discuss how the Tribunal might approach the application of the X in this instance, given this information.

Lastly, we have included some information on cost efficiency, as we did last year, and I apologise,

especially for putting the STA in such a bad light where on the bottom of page 7 in the text we refer to "a sizeable rise of 5.4 per cent". Ladies and gentlemen, that's incorrect. It should be 3.96 per cent, and, therefore, to assert that that is more than double the rise in the CPI is wrong. I apologise.

Likewise, I would like to say to you that the sentence that follows under figure 2 on the next page is no longer correct as a statement of fact. It now becomes a hypothetical, and perhaps should read:

If there were a significant cost acceleration, the Tribunal may not wish to fund that through higher fares.

As a statement of fact, the sentence underneath figure 2 is plainly now incorrect.

That said, figure 2 does indicate that there is a sizeable upward trend in operating costs per kilometre in Sydney Buses, and in the last couple of years that is increased relative to the CPI.

We next point out that in the past the Tribunal has been very interested in cost recovery, and so the table at the bottom of page 8 indicates that there seems to have been a significant deterioration in Sydney Buses' cost recovery in the last couple of years, and participants may wish to make a comment on that.

Lastly, on page 9 we simply divided up those cost recovery figures, because everyone is well aware that they are a ratio of revenue to cost, and so if we look at the two components, it is not that revenues are falling, as table 8 indicates, even if we adjust for just keeping pace with general inflation, but it is the fact that costs are rising faster than revenues are rising.

Mr Chairman, I think that is probably enough scene setting from me.

THE CHAIRMAN: John, I wonder if you or your colleagues might want to start us off.

MR LEE: Thank you, Mr Chairman. There are about 10 or 12 issues there and I will try to address most of them in my comments.

I suppose to pre-empt my comments, I would like to recognise that as of last week the Metropolitan Bus Services Reform - that is, in signing up all new operators to the new contracts - has been completed. So instead of historically, where we had over 94 contracts with defined boundaries and limitations to good service planning and operations for the benefit of the community, that has now been streamlined. The benefits from those reforms may take up to five years to be fully realised, but it is obvious, even in region 10, where the private operator Conex is in place, that community consultation in redesigning their network and the laying down of the first strategic corridor is proof positive that these reforms will have clear benefits for the communities in which those services operate.

I remember saying in this Tribunal two or three years ago that it was not good for the public to have 60-odd buses running down Victoria Road after dropping off passengers in the CBD in the morning peak who are disallowed under legislation to pick up passengers on the way back to Parramatta. Those sorts of impediments have now been removed, and the sense of cooperation between operators is growing day by day and that is a good thing.

The second point I would make is it was a brave step for the government last year, rather than, as I think Unsworth suggested, having a three- or five-year price path to get fares equalised, that the Government and IPART then also saw the sense in trying to move quickly to get that equalisation.

I would like to make some comments about the relative levels of discount, then, and how the TravelTen might apply to the privates at a later time.

With respect to the CPI plus X approach, I think your point was valid that for State Transit alone, $94m is about 25 per cent of the cost of doing business, and it is a real cost for State Transit. We currently have buses on the network, some of which are up to 25 years of age - the Mark-2 buses - and to actually have new accessible, airconditioned, low-floor buses there is a definite improvement, especially for passenger comfort, with those buses coming into operation.

I would like to just make some other points that probably haven't been articulated well from the Ministry and State Transit point of view, but I have been focused on them, having read your commentary.

That is, if we look at other operational improvements, if you, for example, look at the number of missed trips that State Transit have had in the past 12 months, the reason for a missed trip can be for a multitude of reasons: it can be because a bus loses a mirror; there is an issue with a passenger on board; it can be to do with on-road congestion which then means a bus can't conduct its secondary trip or its third trip. Those incidents have reduced from 0.7 of 1 per cent in the previous year, and they are currently tracking at 0.4 of 1 per cent, whilst the benchmark is 0.6. So they are doing a lot better than the benchmark.

Another area - and I will leave it to the acting chief executive to talk about it - is the relationship between breakdowns and reliability, but, again, there is some clear quantification about those improvements, and I will get Roger to document those.

The thing we shouldn't also forget about improvements to bus services in Sydney is the Northwest Transitway. That is a $500m investment in infrastructure, with bus stops, with dedicated busways, to make that growing area of Sydney accessible for people to get into Parramatta. That is a huge commitment, and for those people who have been in Parramatta in recent times you will have noticed that Parramatta station is undergoing a $110m investment, of which there is a massive new bus interchange under construction - a big improvement from what had operated there in the past.

I am happy to provide IPART with the plan for bus procurement for the private operators in Sydney, but there is also, on top of the current tender for 505 Sydney Buses to be procured over five years, a fleet procurement plan in place for them as well.

The point about TravelTens and the level of discount, if I can just go to that regarding the right level of discount: well, beauty is in the eye of the beholder, and so is the level of discount. If you walk the shopping strip of the QVB, which I did this morning, there are variations from zero per cent to 40 per cent off. It actually was the choice of the retailer who was trying on attract customers. There have been many studies into the elasticities or otherwise of levels of discount, and I think it is a very subjective area - it is not a precise science. But, just as you could quote London and their level of discount, or Adelaide, we could quote other parts of Australia where the level of discount is around 15 per cent.

Specifically, I would like to detail that at present, for the five different fare bands, you have a 16-plus TravelTen with a level of discount of 15 per cent; for a three-to-five section TravelTen the discount is 21 per cent; and for a 10-to-15 section it is 16 per cent. So there are variations within the sections, and I think it would help all of us if we could agree on a discount and apply that to at least all the product.

People know I have a strong view. I think 15 is a good number. The research out of Melbourne for their Smartcard is saying that, for the public, anything that is around 8 to 10 per cent off will incentivise people to take up a Smartcard. I think 15 per cent is generous, I think 20 per cent is over-generous when you look at what we are trying to do in terms of improvements in services in Sydney.

They are my opening comments, I am also happy to participate in the debate or answer any specific questions.

THE CHAIRMAN: I have one specific question, but I will let your colleagues follow-up.

MR WILSON: Okay, I would like to perhaps address some of the specific issues related to Sydney Buses' operating costs and also the areas of the cost efficiency. The Tribunal has looked at these costs in relation to cost per kilometre, and that, in itself, doesn't probably take sufficient account of some of the factors in our operating environment that are changing over time. I am referring in particular to the cost of traffic congestion. At present we are in an environment where we are having to look at increased running times and increased lay-over times in order to continue to provide reliability - and you will see that we have made some improvements in that area.

That doesn't mean we are operating more kilometres, but it does take more staff and more buses to operate the same number of kilometres when you are operating in an environment that is progressively getting slower. We have had some very welcome benefits in a number of areas with provision of a number of bus priority measures, and that has, to some extent, mitigated the cost of congestion, but there is still an overall fairly major problem for us in terms of maintaining reliable timetables.

In the short term, that means that the buses run late, we lose customers because they get sick of waiting for the bus, we have to pay overtime for the drivers because they get into the depot late.

In the medium term, we adjust our running and recovery times so that we are able to run on time, and then that builds in the underlying cost into our staff and fleet requirements.

That, for us, is a fairly major issue, and it isn't particularly well reflected by simply looking at a unit rate cost per kilometre.

Some of the other things that have changed over recent years in our environment that have added considerably to our costs are the costs of security. People will probably be aware that after the first Bali bombing there was a fairly major increase in the provision of security at bus depots. We have been able to mitigate some of that increased cost by the installation at other facilities of things like boomgates and perimeter controls, but that is an ongoing cost.

For us particularly - I guess the London bombing has especially focused on this - there will be increased costs of security relating to buses. For example, in the short term, we are putting all of our management supervisory staff through some special emergency response training, and there is a cost in all of that. So I would like to state that in terms of things like CPI they don't necessarily pick up those sort of elements of our operating environment that affect our costs.

Probably a more recent one, but one that is certainly going to affect us going into the future in terms of operating costs, will be the cost of fuel. That is probably not picked up very well in the historical trend, but everybody knows from buying their own petrol just what is happening with fuel at the moment, and that will be an issue for us going forward.

We have indicated that we have made some significant improvements in terms of buying buses that are airconditioned and wheelchair accessible, but even in terms of doing that, in terms of improving the quality of the service, that also adds costs to our operating costs: it takes more fuel to run a bus that has airconditioning, for obvious reasons.

Also, the buses we are buying now to provide the two wheelchair spaces are about 2 metres longer, but they don't provide us with any additional accommodation on the bus in terms of seating and standing capacity; and it's pushing up the costs even of accommodating buses - for our Burwood depot we have had to lease an additional area. So even though we don't have necessarily any more buses, because of the fact that we have changed from 10.7 metre long buses to 12.5 metre long buses does push our space requirements at depots and does increase our costs.

Again, cost like that isn't particularly well reflected in the CPI.

So it is elements like that, which are pushing our costs, that, when you start tracking us against CPI, are some of the reasons why we are going faster than CPI.

Having said that, we are also working quite hard on improvements to our cost efficiency to reduce our unit costs, and in recent times we have had some success in reducing our worker's compensation premiums through better safety and injury management. We have reduced our spare bus ratio through better maintenance practices. We have improved our procurement processes with forward-purchasing agreements which have provided us savings in the cost of buying goods and services.

We have achieved a reduction in our CTP insurance. We have reduced our corporate administrative overheads and, as I mentioned earlier, we have clawed back some of the increases in our depot security costs that were incurred immediately after the first Bali bombing.

We have reduced some of our expenditure on advertising. We have reduced the reseller's margin on the tickets sold by our agents, and we have also been able to reduce the cost of our debt.

So we have been working quite hard in a number of areas to try to ensure that we are doing as much as we can to improve the efficiency of the service.

Just in relation to the issue of how many buses we need to replace to maintain the average age of 12 years, just on the steady-state basis, to achieve an average age of 12 years, and if you had an exactly uniform replacement rate, you would be keeping buses for 24 years. With a fleet of around 1900 buses, that means we need to replace roughly 80 buses per annum to maintain that steady state, not, I think, the 150 that might have been mentioned.

Because our average age had increased above the 12 years, we have actually got an accelerated replacement program at the moment. We are just at the starting point of receiving an order of 80 articulated buses and we are out to tender for another 505 buses at the moment. So we are actively pursuing the replacement of these buses.

There is now a significant proportion of our fleet which is wheelchair accessible and airconditioned, and in terms of hours or kilometres on the road, the actual hours or kilometres on the road of those types of buses would be greater than the proportion of those buses in the fleet, because we tend to use our newer buses more than we use our older buses. So in terms of what the customer is experiencing, we are actually a little bit ahead of those percentages.

MR MELLISH: Mr Chairman, the BCA has a number of points it would like to contribute to this discussion, and the first one is really to report that the fare harmonisation and introduction of PET has had an increased effect on patronage - a very positive effect - and figures are now being collected by the Ministry to that effect. So it has had the results that we expected it would have.

Secondly, the new contracts have a patronage incentive for both stakeholders in the new contract, so we would like to see when fares are set that the Tribunal understands that there is a patronage change component in the new contract and we would like to maintain that incentive to grow patronage.

The third item is to support what John and Roger have said about cost increases, and add that there are new accreditation requirements, safety requirements, reporting requirements and drug and alcohol requirements. But, having said that, the new contracts also an have indexation provision for costs, so we are pleased that that has been part of that negotiation.

Next, we are pleased to report that the new contracts also have a quite a detailed section on performance requirements for reporting - as John Lee said, the last one has just been signed - so there is a new regime of performance reporting requirements and standards set under the new contracts which I suggest the Tribunal could view because I think they provide for a number of service improvements that you will see over time.

With regard to TravelTens, the industry supports multi-ride tickets. We want to see as convenient a travel arrangement as we can for the passenger. We think there should be a premium for single cash fares. We believe that with multi-ride tickets we would have accelerated boardings and movements that support an increase in patronage. We were not formally required to submit for this section, but we just ask the Tribunal to look carefully at the issue of fares and efficiency. How much the passenger pays and how much the taxpayer pays is a major issue when it is related to the long-term investment in public transport. We believe that the investment is worthwhile not only for economic reasons but for social and environmental ones. We hope that the Tribunal takes those matters into account. Thank you.

THE CHAIRMAN: I might ask a couple of questions at this stage of the proceedings. Thank you, Roger, for your information on costs. Would it be possible - not necessarily right now - to get some more quantification of the savings that you have alluded to, on the one hand, and, on the other hand, what might be described as the uncontrollable costings such as security and congestion and so on? If we could get some quantification as to their relative significance that, I think, would be a big help to us in assessing the efficiencies that are being made, which

I think we have to have regard to in working out whether the CPI year's increase should go through, and so on. So it would help if you could get some quantification.

MR WILSON: We will certainly get that information.

MR LEE: As part of one of the board processes of State Transit, they actually highlighted, either eight or 10 business improvement activities. The targets were pretty adventurous but some of those have been achieved. It would probably also be appropriate, Mr Chairman, to get you a full copy of the business improvement plan that talks about those efficiencies.

THE CHAIRMAN: Thank you. I have a similar request for information. I suspect you will qualify the value of this information, but it would be useful if we just knew the trend in the passenger kilometres, the total number of passengers per kilometre, as the ultimate measure of output, if you like, a simple measure of output. Then we will probably divide it by the number of buses, and things like that, to get some measurement of productivity multiplied by the numbers of drivers. To get a sense of the output, I think that would help us.

MR WILSON: There is another aspect to that as well. Just in broad terms, our patronage is around about stable, but we are actually experiencing an increase in demand during peak periods, which is balancing the fall-off in demand in off-peak periods. In terms of costs, that is probably exactly the opposite of what we would like to see. Even though patronage might look stable, the pattern of that demand is actually pushing us adversely in a cost sense because it is more expensive to provide a peak-hour kilometre as opposed to off-peak-hour kilometre.

THE CHAIRMAN: Is a sense you have anticipated the next issue I was going to raise, and that is whether your fare structure is ideal in terms of encouraging non-peak traffic. I note in the material the Secretariat circulated, that revenue is down by 2.7 per cent. I gather that has quite a lot to do with the pension discounts and so on. I imagine buses are a bit like aeroplanes in that costs stay pretty much the same irrespective of the numbers of passengers who climb aboard. With aeroplanes, we know they offer big discounts if you're prepared to fly at odd hours. I just wonder whether that is an issue that you see, namely, whether there is sufficient incentive to travel off-peak.

MR LEE: I would put it around the other way and say: should we be examining the possibility of a premium for travelling during the peak because of the limited amount of supply? If you look comparatively at the costs to ride on our buses on a kilometre rate compared to other international cities, ours are very comparable in terms of costs in the off-peak. Your point is right, though: in rail they discount the non-peak period, but in bus transport, that has not been the case.

MR WILSON: I think there is a bit of a difference in relation to bus and rail in that rail has a fairly heavy element of fixed cost in terms of station staff and infrastructure, and that sort of thing. For buses there is more of a marginal cost. There are issues. If you look at a cost per passenger, even though the cost per kilometre is more in the peak, the cost per passenger in the off-peak is actually higher. So there is a tension that can go both ways. I guess it comes down to arguments about fare elasticity. If you drop the fare by 20 per cent and you only get 20 per cent more passengers, you have actually gained no net revenue - you are where you were. So I think it is a fairly difficult sort of area to see whether there are any net benefits out of that.

THE CHAIRMAN: I think what struck me was that you did not gain a lot by the change in the pensioner fare. That was the result. You reduced the number of pensioners who travel, but they weren't costing that much.

MR WILSON: Actually, if you look at the times when pensioners travel, the notion of pensioners only travelling when there is spare capacity on the buses is not sustained if you look at what has actually happened on our buses. Even in our peak periods, we have a very substantial element of usage of pensioner excursion tickets.

THE CHAIRMAN: That begs the question of whether you give them a different discount according to the time they are travelling.

MR LEE: Sure.

MR WILSON: Sure.

MR COX: If I may, I would like to ask John Lee a question about something that has troubled me a little. We started off examining the CPI plus X approach, whereby X related to service improvements. A lot of the conversation has actually been about costs, and I am sure I am right in saying the costs have increased. I just wonder if you could talk a bit about how increased costs might relate to the CPI plus X or what regard you think the Tribunal should have to costs outside of that.

MR LEE: On your first point about service improvements, I could expand on some of my comments about the strategic corridors, the 43 corridors. In our contracts, we stipulate a level of service which is a lot higher than what would have been expected under what was called primary routes. So we are investing a lot of time in the strategic design of those corridors and how they will compare and then how we will implement that. So there are definitely plans in place to look at those service improvements.

I think the other point to be made is: for some of our contract areas because of the historical nature of those geographical boundaries, it will be the case in some of the new regions where we actually totally tip on its head the network design. To give you an example, in region 3, which is between Liverpool and Parramatta, there were up to six different contracts with operator behaviour mainly going towards railheads; that is, Cabramatta station, Guildford, Merrylands, Fairfield, et cetera.

What we have noticed with some strategic plans that have been undertaken in consultation with stakeholders is that the major demand is actually for north-south public travel rather than east-west type of travel. So we will have to change the whole network design but still service the railhead. It will be more of a grid-like approach. As I said, there is a lot of planning work being undertaken but to actually change the whole network is a massive but important thing in terms of service improvements.

Turning to the CPI plus X, when the Parry interim report was released, I think I did question how we were actually going to quantify the X component. It is not an exact science. If you like, the previously appropriate model of looking at costs and at a cost index and those sort of things was sort of the orthodox approach. This is quite different. I think it is a learning situation for all of us, and I don't envy you your task in trying to determine it.

I know I am an employee of the government, but I think there are a number of areas where the government is investing more in public transport. Parry makes reference to rail clearways in the report. If you look at a thing called PTIPS (Public Transport Information Priority System), this is something that has been trialled on our 400 series. Using PTIPS, you actually have buses influencing traffic lights so you get better running and less stop / start behaviour. That the RTA has doubled the amount of money it is committing to bus priority and to those sorts of technology developments is commendable and a good thing. When you look at that on top of procurement and other issues in a metropolis like Sydney, it is very difficult when you have to apply a general fare increase when there are many specific improvements occurring in different parts of a multiple number of networks, and how you deal with that is not an easy task.

THE CHAIRMAN: We would be interested to hear whether the consumers agree that there have been from their perspective improvements in the quality of service. Certainly from the submissions we got from consumers on the ferries this afternoon, and that may be a biased sample, or whatever but, for what it is worth, they didn't suggest any improvement in the ferry services.

MR MILES: I agree with most of what John Lee, Roger Wilson and Darryl Mellish have said. To get back to the very beginning of what we are supposed to be talking about, being the fare-setting approach, to date, the fare-setting approach has always been cost recovery, and we are now also looking at paying for improvements. All that has its place, but I think a much better suggestion would to be trash all that and to set an attractive fare. Forget about what it costs, forget about improvements - what is an attractive fare to get people onto the buses, trains and ferries? The current approach seems to be merely to satisfy Treasury first, get the money in and then look at the customers needs, if it is not too much trouble after that. The approach should be to increase patronage more than just cover costs.

There are just a couple of points I wish to pick up

on. First of all, regarding the fuel increase, I realise that something will have to be done about that. In yesterday's Sydney Morning Herald - I have a copy here - Peter Costello said that we are not to use the fuel prices increase as an excuse to jack up prices. I realise that State Transit fuel consumption is much more than, say, Woolworths, but again I just refer that item to you.

Roger Wilson said that State Transit has costs which the CPI does not truly reflect. I am sure that is quite correct. So the inference drawn from that is that you should use CPI plus the additional costs, like regulatory and so on. I think some research should be done as to costs included in the CPI that are not reflected in what State Transit does. I refer to the price of homes or the cost of housing mortgages. Perhaps you should start with the CPI, add on State Transit's costs and deduct what State Transit does not use. Perhaps that could be the subject of further research.

On the subject of off-peak discounts, I agree that rail offers them. Brisbane buses also offer them. I used one two weeks ago. I think Adelaide also offers off-peak discounts, if not on single fares at least on TravelTen tickets.

I have probably mentioned this before, but we are talking here about percentages - 2.7 here, 4.1 there. My first accounting lecturer said that it's better to be nearly right than exactly wrong. If we worry too much about 2.1 plus 3.6, we are going to be setting a fare which is exactly wrong. That will do for me for the moment, thanks.

MS GENNERY: I have some questions to ask and some comments to make. Roger, you were talking about the net benefit if you introduced off-peak tickets or discount tickets. You said that they were not necessarily a benefit to STA in terms of revenue. I think we also need to think that if there is an increase in passengers, that is actually benefiting the community. It is one of the external benefits that could come. If you are not increasing the cost and not losing any revenue, then I think there is an argument for having off-peak discount tickets in that you are increasing mobility and accessibility to the public as well.

Another general point is that we heard from STA on the efficiencies and some of the service improvements, but we are talking of a whole-of-network fare increase. I would be interested to hear, say, from Darryl as well, because we cannot be just considering one section to support the price increase over the whole of the network. We have very few STA services in Western Sydney, so are they comparable as well?

Another point is that you talked about the service improvements that are in the contract. These are also something we have not been privy to. We don't know what they are or how they are going to be measured, reported and monitored as well. So there's quite an exclusion going on in being able to discuss this from our perspective too.

MR WILSON: I'll make a response again on the off-peak discount area. It is not necessarily true that increased patronage in the off-peak will not increase costs. Certainly, there is some spare capacity on many routes to accommodate it and if all of the increased demand fell from those areas, that would be a fantastic result, but the truth will probably be somewhere in between where there would still need to be some increase in the provision of services. With a bus service you are fairly well able to tailor your level of service to the demand to a certain extent.

From my point of view, it is really a matter for government policy as to whether the government wants to do that or not. It terms of what we do, we would certainly be delighted to have more patronage, but, at the end of the day, for any bus operating business to be sustainable, its sources of revenue must exceed its sources of cost. So in any initiatives that are taken you have to make sure that you stay in that area. If one of your sources of revenue reduces, then you have to have either some cost reduction to compensate for that or some other source of revenue increases to substitute. That is the complexity, I think, of the argument around things like off-peak tickets.

MR LEE: Could I also add to some of the comments that have been made. I think we have to put in context that if you use TravelTens, you are actually getting a good discount at the moment. So the idea then of an off-peak discount would mean a discount on top of the discount.

If you also look at some of the trials that Sydney Buses have used to grow patronage, with the 442, the Balmain service, they trialled doubling the level of service. They doubled the frequency and the resultant increase in patronage was somewhere between 20 and 30 per cent. So the costs doubled, because of the labour costs. Obviously it was in the off-peak, so it was a marginal cost, there wasn't a capital cost for an additional bus, but there are real costs associated with those sorts of activities.

Allan, I am obviously very diplomatic today, but one point I would like to make and is that I have used Jetstar recently. I am considering the aviation industry as public transport and I think your organisation has been absolutely silent about fuel levies. I bought a ticket for $69, but it cost me $180 when all the levies and taxes that are charged were included, and that is a form of public transport not regulated by IPART. Let us be realistic here - fuel prices have gone through the roof. What has happened is that people have started to abandon their cars and we are picking up more people on the buses because of the price of fuel. It would be good to see fuel prices continue to rise so we can drive more people towards public transport.

Joan, you make a good point about the contract not being available to you. We will be making endeavours to have that on the Net within a month. It has been important in terms of the commercial-in-confidence negotiations that they remain between the government and those operators. We have what is called a model contract and we will be happy to actually have that publicly available.

MR MELLISH: I will just respond to a couple of Joan's comments, if I may, Mr Chairman: the metropolitan bus service contract, as I understand it, is largely the same for private operators and the government operator, which I think is a good thing. Joan asked about the service improvements on the private side of the metropolitan industry. I can tell you that the contract does require an annual business plan process. You have to actually submit a business plan based on enhancements and improvement and sit down with the Ministry and review that business plan on a regular basis.

The contract also has new requirements for a passenger relations plan, for an accessibility action plan, for example, and an environmental action plan and new information standards. It requires the introduction of the new technology of TCard, and that is just to name a few of the requirements. The initiative of having that contract available to the community is a very good one because it does prescribe how the service improvements should also involve community consultation. I think that is a big step that had to be taken. I am not sure if that answers Joan's questions, but I think the detail is in the contract.

MS GENNERY: Which we have not seen.

MR LEE: I think you have been briefed on the principles. Those who are living witnesses to bus reform have been to Bankstown and to Hurstville and have seen the new level of consultation with regard to the service plans. We have been very transparent about that. There is no secret agenda her. You have bus people like Peter Threlkeld out there with the community. Yes, there is debate going on at the moment; there is a debate going on moment about whether we should be running more services to the Revesby railway station, for example. They are real live community engagements. It is important that we have that and it is all part of the contract.

MR MILES: We have sent representatives from our area. One went out to the Bankstown area.

MR LEE: And the feedback was?

MR MILES: That it was a very useful process. The same person went to both of them because he knows both areas.

MR LEE: That will be a requirement of every single operation in every region. The contract actually has a provision that, as part of the evaluation of performance, how operators have actually related to customers and the level of customer service will be quantified through independent survey, and it will actually be a precondition for further negotiations.

MR WADIWEL: I just want to talk a bit about CPI plus X. I think it is worth thinking carefully about this formula if this is going to be the approach to fare increases. Certainly from NCOSS's point of view I think we need to question the merit of applying service quality improvements

to price. In our ideal world - I think Allan alluded to it - the fare should be based on the capacity of people to pay. The object of community transport is to provide connectivity and in some ways service quality can be approached through a regulatory approach, so there's some question about whether we use price or not from the start.

The other problem we have is that the CPI plus X formula does not, at least from the outset, include an affordability consideration and it focuses on people who have the spending power to afford a service quality improvement. Certainly I agree that improved service quality will increase patronage, but there will be people who increasingly will not be able to afford to buy those fares, particularly if we have a situation where they are continually above CPI fare increases.

Added to that, from the outset there is no capacity for that process to grant a below-CPI fare increase. In 2002 I agree that one was granted. Presumably the Tribunal had some rationale at that time for granting a below-CPI fare increase. I am not suggesting in the present environment, with the fuel increases we have seen, that that is viable, but potentially in the future there may be grounds for that below-CPI increase.

The efficiency improvements have not been discussed a lot. It is part of the formula that the operators have to meet certain efficiencies before the CPI increase is granted. I am not actually clear that that does anybody any favours. It means that the operators have to find a way to do more with less or do the same with less. Potentially, if were to follow that formula this year, given that we have not seen many efficiencies listed by the operators, would that mean that even the CPI increase is vulnerable?

We have already had some discussion about how to measure the service quality improvements and we don't have a lot of information about how that translates. We have a lot of information about the STA performance, that that equals 0.05 per cent, or something like that. We don't know exactly how they got that figure.

As Joan raised, how do we translate an improvement for one operator in one or two regions against a range of operators across the rest of Sydney? Because we don't have the private data, how do we exactly weigh those considerations against each other and would it be fair to grant a fare increase that impacted across the whole of Sydney based on just the performance of a few regions?

If we are going to go down the CPI plus path, I think we need to be clear about the goals in terms of performance and efficiency. I think that is a problem at the moment. We're not exactly clear what that is and we have not got a very clear matrix in terms of performance and how that translates to those fare increases. We need some transparency around that.

Joan Gennery raised the fact that 18 months after the negotiations started with the contracts, the public still has not seen the contents of those contracts and we have not seen the performance standards in detail. Not having seen the contracts certainly makes it very difficult for all the consumer representatives here to know what we are talking about in terms of performance.

In terms of my constituents, the low-income passengers, there is a problem in trying to identify what the impact will be for some of those performance standards. I guess there is also a general public interest concern because any fare increase that is granted will potentially mean millions of dollars that someone pays - government or the consumer. I think that it is a public interest concern that those standards be very clear and transparent. If we are going to go down the CPI plus X path, we need some factor of affordability and how that actually relates to that formula.

Finally, just in relation to CPI plus X, I do not think there are any grounds to grant a performance-based increase on the basis of fare harmonisation. I think that was an implication in the MoT submission, that because the fares had gone down, that was grounds for a service improvement. To me that was a principled decision to address a long-standing inequity and not a service improvement.

Just briefly, in terms of single tickets I think we would be fairly happy with a CPI level increase on the basis of the fuel increases. We do note that the government has a greater capacity to wear that fuel cost in the short term than the low income households that NCOSS

represents, so there are some grounds for looking at how you should space that appropriately over time. Certainly we don't see that there is adequate data to grant an above-CPI increase on the basis of what we have before us.

I guess there will be a lot of discussion about the multi-discount. I think there was a very clear indication from the Tribunal last year that the Ministry of Transport had to go and find some evidence on that. I do not feel convinced the evidence was provided in the submission. There was some comparative stuff in there, but the comparative seem to be here or there; it just depends on who you want to compare it to. Something NCOSS raised last year is that we need to be clear about what the actual cost is and what is the cost saving of those multi- ticket discounts? That has not exactly been demonstrated.

I think something that also has not been demonstrated either is the patronage impact of that discount. That was a concern of the Tribunal last year. I couldn't find in the Ministry of Transport's submission information about what that 15 per cent discount translates into in terms of patronage.

I have raised some of the issues around service quality. I will echo something that I think Dennis Mahoney raised about where we draw the line between the cost of business, ie, replacing bus fleets, and what is a demonstrable service quality improvement. That comes down to the kind of matrix, if you like, that we adopt in terms of what is an agreed-upon performance goal that everybody here will be looking for.

MR GOODING: I would basically like to echo the comments that Dinesh Wadiwel has made. Just to revisit briefly the issue of the CPI plus X and the relationship between the government and non-government services, that, in particular, is a relationship that I am interested as to how you strike the balance between the two, particularly because, as has been indicated, the nature of the agreements in relation to private bus services in some respects is quite different from what has been happening with government services. To some extent some of those improvements are yet to be realised in relation to the private buses. I would like some feedback on that.

Another area of particular concern to WSROC this year, as was the case last year, is the issue of the discounts for TravelTen or multi-trip tickets. Firstly, just as an observation, what happens in CityRail on off-peak and weekly tickets, which is the nearest equivalent in CityRail to a multi-trip ticket, is that you don't get a further discount on your multi-trip ticket if you happen to travel in the off-peak period. In fact the discount seems roughly similar to what you would get if you bought a single ticket in the off-peak. It is about the same level of discount as on the weekly.

I am concerned, as others have been in their submissions, that the 15 per cent discount for the TravelTens appears to have already been factored into those contracts and on the basis of the Tribunal's decision last year. I would like to know what that means and for what period that 15 per cent has been built in and what is the significance of that?

The point that we made last year is still relevant in terms of the significance of that discount. Like Dinesh and others, WSROC is not entirely convinced about what the Ministry has said in its submission about comparisons elsewhere. WSROC, in fact, proposed an even higher level of discount last year for the TravelTens. In light of the absence of any other multi-trip ticket in the private bus year, we were saying if you are not going to bring in any other product for discount then, at the very least, you should be looking at a 20 to 25 per cent discount for TravelTens. We were saying that if, in fact, there was a broader sweep of products - in other words, if you were going to extend something like the TravelPass tickets to the private bus areas - then a lesser discount for the TravelTens might be acceptable. In the absence of any other product, as appears to have been the case and continues to be the case, then we think that the discount for TravelTens should be higher and we argued for 25 per cent last time. At the very minimum, we would argue for 20 per cent.

That raises another issue: are there any long-term proposals to introduce TravelPass-type fares or products for private bus services or, alternatively, with the introduction of TCard, higher levels of discount for higher levels of multi- ticket purchases, say, 25 or 40 purchases? If there are not going to be those products, we think that a 15 per cent discount in the TravelTens is inadequate.

MR LEE: Could I just ask Alex what is the science behind the 25?

MR GOODING: This is based on the long-term plans, as we were concerned at the time to harmonise the whole range of discount fares between bus and rail fares, for example, and we were looking at the significantly higher discounts that there are on weekly rail tickets, and which we acknowledge are fairly high, and we were saying that an average of around 25 per cent discount on both, if you were going to reduce weekly tickets and have a consistent path, might be acceptable.

We were very concerned that the introduction of, say, a 15 per cent limit on TravelTens might flow through eventually to weekly rail tickets, which would have major impacts on weekly ticket fares.

MR LEE: So the 25 per cent for buses was based on what you thought might happen with rail?

MR GOODING: No. The other point about that was we were also looking at the sorts of discounts that were offered on TravelPasses, and we were saying that in the absence of TravelPasses being introduced into private buses, a 25 per cent discount on the TravelTens didn't seem unreasonable as a way of making up for the lack of availability of those TravelPasses in private buses.

MR LEE: If I may again, Mr Chairman, I would just reinforce the point that we are here obviously under the Passenger Transport Act for IPART to make a determination about appropriate maximum fares. TravelTens are a discounted fare. We currently have two of the five ticket products that are at either 15 or 16 per cent, and they have been taken up by the community in spades.

There is no science to this; there never will be. Go to any city anywhere in the world, it is usually politicians who set the rate to try to get re-elected. That is a fact. Anyone can say a number and there is no science behind 25, there is no science behind 20 and there is no science behind 10 or 15, but I can tell you there is research that says that people like anything better than 8 per cent off.

MR GOODING: If I may, that is an interesting observation but, in itself, I don't think it necessarily, as you say, precludes any higher discount. I was just trying to establish a reasonable level of compromise in the absence of other multi-ticket or equivalent TravelPass products in the private bus setting.

MR LEE: Sure, but what is disingenuous is that we have actually had 30 to 40 per cent decrease in real fares in the councils which you represent, and there is no mention of that. There is no recognition of the fact that we have had a huge reduction in the price of travel in the northwest area - people coming from Kellyville, from Mungari Park into the city.

MR GOODING: I am surprised by you saying there is no record. We put out media releases congratulating those involved.

MR LEE: Well, I haven't got a submission of yours this year, actually.

MR GOODING: But we didn't do a submission this year touching on this.

MR LEE: That's my point.

MR GOODING: The comments made in our submission last year on this matter we believe still prevail. I am quite happy to put on record WSROC's appreciation of the efforts of the government and the Ministry in successfully harmonising fares and introducing the pensioner excursion concession to Western Sydney bus services, but, as Dinesh pointed out, that is a matter of equity: it is a principle which should have been applied decades ago.

Whilst we, as I said, congratulate the government and the Ministry for achieving that at this point in time, it is something that basic equity required and it should have been implemented two or three decades ago. The fact that it has been achieved is great, and we congratulate the people involved, but it doesn't detract from the other principles that we are talking about in relation to seeking an equitable application of multi-trip concession fares and other products between the private bus and the government bus services.

MR MELLISH: There were two items raised by Dinesh and Alex relating to the private industry, if I could just very briefly respond. The first one was the performance data for the private industry. I just would like to record that to be able to enter these new contracts each private operator had to provide detailed historical three-year data plus a projection of either a year or 18 months to be able to start the process. Once they signed a contract, there was a very extensive monthly and quarterly data collection process. So the information on data is flowing and, in fact, three years historical data was provided to be able to go forward.

The second question which I think is an important one which Alex raised is: What did the private bus contracts factor in as far as TravelTen or discounts are concerned? They didn't. They factored in the existing harmonised fares that they currently provide. So it is neutral on that position. The fare assumptions in their bids were based on the existing harmonised fare status.

MR WILSON: I would perhaps like to make a couple of further comments in relation to the discounts, both, I guess, on the TravelTen and the off-peak fares. I think it is fairly generally agreed that fare elasticity is less than 1, and that means that whatever we do in terms of discount, we are going to reduce our total revenue if we increase the discount.

Now, that means either that somebody else is going to have to top up the revenue in some other way - which may mean government, and that then brings in broader issues of where does it come from in the budget; does it mean cost reductions in other areas; does it mean other increases in government taxes or charges, and that becomes problematic itself - or do we say, no, we are going to put the fares of other passengers up to make up for the discount; or otherwise you say no, we are not going to make up the revenue, we are actually going to reduce costs.

So there is a real risk that endeavouring to make services more attractive for some users by reducing the fare level, you may actually have a negative effect on the availability of the transport or some other negative effects in other areas.

So I think this issue of discounts has got to be looked at in a broad context, not just about whether the user likes a bigger discount or not, because I know every user is going to say "yes": we know that.

So it is a pretty complex argument and if you are going to argue for bigger discounts, then be prepared to argue what the other sources of revenue should be to supplement that or where the reduction in costs should come from.

The other thing in relation to particularly some of the issues raised by NCOSS is that the discounts at the moment as applied are very blunt instruments: they are applied to all users regardless of need. So, you know, Sydney Buses obviously has a lot of the more affluent areas, but those more affluent areas in the eastern suburbs or Mosman or wherever would benefit just as much from those discounts, with perhaps not having the level of need that you are pointing out. So, you know, the issue is I think a lot more complex than it is being presented in the submissions we are hearing.

MR WADIWEL: Certainly I would agree the issue is complex. There are countless submissions from NCOSS to the government around the rationale for the way that it structures tickets as well as the way it structures the concessions, and certainly something we wrote to the last concession review was that we would like to see more income testing as a way to deliver those concessions, because that is a fair and equitable way of doing it but we are stuck with the system we have and we have to make small negotiations along the way.

We are in a very different situation this year for the Sydney fares in that we are no longer arguing about how much of the fare box goes back to the operator, but how much of the fare box goes back to government and, therefore, the level of subsidisation from the Government for services.

I think the opportunity this presents is that we can actually discuss here what are the Government's actual policy goals in delivering and funding public transport? That cuts the heart of the discount level for the TravelTen because what we are arguing about is what is the aim of that discount level?

Certainly for NCOSS, one of the aims is it is going to provide some affordability for people who can afford those multi-ticket discounts, and they are people like part-time workers, people on junior wages, some students who will be using that to enable them to get to jobs, to services, to education.

The other side of it is that I think there is a general public interest in how we promote public transport and effect that shift from the massive overutilisation of private motor vehicles in Sydney, and I think that is something that interests all of us. I think it is an opportunity to start talking about some of those broader issues and how exactly we target it.

I take on John Lee's comments that there is no exact science, and you can read any number of reports around transport price elasticity and get a different story. But what we would favour from the government is a consistent policy approach about how it does these things, and what exactly are the goals? Is the goal simply just to get public transport operators to maximise their revenue return and reduce the government's expenditure on the operator, or is the goal to actually promote public transport, promote connectivity, promote affordability; particularly targeting people who can't afford it and don't have a private motor vehicle. To me, those are more important goals then simply getting the revenue return.

MS GENNERY: Could I add as well that for Western Sydney there are large parts that don't have train services, and so they are bus dependent. So the discounts that people get in other areas by being able to use CityRail services aren't available. The overall cost for distance then to use bus transport is more expensive than rail. So when we are talking about the discounts that are offered, we are also trying to spread that equity across all the modes of transport. We are seeing the bus as a mode of transport within a transport system.

MR LEE: That's correct, and if you actually examine the fare schedules and structures, bus transport actually caps out at more than 16 sections. So it is incorrect to suggest that bus transport is more expensive than rail transport.

MS GENNERY: If you could look at the price at which you can purchase an off-peak ticket from CityRail, over equivalent distance, say, from the Hills region, it is more expensive.

MR LEE: Well, a cash fare or a TravelTen fare?

MS GENNERY: We don't have TravelTens on private buses yet.

MR LEE: Good point.

MR WILSON: From a historical perspective, on the multi-ride tickets and the discount on them, when they were introduced it wasn't a policy issue to, in a sense, provide discounts for users. It was about trying to encourage additional off-bus ticket sales.

Len will remember, because he was there at the time, that not the first, but the first universal multi-ride ticket that came in on State Transit services was called MetroTen. When we introduced that, previously, if I recall correctly, the cash fare for one to two sections had been 60 cents. It went up to $1 when we introduced it, and the equivalent MetroTen fare at that time, I think, was 55 cents. So actually the first time we introduced it there was a massive discount on it, which has changed over the years.

But the motivation was not, in a sense, to provide people with discounts because we wanted to lower their cost of their travel. We actually did it because we wanted more people to buy tickets off buses because, for many users, a TravelPass wasn't a suitable ticket for them, and so we introduced the multi-ride.

You can look at the history yourself: there have been a lot of fare movements in both tickets over the years. That was how it started out, however, not as some, if you like, welfare encouragement for more people to use the service; it was actually to speed up the services.

MR MILES: That's the point I was going to raise. I was going to say that in all this discussion about TravelTens - and I am only talking about buses here, and in particular State Transit buses - there has been no mention until now of getting the cash fares off the buses. Anybody can tell you that you can sometimes walk up George Street faster

than you can get on a bus because of all the people buying cash fares.

Making the buses go faster will increase your efficiency, obviously. How much effort is State Transit putting into getting more people to pay cash before they get on the bus - by any means, whether TravelTen, TravelPasses, CommuterPasses, whatever?

MR WILSON: I will be brief: yes, we recognise what you say; you are absolutely correct. We started late last year a trial at Watson Street, Neutral Bay of pre-selling single ride tickets.

MR MILES: But that was only one bus stop.

MR WILSON: That's been quite successful and we are looking at other opportunities to expand that at the moment.

In addition to that, we have also looked at incentives to encourage people to purchase more TravelTen tickets, and particularly at Neutral Bay Junction where we have had a promotion running there for a while where people could get a free newspaper if they bought their ticket, and you will see more of these sort of efforts coming from us to do exactly what you are saying. We agree with you.

MR LEE: In addition to that there are the vending machines that are being purchased for some strategic locations, and there are ticket sellers. If you just go to Druitt Street you will see at different peak times we actually provide staff there to reduce the number of cash sales, especially during those peak periods, but it is an issue, Allan, yes.

MR MILES: Tell me about the vending machines.

MR LEE: We are just installing it down at Wynyard.

THE CHAIRMAN: You might pursue the exact location of vending machines over a cup of coffee.

I will just try to summarise a little bit before I end this session. The one thing we seem to be agreed on is the desirability of public transport, and there are concerns about congestion, et cetera. In that context, the critical issue is the price elasticity of demand which has been referred to. I might just say that the people from the transport sector seem to be pretty convinced that it is very low, and that therefore you can get away with quite a low discount.

I would just suggest, at least with what I would call discretionary travel, as distinct from non-discretionary travel - going to work is pretty non-discretionary, but if you are a pensioner whether you get on a bus or not in the middle of the afternoon is rather more discretionary - I suspect the elasticities, on the evidence available, might be somewhat higher.

So, in that sense, the off-peak elasticities might turn out to be somewhat higher. That is perhaps something worth thinking about in the future.

For those who argue that there are significant external benefits from public transport, that really, in the end, gets reflected in the rate of cost recovery. The fact is that cost recovery has been falling, but it is hard to argue that the external benefits have been growing. Either they were insufficiently recognised earlier, and therefore cost recoveries should be falling or, alternatively, we ought be concerned about the rate of cost recovery.

Finally, for those who think that we should be paying special attention to the petrol prices and fuel prices, all of us know very well how much fuel prices have increased in the last few months, in fact, we are all obsessed by them, including me: I drive all over town to find the cheapest petrol.

That said, for very many years fuel prices went up by less than CPI, and I don't remember anybody drawing that to our attention at the time as to how we should react to that. Today, the real price of petrol is less than it was in 1960. That is to say CPI has increased faster over the last 45 years than petrol prices have. We just need to bear that in mind. If we are going to be obsessed by petrol we shouldn't just pick it out in some years, and not others.

Thank you very much for your assistance. I invite you all to have a cup of tea.

SHORT ADJOURNMENT

THE CHAIRMAN: We are a little bit late in starting again, but we are now going to deal with non-metropolitan bus fares. Dennis, are you intending to say anything?

MR MAHONEY: Yes, Mr Chairman, I am.

THE CHAIRMAN: Right. You had better start, and cut your time in half.

MR MAHONEY: Yes. Section 2 in the discussion notes starts on page 11. There are three questions. In fact, the answer to the first one is that it is representative and we have verified it as much as we can. It is too technical a question. I think the statement that we framed at the bottom of page 12 simply says, "The Tribunal invites discussion of the BICI, its role in fare adjustments and size of the rise in 2005/2006." It is a much more sensible question, rather than the technical one of is it representative and verifiable.

The second question is a very important one today, which I suspect will generate a lot of discussion: "Should the Tribunal also apply the change in the BICI to Newcastle services" - and "BICI" is shorthand for the Bus Industry Cost Index, as submitted to us by the Bus and Coach Association - and, "Are there any other issues specific to Newcastle Services fares?" I am sure Mr Regan will say that there are some other very burning issues in relation to Newcastle services.

Then, should there be some other issues that the participants would like to raise in relation to non-metropolitan buses, certainly the Tribunal has to take some other issues into account in their terms of reference, but it will be a matter of whether the participants are interested in raising those.

Under the heading of "The Bus Industry Cost Index and Amendments", it is important to realise that whatever be the fare increase that the Tribunal might recommend to the Director-General under the legislation, the fare increase is in fact not the most significant thing for many of the operators, because it is actually the link from the fare increase to the half-fare concession payments, and flowing on in a non-commercial model, to the carriage of school students, all of which hangs off this fare increase, so that the dollars involved are just as importantly not the dollars to do with collecting the fares, but all the other things that hang off that. I think that is important to say.

The BICI, as we know fairly well, is a collection of cost input prices weighted by a survey done for the Department of Transport, as it was then, and the BCA back in 1999. Those weights are rolled forward every year in order to attempt to stay representative.

Ever since the Tribunal has been undertaking this section 9, as we call it, in-house review before reporting to the Director-General, the centrepiece of the evidence that has been used as a guide to how much of a fare increase to recommend has been this Bus Industry Cost Index.

Now, we have known for some years that the Bus Industry Cost Index approach, or any industry cost index approach, has certain weaknesses. The chief one is that it doesn't take into account the industry productivity gains or efficiency gains, although implicitly economy-wide efficiency and productivity gains are built into the inputs that go into the input prices, but not actually into specifically the industry itself. It also cannot address the other matters that the tribunal is required to address based on its terms of reference.

We did a couple of years ago ask a consultant to have a look at the BICI, to put the BICI under the microscope. In fact, the report of Booz Allen Hamilton, the consultant, which is still available on our website, was generally favourable and said that given the approach for which it was designed it did it reasonably well.

When the secretariat goes through and looks at the cost as submitted by the BCA and the evidence behind those costs, and checks both with the sources quoted in the BCA and also some outside sources, such as what was the capital cost of buses in Queensland and that sort of thing, there is very little difference between what the BCA submitted and what is currently the actual measure, as the secretariat has done it, on the rise in the BICI for the year ended June of 5.55 per cent.

One issue for the Tribunal, as mentioned in the last session, is if we looked at the latest CPI or if we looked, in this case, at the latest data available, we would update the BICI for the bond rate for the CPI and for fuel, which would be the significant thing, and of course if fuel has gone up roughly about 10 per cent in the September quarter and it carries a weight of about 10 per cent in the index, then we would be looking, if we were thinking about extending it for a 15-month rise, at another 1 per cent. Again, that is just a matter of the numbers.

So that the first issue to discuss would be the BICI and its role in fare adjustments in this setting, and its size for this year.

Newcastle services is the next cab off the rank, to mix the metaphor, for bus reform and for the roll-out of fare harmonisation.

Our understanding at this stage is that the intention is to harmonise the fares, the same as in Sydney, as distance-based fares. Given that Newcastle is currently on time-based fares, there is a concern about how that transition might actually take place and what sized fare increases might be involved in the transition.

I am not sure that that is exactly a Tribunal issue, but it certainly is an issue for some participants around the table, and the Tribunal would probably like to hear from the participants.

We just underline the fact that Newcastle services also, in the last few years, suffered a decline in cost recovery. We simply point that out in the middle of page 13, and then we point out that there are some issues with travel pass pricing, which travel passes aren't available in Newcastle that are available in Sydney.

I have mentioned the move from time-based to distance-based fares that might be required by the bus reform process.

This year it has been unusual for the Tribunal to get quite so many submissions from Newcastle citizens, and another issue was from the University of Newcastle. Again, it is likely not the Tribunal's issue, I would have thought, but it has been mentioned as significant submissions have been put forward asking for some consideration by someone on a new student semester ticket.

Lastly, we have mentioned some issues that the Tribunal is required to think about in their terms of reference. I think the Tribunal would invite discussion also on, for instance, the current efficiency of the non-metro bus services, the quality of those services and so on. To that end, but just as a bit of a reminder, on page 16 we extracted what was the key table in the Parry report comparing the level of costs of the private bus operators - not to embarrass anybody - and Sydney bus operators, and we just wonder, in fact, since that data is now a bit dated, O1/02, whether if, in the new bus contract regime, since most of these are metropolitan buses, in fact this couldn't be updated before the Tribunal has to make its final separate recommendations.

MR LEE: We will get that to you.

THE CHAIRMAN: Okay, thank you, Dennis. We might call on the operators.

MR MELLISH: Could I start off, if that is okay? The Bus Industry Cost Index has been historically used to calculate movements in a typical commercial bus contract cost from one period to another, but it does pre-date 1999, as Dennis said. However, it has been the approved method of adjusting fares.

There are basically four sets of fare schedules that are covered under this BICI index - metropolitan, urban fringe, country, town and rural fares - and there are some variations on these fare tables, depending on the applicability of the diesel and alternate fuel grants scheme.

I think the Tribunal is aware that there are about 2,000 bus contracts in New South Wales, including the non-commercial contracts, and the costs and detailed information from each company is not collected systematically by the Ministry of Transport.

The bus reform process is certainly reviewing non-commercial and commercial contracts in the coming months ahead.

The BICI is the approved method of adjusting fares to cover costs. The commercial bus operators outside the Sydney area cannot operate with a negative cost recovery: they have to recover their costs.

There has been a lot of discussion about the strengths and weaknesses of the BICI over the years, as Dennis has said. In general, the greatest proportion of the fare payment is met by the government paying for the free school travel scheme and the half-fare reimbursement, and these fare adjustments, if they are improved, are the maximum fares.

We know in regional New South Wales that the actual fares charged by the operators, particularly for longer sections for the adult passengers in particular, are well below the maximum fares.

The maximum fare scales also relate to the provision in the contracts for a minimum service level. The 1990 Act required maximum fares and, in return, a minimum service level and a process for maintaining viability using the cost index to increase fares to cover these costs.

We have discussed at previous IPARTs the possibility of redoing the basket of costs that are in the model, and at the same time looking at the productivity side of the equation.

What we have found is that we haven't got the data to analyse effectively the productivity benefits. I can say, from the feedback from the industry that I receive, that the productivity gains that have been realised, to my understanding, have been more than offset by the productivity losses, and that is those losses associated, as Roger has partly talked about, with the vehicle capacity, increased compliance and changing work practices.

I can't give you any facts that say these are the productivity gains associated with commercial contracts outside the metropolitan area. I can tell you that the new contract system, as it did in the metropolitan area, will require performance and productivity measures in new contracts.

So I can only present to you the cost index as it is and say that the verification that we have seen by the actual numbers and the supporting data from IPART is welcome, and when we did attempt to do some cross-check with consultants, it did appear to be an accurate reflection of those costs.

We are also aware that it is used in other parts of the industry for adjustments of costs, whether it be a rail contract or CountryLink, they do use this index as a basis of some measure of cost increases. We feel that until there is a different, contracting arrangement in place that it is the appropriate index for adjusting fares where you cannot survive without cost recovery.

THE CHAIRMAN: Does anyone from the operators' side want to speak? In that case I might ask a question. I hope you will bear with me because I am a newcomer to this process. It seems to me that there is something of an anomaly when Sydney Buses are essentially increased by the CPI, but buses outside Sydney are increased by BICI. What I mean by "anomaly" in this case is if I look at table 1 on page 12, I see that the people costs are 50 per cent of the total costs. That is the way they get the people costs in the BICI. I don't imagine it would be very different for Sydney. If I had the same information, it would be of that order. However, if we just work with the CPI increase, just for Sydney Buses, that implicitly assumes that the wage component of their costs has been offset by an increase equivalent to the national rate of productivity increase because the CPI itself reflects the national rate of increase in productivity. So there is an implicit assumption that if we only increase by CPI, other things being equal, Sydney Buses are improving their labour productivity at the national rate and labour costs are about 50 per cent of the total cost.

When we go to use the BICI, we assume a zero rate of increase. If we just use the BICI, on the one hand, and the CPI on the other hand, we have a quite clear anomaly in my view. I suppose my question is - and it is as much for the Ministry of Transport - is this really a satisfactory regulatory system to use one index in one location and another index in another location where, if national productivity is increasing at 1.5 per cent a year, let's say, there's a 1.5 per cent a year bias against Sydney or in favour of outside Sydney?

MR LEE: I will attempt to answer some of those points that you raised, Mr Chairman. If you look at the total operational costs in terms of those people costs, that is a pretty low number. For most of the bus companies, it is actually around the 60 to 70 per cent mark.

THE CHAIRMAN: That makes my point even more strongly.

MR LEE: Yes, but what makes it more difficult for bus operators is how do you make a bus driver more productive when the framework in which they operate has greater regulation and, in actual fact, is currently making them less productive? If you look at the fallout from the Waterfall accident, it was commented that fatigue was one of the causal factors, that we actually have national standards about driver fatigue that apply, but the standard for interstate truck drivers is the standard that we have to meet. We currently have an increasing number of drivers who are having to drive further to their workplace before they then start driving and there is an issue about fatigue which will have to be managed.

On top of that, in terms of accreditation, there are greater restrictions being placed on what drivers can and can't do. As the contractor but also as a regulator, there's a contradiction in that and it is a challenge for bus operators, I know, to endeavour to get really their drivers, who make up 95 per cent of their employment register, to be more productive. So that is an issue.

I think you are right - this is an imperfect model. Currently, having locked down the metropolitan bus services contract, we are in consultation mode with the stakeholders about how we might design a better contractual arrangement and therefore fare setting and level of cost recovery for outer metropolitan contracts. There is also the distinct difference we have to recognise between the non-commercial contracts, which are really just a cost-plus arrangement, and those commercial contracts in regional centres known as the outer metro commercial contracts.

One of the buzz phrases to come out of a previous hearing was "a stale BICI". We would agree with your view on that, and even some of the inputs could probably be challenged. In terms of the actual dollar amounts for, say, even a chassis, if you look at the chassis and body costs here, I am sure some operators are getting a better price than that, but when you average it out, that is where we end up. But you are right, there is not a recognition of any real productivity component in the model and we will have to address that as part of the reform

MR MELLISH: Mr Chairman, this is an index that looks at a basket of costs from one year to the next. As long as you are comparing apples with apples, it's not looking at the quantum of costs; it's looking at the movement from one year to the next.

THE CHAIRMAN: So was I. I was looking at the movement in productivity. I said it nationally increases by 1.5 per cent a year and that is built into the outcome of the CPI. It's not built into the other outcomes.

MR D'APUZZO: I agree with most of the comments that John has made. In relation to productivity, there are work practices in the private sector that differ from the public sector. I refer you to page 16 on table 4.2. You will see there is a difference in the labour costs. The difference is, over a long period of time, because of the economics of operating a private bus service, you need to be very efficient. So we have work practices where the bus driver actually does more than one chore. He fuels his own bus, cleans his own bus, and that keeps the cost of the hourly rate down to a bare minimum. I guess, as John as already alluded to, it is very hard to get more efficiency out of a driver who has to drive a certain route and perform certain duties. There is only so much he can do. We can't draw blood out of a stone, as the saying goes.

There are some issues: how do you measure it? I guess anecdotally - this is the only way I can put it - it will be very difficult to get any more efficiency out of a bus driver.

THE CHAIRMAN: Let me just say that, on the face of it, the costs are very different between Sydney Buses and private operators, as reported in this table which does invite the question. It might be difficult, for reasons that have already been alluded to, to get more efficiency out of private operators, but it does raise the question whether we could get more efficiency out of public operators? If that were the case, is it fair to pass on price increases to the public when there are those opportunities to reduce the costs of the public operators?

MR LEE: I think your point is valid. Some of it is structural and some of it is not. If you look at the EBA arrangements for some of the drivers, there is about an 18 per cent premium for Sydney bus drivers compared with the private bus operators. Again Frank D'Apuzzo is correct that, if you like, the specific nature of bus driving in Sydney and overtime, because of congestion and other factors, has led to a big differential. We have an analysis of that which we might provide to IPART for your information to assist in understanding line by line why the differences are there between our EBA and the awards for the private operators.

THE CHAIRMAN: It would be interesting, to improve this comparison, to see the costs of public and private operators on broadly similar routes, so we take out the congestion factors.

MR LEE: Sure. I think there was a point in IPART's own commentary about the recent Industrial Relations Commission award where the parity is getting a lot closer, especially for metro drivers under similar conditions over a three-year period.

THE CHAIRMAN: But it would be interested to trace through the differences in work practices as well.

MR LEE: It is a combination; you are right.

MR WILSON: It is a whole combination of things. There are some issues that affect us where we have more night-time and weekend services and they incur greater penalty rates.

THE CHAIRMAN: I am looking to compare apples with apples.

MR WILSON: I think the analysis that John Lee referred to does try to normalise some of those factors.

THE CHAIRMAN: We might ask the people from the Hunter if they want to say something.

MR REGAN: Thank you, Mr Chairman. There are a number of issues that we wish to speak about. One of the main concerns is that, under the current arrangement if things don't change, what happens in Sydney gets translated to the outer metropolitan areas including Newcastle. Hence, there is a close watch being kept on what is happening in Sydney. The concern is that there is a fixation on what is termed the single ticket and how do we move that and how do we adjust that price?

There is talk about CPI plus X. The feeling is that X should be zero because the costs associated, as was pointed out, with the matters that are not part of CPI are really to do with passenger improvements and that cost should be able to be recovered by extra patronage. In other words, there should be a much greater emphasis on the operators using those costs saved through service improvements to increase the number of people who are travelling on their existing services.

On the question of what constitutes a base for consideration of fares, the unit of travel for most people - probably the vast majority of people - is what they travel in a day, not what they travel on the single trip. Therefore, the unit of travel pricing should be the price for travelling in a day. If we look at the experience from overseas - I have looked closely at regional centres rather than large metropolitan centres - those that are successful and have high cost recovery and high use of public transport are those where the base fare is the day ticket. In other words, you buy a ticket for travel on the day. The number of trips you make on that day is not an issue in terms of the operator. It is getting the value of the day ticket out of you. They do usually provide a single trip ticket price, which is usually half the day ticket price.

I wish to refer to one of the most amazing trends that is developing. I will quote London only because I think it is very relevant to what is happening here. The fare review for London transport for February 2006, recommends going in a much stronger direction towards encouraging people to use the Oyster card. To do that, they are saying in zone 1, and I use this as the example: "If you pay cash, it's one pound and 50 pence per trip but if you use your Oyster card it is one pound and 50 pence for the day." In other words, they use the technology of Oyster card to cap what you pay. That is, in effect, a 50 per cent discount to get you to use the Oyster card rather than using cash. Those two points very valid: the unit of pricing is the day travel and they are using the technology

of Oyster card to cap the price you pay if you use the Oyster card. I understand that technology is available in TCard.

We move from those comments then to the issues in Newcastle specifically. In 1997 IPART approved the movement of the fare system in Newcastle to time-based ticketing as an advance; in other words, a movement towards the way things have moved in the rest of the world as well. There is no regional centre that I have identified in the world where public transport is successful that used distance-based or section-based ticketing. They all use some form of time-based and zoned combined; therefore, it would be a retrograde step to move back under the Ministry's proposal for fare harmonisation to distance-based or section-based ticketing.

What is most important is that whatever system is adopted achieves two things: one is the maximising of the number of people who are prepared to use the public transport because it is so attractive that they choose it for some of their trips. In the Hunter region, that is not a problem because most of services have capacity to take extra passengers without increasing costs.

The second thing is that it must maximise the revenue to the government. Under the new funding models, the important thing now is that the money goes to the government; therefore, we should be putting in place a system that will maximise that.

According to the information in IPART's report, there was a 5 per cent increase allocated to Newcastle services in August 2003. As a result of that, there was a 3 per cent decline in total revenue. I think that points to the direction in which things are going and why people are concerned. If there is a further increase in fares, the result will probably be a decline in total revenue. I do not think that is what the government wants and I do not think that is what IPART would intend. So we have to look at ways in which the current system can be modified and improved to achieve those two objectives of maximising use of the system and maximising the revenue to the government.

Certainly a reversion to distance-based ticketing will not achieve that. What is being proposed is that a fare system be incorporated into the integrated Lower Hunter transport plan as part of the regional planning strategy currently being considered both by the Department of Planning and by the Ministry of Transport and that they introduce a system of timed zone-based ticketing which will cover the whole of the Lower Hunter, not just the Newcastle services.

In doing that, people would be able to travel within their own area and between the various subregions within the Hunter under systems that operate very successfully, particularly in regional areas in Europe and which have been very successful in increasing patronage.

We only have to look at what has happened in similar areas. I refer to the Sunshine Coast and the Gold Coast in Brisbane where TransLink introduced an integrated ticketing system in July 2004. As a result of that, 60 per cent of the fares were decreased. There was an initial increase of 11 per cent in patronage and an increase of 11 per cent in total revenue. The latest figure from TransLink show that that increase has been sustained right throughout the 12 months. In fact, in the Sunshine Coast area, there has been an increase of 34 per cent in patronage.

There is therefore a strong case to be put for looking at a model that is different from Sydney. There is no point in applying fares in Newcastle just because you want them to harmonise with Sydney. It is a matter of adopting those sorts of fare systems and fare values in the Hunter region that will maximise public transport usage and return to the government in that region.

One particular aspect is to be found in the submission from the University of Newcastle. They are saying that patronage on buses to the university is declining considerably. It has gone down by about 22 per cent in the last five years. That is putting considerable pressures on them in terms of car parking. As you would understand, students are a good market to target for public transport.

In Europe, again using the examples there, all the university cities that I have been able to identify have a system where, as part of your enrolment at university, you can buy what is called a university semester ticket. That gives you very heavily discounted travel and unlimited use of the system during the semester in which you are enrolled. The extreme case is in the Netherlands, where

enrolment in a university entitles you to free public transport without paying any further money. The reason for that is that they want to keep these young people - the most dangerous people to be on the road, statistically - off the roads as long as they can.

We are not asking for free travel; we are saying that there is an opportunity here for the university to sell and promote a ticket, which it would buy from the MoT at no commission, and give students then the unlimited travel on the system as a way of maintaining their use of public transport and getting them to use it significantly. Currently the modal split for travel to the university is 9 per cent. That is down from the 17 per cent it reached in 1999 at its peak. If we can use this ticket to increase the modal split for university student travel from 9 per cent to 14 per cent, the revenue generated by the proposed modelling that has been done would be equivalent to what the revenue is now. If the split goes above 14 per cent, there is an increase in total revenue to the government. That seems to be something that is worthwhile pursuing and looking at closely and again incorporating into the Lower Hunter regional transport plan. Thank you.

THE CHAIRMAN: I will call on the people from the bus services to respond in a minute, but because we are short of time, I understand that someone from the Commuter Council would like to speak. Perhaps you can come forward and grab a microphone, then I'll let the bus service people respond.

MR LONGTON: There are just a few points we wish to make: one is, of course, that the terms of reference for IPART ask that the social impact on findings and recommendations be taken up. I am just looking at the findings we had in the past. There does not seem to be any real profile in the recommendations. I am asking will IPART specifically refer to the social impact of decisions, particularly with increases, so that people will understand that that is part of IPART's role? It seems to be downgraded under the existing recommendations I have read over the years.

Another problem for IPART is looking at the standards and quality of reliability and safety of services. All the new private buses now on the road only have a single door. With the introduction of TravelPass systems, the problem will be that people will have to put their ticket in the card reader as they get on and off the buses. You can imagine the chaos we will have with only one door. We are getting these major routes. This will tremendously slow down the system.

I cannot understand why there is not a requirement to set buses up so you have entry and exit, particularly since we are going to electronic ticketing there will chaos. At the moment, if you go out into the western suburbs - Windsor Road is a good example - a bus will pull up at a bus stop, sit there for minutes taking single fares.

I note that the costs report calls for more schoolchildren to travel on normal service where possible instead of specific school buses. This will be great! Kids with school cases trying to get on and off buses with one door will create absolute chaos. There should be a recommendation that doors should be on the rear of the bus. There is a history of this, of course. Children have been killed getting out of rear doors. We know that the government put safety latches on its buses rear doors to prevent this happening; on the front doors too they have put a cut-away. Of course, the private bus companies simply sealed the doors on their old buses. On the new buses, they have decided to leave those doors out. Now that we are moving to a modern system where people are encouraged to use public transport and with increasing numbers of people, that will result in chaos.

There has been a lot of talk here today about discounts and costs and not much mention of external benefits. The papers are full of it. All reports say that we need more people to use public transport. All we have talked about here is the cost, but no-one has mentioned the external benefits of public transport. We have talked about what a great job we are doing examining costs, but we are all ignoring the fact that the roads are actually chock-a-block with cars and there is no real incentive to use public transport.

In Western Sydney the majority of people live a long way from a railway station. That means they have to pay at least two fares. We are talking now about costs of $100 a week. If we don't have a TravelPass, these people will keep shunning public transport because of the time factor involved in changing services. Many people have to use three services. The costs are prohibitive. The idea is

that you will increase patronage by giving a discount or a TravelPass ticket. These discounts are important because they convince people that public transport is a good deal.

The private bus industry being expected to compete with the government is nonsense. Here we have the private bus operator who, out of his fare box, has to collect his profits and pay for his new buses and then pay dividends to his shareholders. What do the government buses have to do? They have to try and cover their operating costs and the government buys their buses. How the heck can we sit here and talk about having the same equal playing field? It is unequal for the public in Western Sydney and it is certainly unequal for the private puss operators. They cannot possibly match the government.

The quality of buses is an issue. Getting back to the doors problem, I raised this at an IPART hearing about two years ago, and a private bus operator correctly said, "We can't afford those features. We need the extra seats on our buses." It is a cost. There is definitely a larger cost involved in having the same standard of buses as government. There buses are better quality buses. There is also the issue of route numbers on the side and the rear of the bus - it all costs money.

If you are going to see a bus disappearing down the road and you don't know whether it is going to where you are going to and you have missed the bus, you don't know the way to the bus stop - this has always been a problem in Western Sydney. I did note a concern in a couple of submissions ago, IPART was asking the question: why do the government buses cost more than private buses? I suggest that IPART members go out and travel on Western Sydney buses and they will see why there is a different cost. I am not blaming the private operators because they are operating under a system that does not operate successfully anywhere in the world.

If you look at to the United States, which leads the world in free enterprise, all bus systems in the big cities are owned by the city; they contract the operation. Even when we had the Transitway introduced to us as a marvellous scheme from Canada, and we were told how it will solve all or problems, we were not told that it was publicly owned by the city, and that it had a contract operator that operates 24 hours a day and the fares were only required to recover the cost of operation. So there's no level playing field under such a system.

I am suggesting that the formula that you are proposing for operating the cost of buses should take into account the external benefits of public transport. We need a figure to show why we need public transport and why it has to be subsidised. Thank you.

THE CHAIRMAN: I would like to make one point. I think in fairness, there is quite a lot of insistence on the external benefits of public transport in other people's presentations.

MR LEE: Can I reply very quickly. John, thanks for your contribution. Today is a day to celebrate because we actually have these new contracts and they are all the same contracts. Gone are those days you were talking about where the government just had to meet operating costs of different quality buses. We have set some standards for the procurement of new bus services.

I don't agree with your point that we should mandate rear doors. I actually think, as we've put into the contract, that we need a flexible arrangement. We need rear doors for the strategic routes where you have a lot of on and offs, like the 520 service from Parramatta to the city with 180 dibs per trip, you need smooth movement. For other parts of Sydney, say, where you have an operator going out to Kemps Creek, you don't have that sort of need. You would want to maximise your seats so there are fewer people having to stand. It is a flexible approach that is written into the contract. That is at least one tick from the issues raised today.

I also want to point out that, under the new contract, 84 buses will be purchased for Western Sydney and Southern Sydney in the next 12 months. That is in their plan. They have signed off to do that, so there will be an equal amount of investment to the private and public buss in Sydney.

Moving very quickly onto some of the Newcastle issues. Len, I know you are a lover of transport and have been in the industry for many years, but let us not make the arguments really simplistic. If Newcastle University is serious about getting people on public transport why don't

they do something with their parking policy? That is one of the externalities that they can impact on. Why not quadruple the price of parking?

When we look at the distance-based versus time-based fares, it is a very complex issue. I would like to spend an hour, maybe a whole afternoon, with you having a debate about that. But patronage continues to decline in Newcastle. They have introduced a free bus in Newcastle and what has been the patronage benefit?

MR REGAN: No one knows because no-one measures it.

MR LEE: I can tell you it has not been done; there has been none. We have free buses operating in the CBD of Newcastle and we are not getting any uplift. I think you have to look at all the issues and not just price. There are different reasons why people choose to use public transport. I like your idea about the Oyster card that you said they are going to trial in London. What is the total impact, though, on total revenue? If it means we will fund fewer hospitals because more money will be going into public transport because we actually kill the revenue base, that is a big risk. It is a big risk and, as an administrator of those contracts, I would worry about that. You need to do the modelling to make sure you do not have a huge hit on your fare box and that you are getting a comparable amount of money, but there are discounts already in place as we have talked about before.

Let's remember ultimately what is really happening in the Hunter region. You have Rover Motors, who service Cessnock; Blue Ribbon in Maitland; in the Bay area you have Hertogs, Port Stephens. They actually all operate distance-based fares in the area. There have not been riots in the street complaining about that. What we actually want to do is to have the other operator who will form part of this new network comply with the others. We will not go the other way round and have time-based fares introduced across the Hunter because I disagree with you; we will not get the patronage benefit. It is a good idea, but in practicality it will not deliver you the result. That's probably my response.

MR REGAN: Could I comment briefly, Mr Chairman?

THE CHAIRMAN: Yes, briefly.

MR REGAN: The university has this year doubled the price of parking at the campus. It has gone up to $3 a day. It is relative to costs in that region, but they have done that.

MR LEE: Len, get the story in the Newcastle Herald: "John Lee says it should be 20 bucks" - that will get on the front page.

MR REGAN: It's a question of relativity. Each year, the university puts out its own guide to public transport. It lists all the services - bus, train, billycart or whatever - to go to the university. It shows cycling time, cycleways - the whole lot. It promotes the services that it pays for. This year the university has paid $90,000 to State Transit for express buses that it has put on as an incentive to use public transport. That has been extremely successful and negotiations are going on at the moment to try and maintain them for next year. The university has put a lot of effort in trying to promote public transport, but it is saying to the Tribunal that there is a point where the university can do the initiatives, but it really needs to be incorporated into the normal operations.

THE CHAIRMAN: Thank you. With regard to the exigencies of time, I think we might now move to the non-commercial model.

MR MAHONEY: Thank you, Mr Chairman. Many of the inputs into the non-commercial model are in fact the same inputs that go into the BICI, so that is just an overarching comment.

The requirements are a little stricter, in that I understand in many of the contracts the PricewaterhouseCoopers, or PWU, as it used to be called, is still a specified model to be used in the contracts, and I think that possibly, therefore, severely limits the Tribunal's discretion to make alternative recommendations once we have verified, as we have done, that the cost movements measured and applied within this framework are representative and verified.

We have talked quite a bit about some of the cost movements. We mention it in the middle of page 18. The main contributors, not surprisingly, are the fuel and the

wages again.

Other terms of reference that the Tribunal is required to take into account concern the efficiency of the non-commercial services. We haven't addressed them in these notes. We don't have any explicit information or data on those matters. I am not sure if that bus reform is going to extend to non-commercial contracts, but that presumably will.

MR LEE: It will indeed.

MR MAHONEY: As you recall from last year, I think the Unsworth report was fairly critical of the PwC model, and we made some comments in last year's report of the changes that need to be made. May we take it that the MoT are saying that that review is on the way?

MR LEE: It definitely is and we will be involving you in that first draft once it is available.

MR MAHONEY: That's all the comments, I think, that I have.

MR LEE: I have nothing further to add.

MR MELLISH: I have a comment, if I can.

THE CHAIRMAN: Yes.

MR MELLISH: We ask the Tribunal, when they look at the revenue required out of this model, to make it clear that it is for a full year; that the amount that is produced actually covers a full 12-month period; and that if there is a reconciliation to be made it should always be made back to that full annual amount. We would just like the Tribunal to consider that position.

THE CHAIRMAN: Okay. Are there any other comments?

MR MELLISH: I have a further comment on the commercial ones, if I can, just very briefly. In our submission we did ask that consideration be given to fuel adjustments for non-commercials on a quarterly basis, and I would like to report that that has been introduced by the Ministry, which we are very pleased about.

We also asked that some more frequent basis of adjustment should occur in the commercial contract area that doesn't affect the paying passengers when an adjustment is made to the SSTS and the reimbursement component. So I would just like to draw attention to that request which is in our submission to the Tribunal.

THE CHAIRMAN: I made an earlier remark, you may recall, about petrol prices. I suppose the question on my mind is how far we should treat them in isolation. I can understand at the moment they are going through the roof, but that hasn't been the pattern over the long term. We have had long periods where petrol prices have not risen as fast as inflation - in fact, for 40 years they certainly haven't risen as fast as inflation.

MR LEE: I think the point with this adjustment scheme is it is both up and down, so if prices are reduced, the scheme also makes that adjustment.

I think Darryl's essential point is it is in there for the non-com's, have they considered it for or regional operators, say Dubbo, where there is a commercial operator. We have taken the view we will consider it when dealing with the whole reform issue, rather than a sort of one-off treatment of those commercial contracts FYI, but Darryl has the right to make the submission and put his case.

MR MELLISH: It is a timing issue, as you said, and the ups and downs do apply, but when you migrate from the old contract system to the new contract system the timing works against us if it is only adjusted every year, so the more frequent the adjustment, the less of the loss.

MR WADIWEL: Could I add a quick comment? We certainly noticed in our submission, and we have done this for the last couple of years, that we would like to see some more data on exactly how those costs are arrived at. I think Darryl alluded to the fact that they are not necessarily representative of all operators in the industry. I am sure some small operators are doing it tough, even if we give them the 5 per cent; some of the big operators might be doing well out of it.

The other thing we raised is that we don't have any record there of the rate of return for the operators. That is something that is on the public record for the public

operators, but not for the privates, and I wonder whether the Tribunal could consider whether that might be a relevant consideration.

The second point I want to make is more of a question: How does any potential future fare harmonisation - ie, harmonising the principles about how you set a fare with the new contracts - impact upon the determination of the Tribunal this year; and, if there is any plan in the new contracts for those outermetropolitan fares in particular to have some equivalence with the Sydney metro fares, how does that affect the determination today?

MR MAHONEY: It doesn't affect today's review or this year's determination. It will be when the bus reform is rolled out. I think that is probably the real question: are there implications for the way the Tribunal recommends fares?

MR MELLISH: I was just going to add there is a rate of return associated with the non-commercial model which is published, but not the commercial model.

MR LEE: And I don't think the rate of the reform will therefore be in place to have an impact on this year's determination, Dinesh, but if we see the time frames move more closely we will come back to IPART, obviously, with our views on that.

THE CHAIRMAN: Unless there is any further comment --

MR GOODING: Could I, if I may, just ask a question that refers back to the first session? John, just in terms of the purchase of the buses that you have alluded to, has the change in fuel prices led to any reconsideration about the proportion of natural gas vehicles that we buy in those purchases?

MR LEE: I would make a couple of comments on that. Firstly, with regard to assets there was some supplementary legislation that went through earlier this year that allowed the government to get access to buses and to other assets for the community benefit for continuity of service, and that is now law, and there is no risk, if you like, for the public in terms of continuity of service.

If we are now talking about what type of bus you might procure - be it diesel or gas - for those that are across what has occurred in Europe, the Euro3 engine, which is now part of the current rollout or tender process, if you look at emissions, they actually emit less carbon monoxide than what the gas buses do, and in terms of nitrous oxide the particulates are very similar. One of them I think is around 5 molecules per million and the other one is about 7. So in terms of the research and development in Europe, a lot of the money has gone to getting diesel, to be at a comparable greenhouse impact to what gas is.

What people forget - and I would urge anyone to spend a half an hour, for example, down at Port Botany depot - the real cost of gas is not in its procurement or its capital cost, it is op-ex. The gas buses are now in years five and seven of their useful life, and are having terrible operational impacts, because the engines run at about 10 degrees hotter than diesel buses do. So it is nice to think you have a green approach, supposedly a green, clean approach by procuring gas buses, but (a) you are not getting the green house benefit; (b) it is costing you more money; and (c) it is operationally degrading your business. In the number of what we call changeovers, our gas buses are changed over a lot more than diesel buses because of the peculiarities of that engine and that operating system. We maintain them at the highest possible level but still there are huge costs. So if you look at the full lifecycle cost when deciding on whether you choose diesel or gas, you will choose diesel every time, but there are these things called politicians.

THE CHAIRMAN: I think there was one question at the back.

MR EADIE: Mr Chairman, I would like to revert to the earlier discussion about public transport in Sydney, if this is an appropriate time?

THE CHAIRMAN: Yes.

MR EADIE: I would like to pick up on what Joan said about externals. Now, we may be outside the purview of IPART here, but if we are, then I would like IPART to make this point in its findings or in its submissions to the government. I am dismayed that the prices to be charged to public transport consumers is so obsessed with the costs of running a bus. The externals are much more important. We have heard for at least 20 or 30 years how we have got to

reduce car use in Sydney and get people on to public transport. Fundamental to getting people on public transport is an attractive ticketing system. There is a lot of other things to be done too, but if the ticketing is complex, people won't be in it; if it is simple people will come to public transport.

I am dismayed to think that Sydney, in particular Newcastle, is reverting to a distance-based fare. I would support Len Regan here. When people go out, they go out for the day, or at least an hour or two. They are not concerned with how far they are going to travel, and neither should the pricing Tribunal be. We need a ticketing system that is attractive to the consumer, and never mind about all the things you can do with TCard or whatever it is going to be. That is simply the means of charging the fare. We need to really address ticketing policy in this town, so that the use of public transport is comparable with the motor car.

To illustrate this I would like to pick up on one thing that John Lee said.

He referred to the principle or philosophy that for peak-hour travel on public transport you should perhaps increase the premium because it is so expensive for the operators to provide that service in peak-hour. Now, if we are to get Sydney to operate as an efficient city and compete with other big cities in the rest of the world, we have to address the fact that everybody wants to travel in the peak hour; what's the best way to move them and if, indeed, it is public transport, then you should reduce the price of public transport during the peak and not increase it simply to compensate operators for their higher costs. Thank you, Mr Chairman.

THE CHAIRMAN: Thank you. I did say earlier that I thought the one thing we were agreed on here was the desirability of increasing the use of public transport. I think that is a view widely held around the room.

There is the debate, obviously, about the most effective way to do that, and I don't think anybody is suggesting that various sorts of fares devices can't assist in that, but I think that the transport operators are saying that they think the price elasticity, in particular, of demand is pretty low. They probably think it is even lower for peak-hour traffic than it is for non-peak-hour traffic, because peak-hour traffic tends to have a lot of non-discretionary travel in it, and I think I am right - at risk of putting words into your mouth, correct me if I am wrong - you probably think that in terms of re-balancing private versus public transport, the more effective way to go would be the making the costs of private transport more difficult rather than reducing the cost of public transport.

MR LEE: Absolutely. It is an excellent summary.

THE CHAIRMAN: I might retire on that note. Thank you all for your presence today and your help. For those of you who are interested we will be looking at ferries later on in the day, after lunch.

AT 12.22PM THE HEARING WAS ADJOURNED ACCORDINGLY