INDEPENDENT PRICING AND REGULATORY TRIBUNAL

PUBLIC HEARING INTO PRIVATE & PUBLIC BUS FARES REVIEW

Tribunal Members

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

On

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THE CHAIRMAN: Good morning everyone. My name, for those of you who don't know me, is Michael Keating. I am the chairman of IPART. On my left is Jim Cox, who is the chief executive officer of IPART and full-time member of the Tribunal. On my right is Sibylle Krieger, who is the tribunal's part-time member and a relatively new addition to the Tribunal.

We also have here two members of the tribunal secretariat who may participate. Fiona Towers, down the back there, is director of manager and transport, and Aaron Murray, is the program manager for transport.

I would like to thank you all for coming today. As I think most of you would appreciate, the purpose of this hearing is to assist the tribunal's deliberations in determining fares for, firstly, private and government buses in the Sydney metropolitan region; and, secondly, fares for the Newcastle services. We make deliberations on both those cases, but then we also will be making recommendations to the Minister for Transport on private bus fares outside the metropolitan region, and that covers fares determined under both commercial and non-commercial contracts.

The Tribunal expects to release its final determination and make its recommendations to the Minister for Transport in mid-December this year. We anticipate that the date on which the new fares will apply is likely to be early January 2007.

As I am sure you all know, the Tribunal will not be making any decisions today. The purpose of today's hearing is to hear from all of you so that you can provide us with some assistance and help us to consider the various issues, including those canvassed in the submissions from the Minister for Transport, the Bus and Coach Association and, of course, other interested parties.

This is clearly a public hearing and it forms part of a public consultation process that the tribunal is required to undertake under the various Acts.

As you will have observed already, transcribers are present to record the proceedings and the transcript will be publicly available on the IPART web site in a few days. I have been asked to ask you to speak up to assist the

transcribers. I suspect sometimes I am at fault on that point, and I have just been given a friendly nod from the transcribers.

I will now turn to how I propose to run the hearing. The first session will address the issues related to bus fares within the Sydney metropolitan region. The second session, after morning tea, will deal with the issues surrounding private bus operators which run regular passenger routes outside the metro area, and also State Transit's Newcastle services will be taken up.

Finally, I will invite stakeholders to discuss any issues surrounding revenue requirements for non-commercial contracts, and I hope to finish the whole hearing by 12.30 because we have another hearing this afternoon on ferries.

In order to ensure that the discussion proceeds smoothly and all topics for discussion are covered, can I ask you to keep your remarks fairly brief and to the point. The rules of the game are that speakers should not be interrupted. I will start each of the sessions by outlying the key issues to be discussed. They have already been set out in the tribunal's discussion paper which has been sent out to you attached to today's agenda. I will then ask one or two participants to kick off the discussion. After that, it will be open to whoever wants to participate.

If we have missed any issue, that can be raised at the general discussion stage. Before going to the first session, I would just like to ask those at the table to introduce themselves and tell us what organisation you are from.

MR J GLASSON: Jim Glasson, I am the director-general of the Ministry of Transport.

MS C REILLY: Catherine Reilly. I work for the Ministry of Transport.

MR R WILSON: Roger Wilson, from the State Transit Authority. I am the general manager planning.

MR P SCHUMAN: Paul Schuman, manager finance, State Transit Authority.

MR A MILES: Allan Miles, Action for Public Transport, which is a private organisation of transport consumers solely financed by subscriptions and donations from members.

Mr Chairman, Kevin Parish, from the Commuter Council, is listed as appearing today. He went into hospital on Monday. I am not sure how he is faring, but at his age any visit to hospital could be fairly serious.

MR A GOODING: Alex Gooding, from WSROC, the Western Sydney Regional Organisation of Councils.

MR W GARDINER: Warren Gardiner from NCOSS, the Council of Social Services New South Wales. I am the senior policy officer.

MR F D'APUZZO: Frank D'Apuzzo, managing director of Buslines Group. I am here representing the industry, the BCA.

MR D MELLISH: Darryl Mellish, executive director of the New South Wales Bus and Coach Association.

THE CHAIRMAN: Thank you. It is proposed to divide this first session into two parts. The Tribunal will go straight to the topic, and the first topic is:

The Ministry of Transport has requested, "a fare increase for Sydney metropolitan bus services in keeping with the CPI".

A figure of 3.8 per cent has been nominated. I have to add that is probably more than we think the CPI has gone up by.

We would like to invite discussion on the fares proposed by the Ministry of Transport; in particular, as we have set out in this paper, we are seeking your views on the following questions:

The government indicated in the past that fare increases above the CPI should be subject to operators delivering clearly demonstrated customer benefits through improvements in service quality linked to specific initiatives. Have there been demonstrated service improvements given that the increase sought is above the CPI?

The second question we have raised is:

The single ticket fare increases proposed are 10 cent increases for the three shorter distance tickets and 20 cent increases for the two longer distance tickets. Is this appropriate?

We invite some comments on the structure of fares. I suppose related to that is the question:

Do stakeholders have any further comment on the proposed fares or the relativities between fare types?

We thought we might ask Allan Miles to comment first up and perhaps NCOSS after that, and then we will ask the Ministry of Transport.

MR MILES: Mr Chairman, do you just want me to deal with point 1, the service improvements, or will I cover everything?

THE CHAIRMAN: Particularly the issues I have covered - it is really about fares. The service improvements are relevant, at this stage, to whether they justify a fare increase above CPI.

MR MILES: I have made some points here. It is very difficult to give a yes or no answer to a question that covers a dozen criteria for service on hundreds of bus routes over 3,000 square kilometres of Sydney varying from Pitt Street to the road down to Warragamba Dam.

In the State Transit areas, some off-peak services have been cut recently, but the resources have been used to provide additional services in the peaks. Is that good or bad? The cashless bus started last Sunday to try to increase speed of service. That is a great improvement. There are more bus lanes. Bus reform is kicking in in the various cross-regional services. On the other hand, we are still waiting to see full bus services on the transitway.

On the whole, I would say that the balance between the decline and the improvement on zero would be that there has been an improvement and a lot of those improvements are quite visible also, but whether that justifies an increase above the CPI is another matter.

One odd point is that, in the previous review, the ministry claimed that the reduction in the fares for the private buses was a service improvement which warranted a fare increase. You can see the circular reasoning starting to come in here. Does that mean that the fare increase would be a service decline?

Do you want me to go on to the 10 cents and 20 cents business as well?

THE CHAIRMAN: Yes.

MR MILES: The ministry proposal is not in line with the way we think the fare increases should have been calculated. IPART last year calculated a percentage increase or determined a percentage increase. This was applied to the existing fares and a master fare was determined, which was in odd cents. The fare was then rounded up or down to the next 10 cents to make it easier for the bus operators.

It was specifically stated in last year's determination that next year's fare increase would be on the master fare scale, not the actual ticket price. Now we find that the ministry - maybe in collusion with State Transit and the BCA, I don't know - has calculated this year's increase on last year's ticket price which gives an entirely different range. The ministry has asked for increases of 10, 10, 10, 20 and 20. If the increases were on the master fare scale, the increase would be zero, 10, 20, 10 and 20.

The ministry's proposal, I must say, is much neater - 10 cents on the three lower ones and 20 cents on the two higher ones - but it is against the spirit of what IPART determined last year. I would not mind a 10, 10, 10, 20 and 20, except that is not what the rules say. If IPART last year had said that the increase was to $1.80, then the new increase would be started from that, but it wasn't, so I think that is a very important point.

Do stakeholders have any further comments on the proposed fares or the relativities between fare types? APT finds it surprising that the ministry, previously so

vociferous in its claim for only a 15 per cent discount on TravelTens, has said nothing at all about it in this year's submission. However, IPART has let the cat out of the bag in the discussion paper on page 6 by saying that the ministry wishes to retain the 20 per cent for this year, and we have strong suspicions that after the state election in March next year things might be different. We are curious to know why a 20 per cent discount was so abhorrent in two previous years and now it's not even worth a mention. That is the TravelTens.

The question of travel passes - we refuse to be drawn into any deliberation about relativities between single tickets and the TravelPass price. The TravelPass is a product that enables people - and this applies to the DayTripper ticket as well - to travel in a certain area over a certain period of time. State Transit and the ministry seem obsessed with working out how many trips people make on that ticket and whether they are being dudded or whether they are getting fair value for their money. I think any question of relativities on TravelPass is irrelevant.

I will leave it at that for the moment, Mr Chairman. Other people will no doubt have comments.

THE CHAIRMAN: Thank you. Perhaps I should clarify one thing. You should not read anything in this paper implying that IPART has some view about what will be proposed next year.

MR GARDINER: Thank you, Mr Chairman. From NCOSS's point of view I will make comments on three points regarding fares. The first is as to whether we have a fare regime that is really restricting fare increases to inflation. Secondly, we hope to make come comments about fairer fares - I guess what we think is a missing element in some of the material before today's hearing; and then, given what is our core concern, we will have some comments to make about impacts on low and moderate income earners.

In brief, our position is that the absolute maximum should be an increase to the CPI and we do not believe that an increase to the CPI should be taken for granted. We have seen over the last decade and a half a trend where fare increases are consistently increasing above the CPI. IPART's own analysis in its annual report for 2004/05 clearly shows that since 92/93 bus and ferry fares have increased in real terms 15 per cent over that time.

The current proposals before us for the metropolitan area are stated to be for the CPI. There are obviously methodological debates about that, whether that is actually correct, because the original submission didn't have figures worked out. As Allan Miles from APT pointed out, there are different figures floating around even as attachments, subsequent material provided by the ministry or provided by IPART itself, which seem to imply some discussion between IPART and the ministry, particularly the whole issue about how the rounding is treated and so on, and the actual calculated increases are in many cases substantially above the CPI level.

We make some comments later about arguments about how costs increases should be treated as well. So that is the broad position we would have there; it is to argue that you should not assume that people every time can come and get a CPI increase and that the absolute maximum should be the actual increase in inflation.

Secondly, on the question of fairer fares and so on, which we acknowledge is covered in the ministry submission in terms of what has happened there, NCOSS obviously recognises that the alignment of single bus fares across Sydney and the extension of the pensioner excursion ticket to the private bus areas were both significant reforms. But what we have missing from the discussion today in terms of an argument about relativities between single fares, TravelTen, TravelPass and all those sorts of things is the fact that we still don't have a consistent fare pricing system because we still don't have an integrated day fare ticket that people everywhere in Sydney can buy.

We do not have private bus equivalents of TravelTen and TravelPass discounts. We are not raising those matters simply as some sort of design fault in the system. The fact is that all those products are sold at a substantial discount, so to the extent that people in the private bus areas do not have access to those fare structures, then they are effectively paying more than other people. That situation we recognise is not going to change overnight or with the stroke of a pen.

We have put forward a proposal to the government about

an integrated day fare which would work across transport modes. In our submission we also canvass the question of subsequent consideration of TravelTen and similar products in the private system so that we would have a genuine alignment, because to have a debate that is all based around the single fares is to ignore the reality that most regular users of public transport, if they know what they are doing, are not buying single fares.

The final matter we make some comments about is the impact on low and moderate income households. There seems to be a commentary in some of the earlier reports, and I guess generally, about these issues that transport costs are insignificant in terms of household expenditure patterns, or that low-income households are not significant users of public transport and, therefore, the implication being that these matters that IPART is charged with considering are not the prime consideration compared to other issues about cost recovery and the viability of the operators, which are the matters that are extensively canvassed usually in the reports.

I would like to refer to analysis we have conducted. It does not form part of our submission, but it is available and I can provide the document I am going to quote from. We conducted an analysis a few months ago, data that NCOSS obtained from the Transport Population Data Centre's household travel survey, looking at usage of various modes of public transport by household income quintiles. In brief, in terms of this particular hearing, households that fall in the lowest income quintile, in other words, the lowest 20 per cent of incomes in Sydney, according to that analysis provided to us by the Transport Population Data Centre are responsible for 35 per cent of all bus trips in Sydney and 41 per cent of all trips on private buses. If you consider the two lowest quintiles together, that is, the bottom 40 per cent of the income distribution in Sydney, then those households are responsible for 51 per cent of all bus trips in Sydney and 58 per cent of all trips on private buses.

I guess in that context it is why we come to these hearings to advocate the concerns that charges for those users continue to increase more substantially than their incomes are increasing and, therefore, that what we are seeing is a progressive deterioration in their real disposable income if these trends continue.

The analysis of the data in terms of the private bus area reinforces the arguments about the need for the next stage of the fairer fares agenda because that's where you have the greatest concentrations of low income households who are using those private buses under the current systems. We acknowledge, as I said before, the very substantial progress that was made on the equalisation of the single fares and on the pensioner fare ticket, but they still cannot buy those other products which are sold elsewhere in Sydney at a significant discount. Therefore, they are effectively paying more for the same journey than people elsewhere are paying less for. Those are the two concerns we ask you to give attention to.

MR GLASSON: We do acknowledge the difference in approach to the CPI. I would also make the point that we are going through a period of transition in relation to bus reform, certainly in the metropolitan area. The rationale behind our view on the CPI this year is that we are still in the relatively early stages of that transition.

Notwithstanding your request for comment on demonstration to service improvements, I think there are a number of things that can be pointed to over the last period. Certainly in terms of the metropolitan contract areas, the ministry has now completed and implemented with the operators the integrated networks in region 10 and region 13. In both those instances that has resulted in an increase in service kilometres. Our initial feedback, particularly from Veolia, is an increase in patronage, so we see that as pointing towards service improvement as we move through the other areas and do the integrated networks in the next two years.

We have commenced the implementation of the strategic corridors - Miranda, Hurstville, Liverpool and Bankstown - linked with those integrated network improvements. We have purchased new bus capacity, particularly on the M2 services to the city, and from Forest Coach Lines services to the city. We have purchased some new bus capacity in both region 10 and region 13 and this year there will be an overall replacement program of about 460 buses. That is providing airconditioned, low-floor buses, and increasing the DDA compliant percentage of the fleet to 44 per cent.

I think those are clear signals that there is service

improvement coming out of the reform process and the implementation of the new contracts.

In relation to the fares and the 10, 10, 10 and the 20, 20, I acknowledge that there's an approach in the ministry's application to get 10 cents on that first fare rather than using the master schedule way. We believe that the implication really is to preserve the status quo in what was one of our most heavily-used products. In our estimate it only gives us a status quo in terms of revenue and we would be requesting that IPART look seriously at our request in that regard.

MR GOODING: I will not add much to what the speakers from APT and NCOSS have said, except to emphasise that that issue, both of equity in terms of different households and also into regional equity, western Sydney is by far the largest area in Sydney that is dependent on private buses. As Mr Gardiner said, we are debating increases to the single fare and I share the concerns that have been expressed about that. But the most important thing is the lack of range of products that are available to the residents of western Sydney, which means in effect that they are paying on average for a bus trip much more than their counterparts who can access either the government bus services or rail services.

Again, we have supported and praised the government for its efforts in fare harmonisation and extending the pensioner excursion ticket and other concessions to private bus services, but there still remains this basic inequity. We acknowledge that the issue of the TravelTen and other discount tickets has been tied up with the delay in the implementation of TCard. But, if that is going to be a significant factor in the future, we need to look at some sort of interim product, be it the DayTripper style ticket that NCOSS has proposed and/or the introduction of some form of interim TravelTen ticket for private users so that they can pay the same sorts of fares that other people in Sydney have access to.

THE CHAIRMAN: Are there other comments on this?

MR MELLISH: From the private bus industry's perspective, we would, of course, like to put on the record that we would like to be able to offer the multiride type tickets more broadly than currently exists. We support the initiative to accelerate what can be done in that way with the metro ticketing projects. It would be good to complete that fairer fares process in that regard for the private bus operators.

MR MILES: Could I ask Darryl a question? I thought you were going to say "but" something, that you would like to offer, but --

MR MELLISH: No, I wasn't, Allan. I believe that a multiride product and fare structure effectively are going to be a very good incentive for people to catch buses and public transport. We would like to see that ability offered on private buses as well.

MR MILES: Can I ask why you can't do it?

MR MELLISH: It is mainly the technology of the product, the differences between the two systems, which are being addressed.

MR GOODING: Can I ask a question about that, if I may? Is there any possibility, given the fact that TCard seems to be continually put back, for some form of interim paper-based multiride ticket to be introduced?

MR MELLISH: I think it's worth looking at, Alex. I think it raises a number issues, but we would certainly welcome having a look at it.

THE CHAIRMAN: My colleague wants to ask you a question.

MR COX: If I could ask just a point of clarification, you gave some figures about the proportion of private bus travel that is done by the bottom 20 to 40 per cent of the population. Would you be able to tell us either now or later how much of that is done on tickets such as the pensioner excursion as opposed to other forms of ticket?

MR GARDINER: The analysis doesn't demonstrate that.

MR WILSON: May I make some comments about service quality improvements for State Transit, just to cover some of the issues that were raised earlier in terms of what State Transit has been doing for service quality improvement? We have continued with our bus replacement program, which has been mentioned already.

We are now at the stage where more than 50 per cent of our buses are airconditioned; more than 40 per cent are low-floor wheelchair accessible; more than a third of the fleet is either at or better than Euro-3 emission standards for diesel or CNG. We have had a fairly active program this year of adjusting supply to match demand levels, and in particular to cope with the growth in peak patronage and that is continuing to be quite strong.

As Allan mentioned, we introduced on 8 October our Bondi bendy service which is a cashless articulated service. I can say that on that corridor, prior to that coming in, we had about 40 per cent cash fare tickets. By this week we are down to about 25 per cent cash fare tickets on the corridor and we hope to improve that. We have been very active and I believe very successful in that area. Certainly the people who know about bus systems really love the prepay concept.

We have also worked hard in places like Lang Park at Wynyard to rearrange the bus stops there in the morning to reduce the delays of buses queueing back across the bridge and that has been highly successful. We have adjusted on a number of routes our running times and layovers to provide greater reliability and that has been borne out by our experience now with fewer cancelled services and more reliable services than we had previously.

We have been working hard on staff training to improve both customer service and safety. Perhaps this is more an internal thing, but we have been adjusting to implementing new contracts with MoT and that has required a great deal of effort by everyone.

As part of the cashless bus initiative, we have introduced off-bus sales of PET tickets along that Bondi bendy corridor and also single-ride tickets, and we have also introduced ticket-vending machines at Wynyard and at Bondi Junction. We have incorporated part of the former Harris Park services into our operating area now and have noticed some very significant increases in patronage on those routes, and we have put a fair bit of work into trying to improve the information, signposting at bus stops, and things like that in the Harris Park area. That will probably do for now.

THE CHAIRMAN: We might try to move on to costs and productivity. Just a few words on that. Historically, labour and also fuel have been major contributors to increases in costs. It is fair to say that over the last several years they have been running higher than inflation. The average increases in labour and fuel running costs were 6.6 and 6.7 per cent respectively each year over the period 1999/2000 and 2004/2005. That is running at double the rate of inflation.

The tribunal has also noted that cost recovery of farebox revenue on Sydney Buses is 52 per cent in 2005/2006 and that has led us to raise in particular the following questions. What is the appropriate level of cost recovery in metropolitan bus services? One view might be that to the extent that bus services are not paid for in the farebox, they're paid for by the taxpayer, so it's a question of how much poor taxpayers should pay, rather than the poor bus riders. To what extent should the metropolitan bus service be funded by the farebox or taxpayers?

Importantly, what is the scope for productivity gains across the different bus regions? That is the alternative, in a sense, to the taxpayer, which is improved efficiency. What is the difference in labour costs between Sydney Buses and private bus operators? That might be at least a benchmark of what's possible for Sydney Buses. The Director-General might want to start.

MR GLASSON: In terms of the first question around appropriate levels of cost recovery, I think that really is a matter for government policy and for governments to determine from time to time, but I would simply make the comment that we're operating now with a certain level of balance between farebox and government subsidy. Clearly, to diminish the farebox, given the competing demands for government budget revenue, probably diminishes the overall amount of money available for running bus services. Increasing the farebox probably provides money for an increase in service frequency in a simple sense, but I think it is probably for others in the room to have a view on that overall balance rather than me.

THE CHAIRMAN: I just make a comment that while it is in the domain of the government to determine policy, there are public perceptions on the one hand, and on the other hand

what the tribunal determines can have an effect also, so we can't totally undermine policy issues.

MR GLASSON: No, and as far as I am concerned as the Director-General of the ministry, I am an advocate for the use of public transport and I am an advocate for money being available to provide service qualities across Sydney and, indeed, across New South Wales that provide people with fair and equitable services in public transport. But I would say that we do need to maintain a reasonable return from the farebox as a means of underpinning service delivery.

In terms of the issue of productivity gains across the regions, I think there are a number of factors that come into that, but the most fundamental across the broader Sydney region I think is the consolidation contracts and the work that is going on around the integrated networks in terms of directing the service more efficiently and maximising the potential to grow patronage. .

At the end of the day, we are very much about growing patronage. If we can reduce the overall cost to both users and government by increased patronage, then that is very much what we would like to do. But the geography, the density of development and other things across Sydney mean that there is variability and, as NCOSS point out, there are socio-economic issues that apply in terms of how some of that productivity is achievable.

With regard to the difference in labour costs between Sydney Buses and private operations, the labour costs, as I understand it now, are fairly close to being in alignment between the two. There is a marginal difference; I think there are still some differences around work practices and EBA issues which do affect labour costs in terms of things like where meal breaks are taken and other such issues which I think do differ between Sydney Buses and other operators.

Did we get to service levels?

THE CHAIRMAN: No.

MR GLASSON: If we haven't got that one yet, I might just leave it at that.

THE CHAIRMAN: Darryl, I wonder if you would like to comment on the difference in labour costs. You are welcome to have a go at the rest if you wish.

MR MELLISH: On those three issues, to add to the debate and the views expressed, we have always encouraged looking at the triple bottom line effect of public transport; that is, the economic, environmental and social impacts, and getting as many people as possible out of their cars has much more than economic budget aspects. We have always encouraged that when you are looking at cost recovery you should look at the whole of government and look at the triple bottom line approach. I think that IPART through its term of reference is doing that, and that is a good thing. The social and environmental benefits of public transport often don't get adequately taken into account in encouraging people to use public transport.

On the third issue, the service provider agreements are an initiative which have increased the scope of productivity gains. We now have the ability for the large regions and operators to provide services across boundaries as if the boundaries weren't there. That, I think, is a significant improvement.

On the question of labour costs, when we were negotiating with government and the unions looking at this parity issue, my recollection is that the recent adjustments have got us much closer. I think it may still be about a 10 per cent difference, but it depends very much on the structure of the shift because there are differences in penalties and allowances which is not comparing apples with apples.

I think there is a much narrower gap now than there was, but there are still significant work practice differences which are based on the culture of the government organisation versus the private sector. I may be able to provide a different analysis of that labour cost component that we did in the negotiations if they could be any use to the Tribunal.

THE CHAIRMAN: That would be helpful.

MR WILSON: I have a few more comments to make on efficiency within State Transit. I would certainly acknowledge that there has been a gap between cost

efficiency in State Transit and the private bus industry. I think it is fair to say that that gap has narrowed and I think it will continue to narrow. IPART's own analysis reflects that, for those factors within our control - that is excluding things like fuel and material prices - our productivity is improving.

We will continue to make further efforts to improve that, but we do have, as a matter of history, a number of award and EBA conditions that apply to us that we cannot walk away from. Also, as a government entity, we have a number of requirements that do not apply to the private bus industry. While we will seek to minimise the differences as they occur, they probably mean that there will continue to be for some time a gap between absolute costs. Certainly in terms of operating environment, we believe that we have a more severe and difficult area to operate in.

One of the things that we face, and it is a little bit like swimming against the tide, is the cost of congestion on delivering our services. In a number of our recent major service reviews, we have had no alternative but to increase running times and layover times in order to maintain reliability. That naturally gets reflected in the total costs of producing a kilometre of service.

MR GOODING: I just wanted to comment on the questions that you have posed in the sense of saying that I think we need to look at this from a number of different angles. Are we in fact asking the right questions? You could ask: what is the value of the metropolitan bus network to Sydney? How can we enhance that value and, as a community, do we pay enough for that network?

If you look at those questions from that angle, I think you come to somewhat different conclusions about the extent to which you look at the running of buses as a narrow cost recovery exercise. In fact, we are looking at something which is of immense value to the community in terms of its environmental, social and economic benefits. I think that we all have an expectation that, whilst obviously the farebox recovery is an element to be considered, as a society and as a community, we should be prepared to invest in that network, that infrastructure and that rolling stock to deliver those environmental, social and economic outcomes.

THE CHAIRMAN: I don't think there is disagreement here with that proposition put in that way. The issue, however, is while it favours the community as a whole, different members of the community benefit to different extents. People who actually use the service arguably benefit to a greater extent than the rest of us who do not use the service. While we accept that we all gain some benefit from it, some gain a greater benefit than others. The issue is therefore: how should we share the costs consistent with how we share the benefits?

MR GOODING: I don't disagree with that. I am just saying that you also need to look at that other question in that equation. As you say, we all benefit, but whilst the direct user is obviously the most direct beneficiary, the rest of us benefit in terms of having a society that is more equal, in terms of its ability to access employment and services, in terms of the amount of traffic removed from the roads so that those people who still have to drive have better access to the roads themselves. So the benefits are much more extensive than just the actual users.

THE CHAIRMAN: I fully agree with that, but are they consistent with about a fifty-fifty cost recovery rate? That is the point.

MR GOODING: I don't want to sit here and say that the cost recovery rate should be 48.75 per cent. It may be less or more on Sundays or something like that. These are wider philosophical questions that we need to look at, but I think it is just really important in looking at that exercise that we just do not add up the costs of running the bus system, then try and allocate as much as we can to the users and then grudgingly make up the rest from consolidated revenue. I think we need to look at this question from a different angle.

MR GARDINER: I wish to make two brief comments on the question of costs. Obviously NCOSS is not an advocate of making the system financially unsustainable and obviously we do take a responsible approach to government expenditure. I would make the comment that there are some methodological issues here about this process in terms of inviting stakeholders to engage in debates about that. We are given very limited data on most of these matters. Most of it is historical, not forward looking. You cannot ask stakeholders to comment on what would be the appropriate future distribution of costs without providing some sort of framework and some sort of data about that.

I make the observation that the ministry seems to be indicating that there is no firm stated government policy about what is the appropriate distribution. We are not here essentially to argue that the current levels of cost recovery are inappropriate broadly, but there is no other data before us, such as projections on, for example, if the increases sought were obtained, what would be the impact of those increases on that distribution of the burden between taxpayers and the passengers? There is no data before us really about that.

The second point I would make is that there is sort of a missing part in the discussion so far. When this submission was lodged, it is fair to say that it occurred in a burst of publicity about rising fuel costs. We were told that the operators were under great strain because they were paying a lot more for their fuel. That point has not been canvassed at all so far today. The only point we would make is that we would invite IPART to have a look at that matter.

Again we do not have that much data. The only source of data we have is based on a statement by the Minister for Transport himself. He has said very clearly that there was a significant patronage dividend occurring to public transport in Sydney from rising petrol prices. He said 50,000 extra passengers were travelling on STA buses - Sydney buses - because of rising petrol costs. We don't know what the figure might be for the private buses.

I acknowledge the minister said that the greater benefit was in terms of train travel, but he certainly did say there was this rise in bus patronage. If we are going to have a discussion about costs, we should look at that issue. We would invite IPART to establish from both Sydney Buses and from the private operators, or from the Ministry of Transport, I guess, because now that is where the farebox goes, what is the patronage dividend that has been obtained from the stated increase; namely, that people who were travelling by car, because of petrol costs, have chosen to now switch to public transport? We think that that level of cost should be discounted from any increased dividend.

THE CHAIRMAN: That is an interesting suggestion. We will take it on board. I make the obvious point that it will not be easy to establish. For example, if the ministry or the State Transit Authority are right that services have been extended because of quality improvement, that also can be a reason why patronage may have gone up. So it will not be easy to establish that in a definitive way.

I have one other comment in relation to your remarks: it would be very difficult for us to take a forward view of costs, as it would be for management, for that matter. Forecasting petrol prices is not easy for starters. What we do know, however, is that the level of cost recovery has declined over the last decade. We do know that. I think the figures we have in front of us show a further small decline. Certainly the decline has not reversed. I think last year was not much because labour costs did not go up much at all last year. If it was right a decade ago, then it is wrong now; alternatively, if it is right now, it was wrong a decade ago.

MR MILES: I think the question itself is rather divisive when talking about passengers and taxpayers as if they are two different classes of animal. Many passengers are taxpayers also. Many have motor cars at home which they sensibly leave at home when they travel to work. I am retired but I am still paying taxes - land tax to Mr Costa, and income tax to Mr Howard. This is on top of the external benefits that Alex Gooding and the others mentioned. I think it is not helpful to make the point that bus passengers are bludging off other people who are taxpayers, as if the bus passengers were not.

I often give these examples: should Stanmore public school be financed by taxpayers? Should Randwick police station be financed by taxpayers or funded by taxpayers? Again Alex Gooding said we should ask the reverse question: if there were no bus services, what would the cost to the community be or what if bus services were patronised by people who could afford a $15 trip?

I think the answer to the question is that the public transport system should be funded to the extent that an efficiently run bus cannot cover its costs by charging a marketable fare; in other words, the government should make

up the difference. Actually, yesterday, Mr Costa found $390m in a sock in a drawer, so he has money to cover these sorts of things.

MR GLASSON: Mr Chairman, may I correct something that Warren Gardiner said. I have not in any way sought to imply the government did not have a current policy on fares. I think the government has a clear policy, and that is that these matters are put before IPART and determined in this manner. I merely suggested that any future change in that alignment would be a matter for consideration by a government.

THE CHAIRMAN: I am inclined to think we should move on to the service standard discussion so that there will be plenty of time for everybody to comment upon it. In the submission to the Tribunal, the Ministry of Transport highlighted a number of service improvements that have taken place. You have already referred to some, so I will not run through them again.

As to what we want to invite discussion on, we are particularly interested in hearing the stakeholders' views on the service quality - we have had a bit on this - and also has there been an improvement in performance? We have had a couple of comments about that already, but is there anything further you wish to add?

MR MELLISH: Those two network reviews that the director-general spoke about in region 10 and region 13 looked at service levels. As the director-general said, there has been an increase in kilometres and, at least in one of those regions, an increase in patronage.

I think the significant thing is that they were based on an extensive community consultation. The service level review of that network was largely based on extensive community consultation. I will just throw that into the debate.

THE CHAIRMAN: That presumably takes some time. I am just wondering if you can give us an indication as to the timing of future improvements and so on.

MR GLASSON: We are really looking at another two to three years before I believe that we will have achieved a substantial across-the-metropolitan-area outcome.

There are a number of issues that people here today have raised about differences in service delivery, differences in fares - a whole range of issues. By the time we move to integrated networks, get the strategic corridors substantially up and running, get TCard working and get discounted fares, then I think we are talking at least another two years before we can come back and say, "Look, we are now starting to be able to offer you a measurement of significant improvement generally across the spectrum."

I think what we are saying now is that we believe we are moving very much in the right direction, but we are not claiming at this point in time that we have resolved all those issues and delivered that level of improvement more generally that people might be looking for.

MR MILES: I will make a positive comment to support what Jim Glasson and others have said. I think that, in general, the service levels have improved, and that is covering all types of things - the type of bus, the frequency of service, the community consultation, the hours of operation, the bus stop signs. I have seen the new plinth blades along Liverpool Road.

I am speaking very generally - no doubt somebody can offer an example of where things have gone wrong - but I am very happy with the current trend and I hope for more improvements. I thank you for the special 435 that started at Johnston Street this morning. It was filled up within three stops.

MR GOODING: I would echo those comments. I have another comment and a question. I would like to be assured that the improvements to services will not just concentrate on the peak-hour periods. There has been a tendency by some Sydney bus services and rail services to provide increased peak-hour capacity at the expense of capacity outside peak hour.

That has implications for a lot of users, particularly some of the disadvantaged and low income users that NCOSS has identified. I guess my question is: will the roll-out of the new rolling stock both for the private operators and for government buses result in improvements in frequency outside peak hours as well as within peak hour?

MR GLASSON: I will give you a general comment. As Allan Miles said, someone might be able to find places where they think things have gone wrong, but our general objective is to improve the overall service quality level. We do not resile from trying to improve and provide good levels of frequency during the peaks. Particularly across western Sydney with the integrated networks and strategic corridors, we are, I think, genuinely trying to provide a service that offers an alternative to using a car.

Sydney has historically had relatively high levels of public transport use on the journey to work. That has not been replicated across the broader metropolitan area. As we move through this process and start to measure some of the results, I will be personally very disappointed if we do not begin to significantly change behaviours towards public transport across that broader metropolitan area. In saying that, we are not going to not provide a reasonable level of off-peak service.

MS REILLY: Mr Chairman, may I add to that and provide a little more detail on Jim's comment. I know in the region 10 network review after extensive consultation, the buses and extra kilometres that were purchased were used to cover the school peak and to ensure there was an appropriate level of service across all time spans. This process is very much looking not just at improving peak services but at improving an appropriate level of access across all services types.

MR GOODING: Thank you. Just on another aspect of service levels, in relation to the new rolling stock that has been purchased, will the standard of equipment and quality of fitout of those vehicles be comparable across the private operators and the government operators? For example, will the private buses still retain the single-door operation or will there be any opportunity to introduce a two-door operation as government buses provide?

MR GLASSON: Generally, the product being purchased is becoming very similar. I think that the points of differentiation are disappearing. In terms of the one-door versus two-door bus, that is largely a matter at this stage for the operators. Certainly, on the-high volume routes, State Transit need the two doors in terms of efficient loading, particularly on the bendy buses, but we are encouraging the private operators to buy buses that they believe will suit the conditions that they are working in.

MR MELLISH: To add to that comment, the fleet procurement specifications are the same. It is intended to have a high standard, and I think that the differences are minimised and it is the same specification that operators are dealing with.

Mr Chairman, while I have the microphone, may I add that another area that is important is the transparency that has been available on the service planning guidelines. Service planning guidelines have been published and debated; therefore, areas of frequency, coverage, peak, off-peak have now been in the public arena more aggressively than I think they have been in a long time. It is a positive element in the discussion about service improvements to have those guidelines out there and being debated.

MR GARDINER: Briefly, NCOSS would like to acknowledge one aspect where there is a demonstrable and significant improvement occurring, and that is in terms of compliance with the Disability Discrimination Act. I think the data in the ministry submission about that is quite significant. Particularly on the private bus side, we are seeing quite a radical improvement from a fairly low base. Obviously we hope that process will continue. It is quite important to our sector that we do have an accessible bus system in Sydney.

THE CHAIRMAN: Thank you. It is now open to the other people in the room. You can raise any issue covered at this stage.

MR J WEBB: My name is John Webb from the Parents and Citizens Association. I think that we were told by the Bus and Coach Association that fleet procurement specifications are the same for your buses and for the government buses, but how come there are differences, like we just heard about, running two doors? I understand that destination boards on private buses are not always on the side and rear, as they are with government buses. I also understand that there are not as many central lights in the private buses. So, if the fleet procurement specifications are the same, how come there are differences?

MR MELLISH: The fleet specifications are a minimum specification. So as long as you comply with those, you meet your contract requirements. But the market demand is what the operators expect to take into account which is the most appropriate for their service. I think we are seeing the private operators ordering closer to the STA spec, even though the minimum specification is the same for both. It is a matter of minimum specs.

MR WEBB: I understand that at Smithfield in the same factory there are different buses being constructed, one with one specification for the STA and one with a specification for your purposes.

MR MELLISH: It depends which vehicle is being manufactured at that plant, who it is for. It could be a country bus operator; it may be a city bus operator. The specs for the combined 15 regions in Sydney, the minimum specifications are the same. Operators are making their own decisions about doors, but there are minimum specs about signage and destination information.

MR I GANTAR: Ivan Gantar. I'm not a member of any organisation, just a public transport user for many years. There was a previous remark about someone wanting to introduce the TravelTen and the TravelPass for the private buses. In Brisbane in 2004 they changed their fare system completely using the existing ticket machines on the buses. So the tickets after 2004 were completely different from what it was previously, and that was using the existing ticket machines on the buses, and that was until they replaced them all for their version of the TCard.

THE CHAIRMAN: So you are suggesting why can't we do that here?

MR GANTAR: Yes, because they did it up there on the same machine - virtually the same machines as are used here.

MR GLASSON: In simple terms, I'm not familiar with the detail of the Brisbane experience, but the government view has been that it wants to introduce changes in fares at the time that TCard comes in. The delays with the technology are well documented. I note the comments here today in that respect.

MR GANTAR: I've got one more comment. The State Transit drivers were paid more than the private buses because they were paid an allowance to open the back door, because they have to watch the back door as well.

MR WILSON: I think we are going a fair way back into history with the one-man bus operation. We're back in the '80s. I think you will also find - and it is in some of the IPART papers - that in recent times, as part of the introduction of the new contracts, there was some adjustment to the pay rates for the private bus operators, so I think they are on a much closer and more equitable basis than perhaps had been the case in the past.

MR GANTAR: 99 per cent of them don't have a back door.

MR P TREVASKIS: My name is Paul Trevaskis, secretary of Blue Mountains Commuters. I ask the tribunal, before the TCard is introduced, doctor, will IPART be looking at the cost of the TCard, the purchase price of; approve the costs of the various ticket types that will be used on the TCard, such as rail, bus, ferry, and that's including private and government services; the cost to the purchaser of the TCard where the person does not tag off - I think RailCorp is still deciding what to do in that area.

I got the impression the bus industry was looking at two sections, but I am not sure; also, the pressure I have in my particular area is what discounts will apply to all ticketing types. It was brought to my attention this morning on my journey to here that the Oyster card in London gives you a 20 per cent discount on the fare ticket price if you use the TCard because of the cost savings in handling cash and the employment of people doing the counting, et cetera.

So my question is - and I believe it will be on the transcript, I hope - that, before the TCard, will the ministry go to IPART and, say, call in the various operators, putting in their submissions as they're doing for this process, before the TCard is introduced?

In my experience in the last five years, I have two or three folders going back five years on this and we are still asking questions of the various providers, particularly to RailCorp who still has not made up its mind on a lot of issues. To you, Dr Keating: will IPART be doing this function before the TCard is introduced so we

know where we are going?

THE CHAIRMAN: We consider proposals that are put forward us. We don't go out looking for them.

MR TREVASKIS: I see, so it is my task and the task of others in the public arena to request in another place - I think it is over that way. Thank you.

MR P McCALLUM: My name is Peter McCallum. Amongst other aspects of transport, I am part of the Inner Metropolitan Transport Forum. However, being semi-retired I'm one of the people that Allan referred to who use public transport around the metropolitan area if I possibly can. I want to address the question, although it has already been addressed, about this problem of getting in and getting out of private buses. The absence of a rear or centre door, I put it to the group here, adds significantly to journey time because, as one realises, no-one can get on the bus until everyone else has got off where there is only one door. This is primitive, I consider, and third-world. It seems to be that private buses are meeting minimum standards. To quote Mr Mellish, and I don't mean a personal criticism and I hope he will accept that, it is up to the operator and they meet their local conditions.

Without naming particular routes or business operators, I would suggest that they are not always meeting local needs. I have been on buses with very frustrating exit times and a big crowd waiting to get on. Sometimes I have been getting off the queue or getting on the queue. It is really not good enough, but I would suggest that perhaps the ministry has a task here in raising the minimum standards if that's such a problem.

It also applies to the lack of the destination indicators and even route numbers, and this has been referred to already. There is an increasing use of interchanges. That means a lot of passengers frequently will approach the bus from the rear and from the rear the buses are incognito. If one boards a bus, say, in the middle of a shopping centre and one sees it is a Westbus or a Baxters bus, one doesn't have a clue what it is, so one has to go around to the front. I have seen buses commence to start their journey, only to find - thanks to a decent driver - that there are people peering around the front of the bus to see where the damned thing is going. That can't be good enough.

It is true that State Transit some years ago - under what pressure I'm not sure - was interested in removing these rear and side indicators, but there was quite a lot of protest and they listened to it and accepted there was a case that they were really needed. I would like to see that same response come through the private buses so that they can get some real parity between the inner fleet that's operated by State Transit.

THE CHAIRMAN: Thank you.

MR GANTAR: I have here a private timetable which has a map route on it, but nowhere does it show where the sections are on the map. So if I wanted to travel on this bus route, I've not go idea what fare I am likely to pay. All the State Transit timetables show where the sections are, but most of the private bus timetables don't provide that information. How am I supposed to know from A to B, is that three sections, 10 sections, five sections or whatever?

THE CHAIRMAN: If there are no more comments, I will call this section closed as it is just about 11 o'clock. In doing that, can I thank you for your comments. Some of them go well beyond IPART's responsibilities, as to how timetables could be better designed and how buses could be better designed, so you are well beyond our responsibilities, but no doubt those comments will be taken on board by the responsible people.

For our part, I thank you for your comments. At the risk of repeating myself, can I say that I think everybody in this room today recognises there's a community benefit from public transport, buses in particular. There is a community benefit, but there is also a personal benefit for most that use the service. While I accept, Allan, that some of us are both taxpayers and bus users, not all of us are. We do need to distinguish that.

I thank you for your comments today. We will have a cup of tea and resume with Newcastle and private buses after that.

SHORT ADJOURNMENT

THE CHAIRMAN: In this second half of the morning session, we are going to continue with the State Transit Authority's Newcastle service, and then we'll go on to the bus industry cost index and private and non-metropolitan buses; finally, the third part will be on the PwC model and focus on non-commercial contracts. I will end our final session with questions from the floor at the end of each section, first Newcastle, then BICI, and then non-commercial contracts.

The Ministry of Transport proposed an average fare increase in Newcastle services in line with the change in CPI, again of 3.8 per cent. The tribunal notes that cost recovery for STA Newcastle services improved in 2005/2006, mainly due to an increase in passenger fare revenue, a point that was made earlier. The Ministry of Transport also indicated in its submission that service standards in the Newcastle services have improved.

In this session. I would invite stakeholder to address three issues: the proposed fares for the Newcastle services; how the level of cost recovery can be improved; and the level of service standards. In particular, we have raised the following questions: are the proposed fares for Newcastle services appropriate? How can cost levels, cost recovery and productivity of Newcastle services be improved? As to service quality, can Newcastle services demonstrate any improvement? State Transit Authority or the ministry first?

MR GLASSON: I might make some general comments and Roger might make some more specific comments. Do you want me to deal with each of the questions?

THE CHAIRMAN: I think so, because we have several other areas to get through.

MR GLASSON: In terms of is the proposal for a CPI of 3.8 per cent appropriate, I note your comment regarding some increase in farebox recovery, but that's still, in our view, coming off a very low base and quite modest. There have been increases in fuel costs and we think that on balance the request is appropriate.

In terms of how do we look at improved cost recovery and productivity in the Newcastle services, my answer at this stage would be that that's something that we are looking at very closely in terms of the outer metropolitan bus reform and the fact that we have that as a clear focus in our negotiation of a new contract with Newcastle Buses and that's something that we will be seeking to move more aggressively on in the future.

Have there been any demonstrated service improvements? Our view is that their on-time running reliability is at very high levels. Their on-time running is at 98.5 per cent; service reliability is at 99.9 per cent; their mechanical and reliability are above their targets. There has been a decrease in both passenger safety incidents and levels of complaint and they have made a further 4 per cent improvement in the number of accessible low-floor buses in the fleet. At a broad level, that would be my response.

MR WILSON: First of all, we would support the MoT submission in relation to Newcastle services. On the specific issues, I guess, of efficiency and productivity, we believe there is some scope there to make some improvements in Newcastle. We have started working on some, if you like, back-of-house functions to see what scope for improvement there is in maintenance practices and other overheads. I also believe that there is some scope to reduce running times in Newcastle which should allow us to provide the same level of service for less cost, so we will be pursuing those sorts of opportunities.

In relation to service quality, I think the service quality in Newcastle is extremely high. It has improved, as the figures here demonstrate. I don't know how much more scope there is for further improvement because it is so high. It has very, very good on-time running, few cancellations; changeovers are good; collisions are quite low; customer feedback is fairly low. So from our point of view there's not the same imperative there to do work to improve those as there is in Sydney, so we think that's doing fairly well. Our immediate task is to look and see what we can do to improve our productivity by things like reducing running times, reducing absenteeism - all those sorts of things that are waste costs within your business.

THE CHAIRMAN: Any comments?

MR MILES: Thank you, Mr Chairman, I don't know a lot about Newcastle services, but I would like to think that your final determination will not be made on what we have

talked about today, but on what's in the written submissions.

There are two points. One is that there is the threat that in future Newcastle will lose its time-based services and be forced to go on to same 19th century section-based services that the rest of the system is subject to. I would not like to see that happen. I notice there is no plan to do it this year, but I fear that when the time comes the time-based system will go. It may not be perfect and it could be perhaps altered a little, but I would like to see it stay.

Secondly, Mr Glasson just said that improved running times mean that, by making the buses go faster, they can provide the same level of service at less cost. Why not provide improved services at the same cost? You employ bus drivers for a shift. Just because he drives the bus and it takes 29 minutes instead of 33, how is that going to save you money?

MR WILSON: What happens in particular in Newcastle, the services by and large have a common termination point in Newcastle CBD, so we are able to interwork operators between different routes and gradually accumulate those savings and reduce the number of shifts that we require to operate the service. Whether or not any additional kilometres are provided would be subject to the approval of the Director-General as to whether there was a desire to increase the level of service, but my comment was really in relation to efficiency and productivity, that we have the potential to produce the same output for less cost.

THE CHAIRMAN: As a passenger, if you get there in less time, I regard that as an improvement in the use of my time.

MR WILSON: Yes, that's quite right. We would see it as actually a twin benefit, that passengers will have a faster trip and lower costs.

THE CHAIRMAN: Are there other comments? I will ask for questions from the rest of the room. Just an observation, Sibylle and I were having a discussion over morning tea where we were told about the advantages of a time-based change in the system in terms of intertransferability between routes and so on. Perhaps you would like to enlarge on that.

MR GANTAR: Every other state has the time-based fare system except for New South Wales, the most recent one being Brisbane in 2004. The time-based system lets you make as many trips in the time you pay for, as many as you like. Those other states have a two-hour ticket.

Say you only want to do one trip, say, from here Bondi Beach. You get the train to Bondi Junction and a bus to the beach and you only pay the same fare, instead of queuing up again to buy a separate ticket. So you can interchange between different services by paying the same fare, instead of paying extra fares - which is the case now in Sydney. It gives an incentive to the government to run the services on time because, if the bus comes late, your ticket might expire while you're waiting. They won't be happy with that if the service comes late, so that will give the incentive for the government to do something about having the service reliable.

MR MILES: I frequently visit Brisbane and I support those comments. It is either a one-hour or two-hour ticket and a 24-hour ticket. You can buy a single ticket, train, bus or ferry - all the time. If you buy a return ticket, that entitles you to travel anywhere within that zone all day, as many times as you like. That is why we talk about zone tickets and transfers. So if you buy a zone 23 ticket you can travel from Gympie to Coolangatta and back again, if your backside can stand it, in the same day. As Ivan Gantar said, Sydney is about the only one that hasn't got it.

THE CHAIRMAN: I am getting from that that you would regard this as an improvement in service quality if you had that sort of facility to transfer.

MR MILES: Yes.

MR WILSON: Could I make a comment on that. There is no doubt that time-based tickets facilitate transfer, but there is no reason why, with Smartcard technology, we can't facilitate transferring with those systems as well. So that particular advantage that time-based tickets may have at the moment will not necessarily exist in the future. The other concern, I guess, with time-based tickets is how cost-effective they are.

THE CHAIRMAN: You are envisaging getting the same degree of flexibility and transferability with the TCard?

MR WILSON: I think that is a matter that the Director-General might address. I am just saying that under current magnetic ticket technologies, that has been an issue; but under future technologies, the transferability with TCards becomes trivial.

MR MILES: If you've got a TCard.

MR WILSON: If you've got a top-up ticket, yes.

MR GLASSON: There are two issues: one is, as Roger Wilson said, I think the TCard will, by and large, overcome the issue of cross-modal interchange and the ease of that because you simply will not have to queue to buy tickets; you will just move between modes. The other issue is the broader policy evaluation: how do you work your cost recovery in an equitable way on a time basis? That is a broader discussion.

MR McCALLUM: I would like to agree. Although this is a Newcastle section discussion, one of the worst examples of disincentive to transport has to be in the weekend mass movement to and from Bondi Beach, largely of young people and particularly visitors to the city, who have to catch a train for part of the journey and a bus for the second half. They have to queue up twice for tickets and face a much more expensive trip because there are two flagfall components - one coming off Bondi Beach for the short trip to the Bondi Junction station and then the second one into the CBD or wherever they are going.

I would hope that the TCard can begin to acheive a greater degree of equity. It is actually for casual users. The short distance to the CBD is an example of one of the most expensive trips in the system. It does not compare too well with, say, the last time I worked it out, 16 cents per kilometre out to Palm Beach.

MR COX: This is a question to Roger Wilson: since we have you here to talk about Newcastle, I think it might be an opportunity for you to reflect upon your views as to the success of time-based ticketing in Newcastle. Since you have had it now for a number of years, what are its strengths and weaknesses?

MR WILSON: I think the strengths are the ones that have been referred to by the questioners. There is no doubt that from a point of view of transferability, it is a very simple and easy ticket to use. I think the weaknesses are in how cost reflective fares are. There is a far greater risk that people with short distance demands are going to pay a disproportionately high cost for their fare; whereas people with long travel demands are going to pay a disproportionately low cost for their fare. I think it comes down, at the end of the day, to the sorts of policies that the government wants to pursue on that, but I think the implications are fairly obvious.

MR COX: I was wondering whether you feel it has been successful in increasing patronage.

MR WILSON: I do not think we really have evidence to say that there has been any substantial increase in patronage that you could ascribe to the time-based fares. The trend over recent years in Newcastle has been for a gradual reduction in patronage. In the last year there have been some indications that it has sort of stabilised and may be turning round. You couldn't say that it has, for example, given 10 or 20 per cent more patronage because of a different product. Any differences that occur, I think are only very much at the margins.

MR COX: Thank you for that.

MS KRIEGER: This is a question also to you, Roger. In Newcastle, do any of the reform issues that arise in Sydney arise in Newcastle or is it all STA-run so that there is not that interface between segments that private operators run which has given rise to many of the reform issues in Sydney? I am just wondering whether the situation in Newcastle has any of the potential gains that has been spoken about deriving from the performance in Sydney Buses?

MR WILSON: Yes, there are parallels in Newcastle with those that exist in Sydney. They are perhaps a smaller scale, but there are private operators in and around our areas. We signed our contract for Newcastle starting from 1 July this year, so it is a year behind Sydney in terms of contract implementation. I think that the private operators were around a similar time to State Transit

signing in Newcastle. It is probably just a different of scale, but the principles are really the same in both cities.

THE CHAIRMAN: Unless someone else wants to weigh in, we might move to the bus costs. In the bus industry cost index, for the present review, the Bus and Coach Association submitted a bus industry cost index which showed a weighted average rise in unit input costs of 5.25 per cent. The association has requested the Tribunal to increase the private non-metropolitan bus fares under commercial contracts by about 5.25 per cent.

The Tribunal is particularly interested in hearing the stakeholders' views as to the rise in costs as measured by what I will call the BICI, if that is appropriate, and how should the potential for productivity gains be taken into account in the context of a bus cost industry cost index. Darryl, do you want to lead off?

MR MELLISH: Thank you, Mr Chairman. In the industry submission, we have tried to indicate that the cost index is an industry average, that it is associated with a funding model where the operators' revenue is completely tied to fares. It applies to a maximum fare scale and the maximum fare scale is then used by the government to assess what fares apply for the school student transport scheme which is a discount over the maximum fares. Also the operator then determines, based on his own operating environment, the actual fares that apply up to that maximum. So that is the basis of the cost index.

This has been the measure that has been adopted by the government and the industry now for some years as a way of recording the industry cost movements, and we think it is still the best indicator we have at present for that purpose.

We also note in our submission that the funding model and the arrangements for revenue and fares in the areas that are currently covered by the bus industry cost index are under review. We will comment later, if you are agreed, Mr Chairman, on the productivity aspects of the cost index.

There have been some movements in fuel and wages and the index does show that impact. I just wanted to restate that this index applies to a maximum fare scale which then applies to the discounted fares that the government decides to pay for carrying school students under the free transport scheme and the operators then use that fare scale as a maximum guide for their own operations. It is, in this context divided into two scales: one is for country towns and the other is for rural areas.

We are talking here about 80-odd commercial operators largely operating in regional and rural areas whose funding model is still based on the fares system and where costs of fares have not been delinked like they have in metropolitan areas. It is quite a different funding arrangement as far as contracts are concerned for the operators.

THE CHAIRMAN: You indicated that you wished to speak to something else.

MR MELLISH: It was the productivity aspects. Do you want me to address that now?

THE CHAIRMAN: Yes, thank you.

MR MELLISH: The industry analysis that we have done of the variability and viability of regional and rural operators leads us to believe that productivity adjustments should be delayed until we can understand how to measure them and what impact they would have on such a wide variety of operations - we have very small, very large. The government at present is actually looking at interim arrangements for regional and rural operators which confirms the great range of circumstances that are currently applying in this transition period.

For those who don't know, the reform process has been broken up into three areas - the metropolitan, the outer metropolitan and the regional and rural. The metropolitan contracts have all been signed. With the outer metropolitan, I think seven out of ten have been signed. With regional and rural, no new ones have been signed yet. There is an agenda to migrate to new contracts starting in 2008, which would mean the funding, service planning and contracts are currently under review.

Because of that transition and the dramatically wide variety of operating circumstances, we believe that a productivity adjustment is a high risk given the variable

nature and the viability aspects which the government is trying to currently address through various interim arrangements.

So our position on productivity adjustments is that we accept the concept. We attended the workshop. The ability to measure those adjustments and to apply them to, in this case, 1,300 businesses in different operating environments, we think is best left until the reform process better identifies the productivity losses as well as the productivity gains because there are a number of those which are impacting and will be taken into account in the new contract. In our submission, we did attempt to list some of those gains and losses so that there would be an opportunity for a balanced assessment.

THE CHAIRMAN: Just as a point of clarification, you talked about new contracts covering 2008, I think. If the Tribunal accepted your proposition to delay, would that be a delay for this year only or would it be a delay for two years?

MR MELLISH: Mr Chairman, it would be a judgment. I think that the 2008 January date is a commencement date of roll-out, and I think it would take probably two to three years to completely roll out all of the contracts for all of the regions. The director-general would be better able, of course, to comment on this. I think it is more than one year, but I should ask for confirmation.

MR GLASSON: My view at this point is that it would be one year. The process that we are working through on the rural and regional reform at this stage envisages us collecting significant amounts of data by mid-next year, at the latest, on the financial viability and performance of operators, and that includes both the commercial operators we are talking about now and the non-commercial operators that we will talk about in a minute.

Whilst we are intending to resolve through the government a new contracting model targeted towards implementation from 1 January 2008, I would think that by the time IPART comes to consider these matters next year, we will able to put a far more informed view to you in relation to the productivity issue. In that respect, I would support the comments that Darryl has made.

MS KRIEGER: A question for the BCA: do you expect a significant shift in the structure of the industry in the face of these reforms given that the rural and regionals seem to cover a range from very small operations to much larger operations?

MR MELLISH: Good question. There will always be remote dedicated school services. Where the students live and where the schools are located in the remote areas there will be an extensive network of dedicated small standard-alone contracts. When you get into larger towns in the regional centres, there are some opportunities for networks and some efficiencies. However, we are seeing consolidation in the market already, without price reform, and we are looking at ways of operators working together to achieve increased efficiencies either as subcontractors or lead entities. As a general principle, the planning areas are being looked at where they can be planned as more of a network than planned separately.

I think there will be some consolidation. The market will continue to indicate that that is going to occur and I think the ministry, through its service planning guidelines, will require streamlined administration with probably fewer contracts and probably, where it is feasible, greater integration of networking.

THE CHAIRMAN: Would you like to add to that, Jim?

MR GLASSON: Yes, but only to say that one of the principal factors that has caused us to move more slowly, if you like, in terms of rural and regional reform has been an acknowledgment, I think on all sides. That we need access to better information as the basis for determining what, if any, changes ought occur.

There is a high degree of difference between the very small operators and some of the larger town services. At the moment, I think it is fair to say that we do not yet understand the quantum of efficiency available to us and the social offsets and impacts that might come from applying some of those efficiencies. That is very much something that we do not want to prejudge, which is why we are going through this data-gathering exercise and consultation exercise at this stage. But I do reiterate that we would expect to be significantly better informed before we make submissions next year.

THE CHAIRMAN: Are there other comments or questions relating to this?

MR TREVASKIS: As one of my duties, I am Chairman of the Blue Mountains Integrated Transport Forum, where we have the bus, private bus and taxis the Western Community Forum, et cetera. When I first helped set up that forum, we had three bus companies all going in three different directions. Fortunately the Blue Mountains Bus Company came to the party and bought the other two. We now have one bus company across the mountains which goes from Penrith to Mount Victoria and the suburbs in between. In that context, we have one fare structure in the Penrith-Emu Plains area and another one from Lapstone through to Mount Victoria.

Reading the documentation and looking at the Unsworth bus reform review, we are not sure where we lie. We are sort of a region in ourselves, which we are very proud of, but we are trying to improve both rail and bus services. In the context of that, I am not sure whether IPART can come in and look at the fare structure to give us something that should parallel the rail system.

We have an hourly train service and we are saying, "Okay, we have buses there. We use the buses as supplementary within that hour going along the highway and in the suburbs." So we have a community. They need bus and rail services. How do we use both economically so that we can have the same fare structure?

We were able to get the PET, which was a bit of a struggle. We have that now. Which is a big improvement, but we still don't have a TravelPass or the DayTripper on the rail system and we should be able to use that on the buses as well.

My question is: who do I talk to to go through in depth to say: this is what we have? We have a zone system. A lot of people don't go to the beaches because we have our own swimming pools and, of course, we have the development of the lakes. There's the university, and the hospital, and Penrith is becoming a satellite city, if you like, so that there will be a cross flow between that area. So, Dr Keating, are we looking at fares in our area at this stage or will that be sometime in the future? Perhaps the ministry could answer. I am confused really.

THE CHAIRMAN: Well, IPART does not run any of these businesses.

MR TREVASKIS: But are you looking at fares for our area in the context of this forum?

THE CHAIRMAN: No. All we are looking at is an index which will increase maximum fares uniformly across rural and regional bus services.

MR TREVASKIS: And that includes the Blue Mountains?

THE CHAIRMAN: It does. I sympathise with your questions, but I think they are better directed to the ministry - and on another occasion, too.

MR GLASSON: I think you are referring to matters of government policy. We are aware of those concerns that you are talking about, but they are matters that ultimately are government policy about its fares.

MR TREVASKIS: I will talk to you after this, if you don't mind.

MR GLASSON: Sure.

MR TREVASKIS: Are you adjusting the fares in the private bus area outside the Transit Authority at the moment or the metropolitan areas?

THE CHAIRMAN: Yes, but it is done by an index which is common to whether you are in Condobolin or you are in the Blue Mountains.

MR TREVASKIS: So we are looking at a 5 per cent increase or whatever you decide?

THE CHAIRMAN: Yes, that's right.

MR COX: But that is a maximum fare and they can charge less.

MR TREVASKIS: It's only a maximum. They can charge less if they want to?

THE CHAIRMAN: Yes, and there might be market reasons why they would want to do that.

MR TREVASKIS: Thank you.

THE CHAIRMAN: Are there other comments on this particular matter? If not, we will move to the final matter for buses, and that is the PricewaterhouseCoopers model which covers operators on non-commercial contracts. The BCA is seeking increases in revenue payment for operators on non-commercial contracts of between 5.4 and 7.3 per cent which flow from the PwC model. We would like to hear stakeholders' views on the appropriateness of these increases and on any other issues relating to the PwC model that you might want to raise. We will start off with the BCA.

MR MELLISH: Thank you, Mr Chairman. This model has been in existence for some time. It calculates the remuneration payable to dedicated school bus services in remote areas where it is not feasible for a per head fare basis to be considered because of the location of the schools and the students. The model produces revenue requirements based on a number of inputs. Those percentages that you indicated, Chairman, are correct, based on a bus doing 100 kilometres a day and four hours a day, but there is a significant variation above that.

The model does just not convey a percentage through. There are different sizes of buses relating to the different student task. Generally in these areas, the communities are affected by droughts and distances and school numbers do go up and down a lot in those areas.

The basic school bus service for these remote areas is very important to the community, and the remuneration model is one that has been in place now for some time. We believe it needs to be refreshed and looked at, but the concept of a cost plus style contract we believe is the only way for these services to be adequately provided in those regional and rural areas. Until we have completed this reform process which does include all these services, we feel that the existing model should continue to apply.

MR GLASSON: I do not seek ever to distinguish between the need for public transport, but I would emphasise that the non-commercial services in country areas such as taking children to and from schools is one of the most basic levels of social need across the state in terms of servicing those communities, particularly in some of the more remote areas.

The BCA has made representation to us over recent times that they feel that the PwC model needs to be refreshed. Our view on that is let us proceed with it, given that we are in terms of the reform process taking a more fundamental look at what might be either a modification or some alternative based around some better data and some better information around people's real costs and the reasonable rate of return.

THE CHAIRMAN: Thank you.

MR MELLISH: Mr Chairman, if I could, I would also wish to add that this is the area where the greatest interim funding arrangements have been considered by the government because of the shifting nature of students and of the viability of the operator. We are seeing some very good work going on just looking at this transitional period, but it is premised on the understanding that the PricewaterhouseCoopers model has been in place now for sometime and probably is getting close to needing review.

THE CHAIRMAN: Can I just say if you are contemplating changing the PwC model, it would probably useful to involve IPART in it.

MR GLASSON: It is our intention at this stage, once we have gathered some facts and had some discussions about options, to come and have a discussion.

MR MILES: Mr Chairman, I confess my almost complete ignorance of country bus services --

THE CHAIRMAN: This is school bus services.

MR MILES: Well, school bus services as well. I recall in one of the recent inquisition requests, either by Dr Parry or Mr Unsworth, there was talk about amalgamating the school bus, the Apex bus, the Aboriginal bus and the Medicare bus to make them run more efficiently. Has that ever been looked at? Do you know what I am talking about?

MR GLASSON: That is dealing with community transport and

the option to utilise buses regardless of whether they are school buses or commercial services linked with existing community transport vehicles and local taxi services, and that has been dealt with in a different way.

MR MILES: Does that make a difference to the fares or the revenue?

MR GLASSON: My view would be that it doesn't on these non-commercial services.

THE CHAIRMAN: Would it not mean a better utilisation of the bus fleet?

MR GLASSON: It depends very much around how a bus is provided. In a lot of cases, these buses are owned and driven by people for whom that is not their full-time occupation. They may run a farm. They may own a small business. They drive the bus to and from town, but the rest of the day they are off earning a living in some other manner; therefore, there is not a bus available at the more marginal cost to go and do those alternative things. That is as a general comment. It is not an absolute comment.

MR MELLISH: Where they can be better utilised, of course, that should happen. We hope that will come through some of this fact-finding that is going on at present.

MR MILES: That is what I meant. After the fellow finishes his bus run in the morning, the bus sits in the driveway until 2 o'clock; could that be used some other way and somehow reduce some of the costs?

THE CHAIRMAN: Are there any other comments or questions?

MR COX: This is on country buses in general. I think we have been left with the impression that although some businesses are doing quite well, some businesses are struggling. What could be said in general terms, if anything at this stage, about the general level of cost recovery on country buses? Should we be concerned about that in making our determination or should we think that is perhaps a small problem that can be dealt with some other way, or are we really looking at an industry that is facing difficulties?

MR MELLISH: The PwC model is a cost plus model. I think if we get the costs right and we get the margin right and we get the utilisation right, that would be okay. There are some issues with the PricewaterhouseCoopers' model because the return on investment is not related to the effort.

I think the broader question about the regional and rural in totality is that the farebox system, because it has kept pace with the index, has served reasonably well. There is increasing evidence that fuel costs and wage costs are impacting on operators and that is why the interim arrangements have come in, but I think the efficiency argument of having your revenue tied to carrying passengers is a strong one. If we can maintain that, then we think that is a good incentive for providing the best service. Beyond the interim measures that the government is taking, and the data collection, I don't think there is a dramatic position where we are going to see a significant change in the short term. It will take more than that.

THE CHAIRMAN: Thank you. Are there any questions?

MR McCALLUM: While you mentioned the Sydney experience, I am a retired principal and part of my earlier experience as a principal was in the country. I have maintained contact with the country through annual visits to the main place where I taught - I just got back from there last weekend - plus through a role with the New South Wales Primary Principals Association, so that has given me quite an inkling into a constant update as to the situation with regards to school buses.

I think Mr Mellish's contribution was significant because I have known some of the country operators and many of them have very marginal operations indeed. If the services are to continue around the state, that has to be watched. I fully agree with what he said and with the other contributions.

But parents and families also pay a contribution for their children to use this service to some degree. I would put it to the authority that the current drought is having a huge impact and whatever decisions are made really must take into account the real financial and social stress, particularly west of the divide, that people are going through.

I was appalled during my visit to Illabo to find out just how bad the drought has become. That is an area that has been largely drought-free and I have the impression that people are in a state of denial at the moment. People are saying: we have had droughts before; these things come and go. Some of the farmers saying this to me were my own students and I've been around longer than they have and there hasn't been a drought in succession of years as great in that area before in our lifetimes. So it is worse.

Whatever decision flows from this inquiry, I think the matter of country bus services, particularly school bus transport, must be dealt with very sensitively so that the operators can survive, as Mr Mellish mentioned, but so that the stresses on families are also minimised.

THE CHAIRMAN: Thank you. I think I might bring this morning's proceedings to a close. I thank you all for your participation. For those of you who are interested, we will recommence at 1.30, looking at fares proposed first of all by the Sydney Ferry Corporation and then the Commercial Vessel Association of New South Wales.

AT 12.04PM THE TRIBUNAL ADJOURNED ACCORDINGLY