INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARING INTO PRIVATE & PUBLIC BUS FARES REVIEW

Tribunal Members

Mr James Cox, Acting Chairman
Ms Cristina Cifuentes

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

On Thursday, 14 October 2004 at 1pm

MR COX: Ladies and gentlemen, I think perhaps we should commence. I would like to welcome everyone to our public hearing on the bus fare review. For those of you that may have been to previous hearings, the form I'm going to adopt this time around is a bit more informal, more of a workshop format, and we are going to have a number of presentations from members of the Secretariat and then follow that up with discussion by people sitting at the table. Then, if there is time, we will take comments and questions from people sitting in the back of the room, if they wish to do that.

The way it is going to work is there is going to be three sessions. The first session will be on the metropolitan fare issues, and then a second one on other metropolitan fare issues. We will then have afternoon tea and finish up our discussion on the bus industry cost index and the non-commercial or PwC model. I must point out that we are quite time-constrained this afternoon and we'll need to finish at 4 o'clock sharp-ish. So just bear that in mind.

What I would like to do now is go around the table and get everyone sitting at the table to introduce themselves and perhaps say a sentence or two about their interest in buses, in particular, and then we'll go to Dennis to make the first presentation. I will start off introducing myself, I am Jim Cox, Acting Chairman of IPART.

MR MAHONEY: Dennis Mahoney, I am the Program Manager of Transport for IPART.

MS RAPMUND: Sheridan Rapmund, IPART.

MR MILES: Allan Miles, Action for Public Transport. I am looking after the interests of the transport consumers.

MS GENNERY:Joan Gennery from Western Sydney Community Forum.

MR WADIWEL: Dinesh Wadiwel from the National Council of Social Services of New South Wales for human services in New South Wales and also representing social justice issues.

MR TISSE: George Tisse, Busways.

MR MELLISH: Darryl Mellish, Executive Director of the Bus

& Coach Association, private bus industry

MR LEE: John Lee, Acting Chief Executive of State Transit.

MR DUFFY: Mark Duffy, Acting Director-General of the Ministry of Transport.

MS CIFUENTES: Cristina Cifuentes, Tribunal member.

MR COX: I should point out we are going to be joined by Alex Gooding from WSROC. He has been delayed by, I believe, a train.

I should also point out that the proceedings will be transcribed, and when you speak, perhaps if you can introduce yourself and say who you are, that would be good. I will hand over to Dennis to lead us through the first session.

METROPOLITAN FARE HARMONISATION ISSUES

MR MAHONEY: The purpose of this first session is to discuss primarily the issues that arise from the Ministry of Transport's proposal to bring STA and private bus fares into equality for those ticket types that exist or may soon exist in the two segments of the industry.

I am going to speak to the handout that has boxes on it that hopefully people have got access to. I will also repeat them on the screen overhead so you can see where we are up to. For this first session, I am only going to talk about the first six boxes, because they are the ones that summarise at least most of what we think are the issues to do with the metropolitan fare harmonisation scheme.

Just to focus on issues for discussion, I have put there four questions: should the Tribunal endorse the MoT proposals for higher STA fares and lower private bus fares; should the actual fares for singles and TravelTens as proposed by the ministry be adopted; how would they affect bus patronage and operations; and how would such fares affect passengers.

The MoT proposal for fare equality seems to me, judging from the submission, based on three legs; first of all, that fairness and equity will be served by this proposal, that it will support the successful introduction of a single Tcard for public transport and it is consistent with the findings of the Parry inquiry and the Unsworth review.

When we look at the proposals themselves, and the participants around the table had detailed discussion notes on this circulated to them, let me simply summarise. There are only two fare rises for private bus single tickets proposed in the Ministry proposal and neither of those increases are greater than 40 cents. There are three fare rises for the STA singles. There is also one fare rise for the T-way but none of those either exceed a rise of 40 cents. The big rises are in the TravelTens; 7 per cent or more in each category this year, and broadly the same sort of rises again, at least up to 9 section travel for next year.

Of course, the further out the distances, the bigger the discounts on the alleged single tickets and TravelTens, but the details of that don't concern us at this point. The implications of the proposal for funding patronage and the social impact? The funding proposal, broadly speaking, if we take the mix of the rises in STA fares and the cuts in private bus fares for single tickets and for STA TravelTens, overall, the average rise in fares is just under 2.5 per cent. That's pretty close to the Sydney CPI rise of just under 2.2 per cent, and that gives us an overall assessment, for the Tribunal, anyway, of the impact of this proposal in terms of bus industry fares in general.

Of course, because of the way the fares are proposed to change, there are likely to be patronage effects. First of all, private bus users are actually likely to switch to the PET, and the TravelTens, and to have increased demand on the M2 routes, especially since some of those tickets that are more than 16 sections along the M2 will have significant reductions. In the discussion notes we talked about reductions of up to 50 per cent. Mr Miles has pointed out to us that quite a few private bus companies run discounted tickets as well. Last year that discount was shrunk from about 20 per cent to 10 per cent, so in the notes we talk about a 50 per cent reduction, up to 50 per cent, we probably should say up to 40 per cent relative to current fares and depending on the actual users.

The other important thing about patronages on the STA side, it has been flat for the last three years, and this

proposal is for a weighted average increase in the singles and the TravelTens of a little over 5 per cent. That may very well have patronage effects for the STA.

On the social impact, the notes gave a bit more detail in terms of incomes of different users of public transport. The important thing here is that STA users, the median household incomes, according to the household travel survey, is about 24 per cent higher than it is for private bus users. So, again, the STA fare rise is to a group that carry higher median incomes, the private bus fare cuts to groups that have lower incomes.

There are other fare issues to go beyond the MoT proposal. These were raised in the submissions. It is interesting, there are probably about five issues, as I look through submissions, 13 organisations and 10 individuals, other than the BCA, STA and MoT. The largest number of submissions to issue a concern about something was the fact that the TravelTens discount would be cut to 15 per cent. A lot of the submissions, six or so, suggested 20 per cent or more, and one or two submissions suggested we should change our thinking about the discount and it should not be thought of as a discount to a single, but rather the single should be thought of as priced at a premium to what we currently call discounted tickets. In other words, a switch of thinking.

Another issue amongst the submissions was the idea that people are buying more than one flag-fall when they do multiple trip journeys, and that this was inequitable. People are also concerned about the lack of coordination of trains and buses or buses and ferries, and some submissions were concerned about TravelPasses.

A lot of that is up for discussion in the second session. I have simply put on the notes highlighting the narrowing discount as prompting a concern about there be more on-bus buying of tickets, slower STA journey times. Then there are broader issues to do with the TravelPass, its role in integrated ticketing. In fact, we had one or two submissions asking for the STA to look at a rezoning of some of the TravelPasses because of some of the anomalies between bus zones and CityRail zones for TravelPasses.

So let me throw this open for discussion with four questions: should the Tribunal endorse MoT proposals for higher STA fares and low private bus fares; should the actual fares proposed by MoT be adopted; how would such fares affect bus patronage and operations; and how would such fares affect passengers.

MR COX: Thank you very much, Dennis. We will now proceed to discussion among the members of the round table, and I will start with Mark Duffy.

MR DUFFY: Thanks very much. The summary, I thought, was a pretty useful way of kicking things off. The only point, I suppose, I would like to add to your slide 2, that MoT fare equity and equality is based on, as you say, three things. I think it is based on actually one thing, primarily, and that is the survival and provision of bus services in Western Sydney and other parts of Sydney that don't currently have an STA service provision.

Unsworth, and analysis that has been done subsequently, has demonstrated that the private bus industry is under enormous financial stress, and it has been facing a period of very significant decline in patronage. This fare harmonisation is just one part of a comprehensive reform program to bring private bus operators back to financial sustainability, and hopefully build a path of growth going forward. So I actually think that's the overriding issue that brings MoT to the position it is in.

The fare harmonisation is based on an argument that we've had from the BCA for many years, which the government agrees with, and that is to say, there should not be a different fare structure, particularly one that discriminates against the private operators. Certainly with another arm of the reform, which is the establishment of strategic corridors, the private operators should be not disadvantaged by having a different fare structure, and the corridors are really central to the reform program. We need to get buses on corridors and support that with bus priority, so that people can access buses in a sustained way, and those buses can be funded. So the community mutuality aspect of this reform should not be underestimated in the totality of the reform package.

I don't want to spend a lot of time, because I know everyone has seen the MoT proposition. I want to start from the basis that this is just one part of a reform package which is aimed to basically save, stabilise and

grow the private bus operators, particularly in the western suburbs, but wherever else they are running in the metropolitan area.

MR COX: Thank you. We'll now move on to Allan Miles.

MR MILES: Thank you, Chairman. In brief, question one, I say yes, the Tribunal should endorse the proposal for higher STA fares and lower private bus fares for single fares only. I would endorse the actual fares also for single fares only.

Sorry, I'm very brief here, but I have put all this in detail in other documents. Those two issues Dennis and Jim have pointed out, we don't agree with the large increases in TravelTen prices, and I might refer to this later on, but in South East Queensland the patronage, especially in the outer private bus suburbs, has increased by up to 50 per cent in two months since the introduction of the one-ticket Translink system throughout south east Queensland from Coolangatta to Gympie. Where the government predicted slight falls in revenue, there have actually been large increases in revenue - small ones in Brisbane city itself, but very large ones in Redcliffe, Ipswich, the Gold Coast. That answers question 4 as well. Thank you.

MR COX: Thank you very much. Alex?

MR GOODING: I apologise for being late, the train was late. I gather at this stage we're talking about the single bus fares more than probably talking about the TravelTens?

MR COX: I guess it is a sort of general introduction, really. I suppose we are particularly looking at the four issues on there. I guess the main issue at this stage, probably, is whether we should endorse the Ministry of Transport's fare harmonisation.

MR GOODING: Certainly I would endorse what Mr Miles said in relation to the single fare prices and, broadly speaking, we welcome the harmonisation of the single fare prices plus the other initiatives relating to excursion tickets, but we do have concerns about the whole issue of TravelPasses and the TravelTens, and the level of discount on those fares and the indications more generally for those sorts of bulk purchase-type tickets, which we've outlined in our submission and we're happy to attend to those comments later.

Basically, we think the discount for the TravelTen is inadequate and that we at least need to look at the proposition about extending the range of tickets to the private bus services.

MR COX: I think people are having difficulty hearing you.

MR GOODING: Just reiterating, most of our concerns are contained in our submission, but, in general, we support the basic proposal to harmonise the single cash fares. We don't think that the increase for the STA services is unduly high to achieve that end, which is something, in Western Sydney, people have been wanting for a long time. We also support the decision to expand the pension excursion ticket and we believe that the increases is a reasonable compromise.

We have concerns about the limited level of discount on the TravelTens, which we think is too low, and the limited range of, at this stage, bulk purchase of periodical tickets available. We also have concerns about the broader implications for periodical tickets throughout the public transport system as a result of the decision. But we do acknowledge that this is perhaps not a simple process and, to repeat, we are pleased with the basic proposition but concerned about the periodicals and the TravelTens.

MR COX: Thank you very much. We will now go to Joan Gennery.

MS GENNERY: I represent the users in western Sydney. Within all this, there are probably some questions I would like to ask. With the levels of fare harmonisation that you have done and the forecasting for the TravelTen - and you have said that part of this is about increasing patronage - do you have any estimation of what sort of increase in patronage you will have for bus users in western Sydney and for public transport users in general, and with the difference between, say, a 15 per cent discount on TravelTens and a 20 per cent discount? Those are some of the things I am interested in.

Also you have said no TravelPasses. That would have a lot of implications for mobility and accessibility and costing for users in western Sydney, and it stops us having an integrated system. So a concern of mine is how you will address the issues of integration through ticketing, and also for the concession holders it has impacts on their mobility. Not having that disadvantages some of our most disadvantaged users of public transport.

MR COX: Mark, do you want to respond to some of that now?

MR DUFFY: I think what I would like to say, firstly, and I have not got the data here, is that we can assume elasticity and its impacts on patronage, but there are a lot of other things which impact on travel behaviour. I think that what we are trying to do is not look at this in a narrow way. We are actually saying, "I have a whole lot of policies going on here. I am going to be asking Treasury to put forward some money to bus priority. I want to see private buses moving down strategic corridors at a faster rate than cars." When people see that happening, whether paying a little less or more, they have to make the decision, particularly with petrol prices going up, "I want to be on that bus because I want to be at work on time."

So there are a whole lot of other things in this package. We are not arguing on the basis that it has a positive or negative impact on patronage on its own. It really will be part of a package. What we do know is that patronage has fallen by about 19 per cent in recent years in the private bus areas, and we would be very happy, in the first round, if we could stabilise that and then start to see if we can lift it round the other way. So we are not hanging our hat on a massive increase or decrease in patronage just on the price change or the fare change.

MS GENNERY: I understand that, but I think some decisions have already been made in the MoT submissions about the ticketing products and things like TravelPasses and that they will not be within the contracts, for the private bus industry; is that right? So I guess that is one of the most important points that I am asking and in all your reforms, which are looking at long-term increasing, something about integration has been left out.

MR DUFFY: If I can just respond to that, I suppose we are kind of damned if we do and damned if we don't because, as

I understand, there is very little in the way of TravelTen and similar products in the western suburbs and there is certainly no PET. So if we come here and say we are introducing PET, we are introducing a discounted product that is basically by and large not available. We are seeking to put a lot of other resources into bus reform, particularly in the areas where currently bus penetration maybe 3 per cent versus the STA which might be up to 20 per cent.

We are not doing everything in one shot. I think we should separate the debate between what integrated ticketing does in terms of how it is seen conceptually, in terms of effectively breaking down the barriers between different modes. There is an issue of pricing, but I think fundamentally the government has been persuaded by Unsworth and Parry to adopt certain policies and they are that prices have two functions: one is to send signals about travel and the other one is to provide, in some cases, quite minor contribution to actually running the services.

So when you see huge discounts, you have to ask yourself whether, in the scheme of things, they are fairly applied across the board and what else you could be doing for the public transport system rather than just handing out discounts? I do not think it is a wrong thing to start off with offering a product that is not currently available. So from 1 January, if we are successful, there will be a TravelTen kind of product and there will be PET. I see that as an unequivocal step forward. Coming down the pipeline is an integrated ticket which will provide a lot of services that a travel multimodal TravelPass will provide.

MR COX: Let us continue moving around the table.

MR WADIWEL: In principle NCOSS does support fare harmonisation. This is something that has needed to happen in the bus industry in New South Wales for a long time. We were in a situation earlier this year post-Unsworth and post the Premier's letter to IPART, where we were potentially going to have five years of public bus fares catching up to private fares. I would have foreseen double-digit increases on STA fares. Definitely the Ministry of Transport submission is a positive step forward on that front.

That said, we should note that increasing STA fares is not something that is necessary. The NCOSS letter to this Tribunal suggested that private fares should be brought down to the STA level. From our perspective, increasing STA fares above CPI is not a necessary step, and another option is to actually just constrain STA rises to CPI. That would avoid having to measure whether there would be any or whether there has been any performance within STA services to justify a potential 15 per cent increase.

We are also not quite clear about the 15 per cent price discount for TravelTen, and we are concerned about the impact of the very significant increases over the next two years in the TravelTens if the Ministry's proposals are met. We suggested 20 per cent but, really, we need some more exact information on how that 15 per cent figure was arrived at and, I guess, some sort of protection around how we are going to implement that significant increase in the fares.

From a user perspective, certainly, current users of private buses will benefit. As I have said before, I think it is something that was long overdue. In terms of those who will be impacted by the STA services, certainly I think the lower income people will be impacted by potentially high increases. As people in their submissions have pointed out, over the next two years, the TravelTen increases for some services will be in the region of 30 per cent. Potentially some low income people who use those particular products will be hit by that.

That said, there is not a lot of data available, either presented by the Tribunal or by people who submitted information to this review. I guess this is something I am going to make a note of today again and again, namely, that I really do think we need to develop some more robust data around how we price these things and what the impact is on the community. Particularly as the Ministry has flagged a five-year price path from next year on, I think we need to be really clear about what the impacts are and have a bit more sophistication about where exactly those impacts are.

I think Allan Miles raised in the Action for Public Transport submission the weighted increase just on CPI. That claim for the fare harmonisation proposal does not tell us a lot about who exactly is impacted and where, and I would certainly encourage the Tribunal to be looking for some more sophistication around that sort of data. Thank you very much.

MR COX: Thank you very much. Next is the Bus and Coach Association

MR MELLISH: The industry really sees this fare equity and harmonisation process as part of an integrated package. We see it as an integrated package that is long overdue and that has been justified for some time. We have been consistently calling for better equity in fares across Sydney and the package that is being developed with the industry includes a technology solution, accreditation reform, a look at the school student travel scheme and also a new service planning process for networks.

We had some initial concern about the framework being budget neutrality, and we expressed that a number of times. In that framework, we believe that the outcome will be to grow public transport, we would have liked to have seen a target set early on what growing public transport should be, but we understand the reality of the financial situation, and we are also the service provider.

So we support the harmonisation process and we are actively part of the bus reform agenda. For us the harmonisation process is based on having new contracts and a new funding model in place which we believe will facilitate the process. We support the process. We have some questions about the detail and the technology, and it all coming together at the right time, but we have been calling for this harmonisation for a long time.

MR COX: Thank very much and we will now move on to John Lee from the STA.

MR LEE: Thanks very much. I suppose STA's response to the four questions could be: "Yes"; "Yes"; question 3, "It is really hard to tell"; and the answer to question 4 is "It depends." It depends on what the household income is. We only have to look at our Woolworths dockets to see what impact increases drought and other measures are having on consumer goods, not to mention, I think it is with Telstra Home Plus, that telephone line rental has gone up quite considerably in recent times.

To respond to some specific statements, I would like

to dispel a myth about the size of the increase of TravelTens. I would like to take the Tribunal through the increases for TravelTens on the basis of doing a comparison between cash fares, that is a single unit of travel. I will chronologically go through from a 1-2 section fare, 3-5, 6-9, 10-15 and 16 plus. It is proposed for a unit of travel on a TravelTen for a 1-2 section fare to go up 9 cents, for a 3-5 section, 16 cents, for a 6-9 section, 34 cents, for a 10-15 section, 29 cents, for 16 plus 29 cents.

My point is that, per unit of travel, the same as the cash fare, every single amount is less than the maximum, the 40 cents for the 16 plus State Transit fare. I think that is an important consideration. You have to compare apples with apples. So a single cash fare, the 16 plus is going up 40 cents. On a single unit of travel for 16 plus with the TravelTen ticket, your price goes up 29 cents. That is 11 cents less.

My second point: currently in this acting role we have some customers who have TravelPasses from the Pittwater area. We do not have a Panania TravelPass. We do not have a Pendle Hill TravelPass but we have a Pittwater TravelPass, and there is a plethora of product that I think is no longer relevant for a global city like Sydney. I think it is an important consideration, and it has not been MoT's focus on this occasion, to look at product like TravelPasses especially when we have a new integrated ticket in terms of Smartcard, an electronic first, which will be entering the Sydney market over the next 18 months.

I do not have any specific views about the Pittwater TravelPass today, but what I do know is that at present those people, who probably have a higher average weekly income than the people from Pendle Hill, currently enjoy a 37.9 per cent discount. If they are a concession holder, they get another 50 per cent off; so they are paying 30 per cent of what people are paying in Pendle Hill. On the basis of equity, I cannot see how people could be defending those sorts of passes because what is actually happening is your own constituency is missing out.

In terms of pricing, and this refers to slide 5, it talks about narrowing discounts prompting STA on-bus ticket buying and that it slows STA journeys. There have been a number of changes to STA fares over the last five years. I am happy to report to the Tribunal that they have had very little impact in the distribution of sales; that is, cash or periodical, being the TravelPass or the multi-use TravelTen product.

In relation to fare increases, though, and the suggestion, Dennis, that you'll actually have more people moving to cash because of the recommended increase to TravelTens, can I go back to the year 1999-2000. In 1999-2000, we had a 7 per cent increase in fares and a 1.9 per cent increase in patronage. The following year, we had an 8.6 per cent increase in fares and we had a 1.8 per cent increase in patronage. The next year we had a 4.8 per cent increase in fares, but a decline of 4 per cent in patronage; so a lesser an increase brought about a decrease in patronage. The following year, we had a 1.93 per cent increase in fares and another decline in patronage.

I think those factual figures over the last five years clarify in my mind that the elasticity of price, that price impacts on patronage, is a myth. The biggest driver of patronage in this city is the economic prosperity of the city itself. At State Transit we are very driven by what is a CBD-focused network, four networks driving nearly 70 per cent of their services towards the CBD. As there is economic growth and there are real jobs in the city, we also get a take-up in patronage on that basis. I think we have to be careful about a simplistic view of taking one measure which may or may not ultimately increase patronage.

Now, to be slightly schizophrenic, that is not to say, though, if there is a substantial decrease in a fare that it might encourage someone to use public transport, but there are a number of issues that ultimately impact on that person's decision as to whether or not to use the service - issues such as do they have a small Kia car that they have to dispose of, the price of fuel, the cost of tolls for the movement for the north west in particular. We should understand those issues when looking at matters to do with fares.

I would only make one other point, and we will come to that soon: in terms of costs, a lot of bus companies are trying very hard to replace their fleet to get low-floor air-conditioned buses. With summer approaching, we understand the importance of having air-conditioned buses.

I know for our organisation we have 141 new buses at a unit price of just over $400,000. That is a substantial cost. Combined with wage increases - maintenance and drivers are different - on average about 4.5 per cent, for organisations like State Transit who wish to be a good provider of public transport but an efficient and commercial operator, these matters do weigh heavily on our organisation. Thank you.

MR COX: Thank you. Mark, do you want to make any response to that?

MR DUFFY: I am happy for the conversation to continue.

MR COX: Thank you. Any further comments from people sitting in the round table?

MR GOODING: I just wanted to comment on a couple of things. Firstly, I do not think anybody on this side of the table, as we indicated, has a problem with the basic proposition about the extension and the harmonisation of the fares. In our submission we made a comment about the discount on the TravelTen. Part of the issue for us was if that was in fact going to be the only bulk purchase ticket available, then we felt that it needed a more significant discount to be effective.

I did a quick study of some of the systems overseas. Most of them offer more than one bulk purchase or periodical discounted type tickets under the Smartcard systems. It would seem to be that 15 per cent was towards the bottom end of the discounts that were offered. If there were to be a wider suite of tickets for bus services in which there was a potential to buy other products, for example, with a TravelTwenty, TravelThirty, or a TravelForty, and the TravelTen was, at 15 per cent, at the bottom end of a range of discounted tickets, we probably would not have so much of an issue.

There is another issue which is very concerning about this from our perspective and that is the precedent this might set eventually, not so much for the existing STA services, but the precedent it might set for rail tickets and rail periodical discounts. Given that it was quite clear in the Parry report, for example, that there was quite an explicit belief in the Parry report that the discounts on some of those periodical tickets were far too high from Parry's perspective and that they should be reduced to something like the 15 per cent, we would be very concerned about that precedent. We have argued in previous submissions that whilst some of the discounts for periodicals on rail fares might be excessively high, it seemed to us a consistent approach of around about a 25 per cent discount for these sorts of tickets was appropriate.

I know we are not considering the rail tickets here today, but we wanted to raise this issue about the precedent. We feel that decisions that might be made by the Tribunal as a result of those hearings today might create a precedent in the future for discounts on periodical and bulk purchase rail tickets.

MR COX: Thank you. Are any further comments? Is 15 per cent is the right number? I would think that is the issue.

MR DUFFY: No, I think there are a couple of issues. First of all, the contracts that we are negotiating with the private operators do not preclude us coming back and asking them to provide other services. We are sitting down and asking, "How are we going to introduce PET?" We are sitting down and saying, "This is how we are going to do it and this is how we will build it into the contract." We are saying, "How are we going to run TravelTen?" Then we are saying, "This is how we will do it, and this is how the tickets will issue."

Let us get a couple of things straight. Let us go back to my first point. This is one arm of a major attempt by government to try and stabilise an industry which is in serious decline. We have therefore chosen to start off with the cash ticket and a TravelTen product - the TravelTen product, for the most part, does not exist - and a PET. To start off with, that is where we are going. We are not ruling out a further product. We are not asking you to discontinue the TravelPasses that currently exist. We are not taking any position on that. We are simply saying that this is one part of a multi-pronged approach to try and stabilise and then grow the private bus operation.

In a sense, you are anticipating what may happen in the future but no decision that is made today will preclude the government's right to enter into new product, if that is what it choses to do; nor are we asking for anything to be done in relation to existing TravelPasses. We could

spend all afternoon talking about it, but I think, a number of people having lodged their concern, we should actually focus more on the detail of what is on the table because I know what is not on the table. What is not on the table is a government decision to abolish TravelPasses. What is not on the table is the government denying a possibility, in any negotiations that it wants to, that it can establish these products at any time. What we are doing is we are going upwards not backwards in terms of the number of products we are providing. Let us accept that the movement is in a forward direction and let us have a debate in one, two, three or four years time about the future of these products if it has not been resolved before then.

MR MILES: One year.

MR DUFFY: Well, I suspect you will have the debate every year. What I am saying is right now we have no proposal on the table. There is no government decision, and I have complete freedom to negotiate with the private operators to provide whatever sort of product the government chooses to pay for

MR COX: Perhaps we will go to Darryl first and then to John Lee.

MR MELLISH: I would just like to put on the record to stress what I said before, namely, that we see the fare harmonisation process linked to the bus reform agenda. For those in the room who do not know, the fare harmonisation process is still at this stage only intended for the metropolitan area. Our operators operate throughout the State, and there are a lot of pricing issues that need to be considered statewide. Because we are talking about fare harmonisation here, just to be clear, we see it linked to the reform agenda, which is the total package and it is intended for the new contract regions with this fare harmonisation in the first instance. I just did not want anyone to misunderstand that we are not talking about the whole State when we are talking about fare harmonisation.

MR COX: Thank you. John Lee is going to tell you why 15 per cent is right.

MR LEE: I actually wanted to make a comment about Queensland. I used to run a bus company in Queensland called National Bus. When we talk about patronage increases, we have to understand the context of the increase and we were coming off a very low base. We were basically the school bus company. Now, under this proposal with very cheap fares, it has increased patronage by about 20 per cent, but relative to what? That would be my first point.

I suppose I am a little bit surprised today. I want to go back to a specific fare again. I think the millions of people who live in south-west Sydney or north-west Sydney or western Sydney would like to know that, for example, people who live at Winston Hills and travel to the city, and let's say it is about a 17-section fare, are currently paying $6.50. But they will be paying $5.20. They will be paying $5.20, and that is a 20 per cent discount, but that's not all, because with TravelTens in place, it comes down to per unit cost, which is $4.47. $4.47. That is a 31.2 per cent decrease on what they are currently paying, so let's put things in context here. The comparison between giving equity to millions of people who have been unable to enjoy that type of product, to putting up, at a maximum, a fare by 34 cents which, for a week's travel is, what, a cup of coffee at Starbucks? Please.

MR DUFFY: Can I just throw one other thing in, John. The only other point to make is we are assuming these are discounts on the full cost of the trip. You probably hear this argument a thousand times, but the government starts off putting a dollar on average on every bus trip, so if we are talking about discounts on discounts, we should be aware of that. What we ought to do, perhaps, is just state what the full cost of the ticket is and then make it look like a 70 per cent discount which is, in some cases, what it will be when you take into account the actual average subsidy in group bus tickets.

Let's not forget, the government, on average, is putting in a dollar a trip before we even talk about discount products. Obviously some of that discount is picked up in that dollar, but the point remains that there is already a subsidy on top of any product that you talk about starting to discount specifically.

MR GOODING: As I said at the start, we came out and stated publicly our organisation's support for the proposal. We recognise that it is a major step forward in the provision of bus services in Western Sydney. We did,

however, want to clarify your comment about the potential to negotiate other products is helpful, and I would just like to say that, basically, that's something we would like to see - a timetable in some way so that perhaps there is a structured process of review when looking at that potential.

The other point I made at the end, which was the other area of concern for us, is the implication in the longer term for rail fares, which is also used by these people in Western Sydney. In fact, given the current figures, it is more people use these services than use the private buses.

MS GENNERY: I guess, John, in some ways, to respond, when I was talking about TravelPasses, I was not talking about whether they should be increased or not, just that they are not available, so that equity doesn't reach Western Sydney the way it does when you use an example of the Pittwater pass.

I guess it is on the table here, because as much as fare reviews are linked to ticketing products, directly and indirectly, the availability or not of them. I think that also because there is with the Ministry and the current reform, where there was initial consultation process for the community to put their views around various issues, that's not an ongoing process within the ministry. So at opportunities like this, where we can bring them up, it is important to us. We don't know the next opportunity where we can be engaging and getting information with what's going on about what sort of a valuated process is taking place within this reform as well. So that is why they are being brought in here and --

MR LEE: I think that's why we ensure we attend your meetings, where we come out and speak directly to your members. But, ultimately, to get a travel pass in place and to reduce any sort of fraud, especially when we have got a TravelPass coming in called a Smartcard, that's what they are about, integrated travel, and to actually get that to be fraud proof you really need ticket reading machines. You need the green ticket machines that are currently on STA buses. They are not actually in production any more, they are no longer being made. But even if you could get hold of them, they cost $5,000 a unit. There are 2,000 buses in Western Sydney. That's a $10m capex for something that might last for 18 months to two years, or when the

$300m Tcard gets rolled out.

MS GENNERY: As to integrated tickets, okay, I don't have a lot of information about that, but it is not an integrated fare system which is what your TravelPass is, and which is not what's available. You might be able to respond to that as well, but there hasn't been a lot of information coming out about where that's progressing. So you may clarify that, yes, it does have the capacity of TravelPasses that have the zones relevant to the travel patterns of people rather than city central, as our current ones do, so maybe you could clarify that.

MR LEE: As the past Chairman of integrated ticketing project, I'm probably better versed on the matter. Let's remember we have got a distance-based system, and for the integrated ticket for the multiple user, for someone who might use more than one mode in a given day, there will obviously be a rate that is struck for the amount of train use and the amount of bus use. Sure, that is yet to be fully developed, because you can't actually assess what you are going to charge until you know approximately what the pricing path might be before you introduce a new technology. So there hasn't been any decision taken on that.

I think the government, when it outlined the focus on the integrated ticketing project on getting SSTS right, and then looking at - I think the Minister said it is not good to have 94 different products, but what you do know is that with integrated ticketing you will have a seamless form of travel, just like a TravelPass. Will it adopt the zones that are currently in this brochure? Well, I certainly hope not, Joan. I certainly hope not, because I don't think we need a special Pittwater TravelPass. I think we need to actually look at all of Sydney as to how we structure this type of integrated product.

MR COX: Are there further comments?

MR WADIWEL: If I could just make a brief comment. Maybe I'm speaking for all the people on this side of the table, we're interested in hearing what the rationale is for government for the 15 per cent discount. I don't feel satisfied that I have heard a rationale, and a rationale that that discount actually reflects the savings to the operator which is passed on to the government, now, with

the new funding model, that reflects how that works.

I think the same applies to the Travelpass. I mean, it may be true that Pittwater residents get 39 per cent. To me it is not about putting Pittwater residents up against residents in Pendle Hill, but say, well, maybe 39 is the appropriate discount and extend that to Pendle Hill. With the new integrated system, undoubtedly those regions will need to change. I think what we would like to hear, what the community is entitled to hear, is a consistent rationale for how that discount is arrived at.

Certainly, I don't doubt that there are going to be some reforms that are going to mean some real changes to people's lives. I'm not stepping away from that, but what I am saying is that on this particular issue around the TravelTen, we need a rationale.

Around the TravelPasses, I think it was pretty clear in the Ministry of Transport's submission that there wasn't a commitment to extend that to private operators, and there didn't seem a lot of commitment to maintain that particular form of ticket into the future. So perhaps the government is willing to actually provide that to the community and say, "In two years, we'll do that", or "We'll integrate that into the Tcard and make a consistent discount available for that kind of ticket." But that wasn't in the Ministry of Transport's submission and we haven't heard that today.

MR COX: Thank you. Who wants to respond to that?

MR DUFFY: I don't have the working papers behind the two Unsworth inquiries in front of me. What I can say is that, particularly with the climate established by the Parry Inquiry, we started focusing on the fact that for sustainable transport you have got to have some sustainable revenues and therefore all discounts should be questioned about whether they are both equitable and consistent with the community's commitment to those levels of transport.

Unsworth recommended a 15 per cent discount for a TravelTen product to go to the private industry, and the government's adopted that. So whilst I don't have in front of me the data that Unsworth was building on, I suppose a fair thing, to go around the other way, is that it looks like we have an option here to settle at 17 and a half.

You are at 20, we’re at 15 there is no science from you guys either.

Maybe if I can go another way around it, though. Allan sent out a press release yesterday and he said the faster loading on buses and reduced cash handling costs are benefits to State Transit. It is not just a one-way gift to the passengers. There is a two-way street here. It is a gift to the passengers, but not just a gift to the passengers. It is also a benefit to State Transit. When you think about it, fast running times and reduced congestion at bus stops is also a benefit for the passengers. So, actually, I have got one benefit for the owner and two for the people who are using them: the people that are getting it direct; and those who are benefiting indirectly by having less congestion and faster running times.

So I think what the government ought to be doing is asking themselves, given that the Smartcard deals with all of that, then it just goes back to a one-way gift to the passenger, because once I can blip in and out of a bus, I am down to a one-way gift to the passenger. The question really ought to be, going forward, how much of a gift to particular passengers am I prepared to give? Why am I having such big gaps? Should I give a 40 per cent discount to someone who can stump up with a huge amount of cash and give a much smaller discount to someone who couldn't? I think, prima facie, on any equity ground, I should not be doing that. Is this how it works: I can go and buy a bigger chunk of ticket and get a bigger discount? That, to me, is completely wrong. Completely wrong.

So what I would like to suggest is what we do when we get into this conversation, which is not on the table now, but when we do get there, let's roll it all out and say what is the equity now of heavily discounting a ticket that costs a lot of money, because it seems to me that's further reinforcing inequity. It is about time we shone the light on it and let's get the discounts to where they should go to make the system work efficiently and provide fairness across the board, and not just offer lump sum discounts in the absence of any science.

I will agree, I haven't presented you any science, but probably at least a more logical path why we are coming down, not upwards, on discounts, in principle, because all the things that you identify, Allan, are the things that the $300m Smartcard is going to deal with.

MR COX: Allan, do you want to respond?

MR MILES: Yes. Actually, the other three people on my left endorsed all my views. What Mr Duffy just said then, that if someone stumps up with $400, don't forget that somebody has that in the bank for three months and is earning interest on it.

MR DUFFY: Maybe he makes it in half an hour, as well.

MR MILES: There's not been a lot of science on both sides, perhaps, on these figures. If it is not the place to do it today, we'll look forward to seeing something about it in the future.

MR DUFFY: I think it is something you should look at, but let's not take positions on it now. There is no science on the table.

MR MILES: To be honest, I emailed a professor in the USA, he emailed various professors and no-one's answered with any PhD on the subject. So whatever you do is a first; I'll be looking forward to it.

MR GOODING: Firstly, in terms of that point, I mean, that person with $400, or whatever the amount is, could just as easily go out and invest it in private vehicle transport. I think that was one of the rationales for this whole process, to reduce private vehicle use.

Second, we have a system, as I said, and I am now taking what you are saying as being a precedent for saying that the same principle be extended at some stage to train fares.

MR DUFFY: That will be unfair. I just said at the start of the conversation today, (a), the Premier's asked IPART not to deal with rail at all in these hearings and, (b), I'm not precluding any possibility in the future. I'm saying, I'm sure Darryl will agree with me, that if I want to negotiate any sort of product, the BCA or the contract the we are providing, now's your opportunity to tell me I am wrong. I can negotiate any product I want and, as I also understand it, there is provision for any product to go that's currently available on to the integrated ticketing. So there is no ruling out or assumption or hint of what the government may do in the future because the government basically - (a), I don't speak on their behalf, but (b), they have dealt with the specific submission that you have in front of you in relation to fare harmonisation and that's all they are dealing with. So there is no hint. No-one should take a hint of anything in relation to the future of these products.

MR COX: I might go first to Joan and then to John Lee.

MS GENNERY: This is more of just a comment. I am glad to hear the Ministry talking in terms of equity. I hope that's also reflected when you do your concession review.

MR LEE: I suppose I am forever looking for some killer facts. In the last 12 months TravelPasses are down 4.6 per cent, even though they were discounted 48 per cent for the Blue TravelPass, 47 per cent for the Orange TravelPass, 37.9 for Pittwater, the two zones 39.7 per cent. Yet TravelTens, which have less discount, have gone up 2.7 per cent in terms of total sales.

What that says to me is that the nature of employment, the way the nature of employment has changed for a lot of people in Sydney, people prefer to be able to purchase a number of tickets rather than an amount of time to travel, because, especially, as we know, in the public sector, people have RDOs, rostered days off. So if there is a public holiday in a given week or they are having an RDO in a given week, it actually defeats the purpose of the benefit of having a TravelPass. So they know that their TravelTen would last a month, two months, three months, and that, I think, is important.

My last point to throw into the mix, and it is to NCOSS; do people, apart from, I think, seniors, do they get really good discounts on water and electricity and other important basic needs? Do they get that level of discount?

MR WADIWEL: It is an ongoing challenge. There are concessions available for the utilities but, as you may be aware, there's no consistency from New South Wales government, and from the Commonwealth government, indeed, around what sort of principles those are based on and what sort of discounts there should be that should apply. It is a complex question. I take Mark's point that how do you

price a discount ticket? Do you just give people who can afford a yearly pass that right to have a massive discount?

Let me put it a different way. NCOSS in some of the research it has been doing about transport, found that, on average, some low income people - and we are talking really low income people - have less than $10 a week to spend on transport. How they choose to use that $10 may be to buy the single ticket for their weekly outing --

MR DUFFY: They are not buying a yearly, that's for sure.

MR WADIWEL: If they are a low income worker, maybe an apprentice or something, they buy a concession TravelTen to get to where they need to go five days a week. This is where, for us, we are interested in the level of discount, partly upon the cost-recovery basis, exactly how is that worked out, but also there is an equity question there too, because that ticket acts as a concession because of discount. The kinds of increases that are proposed by the Ministry of Transport are going to impact on those people. So certainly we are interested in that. We are talking about people with very limited amounts of money to spend on transport. So any form of discount is going to be an attractive product.

MR COX: I think, in the interests of time, we ought to move on.

MR MILES: In response to these facts, the Blue TravelPass and the Orange TravelPass that you mentioned, prices went up. All the TravelPass prices went up. In some cases a decline in patronage is not surprising, but particularly the blue and orange ones, where there is no train travel, for a couple of dollars more - I think $3 more in the case of blue and $4 in the case of orange - you can get a TravelPass that includes rail as well. There's something wrong with the price relativities. So I would suggest that for one train ride a week, for the price of one train ride a week, you can buy the red instead of blue, or the green instead of the orange, and the patronage might have been lost from the two bus only ones to the rail and ferry ones. Thank you.

MR COX: Thank you very much. I think the Tribunal is left with the issue of the level of discount. If anyone has science that can be of assistance to that, we would be grateful.

I think we should move on to the second session. We'll try and get to people sitting in the back of the room at the end of this session, if we can. We are running a bit behind time. I will hand over to Dennis.

OTHER METRO FARE ISSUES

MR MAHONEY: I think, given the conversation we had about question 1, I don't think we need to talk about that any further, other than to point out that while TravelPasses are not in the MoT proposal, the Tribunal is still required to consider pricing of TravelPasses this year. That's just a statement of fact, and the Tribunal will have to think about that.

Number 2, the bus reform is expected to deliver better service and / or lower cost, and the impression that we get is that the Tribunal should be considering that in its fare setting. This is taking account of expectations of such gain, so the question is to what extent the Tribunal should be thinking about expectations of gains as opposed to runs on the board. The question 3 is about runs on the board, the current levels on service quality and cost efficiency and the scope for improvements. The only data we have is from the STA.

If I could skip the next one, which was to do with TravelPass zones and Tcards, which I think has been covered, and just go straight to service quality and other issues. This is really a question, I think, more than anything else, from the Secretariat on what are the expected service quality improvements under bus reform. More to the point, when we look at current service quality measures, they are on the STA website, they were in appendix attachments A and B of the MoT proposal. So I think the current ones are reasonably well-known - such things as reliability, on-time running, leaving on time, accountable reliability, traffic incidents, safety and comfort and so on. There has been some criticism of those in the submissions, as to how significant or useful those measures are.

If we think about STA in terms of cost recovery, in the notes I have got "down but stable". That's an error that should have said "declining", and that's been the case

where last year was the lowest level of cost recovery in six years for STA, so normally that would be an issue for the Tribunal, which doesn't directly come into the MoT's proposal, but I just put it on the table for possible discussion.

Then, lastly, it would be wonderful if we could have lower fares and more patronage because it was driven by lower cost. So the question of cost efficiency is an important one for the Tribunal. There is a chart, sorry it is so small for those of you who have got the boxes, showing in fact that if we measure operating costs per kilometre, Sydney buses have done reasonably well relative to the consumer price index, and it is only the last couple of years that operating costs per kilometre have started to increase a little faster than general inflation in the economy, whereas some of the other services that are offered have done lot more poorly.

That said, the Tribunal will be interested in hearing discussion on how improvements might be made in the bus industry in general. First of all, the comparison between private buses and Sydney buses, there were detailed numbers from the Parry report in the notes distributed that are summarised on that overhead, whether you measure hourly costs or kilometre costs, or overheads per bus, or even capital costs per bus, Sydney buses are significantly higher than private buses, on the basis of the data that was in Parry.

Likewise, a recent study by McKinseys indicates that one of the big cost drivers of the bus industry is how much drivers are actually utilised driving as opposed to doing other things. Hence the term "driver utilisation". In general, internationally, the findings are that those five things that are mentioned there, if you have fixed and continuous shifts for your drivers, if there are fixed running schedules for the buses, if the job descriptions are narrow, limited control over the resources, including the staff, and you have a standard overtime level, your driver utilisation tends to be low. These are just matters that the Tribunal want to put on the table for discussion as to, looking forward, how we might expect improvements overall in the efficiency of the bus industry.

So just to go back to the questions, let's skip 1.

Question 2 is about to what extent should the Tribunal think about expectations of gains in service quality or lower costs. Question 3 is the current trends, how we might improve them and, in fact, any other issues.

MR COX: Thank you, Dennis. Particularly we are interested in cost issues, efficiency issues and service quality issues. We might start off with Allan Miles at this point.

MR MILES: I haven't got a lot to say on this. One point that did come up in the costings - and not being a motorist I am not aware of this - was the increase in the green slip costs, third-party insurance and registration is very, very high. Is that a standard thing or is there something wrong with the buses, or what?

MR MELLISH: It is related to claims history.

MR MILES: So it need not be 29 per cent next year?

MR MELLISH: It is related to claims history measured against an average motor vehicle.

MR MILES: So if your drivers or general public are better drivers there would be a lower rate, maybe?

MR MELLISH: If the claim history is better, yes, then the rates can be expected to go down.

MR MILES: Is that something within the control of the BCA and the STA, is it?

MR MELLISH: No. It is set for an industry, not individual organisations.

MR MILES: All right. That will do from me for the moment.

MR GOODING: Again, like Allan, I don't have a lot of comments on this, particularly on questions 2 and 3, except to say that obviously from the Western Sydney perspective, we acknowledge the other bus reform measures that are being undertaken are quite significant, and we are certainly not unhappy with it. In that context, we prefer the harmonisation proposals as they currently stand. We think that that's quite a reasonable outcome in terms of the

reducing of single fares and the pension excursion tickets.

MR MILES: One point that I should mention, what Dennis mentioned about improving driver utilisation, I must mention my pet subject again of cash fares. There's 15 points there about how a bus operator can get better use out of his drivers, but a reduced level of cash fares is not one of them.

So if State Transit, in particular, can find some way of having more people with prepaid tickets, discounted or otherwise, I am sure the driver utilisation could be improved.

MR COX: Thank you. Joan?

MS GENNERY: In relation to this one, I am interested in how the benchmarks will be set on what a services should be, and then how are you going to develop this to build in that sort of minimum there?

Also, then, when we get to some sort of costing, what is considered in the fare setting beyond that? If you do have improved services, different benchmarkings, some sort of independent process about measuring this as well, where does that really tie into your fare? How is this being seen? If you have got increased profits through a better service, do you need to have that tied so much, or do you actually start seeing decreases in fares instead of increases, if you are collecting more fare box revenue? But I am interested in how you are setting these benchmarks.

MR COX: Okay. Next to Dinesh.

MR WADIWEL: I think community stakeholders, and I suspect the Tribunal, are in a difficult position around this question, because a lot of what I see as the potential service-quality improvements that are forecast rest in the new contracts. Unfortunately, the Ministry has so far taken the position that the contracts are a commercially sensitive negotiation between the department and the bus operators, and, therefore, we haven't - and I suspect IPART haven't actually seen what is in those contracts, what are the standards the operators have to comply to, what sort of benchmarks are we talking about, and, therefore, what sort of service quality improvements we are likely to see.

I find it difficult to justify arguing for a fare increase on the speculation that there are going to be service quality improvements in the future. Certainly in this area we have seen all sorts of reforms over the last 10 years. We've had things like a performance assessment regime promised and not delivered. Can we be sure that the reforms that are on the table are actually going to deliver better services. I find it difficult to, on the basis of the past 10 years and on the basis of what we have, which is very little, justify that.

Just a comment on what has been provided in terms of STA performance improvements, I really didn't think that there was a lot of information provided in the Ministry of Transport's submission around what exactly has improved. There wasn't any independent verification, I believe, in the submission around what standards they were referring to and what exactly had been improved. So I would be interested in some more information. But, again, my previous comments stand, I guess, about granting of a significant over CPI fare increase on that basis.

MR COX: Thank you. Darryl.

MR MELLISH: Jim, the private bus industry prides itself on its cost efficiency. If you look at a number of reports and previous submissions, I think it is clear that we are cost efficient. We have been challenged about does that convert into productivity, and can you improve networks by working together, and that's part of the challenge of the reform, just seeing if we can deliver greater overall productivity and network efficiencies besides cost efficiency. We believe that that's a worthy challenge and we are right in the middle of that with the Ministry at the present time.

Service quality is being addressed in new contracts, and the group here shouldn't forget the work that's going on with safety and quality through the accreditation process. The establishment of ITSRR itself, new testing regimes, new driver training regimes and various procedures for complaints have all been introduced in recent times. So there is a whole regime of new initiatives that have been intended to improve the standards and quality, and the cost efficiency, if anything, from the private industry's point of view, has got to the stage where its been forced

to such a level that we do have some concerns about viability, which I have said before.

So fare setting, in this instance, for a private industry, is also about cost recovery. I am sure that the Tribunal understands that. Our record of cost efficiency, we think, is outstanding and I think it is demonstrated in the documentation.

MR COX: Thank you. John Lee?

MR LEE: I note in your paper there is a suggestion that I might be able to enunciate some of the differences between how the STA operates and how the private bus companies operate. It is very difficult, when you have only been in the job for four weeks, to really be able to offer some sort of detailed analysis. I think the point Darryl Mellish was making is correct. Under the way the model has been structured in terms of the then contracts, it actually drove operators to maximise the number of school students they might transport and minimise their unit costs. That was the nature of the model and that drove the behaviour. I think there is a recognition that one was seen as being a good operator by doing that. The reforms go some way to now moving the continuum back to actually looking at what services we need to provide in different parts of Sydney.

I don't mean to be adversarial today, but again with my comment on what has occurred in the last 10 years, I actually think the new networks in the new regions will be, in my mind, a bit of a modification of what happened with northern-western. It will not be a full blown "better buses" as such, but one of the greatest outcomes with the consolidation of the Parramatta bus service area, Parramatta-Ryde and STA's' operating area - that is the area between town and Parramatta heading up north to Carlingford - is that you are able to get a network where you would have some very clear corridors.

The L20 is a fantastic success story for STA. They started a bus from Parramatta station to go to Circular Quay. At the time - and again this is a confession for the transcript - I actually thought it was a bit of a crazy idea. Why would you have a bus that was going to run from Parramatta station to Circular Quay station when there is a train that only takes 34 minutes? Rhonda Daniels might correct me. I think it is about one hour and 20 minutes to actually traverse the whole length.

MS DANIELS: It is definitely longer by bus.

MR LEE: Yes, it is definitely longer, but they are getting 170 dips per trip. So the university, Ryde, Top Ryde, Drummoyne, Balmain - they are all the nodes. That was not possible before. I think that is an example of where you can get a network benefit. I think Citybus Direct, also in the Hills district, and Hills Bus and Westbus have made some efforts to try to put on more commuter services. That's where the demand is. There is an increasing need for those types of services and there has been a response from industry. The reference to legislative and contractual impediments, though, to getting a network like what occurred in north western is a fair criticism and we hope the new reforms will go some way to designing the right network for the right operating area.

As part of the education of all of us who are strong believers in public transport we are not going to emulate the operating environment of the Eastern Suburbs in Green Valley because we don't have the urban design planning and historical developments which occurred in that place; for example, compare car parks per square metreage limits in multistorey residential dwellings with different operating councils for the same sort of square metreage. To quote a number, I think South Sydney allows 0.9 of a car per 20 square metres or something like that - that is what the ratio was - whilst within Parramatta City Council, it is 2.3 and that is a minimum. For South Sydney, it is a maximum of 0.9; in Parramatta it is a minimum of 2.3 cars per dwelling for the same type of development.

So let us understand we do have different markets and I think the reform that passed through the parliament this year will ultimately have a positive impact on service levels but it will take time. It took northern-western a good three years to bed down improvement. So I would make that point.

In terms of STA, we do have overheads that the private bus industry does not have. I am making some assessments on that at the moment. Understanding I am only in an acting capacity Jim, like yourself, it would not be appropriate to air those sorts of draft views. I think there are appropriate forums to talk about where there

might be efficiencies. There has also been a major issue for us with accidents, being the major city provider, and the increase in premiums associated with that. I must say, Paul Dunn and John Stott, my predecessors, put a lot of work into highlighting where the accident hot spots are and in trying to reduce the costs of those premiums by educating their drivers.

For interest's sake, I think the worst intersection in Sydney for accidents is within 200 metres of this building. Nadine, where is it where the actual alignment of bus lane here on York actually changes? Is it York and Margaret or York and Market?

MS THORBURN: I think it is York and Margaret.

MR LEE: Now, the other point I would make is that there are obviously different work practices in the government-provided bus service when compared with the private sector. I have already foreshadowed with the industrial wing of the RTBU or the AMWU that there is a need to look at that dwell-time and to look at that unproductive time to get efficiencies.

Dennis, I think a lot of points you make are fair. I think it is fair to say from the budget, it is public knowledge, that STA has to find $20m worth of savings this financial year. There is a strong commitment to that, and so there should be.

MR COX: Thank you. Mark Duffy?

MR DUFFY: Thank you. The first point of the four questions I would like to clarify is the issue about lower costs. We are in negotiation with the bus industry, not on the basis of a cost-cutting exercise but on the basis of getting better value for the money that the government puts into it and in improving service quality. What we are not about, though, is pulling money out of the bus industry. I think we have established through my earlier comments that there is no money to be pulled out. What we need to do is get some passengers back on buses and we need do that pretty quickly.

One of the interesting things in talking about service improvements - going to the point made by Dinesh Wadiwel is that the Tribunal, I suspect, going forward, will have to anticipate some very hard questions about what we measure. If I asked the rail guys to build $1m worth of sectorisation and at the same time the demand on the system is growing, should the Tribunal acknowledge that they spent $1m not to actually necessarily get a measured improvement but to stop the decline? Where does the funding come from to stop the decline?

I think it is very difficult to measure service improvement when all these other things are changing around you. So, if the demand is great on the system, that $1m was very well spent. We have to find some of the money from somewhere. I am not saying that sectorisation will work not, but it is an example of where an increase in demand at times will not make a sparkly $1m value system necessary in the perception of the traveller.

The performance of the bus industry will be a function of not just the things that we are asking for in the contract but also of what else the government does in terms of bus priority. Really the question may come back to the Tribunal: if the government has spent money on bus priority should we reflect some of that investment in the ticket? I suspect we certainly should have that argument because the aim will be to make buses move faster down the corridors than they are currently moving. It may that be if petrol drops back down to 80 cents a litre, that even with all that bus priority, all it does is stop the buses from moving even slower, but it is still an improvement relative to what the rest of the world is doing in the transport system, and we will need to somehow work that out and factor that into the cost.

If you go to the Treasury and say, "This money is being spent to improve the system", but if the word gets around that you might as well not worry because IPART will not help you because I can't measure any demonstrable improvement, that's not a formula to influence Treasury to even come part-way on funding capital works and other approaches.

We all have to get our heads around the fact that there is a lot of house formation going on, population is increasing, incomes are rising, the space on the roads is being taken up by private vehicles, and it will be a struggle just to maintain the productivity, if you like, of the speed of buses running down corridors without a very

substantial spend.

In going to the point about benchmarks, benchmarks are what doesn't exist right now. I think, without wanting to besmirch those people who came before me, no-one would accuse the Ministry's contracts with the bus operators, looking backwards, as bursting with criteria to measure performance, and that's what the new contracts are about. We are saying the government is actually prepared to take on more of the patronage risk but, in order do that, we want to have a better insight into the way that the bus services are provided.

I will just give you a few simple examples of how this can work at relatively low dollars. Once we get fare harmonisation as opposed to the current situation where, down a corridor, a number of buses cannot stop and set down and pick up passengers, once we have this harmonisation and our contract is up and running, any bus coming down Victoria Road, public or private, will be able to set down and pick up any passenger.

That, on its own, is a major improvement in service quality for everyone. If it will do nothing else except allow everyone to get on and off any bus that comes their way without discrimination, that is a major step forward. Obviously, to the extent that operators are combining together and looking at running their timetables - once we take out the Qantas and Ansett sort of programming - one could assume that the intelligent operators will run a larger contract in a more efficient way down those corridors. There is so much in the contract design that will provide service delivery, service improvement, in addition to the incentives we are building into the contract that relate to superior performance and the way we use customer surveys and a whole range of other things.

The other thing from the public's point of view is that we are trying to build a planning system that allows the public to be involved with the bus operators and the Ministry to try and express a broader community involvement in the way the services have been adjusted as these corridors fold out. So I suspect there will be a sense that there is more involvement in the planning process and the service delivery process going forward. That is something that we will all have to gear up and learn about, but the government is committed to it and it will be a major advance as we go along.

So contracts will have benchmarks. Those benchmarks will have the value of having a lot better information from each operator. We will be able to see where each operator Is currently. We will be informed about what is happening in other places. We will need to adjust things to work out what the specific benchmarks are for the Sydney metropolitan region. Then we will probably have to adjust individual operator's benchmarks to take account of their own geographical and demographic circumstances.

It is a big process and I guess that will unfold in the next two or three years as we finetune the contracts. But a major part of the government's requirement is to get better value for the money that it is putting in, but it is certainly not about reducing costs and the government input into the industry.

MR COX: Thank you very much. Are there any further comments from people sitting at the table?

MS GENNERY: While I acknowledge some of these matters have been in the contracts, without consumers being able to see what is actually being developed in these contracts, we are just actually taking you on your word that it is in the consumer interest rather than just a contract that is between the providers and the Ministry of Transport. We do not know whether they are appropriate for consumers. That is one point.

Another point is that when you will be assessing this data that is collected by the bus companies, how will that be evaluated? There doesn't seem to be a sort of an independent view in this sphere as well with that. Then I guess you could always be doubting the credibility of the data.

MR DUFFY: I don't know how you could say that of these august gentlemen here and the ladies in the back.

MS GENNERY: But given that there has not been any sort of input at the moment in the development of these aspects that directly do impact on the consumer, it does throw up doubts.

MR DUFFY: There are a couple of things to say about that.

First of all, and I am starting to sound like I am repeating myself, we are going upwards from nowhere. I am sure Darryl will tell you this, but there has been nine months of very, very intense and concerted focus on how much information we provide, how we collect it, what's relevant, what's not relevant, how we move out of an older world of private contracts where the government is paying for some service as opposed to one where it is essentially taking over the fare box and needing to know much more detail about the way the systems are operating.

We are spending a large amount of money on GPS and performance systems that can look not just at where a bus is dispatched from the depot but where it is along the process so that we can keep much more accurate data on on-time running. Those are just a few of the things coming down the pipeline.

I suspect that, in two or three years time, we will probably be able to walk into a control room and actually see buses on a network and know where they are, and where they are in relation to where they are supposed to be. I suspect there will be a bus control room which people will be able to visit to see that we are aware of what is going on out in the streets.

We don't want to overengineer this either - and this is not Perth. GPS on its own is not a horror story - and just to assure these guys, it is not a simple grid with flat roads. There is a lot of topography and existing difficulty on the road system. We need to tailor that system to recognise that if there is a traffic jam in front of a bus operator, then obviously I am not going to ping such an operator. However I am going to have an incentive mechanism and a penalty mechanism ultimately to deal with operators that are consistently not hitting the target we agree upon. So there will be a financial capacity to provide incentives to people to operate in a certain way.

While I will not make this absolute commitment, I am happy to share on the web site summaries of all the processes that we have come to so people can see what is going on, and it will be substantial. I am happy to take on board that idea. I am also happy to set up a forum with the BCA - if they want to - where we can talk about where we have been with the contract. I am putting this to you now, Darryl.

MR MELLISH: We will come back to you later.

MR DUFFY: You don't have to answer it now, Darryl. We could consider having a workshop where, in an in-confidence way and not operator by operator, we walk through with interested members of the public in detail the sort of system that we are developing through the contract. I am very happy to do that from the Ministry point of view. I do not want to put Darryl on the spot, but I would be happy, particularly when we get closer to finalising a couple of the contracts, to sit down with interested parties and show them just how far we have come from where we have been in a relatively short period of time.

MR MELLISH: Joan, we support your view of transparency and greater community involvement. We think that is definitely essential for any performance measure that it is built into a contract. Mark's offer of a forum is something we would support. The more that we can understand the reliability, the needs of the community, the more we can report on it and understand it, we think the better it is for both sides.

We are already embarking on a monthly reporting regime through the electronic system that is building up valuable data as we go. If that is being used for developing our performance measures in the contract and there is a commitment to do it on the basis of real information, because of that we will see a more open, transparent and community involvement in that area in the private bus industry. So, with a belief in informing the community, we would welcome that transparency.

MR LEE: May I just make some commentary about some practical measures that are in place? I am aware from the private sector that for some of the major runs you actually have time-checkers. You have inspectors who are out on the network checking the timeliness of buses. I suppose that one part is knowing that your punctuality is appropriate. At STA I have learnt very quickly that if a bus is late, the consumer is very quick to phone the 131500 number and put in a complaint. That is logged and chased and checked up. Then we have the ability for our depot manager to go into what is called the AFC, the ticking equipment, which actually has an electronic printout of where the bus was and where the tickets were sold along a given route.

There is some data; but you are right - it is not in a consolidated format and it is not available publicly. I think, as part of the contract, the requ irement on operators to supply that information in terms of reliability and punctuality is a positive step. Currently on a month-to-month basis - I don't know if the BCA has to - we are required to submit our figures to MoT to show what our reliability is like. We will not employ 100 time-checkers as then the fares would have to go up, because that would become a real cost.

You have to actually try to have a system that is really a sampling system, I think, when you look at the number of services you run and you also have to understand the operating environment in which we do business. The Paralympic parade yesterday was a great example of how poorly STA performed in the city between the hours of 12 o'clock and 4 o'clock. Some of our services were 90 minutes late, but that is not the important measure. The important measure is the actual headways that we ran, and when the city locked up, we still had buses at 10-minute headways doing their very best to get into town.

I encourage everyone here today to stand on the corner of Market and Elizabeth Street and watch the courier drivers at David Jones lock up Elizabeth Street. There is one single lane. We go from three lanes down to one because, in that second lane, a person breaks the law. The traffic, including our buses from the east, can go back past Park Street.

So we have to also put pressure on councils to make sure we get the priorities so we can deliver the reliability that the public deserves. That is a big priority for me because people are being inconvenienced by very selfish policies that are not very public-transport friendly.

I think Mr Unsworth made a point in Elizabeth Street down near Museum Station that you have a red-painted lane that is only useful for the peak. Cars park there the rest of the day, even though hundreds of buses could use that bus lane out of the peaks. It is a major corridor; yet revenue is driving behaviour even in this international city of Sydney.

MR COX: Thank you. I'd now like to take a question or a comment from people sitting in the back of the room.

MR CALDWELL: My name is David Caldwell, private interest. You commented that we could remark on the earlier session.

MR COX: Yes, if you wish to do that.

MR CALDWELL: Yes, I would like to, thanks. I am very concerned by what has been said by both the Ministry and the STA today. I think it shows an extraordinarily high level of ignorance in terms of general protocols and processes in managing transport systems. This Tcard system, the integrated ticketing system, which is to be implemented defies all of international experiences. It defies UITP's recommendation and it defies all the new systems in our region. I find it strange, particularly that we have ignored the recommendations of IPART in 1996. If I might quote IPART:

Passengers who undertake multimodal travel but do not have access to integrated ticketing include STA bus passengers using TravelTens.

TravelTens are not an integrated fare product. Furthermore, smart cards are not a substitute for ticket integration but are a convenient way of buying tickets. The Tcard is not the integrated ticketing system. The Ministry has completely botched the specification. The intent of the existing system is completely contrary to Minister Scully's intention when it was unveiled in 1999, which followed on from IPART's recommendations.

The TravelPass system is Sydney's only integrated ticketing system. IPART has stated it. It has been repeated by groups such as Smog Busters, Action for Public Transport, and several government agencies have recognised this. Why is it that the Ministry cannot recognise the difference between an intermodal journey and a single-trip journey?

Under the proposed fare structures, somebody making a six-section bus journey and breaking it three sections in to buy a newspaper, for instance, pays more to travel those six sections, having stopped off, than someone travelling

36 sections. This is absolutely bizarre. This is unprecedented anywhere and I challenge the Ministry and the STA to explain why they have ignored IPART's previous recommendations and why it has broken from its own policy of the mid-90s.

MR COX: Thank you. We will take a couple of more comments then give those at the table a chance to respond. Please state your name first.

MR MILLS: My name is Peter Mills. Rather than defend the TravelPass product, it is useful to break it down. It is a multimodal product and a periodical. I think the periodical issues are more complex because there are a lot of equity issues, but the multimodal issue is clear: With the fare structures on single fares, if somebody needs to change vehicles to complete the journey, the multimodal fare is made up of a number of flag-falls and the penalties for changing are something like between 50 and 80 per cent, depending on the various combinations, as put in various submissions.

The fare reform is supposedly about equity, but the inequity between a person that completes a journey on one bus and a person that needs to change between buses or from bus to rail, is a bigger inequity than we have with the single fares. I can understand the Ministry being reluctant or reticent about a commitment to TravelPass, but it would be useful for the Ministry to acknowledge that there is this multimodal fare inequity. It does exist and there should be some commitment to having that addressed.

MR COX: Thank you.

MR MILLS: On a related issue: I think it is the Minister's own fault because of his somewhat casual way of addressing things, but the Minister was, I believe, asked, "Why not TravelPasses in the west?", and he said, "Look, you are getting TravelTens." The implication there is that the pricing of the TravelTen is an interim issue that, until you get a multimodal ticketing system, a Tcard system, there is a pricing expectation on TravelTen that may not be a long-term issue. So there is an interim issue with TravelTens which suggests a larger discount because of what Mr Costa said.

MR COX: Thank you. We will take one more question or comment, if there is one.

MR LEE: Can I go first? David, I have not met you, but I look forward to meeting you in the coffee break. Of our 270 million trips, I am eager to know what percentage travel 3 sections hop off the bus and buy a paper and then hop back on the bus.

MR CALDWELL: It is an extreme example. You use extreme examples all the time.

MR COX: Come on, let him respond.

MR LEE: As to what Tcard will allow, though - I say this in a qualified sense; I think we will provide a more satisfactory explanation to IPART - my understanding of the business rules is if you are, for example, travelling on a train from Penrith to Wynyard and for some reason you stop at Parramatta to drop off some mail or to do something else, the Tcard will ultimately, under the business rules, charge you the fare from Penrith to Wynyard. There will not be two flag-falls in that. That is my understanding of what the business rules are. I will get Tim Reardon to clarify that with you, Dennis. I think that's an important concept.

Let me make a couple of other points: we have recently had a visit from the head of Oyster Card, from the UK. At a public forum down at Darling Harbour he was commending us on the type of system we are going to introduce and the way it will be rolled out. Specifically he made some comments about "De-risk your financial exposure" - done - get the system working through SSTS, where you have a different payment model so you are actually not putting a large financial risk to government. Two, trial it with staff and a selected group in a selected area; trial next year in the inner west with bus and train with about 2,000 people; roll out the infrastructure to make sure all the back-of-house is working and then commence a major marketing campaign and try to migrate people over to this new electronic form. Let's remember, instead of 2.4 seconds per dip, 0.4 of a second to scan.

If the head of Oyster in the UK gives us four ticks out of four, I think that's a good thing. Recently, after the Madrid bombings I was part of a high-level Commonwealth mission to go to Madrid. On returning from Madrid via

Singapore, I spent a day riding their buses and trains using the same Smartcard system we'll have in the industry. Yes, there are some lessons to learn about that. For example, they made what they would now concede is an error in just flooding the market with cards. There are now over, I think, 15 million cards. So the actual overhead costs, because some families have six and seven cards, they have realised that was the wrong roll-out strategy.

I am no longer the chairman, but John Stott and his team are working very hard to get the right roll-out strategy. There is a danger in mandating a system for a technology that is still, be it past the embryo stage, not yet at roll-out stage. It is smart to hold off on those critical marketing distribution decisions until they are close to time. The project gantt charts clearly reflect that. That's my spiel on integrated ticketing.

MR DUFFY: I suppose, given that we have been around the table and introduced who we are, I would be very interested to know who David Caldwell is, who he represents, and also the other speaker. I suppose you have had a lot of experience in introducing these systems in other places? I presume that because, I mean, I don't want to defend the Ministry, but if words like "unprecedented" and "ignorant" are thrown around, I suppose I look to you as an expert in this area. If you are not, then I'll take that at whatever value it is worth.

MR CALDWELL: Answer my point, please. Don't attack, don’t play the man, play the ball.

MR DUFFY: I am asking where the ball came from, and all I say is you get up as an individual and start making quite disgraceful slurs upon the Ministry of Transport. I just want to get on the record that you are obviously an expert in these areas and you have had a lot of experience in bidding down these systems.

Now that we have got that established, your bona fides, let's just go to a couple of points.

MR CALDWELL: These personal attacks are out of order.

MR DUFFY: I don't believe they are. You opened up the batting order with allegations of unprecedented ignorance. I think on behalf of the Ministry, I have got an entitlement to ask what is your expertise to throw those sort of words around this room.

MR CALDWELL: I was published in Transit Australia last year. My questions have not been answered by the Ministry. There are serious questions about the way this has been conducted.

MR DUFFY: Let's go to some of the questions. First of all, this is a hearing on bus fares. I suggested that it is not about anything other than bus fares, it is not a hearing about Tcard. There are probably other forums you can go to in relation to that. The fare issues we are talking about are completely independent from Tcard - completely independent.

MR CALDWELL: Pricing affects demand. If you increase travel pass prices, as IPART has agreed to, at triple the rate of inflation, knowing that they have elasticity of demand approaching unity, determined by --

MR COX: It does seem to me we are entering almost into a private conversation.

MR DUFFY: My simple point is we have a hearing here about ticketing fares, and you are talking about the mode of ticketing. So I think it is inappropriate,

MR CALDWELL: Are you denying the modes interact?

MR DUFFY: I am saying we don't have those now, but tomorrow, or 1 January, we'll be adjusting prices according to some mechanism that supports the reform of the bus industry. So probably this is not the venue to make the sort of allegations you have just made and general slurs upon the Ministry of Transport. That's my point.

MR COX: I suggest we call it to a halt here and we have some afternoon tea.

MR DUFFY: Can I just make one point in relation to the other question, because I don't think the good questions should be let go through. I think there is an issue about intermodal equity issues which we haven't addressed in here. I don't think it is the appropriate forum to do it. I do think it goes back to the point about having a

conversation about multi-rides in TravelPass and having an all-in discussion. I would welcome that either under IPART or some other mechanism. I think we should have a serious examination of the equity across the whole product range, and if you want to make a representation or run a hearing along those lines, I think that would be a very useful exercise, to get it all on the table and get the science to prove it.

MR COX: Let's rule the session off here, have a short break for about 10 minutes or so.

SHORT ADJOURNMENT

BUS INDUSTRY COST INDEX (BICI)

MR COX: Ladies and gentlemen, we'll resume now with session 3, which is on the bus industry cost index issues. I will ask Dennis Mahoney to start.

MR MAHONEY: If we think about the three questions for the BICI, as it is widely known, BICI takes on a little more significance this year because the MoT proposal is that the increase in the BICI to be applied to the outer metropolitan areas and other areas of New South Wales where it is applicable, including Newcastle services, and that is a difference from previous years and, of course, Newcastle services has fallen under the same decision-making processes the Tribunal has gone through for Sydney Buses. So to what extent should the Tribunal apply the change in the BICI to the private bus index, the Newcastle services is at least a question that might be discussed.

The BICI itself is not an exhaustive index. It was never designed to be. It really says how representative and verifiable are the various movements in the cost items in the BICI. That is something which the Tribunal always looks at each year. Then, of course because of the delay from last year, the fare rise was from 31 August, there has been a considerable delay beyond 12 months this time around. The BCA has asked the Tribunal consider some extra adjustment for delay implementation, and then a range of other issues that the Tribunal has to consider, we just put them down as other issues.

If we have a look at the BICI itself, the Tribunal has been looking at the BICI for some years now. Last year it engaged a consultant, Booz Allen Hamilton to look at various cost indexes, not just in Sydney, but in other States of Australia. We didn't get that report until too late in the process last year. It went up on the Tribunal's website. In general, the consultants thought that the BICI that the Tribunal had been looking at for the past couple of years was a pretty good attempt, certainly no better BICI around the different States that it looked at. It gave it a tick, suggested that some of the items might not be as representative as they could be, but, by and large, the BICI was not considered to be, you know, badly in need of repair.

So when we look at individual items, the people who got the notes got the actual BICI and the actual BICI was put line item by line item into the BCA submission, all I have done is talk about some of the major items or some of the items which had the largest changes. We discovered an error, GST was double counted last year. I think that showed us, despite efforts to make sure that there was no error, it crept through. It also indicates possibly the weakness of a limited number of quotes, and that perhaps is the nature of the buses that are being quoted in the BICI itself.

That error is corrected this year. One reason for was such low rise relative to previous BICI, is in fact a correction of the double counting of GST last time. There is another wider issue involved, and that is what happened when there are extra costs relating to changing regulations or tightening regulations that the bus industry incurs. Some of the submissions we received point out that changing regulations are part and parcel of being in most industries in any case, and why should that lead us to alter the treatment of costs in the BICI, when what it is meant to be is an index which measures price changes only. The standard way, of course, that the Australian statistician deals with changes, say, from radio to TV set or from black and white to colour, is to splice in the new product and then take its price change from there.

If we were to do that with the BICI, we note that this year the BCA put in an airconditioned bus, whereas last year it was a non-airconditioned bus, and the price of the airconditioning has been included in the price of the new bus, obviously, which ups the size of the capital cost increase. If we simply used the new bus, the

airconditioned bus, and put its price change in the last 12 months, in fact, there wouldn't be a rise of 3.4, but more like a rise of 2.1 per cent. So that is an issue on how should the Tribunal deal with changes in type of bus. It applies more generally to any change that is being driven by changing regulations, or changing community expectations.

Some of the other large items, without going into detail, even though third-party insurance has gone up by a large amount, we note that STA third-party insurance has also gone up by a very similar amount. The other evidence we managed to collect, we don't have much difficulty with that despite the fact that it is a large number. Likewise, comprehensive insurance. Major services, that's in double figures again; we wonder about that somewhat. It is very hard to get corroborating evidence. The STA, if we work out STA major service costs on a per bus basis, they are up about half of what it is in BICI. These are matters that we have to work through that cast some doubt on either the verifiability or the representativness of some of the items in the BICI. But having been given a tick by an outside consultant, we are really, I think, arguing at the edges compared with big issues of should we be adopting this approach?

The last point concerns in fact the award wages put into the BICI. Our understanding is, up until now, those awards have usually been settled by the time the Tribunal has come to look at the latest increase in the bus industry cost index, but that's not the case this time around. So what wage increase ought to be in this cost index, when we'll still awaiting award decision, seems to be an issue worth discussing.

One other thing on delayed implementation, the alternative would be to simply update the BICI for 15 months. Since the implementation delay is 16 months, perhaps that would go some way to meeting that concern. The compensation for rural fares, the BCA raised that as an issue because they were frozen last year. Then, lastly, Newcastle services. It turns out that Newcastle services' operating costs have gone up more than the bus industry cost index. We do it on a per vehicle basis. They are up 8 per cent. We don't have a great deal of information on service improvements. Then throw in extra issues like the multi-year prices. There is a lot that we might discuss, we'll just leave on the table for discussion.

MR COX: Let's start now with BCA. Darryl, would you like to comment?

MR MELLISH: Yes, for those that don't know, the bus industry cost index has been working for about 10 years. It started off as a basis of establishing a basket of costs that were applicable in the private bus industry, and it is intended to measure the movement of costs from one year to the next. Each year it is recalibrated and covers categories including bus capital costs, employment costs, insurance and rego, bus lubricants and fuel, and repairs and maintenance and all other costs basically factored by CPI.

The industry views the BICI as not perfect, but, in a general way, the feedback I am getting from the industry is that BICI is probably underestimating the cost increases, so it seems to be conservative. In the past, fares have been the method of maintaining viability, so cost increases in the bus industry have been recovered by increased efficiency or increasing fares. As you heard me say before, the efficiency of the industry has been, I think, well-known and costs have been forced down.

We have had a compounding effect over the last two or three years where patronage has declined. The ability for the operators to actually influence patronage is somewhat limited - congestion, taxes are out of the control of the operator. So the index itself has not been particularly serving the industry well because we think it is underestimating the cost increases that have occurred. And as Dennis said, there are a number of new compliance areas and loss of capacity of vehicles that we think are not reasonably reflected in the index.

Having said that, for the last two or three years now we have looked at ways of improving it and we have seen it as somewhat of a transition period, because the new funding model is expected to delink fares and operators' costs and profitability by introducing a different mechanism into the industry. However, the new funding model will initially apply in Sydney and the fares are so important for the whole of the industry, it covers all of the State. There are basically four sets of fare scales. There are more if you divide the diesel and fuel scheme fares, but basically

there are four sets that apply throughout the state.

Each year over the last two or three years the industry feels that the decisions that have been made have actually not passed on the actual costs. The delayed implementation, the decisions on the timing of certain cost items, we feel over the last three or four years, the industry's costs have been eroded by the decisions of the Tribunal, and the Director-General, as it was at that time.

So we feel that we are behind the eight ball in that we are proven to be cost efficient. Our profitability has been shown to be marginal. There's been a number of reports which demonstrate that the profitability of the metropolitan bus industry is particularly poor, and those reports have been tabled to IPART in the past. So, in general, we think that with the consultants external report, the STA comparisons and the benchmarks, the BICI is a reasonable way to consider fare increases for those areas where there is no new funding model.

There are a number precedents for the treatment of upgrades, like airconditioning. In the past we've had movement to low-floor buses, movement to Euro 3 and different omission standards, and the model has been used to upgrade parameters for those factors. So we see airconditioning as a continuation of that process. You might be interested to know the new bus contract actually requires the operators for their fleet replacement program to actually provide airconditioned buses. So it is intended to be a formal contractual requirement which was not the case as the papers said some time ago.

On the issue of the wages, what we've traditionally done, and what the index calls for, is the wage cost known on 1 July should be built into the index. At 1 July there was no agreement on what a wage increase would be. In the BCA's application it said that it would rather put nothing in. It was acknowledging that there should be a proper remuneration for drivers. It put in the state wage adjustment as an indication of what a wage increase could be as, if you like, an interim arrangement. We further put in our report that that was to be upgraded when the decision was final. As it turns out, in the last week or so, the industry has actually decided to pass on a $19 per week state wage increase to drivers, despite the fare increase being delayed, and that has been approved from this month. So the figure that's actually in the bus industry cost index, in our submission, is the wages that are now being paid to drivers.

The delayed implementation is an issue. The loss each year of falling behind and the freeze of rural fares are directly affecting operator viability and we would hope that in the absence of another funding model in these other fare categories, for the Tribunal to understand that for the industry to be able to provide the service, it needs to be viable and the erosion of the revenue has not come about through operator efficiency; it is come about through decline in patronage as a general position.

We see the Newcastle buses have different operating environments, different overheads, different wage structures. So I think, on the surface of it, it would not appear to be a sensible arrangement to use the BICI for Newcastle buses. There are some elements in it which may be useful, but there are too many differences to transfer it straight across.

I won't go into a lot more detail, unless you want me to. The BICI index is there because it was an agreed index with the government. It was one that was developed jointly some time ago. It was always intended to be recalibrated on a regular basis, and a new basket of costs looked at.

Dennis's point about the suitability of the number of items, I think has been challenged for a couple of years and they are not perfect, but they have proven to be fairly close. Remember the index is not measuring the actual costs; it is measuring the movement from one year to the next and the intent is wherever you can, you are comparing apples with apples. Although, the airconditioning, the low floor and the Euro 3 standards are all examples where you can't compare apples with apples without some other mechanism to do it.

Jim, our application to adjust the past shortfalls and to pass on the BICI now, and back-date it to 1 July is part of our submission, as is the making up of the differences from the loss of the rural fares. We believe that IPART has a responsibility under its terms of reference to consider the viability issues as well as the affordability issues and to consider the index as probably a conservative measure of the actual cost impact of the industry.

MR COX: Thank you very much. Thank you very much. John Lee?

MR LEE: At this stage, it is probably not appropriate for me to comment on some of the issues I dealt with in my past life. I would just make a couple of comments about Newcastle buses, that being that this year there will be 30 new buses. Thirty new buses have been delivered into Newcastle and 12 new buses each year going forward.

The unit cost of those buses is around $400,000, which is about $24,000 less than what's in the BICI - sorry, yours are 429, which includes GST, ours of 400. So there is a slight difference there. I suppose there are two issues in my mind: one, Darryl is right, we have a different union and a different award structure, so some of the ratios and costs applied are different, and the other point I would make is in Newcastle we currently do have time-based fares, and it would take a fare bit of community consultation to then move to distance-based fares.

Ultimately, with Tcard and with all of the reform for the greater metropolitan area, there is probably some benefit in having one system working for the whole of the greater metro, including Illawarra and Newcastle. But, you know, I haven't had time in this role to really assess what the benefits or disbenefits of that decision or recommendation might be. I am happy to take it off-line and maybe have some interaction about what might be the issues if that was to occur.

MR COX: I think it would be useful to have some comments, if you are able to do it, on the appropriateness to use the BICI to adjust fares in Newcastle. Either now or later. I think we would appreciate a discussion on that.

MR DUFFY: I have not got much to add. I think I will leave it to STA to talk about BICI in Newcastle. Obviously, for consistency, it is probably something that you would want to think about.

MR MELLISH: Could I just add, just bear in mind, when a private operator has to buy a new bus, it is got to come out of their existing resources. There is no separate government lending authority or treasury corporation, or ballance sheet guarantee. It actually has to come from the operator. In the present system, it has to come from the operator's own means.

MR DUFFY: You are talking about under the old system, yes. I think generally we wouldn't be supportive of backwards adjustments on adult fares. I don't think we have a precedent for that. I think really, if we are going to new contracts, it is probably a question between the BCA and the Ministry of Transport about how any compensation for a delay in a hearing might impact on the funding. I don't think retrospective --

MR MELLISH: Are you talking cash fares?

MR DUFFY: Yes. That's on the record, we have agreed with concessions. We are talking about the argument about backdating on adult fares.

MR MELLISH: Could I ask if IPART could also comment on the adjustment for rural fare freeze? .

MR COX: From our point of view, we think it is an issue that needs to be considered.

MR DUFFY: At the end of the day, whatever decisions are made are made, but we are not arguing for a retrospective adjustment. We are going to accept whatever adjustment is being made.

MR COX: I guess Darryl may be suggesting an adjustment might be made in recognition of the fact that although otherwise expected, no increase was given last year; do you have a view on that proposition?

MR DUFFY: I think that there is probably an argument about what the relativities are and what the costs are, which might be a function of the discussions we are going to get into with the industry, effectively starting now, in fact, about bringing reform to the rural region. I don't want to upset them all, because they want that reform to happen very slowly and carefully. I agree with that.

I am not flagging anything other than the fact that we are setting up a working group between the non-metro operators and the Ministry to look at the whole structure of the industry going forward, obviously with far less haste than we are working to in the metro areas. I don't think I

could endorse those retrospective adjustments.

MR LEE: Can I also make the point that I think there is some legislative arrangement. The Director-General, prior to the most recent amendments to the Act, was the determiner of affairs. The Director-General last year made that determination. There has been an amendment of the contract. I think IPART would have to look very carefully at making a retrospective payment based on a determination lawfully given some 12 months ago.

MR COX: I don't think the issue is about whether it was lawfully made. The issue is whether, in fact, a low increase that was given last year should influence the increase we think might be appropriate this year

MR MELLISH: That's right.

MR COX: I would be interested in hearing your views on that. I do not think it is in any way calling into question the appropriateness of the pricing last year.

MR DUFFY: I am happy to take that question on and give you a response to that.

MR COX: Please do; I think it is important. Are there any other comments?

MR DUFFY: No.

MR COX: Allan?

MR MILES: I am happy to say I agree with most of Mark's comments in the last five minutes. I don't have a lot to say about bus costs because I know very little about them. First of all, I feel some sympathy with the BCA who sort of expected a fare rise somewhere around the middle of the year and didn't get one. I think they should send the bill to Bob Carr or to Michael Costa because Bob Carr didn't write the letter authorising IPART to start the review until the middle of May when normally it is the middle of January; so I suggest you send the bill to Mr Carr.

That raises the other point; namely, the relevance of the BICI this year. I know last year and next year BICI is used to determine prices of the fare levels, but I would imagine this year there is general consensus from both sides of the table that the single fares will be such and such. So why are we talking about BICI apart from - have I lost you, sorry?

MR COX: No.

MR MILES: Why are we talking about it except to compare it with last year and this year and it has no relevance with this year's fares?

MR MELLISH: it is the outer metro.

MR LEE: It is the outer metro. The funding model and the new fares are for the Sydney metropolitan areas. There are a lot of other contracts in Tamworth, Dubbo and Newcastle that are commercial contracts that need the BICI.

MR MILES: Point 3, the airconditioning, I think that's something the bus operators, private and government, have to wear, as next year there might be some new requirement to have DVDs in the back of the buses or whatever it is. The public expects it, so the operator has to provide it.

Number 4 relates to Newcastle. Our Newcastle branch has given me this, so I will read it into the record.

... there is insufficient analysis of the Newcastle situation by either the Ministry of Transport or IPART to justify any change in fares at present, given that the decline in patronage may well be a reaction to the high initial boarding fee and the lack of a guarantee that a scheduled service connection will be able to be made within the hour.

I remind you that Newcastle has a timed system as opposed to the distance system. Their statement goes on to say:

On-time running at Newcastle University in March this year measured over the whole day was 55% for buses and 53% for trains.

The reduction of most service frequencies to hourly (March 2002) has severely reduced the attractiveness of the one-hour time-based ticket (but don't suggest we

should go back to distance-based tickets).

That's all, thank you.

MR COX: Thank you. Joan?

MS GENNERY: I do not have much to say. I am not an expert on how you cost these things. I represent the community sector and consumers. In some way we would like to see some process where we can engage in this more effectively because although I am given this and asked to comment on it and we don't have the resources to make comments on this to engage.

A comment I will make, regardless of what I have said, is that one issue we have always had with this is that it is just about costs to the industry rather than about the service to consumers. It seems to say to me that we will get an increase in fares because your costs have gone up, regardless of what sort of service has been provided to the consumer. So when a model stands alone like that, we can't support it on that basis.

Some of the costs that are included in this as an improvement to a business - the airconditioning, the low floors - are things that potentially can attract new customers. They are a capital investment and should be seen as that as well. It is not something solely that the consumer has to pay for, too.

Just to take it a bit further, John, as you shake your head, if a company has made this investment in new buses, airconditioning - these are capital investments - they get a profit when they sell them, if they sell them. If they don't, they make a loss on that or --

MR LEE: I think the value of a bus decreases by 25 per cent when you take delivery of it. It is an urban myth that if you put on low-floor air-conditioned buses at a cost of $400,000 per bus that you recover the cost of the capital. That is fairyland, so let's not pretend.

MS GENNERY: Oh, I am not saying it is fairyland; I am also saying I cannot argue with these things because we don't have the experience and that sort of information is not provided. I just think that something that is a stand-alone that says, "You get increases because of these costs and this costs" without considering the kind of service provided is not enough.

MR LEE: Sure, but the logic is that airconditioning is standard. Next thing we are being told DVDs are standard. Then we will have spa baths at the back of buses as a standard. Let's understand this is about public transport and it is about trying to build a system where you have efficient costs for a good service.

MS GENNERY: And it is in the measuring whether that service is good or not, at this stage, with this model, I do not think.

MR DUFFY: That is an exercise that we are going to enter into as part 2. Part 1 has been very intensive conversation about the metro bus operations. Part 2 is what the contract looks like going forward for non-Sydney metro buses, and we have not got there yet. But, as a holding pattern, this is about as good as you are going to get till we move to something better, and we have not done the work yet. I suspect it will mean, like the metro, there will be some more performance measures that are currently not providing you the comfort that you apparently are requiring. So that's a conversation that will be taking place over the next six months with industry

MR MELLISH: Obviously we believe that airconditioning is a proper requirement and that it is reasonable to include it in the index, as we have done with low floor, as we have done with Euro engines, and these are a community expectation. The whole decision of how much is paid by the taxpayer and how much is paid by some other means is part of the bus reform agenda; but, in the absence of that, fares is the mechanism to include in the index.

MR COX: Thank you. Dinesh.

MR WADIWEL: Perhaps to mirror Joan's comments, it is beyond NCOSS's expertise to pick out the individual costs of bus operators. We are not here for that reason. I would, that said, express some concern about some of the costs that are included. In our submission, we noted that the BCA submission had suggested that some of the costs included drug and alcohol policy, safety and management systems, environment regulations, emission standards, Australian design law and fleet upgrades to comply with

Federal disabilities standards. I do think we need a dialogue around whether these are just the costs of running a bus service or additional costs that should be paid for by the fare box.

On the airconditioning question, I agree that it has come out as an additional cost and I think it is possibly fair enough that that be sought through the fares. However, I can also see an argument that, for a person getting on a bus in Tamworth when it is 37 degrees, an air-conditioned bus is not too unreasonable a request. I guess I would request some care be given in determining how exactly to include these costs and not include these costs. What exactly is a regular cost of running a bus service? What lies outside of that and how do changes in regulation which deliver safe and reliable transport affect those costs and should they be included through the fares?

I will stress again the need for additional data on how fare increases through a BICI increases will impact on lower income people. Something this particular round has taught me is that, from an NCOSS perspective, we are quite keen to converse with the Tribunal about how that can be improved in future years.

Just as an example, we participate in the taxi fare determination every year. We got some information from DIPNR, from the Transport Population Data Centre, that approximately 14 per cent of taxi users earn less than $200 per week. Obviously that impacts upon how you set the fares for taxis. Unfortunately, that particular statistic is not included in the regular average salary data that is presented to the Tribunal in the discussion paper.

We have a similar breakdown of annual salaries in the notes provided for this hearing. I think that indicates how we can become a bit more sophisticated with this sort of stuff and map some of the potential impacts of the costs in tandem with looking at the bus costs as well.

Just in relation to the rural fares, something we have argued in our submission is that we would not like to see over-CPI increases, particularly during this period of reform, again because we are not really clear on the costs. We are not sure that there are performance improvements to justify above-CPI increases. We are looking forward to the new contract which, to me, outside of Sydney looked like the most promising areas for bus reform in terms of getting more community-appropriate services.

In relation to the backdating question, I will echo what I have just said. I am also hesitant in that I am not sure what is actually between government and the operators and what should be worn by patrons who are getting on the bus in terms of fare increase, so I draw that to the attention of the Tribunal

MR MELLISH: Can I respond to a couple of those issues. The private bus industry has only one method to get reimbursement for all its costs. We have one method, and that is to cover our ordinary business costs and our extraordinary costs. The point that I made about drug and alcohol, Euro-3, safety management systems and the loss of capacity because of Euro-3 engines is that they are not in the index. We don't have a mechanism to do it. So the viability of the industry is really haemorrhaging because of this system that we have had and each year our only method of covering our costs is getting eaten away.

The efficiency and cost effectiveness of the industry is not in doubt. Have a look at your papers. Have a look at the costs compared to government operators or other operators in other States. It is just that if you are going to have to buy a bus, the money has to come from somewhere. It comes from your revenue and your efficiency, and the operators have taken that to the nth degree.

It is wrong to say that you can just go and pluck the money out of the air. You don't have that system. We have one method of handling it and it is through the fare adjustment. Now, that may change in the future. You heard me say that delinking that from fares is a positive move, but it is not there now and we need to survive. The consequence of not getting it is reduction of services. That's the consequence - reduction of services.

MR COX: Further comments, Mark?

MR DUFFY: No.

MR COX: Any others? Thank you very much. I think you have identified a couple of issues where we need further information to assist the Tribunal. I suggest, because we are running short of time, we move onto the fourth session,

which is on the bus non-commercial model and I will ask Dennis to introduce that.

BUS NON-COMMERCIAL ('PwC') MODEL

MR MAHONEY: It is very much the same thing. The model is different, and we can talk about some of the things in the model that are different. Perhaps the one outstanding issue is still the treatment of wages because, if you go to the second slide, that last dot point is still there. In the interests time, Mr Chairman, I think we should just discuss the matter.

MR COX: Perhaps you could just talk about the issues you particularly want feedback on and identify them.

MR MAHONEY: The model is one about required revenue this time. That's what makes it different from the BICI. BICI is measuring a percentage change in costs. We have looked at the PwC model in the past. We had a different model last year from the Institute of Transport Studies. We have now gone back to the PwC model. It is the same model. As a result, it gives increases in the revenue required for four different categories of buses ranging from 3.2 per cent across to 4.9.

We have the same sorts of issues as we did with the BICI in terms of the number of, quotes especially for the costs of buses. Because of the very different nature of the 57-seater buses, which are category 4 buses in the non-commercial model, they are a very different price from the 57-seaters in the BICI, seemingly with good reason, and I note the very fact that we have had very little rise in category 1, 2 and 3 buses but quite a substantial rise in category 4.

I think the weakness here is the number of quotes are always very limited. So the idea that we have a good handle on how representative and verifiable these cost items are, it always leaves the secretariat feeling like we haven't got a really good handle on it.

I think those are the issues: it is the representativeness and verifiableness of what goes into the PwC model and, in this case, again it is a wage issue.

MR COX: Perhaps, Darryl, you should start off on this one

MR MELLISH: For those who don't know, the PwC model is a model to determine the revenue paid to a bus operator for operating a dedicated school bus or a largely dedicated school bus. There are about 1800 of them in New South Wales. Usually the majority of them are outside the metropolitan area. They often travel long distances and the model is used to calculate the revenue.

As Dennis said, it is not an index. It was built up by Price Waterhouse to reflect the basket of costs that are applied to the industry to run those services. The Ministry has one contract per bus service and the contracts require that the Price Waterhouse model be applied to it.

Last year we tried to amend the model and we had a go at trying to improve the performance of the model. We felt that we didn't get there. There were too many issues associated with changing the model mid-stream. We now know under bus reform there is, in fact, another new model being developed by the Ministry in consultation with the industry, which we support and we think is a good thing.

What happened last year was that a percentage increase was applied on a hybrid model which did not deliver an outcome that the industry thought was reasonable. Once for the larger buses, there was a less than 1 per cent increase in the provision of their costs. These are, if you like, cost plus contracts so they are intended to be pay for your costs plus a margin. Then we had this scenario where a large school bus operator was getting less than 1 per cent increase. His fuel and wages went up a lot more than that; so, effectively, the result that was handed down last year put the operators backwards in real terms.

The industry's s application this time is to calculate the Price Waterhouse model for the remuneration for 2004 and 2005. Any attempt to provide a proportionate or a percentage increase based on a hybrid version we see as completely inappropriate because it delivers to one operator a different rate of wages from his neighbour's. So applying a percentage based on the dollar figure that is calculated puts out of kilter the wages that are paid to the industry.

As we know, the index is built up from various modules and it has fixed and variable charges and costs; so the

units need to be the same. The wage in one needs to be the wage in the other, and this is the way that the Price Waterhouse model has been developed. In our application, and the Ministry has supported this, we believe that the Price Waterhouse model is the right model to use in the absence of a new funding model. It has its strengths and weaknesses, which have been analysed and reported on for a long time in these various submissions, but in the absence of another version, we believe it is the right way to go.

We have also asked that the calculation for 2003 also be built in and that the loss in 2003 of the revenue required also be built into 2004. That is the basis of our submission. It is not a percentage-based model. It is built up from the ground, and it does produce a number at the end where you input the hours in kilometres. So it is variable, depending on the hours and kilometres that you travel and the paperwork that you have. I think Dennis assumes four hours at 100 kilometres per day. So these buses operate to and from school for school days and the payment is made for those services. That is the basis of our application.

MR COX: John. Do you want to comment on that?

MR LEE: No.

MR COX: Mark?

MR DUFFY: No.

MR COX: Allan?

MR MILES: I was going to say I know nothing about it, so I won't comment, but it is a formula for working. It is not an index, Darryl, is it; it is a formula?

MR MELLISH: That is correct, yes.

MR MILES: I was going to ask how difficult would it be to work out the costs of running a school bus along a country road? It is not too difficult to get --

MR MELLISH: Well, the basket of costs is known, but the basket of costs changes from year to year and those changes are built in to the model to calculate the remuneration.

MR MILES: Do you need the model?

MR MELLISH: Yes, we do. We need a basis for paying operators to provide the dedicated school service. It is not a per head fare; it is a contract price to provide a bus where there is no other transport available and it is not economic to run the bus unless the government purchases that service.

MR LEE: To put it in context, Allan, the non-commercial contracts are usually buses that commence way out in a sort of farm setting, in most parts of New South Wales.

MR MILES: I understand.

MR LEE: They run along mainly the river banks and drop kids off at the school. That is a one-off run. That is the basis. I was at Kyogle about four months ago. There is a big difference between sealed and unsealed roads and the distance which they have to travel. So if you don't have a model, it becomes very subjective about how you remunerate these operators. I think about 80 per cent of them are one-bus operators. They are farmers who do a community benefit, and they usually get about three grand per year for their hard work.

MR MILES: In order to get some standard, you need some sort of model, but you have to look at the variations inside it

MR LEE: Basically distance and other things.

MR COX: Thank you. Joan?

MS GENNERY: The non-commercial model is also for ones that will remain in Sydney for the bus reform; it is just not for rural areas?

MR MELLISH: Just outside the metropolitan area.

MS GENNERY: I don't have any comment.

MR WADIWEL: As far as I can see at the present time, the non-commercial contracts are largely a matter between the Ministry and the bus operators. I do note that in a rural and regional setting many people actually get on those buses; not just school kids but many people use them as the

public transport because there is nothing else.

I guess that leads me to the reform. What I see as the really positive aspects of what could happen in country New South Wales is better utilisation of some of those resources. That said, I think in future determinations this question does change significantly and we will be really interested in what's in the contract and what the standards are, what the benchmarks are. Can we use it Tribunal to have that kind of discussion about whether those sorts of standards are being met around these contracts?

MR COX: Thank you. Darryl, any further comments?

MR MELLISH: The better utilisation and coordination of the buses is a commitment the industry has also. There is am environment now that if there is any passenger they can carry in addition to students, they do so, but the better utilisation of the fleet, of course, is something the industry supports.

MR COX: Before concluding, I will just take a couple of comments from people sitting in the back of the room if they wish to make one. May I request you to make your points courteously.

MR TREVASKIS: Paul Trevaskis, Blue Mountains Communities. Having travelled on a BCM 150 non-air-conditioned bus and then travelled on a Scania in the city which rattled even though it is only a few years old, one begins to wonder about its condition. The private bus companies now having to provide low floor air-conditioned buses, et cetera, does this mean that, because it is coming from the Ministry, the government should subsidise the infrastructure for the requirement of the private buses to supply the same type of buses as the Transit Authority?

Then if you look at the different buses like the Little Nipper, air-conditioned and such, at Penrith and now they have the minibus, as it were, then the medium-sized bus and the bendy bus, can the State Transit Authority negotiate with the private buses and go to the manufacturer and say, "These are three types of buses we are basically looking at"? You are looking at a production cycle of five or ten years depending on what the planning is to replace the various buses in the market, so you could go there with strength. The production is similar to the rail industry looking at over 500 coaches over a period of time. You are looking at a long production run. You are not looking at changing too many aspects of it because as soon as you change something, the price goes up - that's another five to ten per cent on that and away it goes.

So you are looking at a standard bus throughout the system and this means that the government then can come in and say, "Okay, we'll subsidise up to a certain point", whatever it is. We cannot keep saying to the private bus company, "Do this, do that, do the other things." You only have to look at the private bus patronage, even from Castle Hill to Parramatta. I was on that route recently on a Sunday afternoon and there were only six or eight people. On the lower mountains where you are looking at patronage, you run the local bus with two people or five. It is very low. That's one aspect that I suggest that IPART could look at. With the bus industry as a whole, because unless we do something we will have buses coming from Malaysia, China, the pressure is on to bring in these overseas manufactured buses. Let's face it, as soon as we manufacture overseas, our standard of workmanship goes down because we don't want to have anyone over there watching them welding, et cetera.

MR COX: Thank you. Give them a chance to respond, please.

MR DUFFY: I might let the two purchasers take that one on.

MR MELLISH:I think that is a very good comment you made. At present the private operators decide on the bus that they purchase. They make that decision based on commercial judgment, and there are a number of issues associated with that.

Under the new contracts there are proposed to be minimum standards. At the moment bus operators have to meet all of the Australian design rules. In Sydney most of the buses that are operating are based on an imported chassis and they are built up on a body. The pipeline to be able to supply sufficient buses is often limited by the body-building capacity and slots are hard to get.

I think the idea of having better standardisation is

occurring in the marketplace already because of the reality of what we see. Capacity is an issue, and that's why minibuses, bendies and standard buses are seen at different places at different times. Often with the cost structures the way they are, the minibuses don't become a feasible alternative because you need to use the bus in different ways at different times. That is not to say there is not a position for them.

The production cycle to try and get efficiencies in price I think is a good initiative. The market is trying to address it. The new contracts certainly have minimum standards for a vehicle which are more like the STA standards than some of your private operators' standards.

The comment on imported vehicles is a complex one. Certainly if they meet the ADR standards and all of the other requirements, there is an issue of whether they are suitable or not. We would like to support the local industry. Our association certainly has its key members with the suppliers and the Australian manufacturers. We certainly would like to support the local product, but we cannot rule out the market tension that does arrive from overseas. It is a complex issue you have raised, but it is a good one. I think we are making some big steps where there have been very small increments in the past.

MR PIERI: Mick Pieri from the Transport Workers Union. A major concern we have is about the drivers and their wages. We have made a submission to IPART. Dealing with the BCA, fortunately their hands were tied because they were hiding behind the fact that they were waiting for the government to actually come forward with the funding model before they could come to the drivers. We have gone forward with that. The drivers actually have put in that they are wanting parity.

The problem we have is that they have gone for the State wage, which the drivers have agreed. The problem with that, from my understanding, is that their last pay rise was on 1 July 2003. The next one was due on 1 July or 13 July this year. I do believe that we need to get the minimum pay, which is the 3.19 per cent, and backdate it to that time. The problem we have is that the BCA agreed to that. I need to ask what the minimum needs to be from the pay period which comes to the 13th. I need to know whether you, Mr Duffy, can add anything to that to help the

BCA? The drivers should not to be disadvantaged. We can go on and continue fighting with the BCA and put our case as well in the Commission, but I think the minimum should come up, and the minimum is the State wage case, which is the 3.19 per cent. Backdating that and if we roll it up, it would be about 3.99 as of last Monday.

MR DUFFY: Well, let me make a couple of points. The first point to make is that the employer here continues, as it is in the old world, in the new world. The employers are those people who run private buses. The Ministry of Transport, I suspect, has never been involved in any direct way in discussions about wages. That's really a role for another Tribunal, and certainly the employer/employee relationship precludes our direct role.

I have been making the point in meetings I have had with you and with your guys, and it goes back to the first thing I said today, what the government is involved in here is an exercise in saving and rebuilding the private bus industry, and there are important consequences attached to our failure to do that.

There is a government that's saying, "I am building a funding model based on the idea that the employer continues to be the operator and not the government". If the government wanted to nationalise it, it would have done so. It would have said, "You guys are now driving blue buses and are a member of a different union." For a whole range of reasons they have chosen not to go there.

I guess what I am in simple terms saying is that the government is trying to pick a very sick bird you have and build up its health and then you guys will deal with the sick bird when it is up and walking in probably more balanced terms than you are able to do at the moment. Right now, it is my view that the industry is in very poor financial shape and a holding pattern while a work value case goes ahead and while this contract is sought out is probably a more interesting way forward. It doesn't give you any satisfaction in the short-term, but I think the government ought to be concerned about the future of the jobs in the industry, and getting the industry back on its feet is our number one priority. I am hoping that the fares that we've talked about today will put more people on buses, and we will be able to see your effective productivity rising because you are carrying more people

and have an argument for adjustment based on the fact that the productivity is rising and the businesses, on average, are making profits where on average they are not really making profits now.

That doesn't give you any short-term joy, but we are interested in saving the industry and that reflects back on the job of your members.

MR PIERI: To understand, you are saying the minimum, which is the state wage case, would be the minimum pay rise at this stage?

MR DUFFY: As I understand what you have done --

MR COX: Darryl commented on that earlier.

MR DUFFY: You have an agreement on an adjustment.

MR PIERI: No, half an agreement.

MR DUFFY: As I say, ultimately the Ministry is not involved in that. Our bigger picture is to make sure that businesses survive and stay alive, continue to employ the bus drivers, but your wage deal is really is outside of our jurisdiction.

MR PIERI: Maybe Mr Mellish can answer; is that what you are saying?

MR MELLISH: The bus industry 's position is it has offered an increase to the TWU from the next available pay day. It hasn't been able to afford to offer a back-dated arrangement, and has set out a letter explaining that to the TWU. I understand they have another mechanism if they want to follow that, but that's the decision that's been taken by the executive.

MR COX: It seems to me this is an issue between you and the union and the Industrial Tribunal.

MR MELLISH: Yes. It does go to our viability, though, to an extent.

MR COX: Okay.

MR MELLISH: There was one item that I didn't think was covered, which Dennis raised, which I think is important. He raised the issue of should we update the cost index to September. Our position on that is that, yes, we should, if we can effectively back-date it to July.

MR COX: Can you explain that a bit?

MR MELLISH: Because of the losses that have been made and the fact that we are always a year behind, we have lost a couple of months each year. We would see that back-dating the costs to September, and next time doing that, whether it is a nine-month period, is realistic, but we would need the revenue required back to July.

In relation to that, we are not sure what the 2005 timeline process is. Each year we seem to be sliding back. If we had an understanding it was July, that would help us in our planning considerably.

MR COX: We can see what clarification is taken on that.

MS GENNERY: Could I also support that. We need that as a sector to be able to participate effectively.

MR COX: Ultimately, of course , it is a decision for the government, I suspect, at the end of the day, but we can see what clarification can be done. I appreciate that a degree of stability would be helpful.

Thank you everyone for your participation this afternoon. We covered a lot of ground and a lot of very useful points have been made. So, once again, thank you for attending and your participation, it will assist us enormously in making some decisions. Thank you.

AT 4.15PM THE TRIBUNAL ADJOURNED ACCORDINGLY