

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**REVIEW OF FARES FOR CITYRAIL AND SYDNEY FERRIES SERVICES  
FROM JANUARY 2013  
REVIEW OF FARES FOR RURAL AND REGIONAL BUS SERVICES 2012  
REVIEW OF THE FARE FOR THE STOCKTON FERRY SERVICE 2012**

**TRIBUNAL MEMBERS**

**DR PETER J BOXALL AO, CHAIRMAN MR JAMES COX, CEO  
MR SIMON DRAPER**

**Held at the Offices of IPART Level 8, 1 Market Street, Sydney**

**On Wednesday, 17 October 2012 at 2pm**

1 THE CHAIRMAN: Good afternoon. Thank you very much  
2 for coming. My name is Peter Boxall and I am the Chairman  
3 of IPART. I would like to welcome everybody here today.

4  
5 In this joint session, we are looking at maximum fares  
6 for CityRail, Sydney Ferries, rural and regional bus services  
7 and the Stockton ferry. With me today are Jim Cox, on my  
8 right, and Simon Draper, on my left, my fellow Tribunal  
9 members.

10  
11 We are grateful to everyone who has made submissions to  
12 these fare reviews. These are an important part of our  
13 reviews and we value the efforts that you have made.

14  
15 Today's hearing provides both you and us with the  
16 opportunity to consider the issues relating to maximum  
17 fares for CityRail, Sydney Ferries, rural and regional bus  
18 services and the Stockton ferry. The hearing is broken up  
19 into four parts, with two items on CityRail and Sydney  
20 Ferries, and then rural and regional buses, followed by the  
21 Stockton ferry.

22  
23 With respect to the hearing process, the IPART  
24 Secretariat will run through some introductory comments at  
25 the beginning of each session, and then we will hear from  
26 people who are present.

27  
28 This is a public hearing and forms part of a public  
29 consultation process that the Tribunal is required to  
30 undertake. Transcribers are present to record the  
31 proceedings, and the transcript will be publicly available.

32  
33 So that we can have a complete record, please  
34 introduce yourself and the organisation with which you are  
35 affiliated when you start to speak. It is also important  
36 that you speak slowly and clearly.

37  
38 Session 1 - CityRail and Sydney Ferries - framework for  
39 maximum fare regulation

40  
41 THE CHAIRMAN: This session is concerned with the  
42 framework we use to set maximum fares for CityRail and  
43 Sydney Ferries services. These are the fares that apply to  
44 rail services covering suburban Sydney and extending to  
45 the Hunter, Central Coast, Blue Mountains, Southern  
46 Highlands and South Coast regions, and the fares that  
47 apply to Sydney Ferries services on Sydney Harbour and

1 the Parramatta River.

2  
3 These reviews are conducted under section 11 of the  
4 IPART Act and section 16AE of the Passenger Transport Act  
5 respectively. We released issues papers on the CityRail  
6 review in April and on the Sydney Ferries review in  
7 February this year. Our draft report and determination for  
8 CityRail services was released on 2 October, and Ferries  
9 was released in September.

10  
11 Our general approach in these fare reviews is to  
12 examine the actual costs of service provision, estimate  
13 what the efficient costs would be and decide how the  
14 efficient costs should be shared between passengers and  
15 taxpayers. Today we are going to explain our approach and  
16 invite discussion and comment on it.

17  
18 After further considering these submissions and the  
19 comments we hear today, we will release final reports and  
20 fare determinations for CityRail and Sydney Ferries in late  
21 November, in time for any fare changes to take effect in  
22 January 2013.

23  
24 With that, I invite Brett Everett to start with the  
25 framework for regulating maximum fares for CityRail and  
26 Sydney Ferries services.

27  
28 MR BRETT EVERETT: Thank you, Peter. The framework  
29 that we have used for setting maximum fares for CityRail  
30 and Sydney Ferries is based on making sure that passengers  
31 and taxpayers pay their fair share of the efficient costs.

32  
33 Like most public transport providers in the world,  
34 CityRail and Sydney Ferries do not generate enough income  
35 from fares to recover the costs of providing these  
36 services. This means that the New South Wales  
37 Government, or taxpayers, subsidise the costs.

38  
39 During our last review of CityRail fares in 2008, we  
40 developed an approach that ensures that the costs of  
41 providing public transport are shared fairly between  
42 taxpayers and passengers. We have since applied this  
43 approach to metropolitan and outer metropolitan buses,  
44 and we are applying it here for the second time to CityRail  
45 and for the first time to Sydney Ferries.

46  
47 Under this approach, we estimate the efficient costs

1 of CityRail or Sydney Ferries and the value of the external  
2 benefits that these services generate for the community as  
3 a whole, such as reduced road congestion and greenhouse  
4 gas emissions.  
5  
6 This slide gives an overview of how we decide how much  
7 passengers should fund through fares. For both CityRail  
8 and Sydney Ferries, we have looked at the costs and the  
9 benefits over the next seven years. Using a seven-year  
10 period provides for stable, moderate increases in fares to  
11 make sure that passengers and taxpayers are making a fair  
12 contribution to the costs of providing these services over  
13 the next seven years.  
14  
15 The first step is to estimate the efficient costs of  
16 providing the service. It is our view that passengers  
17 should not have to pay for any inefficient practices of the  
18 current operators. We begin by taking the actual costs  
19 that CityRail and Sydney Ferries incur in providing the  
20 services and then deduct any inefficiencies.  
21  
22 For both CityRail and Sydney Ferries, we engaged  
23 L.E.K. Consulting to provide recommendations on where  
24 efficiency savings can be made. By using this approach,  
25 our estimate of the efficient costs reflects the service  
26 standards required under the contracts and is independent  
27 of who is operating the services.  
28  
29 We estimate the efficient costs of the service by  
30 using a building block approach. Building block really  
31 just means that we determine the efficient costs of  
32 operating CityRail or Sydney Ferries by adding together  
33 three elements or blocks. These are efficient operating  
34 expenditure, an allowance for a return on capital and an  
35 allowance for depreciation.  
36  
37 The second step is to deduct the external benefits of  
38 the service. We consider that the external benefits  
39 generated by public transport services, such as rail and  
40 ferries, justify government subsidisation of the fares for  
41 these services. As I will discuss in the slides that  
42 follow, the levels of external benefits of rail and ferries  
43 in Sydney are very different and so, in our view, justify  
44 different levels of government subsidies.  
45  
46 The third step involves deducting an estimate of the  
47 cost to government of providing concession fares. IPART

1 does not determine eligibility or fares for concession  
2 tickets, such as the pensioner excursion ticket and school  
3 student travel. This is a matter for government. We  
4 consider that the provision of concession fares is part of  
5 government social policy and therefore its costs should be  
6 funded through a taxpayer subsidy and not by other  
7 passengers.  
8  
9 The fourth step involves deducting a proportion of  
10 non-fare revenue generated by CityRail and Sydney Ferries.  
11 Non-fare revenue is revenue generated from activities such  
12 as advertising and rental income and is not generated from  
13 passengers. For most sources of non-fare revenue, such as  
14 rental income and advertising income, we consider it  
15 appropriate to allow CityRail and Sydney Ferries to keep  
16 50 per cent of the revenue and give the passengers the  
17 benefit of the other 50 per cent.  
18  
19 By applying this approach, passengers and taxpayers  
20 are being asked to pay their fair share of the efficient  
21 costs.  
22  
23 I will now go into a little more detail on how we have  
24 estimated the efficient costs and the external benefits for  
25 our reviews of CityRail and Sydney Ferries.  
26  
27 For our CityRail review, we decided to update the  
28 building block approach from our last review where new  
29 information is available.  
30  
31 In our issues paper that we released in April this  
32 year, we proposed using an index approach to estimate the  
33 costs of CityRail's services over the next few years. We  
34 consider this simpler, less resource-intensive approach was  
35 more proportionate than a building block approach, given  
36 that our proposal at that time was to set fares for  
37 one year. We also considered it was not prudent to  
38 undertake a major review of CityRail's efficiency at this  
39 time, because RailCorp is undergoing a reform program  
40 informed by an efficiency review undertaken by Booz & Co.  
41  
42 However, following our issues paper, we further  
43 analysed CityRail's costs, patronage and external benefits  
44 and decided to update our building block approach where  
45 new information is available rather than to use indexing.  
46  
47 Since CityRail continues to spend above the efficient

1 levels we identified in our last determination, we decided  
2 to roll forward our previous estimates of its efficient  
3 operating expenditure for each year of the determination  
4 period, keeping them constant in real terms. In our last  
5 review of CityRail, L.E.K. Consulting recommended that  
6 CityRail could make operating cost savings of around  
7 18 per cent.  
8  
9 We decided to update our allowances for return on and  
10 of capital by estimating forecast capital expenditure based  
11 on a five-year rolling average of CityRail's historic  
12 expenditure and including 40 per cent of the expenditure  
13 associated with the South West Rail Link when this project  
14 comes online in 2016.  
15  
16 The South West Rail Link is the next major capital  
17 project to come online for CityRail. IPART's draft  
18 decision is that the costs of the South West Rail Link  
19 should be spread across passengers from 2016 when the  
20 project comes online, as well as future passengers that  
21 benefit from the capacity enhancement that this project  
22 provides to south-west Sydney. Therefore, rather than  
23 including the full cost of the project in 2016, we have  
24 included only 40 per cent of this cost.  
25  
26 IPART also decided to update the estimated value of  
27 CityRail's regulatory asset base to reflect our previous  
28 decision to apply a post-tax weighted average cost of  
29 capital to all of the industries that we regulate using  
30 a building block approach.  
31  
32 We have applied an updated real post-tax WACC of  
33 5.1 per cent. We used the same industry-specific  
34 parameters, with updated market parameters. Finally, we  
35 also updated the asset lives used to calculate CityRail's  
36 depreciation allowance based on new information that was  
37 provided by RailCorp.  
38  
39 For our review of Sydney Ferries, we have applied the  
40 building blocks approach that we use in CityRail and our  
41 previous review of metro and outer metro buses.  
42  
43 Sydney Ferries has three distinct service areas:  
44 Inner Harbour, Manly and Parramatta River. We have  
45 recommended that the government remove maximum fare  
46 regulation for the Manly route and drop back to a price  
47 monitoring role to be implemented by IPART.

1  
2 The Manly to Sydney route is the most competitive  
3 public transport route in New South Wales, with strong  
4 competition delivering passenger benefits beyond what can  
5 be achieved through regulation. IPART thinks that these  
6 are strong arguments for deregulating ferry fares on this  
7 route.  
8  
9 However, while maximum fare regulation remains for the  
10 Manly service, we consider that fares should be determined  
11 based on the efficient costs of providing services over  
12 a core network of the Inner Harbour and Manly services  
13 only.  
14  
15 The three service areas that I have referred to have  
16 different operating conditions and patronage levels. In  
17 particular, the Parramatta River service accounts for  
18 around 25 per cent of Sydney Ferries total costs but only  
19 10 per cent of patronage. Thus its costs per passenger are  
20 significantly higher than those of other services,  
21 especially Manly. It also competes with rail for  
22 passengers travelling between the city and Parramatta, and  
23 train fares are cheaper than ferry fares and the journey  
24 time is shorter.  
25  
26 These differences mean that if we include the river  
27 service in our determination of efficient costs, then all  
28 passengers will pay higher fares, to fund this service.  
29 Therefore, we decided to set fares based on the efficient  
30 costs of providing ferry services on a core network of the  
31 Inner Harbour and Manly routes only. This approach is  
32 consistent with the one that we use in setting Sydney metro  
33 and outer metro bus fares, where there are similar patterns  
34 of costs and patronage levels across the service contract  
35 areas.  
36  
37 We estimated the efficient costs of the core network  
38 independently of who operates those services.  
39  
40 One option would have been for us to utilise any  
41 available information on costs provided through the recent  
42 franchising process for the operation of Sydney Ferries  
43 services. It is reasonable to assume that a market-testing  
44 process produces bids that at least cover the efficient  
45 costs of providing the contracted ferry services. However,  
46 the presence of policy constraints that impact on an  
47 operator's ability to achieve efficient costs - for

1 example, regarding the Sydney Ferries labour force - means  
2 that such market-testing data is unlikely to reveal  
3 efficient costs. Therefore, while we would have regard to  
4 any available market-testing data, we undertook our own  
5 analysis of efficient costs.

6  
7 We engaged L.E.K. Consulting to provide  
8 recommendations on efficient levels of operating and  
9 capital expenditure required to operate Sydney Ferries. We  
10 have published L.E.K.'s report on our website.

11  
12 L.E.K. identified opportunities to reduce the forecast  
13 cash costs by 24 per cent by 2015/16. For example, L.E.K.  
14 observed that compared to the benchmark ferry operators,  
15 Sydney Ferries vessel operations have higher staffing  
16 levels, especially on the Inner Harbour routes, and  
17 above-market remuneration levels.

18  
19 Its wharf operations also have higher costs per  
20 employee than the benchmarks. L.E.K. also found that  
21 industrial relations reforms to enable Sydney Ferries  
22 vessel, wharf and shipyard labour productivity costs to be  
23 brought fully into line with those of benchmark operators  
24 would further improve its operational efficiency.

25  
26 Moving on now to the external benefits - in general,  
27 the external benefits of a service are indirect benefits  
28 that accrue to the wider community as a result of the  
29 availability and use of that service, as opposed to the  
30 internal benefits, which accrue to the individuals who use  
31 that service. For example, the external benefits of public  
32 transport services may include reduced road congestion,  
33 reduced traffic accidents and reduced air pollution.

34  
35 We engaged Sapere Research Group to analyse and  
36 recommend the value of external benefits for CityRail and  
37 Sydney Ferries.

38  
39 In our view, the most significant, quantifiable and  
40 relevant types of external benefits generated by rail and  
41 ferry services arise from the reduction in the number of  
42 people using cars in the metropolitan region due to the  
43 availability and use of these public transport services.  
44 The major external benefits generated by CityRail and  
45 Sydney Ferries services are reduced or avoided road  
46 congestion and reduced or avoided general air pollution  
47 and greenhouse gas emissions.

1  
2 We considered several other potential external  
3 benefits, which are often discussed in relation to Sydney  
4 Ferries in particular and to public transport services in  
5 general. These include the "iconic value" of Sydney  
6 Ferries services as well as the social and agglomeration  
7 benefits of these services. It is our view that these  
8 benefits should not be included in estimating the value of  
9 the external benefits for the purposes of setting rail and  
10 ferry fares, for a variety of reasons.

11  
12 The "iconic value" of Sydney Ferries services relates to the  
13 view that ferry services on Sydney Harbour are one of the  
14 quintessential attractions of Sydney as a city and tourist  
15 destination. Thus, they generate spill over benefits to the  
16 wider Sydney and New South Wales economies.

17  
18 Sapere considered this value and concluded that it is  
19 derived from the availability of ferry services as a whole  
20 and not from the amount of service being offered by Sydney  
21 Ferries. Thus, this iconic value is not relevant to  
22 pricing fares for Sydney Ferries services. We agree with  
23 this conclusion.

24  
25 The social benefits of public transport services,  
26 including ferry services, relate to the improved access and  
27 mobility they provide to particular users, such as those  
28 with low incomes and less access to alternative modes of  
29 transport. While we accept that these social benefits may  
30 be associated with ferry and rail services, we do not  
31 consider that they should be included in the estimated  
32 value of the external benefits for the purpose of setting  
33 fares.

34  
35 In our view, the best way to achieve these social  
36 benefits is to ensure that government investment in public  
37 transport services meets the needs of passengers with  
38 limited access to other transport modes and that  
39 a well-targeted concession program is in place. We  
40 consider that this is more appropriate and likely to be  
41 more effective in generating social benefits than  
42 increasing taxpayer subsidisation of the fares that are  
43 paid by all passengers.

44  
45 Agglomeration benefits arise because the availability  
46 of affordable public transport services is one of the  
47 factors that facilitate the creation of a larger and deeper

1 labour market in the Sydney area, broader customer bases  
2 for businesses and the potential for learning, information  
3 exchange and knowledge sharing.

4  
5 We do not consider these benefits should be included  
6 in the estimated value of the external benefits for the  
7 purpose of setting CityRail and Sydney Ferries fares, as  
8 the role of transport services in attaining them is not  
9 established.

10  
11 We decided to accept Sapere's recommendations on the  
12 level of external benefits for CityRail and Sydney Ferries  
13 that are on this slide. There are several points I would  
14 like to note on this slide.

15  
16 Firstly, CityRail generates substantial external  
17 benefits from avoided road congestion. Sapere has  
18 estimated that the value of avoided road congestion for  
19 CityRail is around \$1.9 billion a year.

20  
21 However, Sapere found that the external benefits of  
22 Sydney Ferries are small. It found that Sydney Ferries  
23 services provide an external benefit for commuter journeys,  
24 as they relieve some congestion on Sydney roads. However,  
25 they provide little congestion benefits for non-commuters  
26 and tourists. Therefore, the benefits of Sydney Ferries  
27 services to the community as a whole are low and much lower  
28 than those of CityRail services.

29  
30 In summary, we found that CityRail has substantial  
31 external benefits relative to efficient costs. We estimate  
32 that passengers should fund less than one-third, or around  
33 28 per cent, of efficient costs, while taxpayers should  
34 fund more than two-thirds, or around 72 per cent of  
35 efficient costs.

36  
37 However, Sydney Ferries' external benefits are much  
38 lower than those of CityRail. This means that passengers  
39 should fund a higher proportion of Sydney Ferries'  
40 efficient costs. We estimate this to be around two-thirds.  
41 This means that taxpayers should fund only around one-third  
42 of the efficient costs of Sydney Ferries.

43  
44 We consider that CityRail and Sydney Ferries fares  
45 need to increase to make sure that passengers and taxpayers  
46 are paying a fair share of the efficient costs of these  
47 services.

1  
2 We will now open up a session to stakeholder comments,  
3 where we are particularly interested in views on our draft  
4 decisions in two areas.

5  
6 As I have outlined in the previous slides, to decide  
7 on the passenger share for CityRail and Sydney Ferries, we  
8 take the costs of providing the service, deduct  
9 inefficiencies, then deduct the value of external benefits.  
10 Are there other factors we should consider when deciding  
11 what level of costs passengers should fund through fares?

12  
13 Secondly, do stakeholders support the approach taken  
14 by Sapere to estimating the level of external benefits  
15 associated with CityRail and Sydney Ferries services?

16  
17 THE CHAIRMAN: Thank you very much, Brett. I now  
18 invite questions to us and responses to the questions raised by  
19 Brett initially from people around the table and then from  
20 anyone else in the audience. Just to remind you, the  
21 hearing is being transcribed, so before you make a comment,  
22 would you please let us know who you are and where you are  
23 from. Thank you. Any questions from around the table?

24  
25 MR ALLAN MILES: Allan Miles, Action for Public  
26 Transport. I also represent Kevin Parish from the Commuter  
27 Council, who can't be here today.

28  
29 I have no problem with the CityRail figures and method  
30 of calculating the benefit, and so on. I am preparing  
31 a response for that at home. But I do have a lot of  
32 problems with the ferry one. I have already submitted  
33 a submission, so I don't think it is necessary for me to go  
34 through all my points, is it?

35  
36 THE CHAIRMAN: No. We have your submission, but are  
37 there any major questions you would like to raise, particularly  
38 for the benefit of other people in the room?

39  
40 MR MILES: Well, there is one part that I didn't  
41 understand, and Mike might be able to help. You talked  
42 about the difference between the availability of ferry  
43 services and the amount of ferry services. I don't see  
44 what the point is in that.

45  
46 MR MIKE SMART: This is in the context of what particular  
47 part?

1  
2 MR MILES: Iconic value.  
3  
4 MR SMART: I guess my approach was that the iconic value  
5 of the Sydney Ferries service is really derived from the  
6 iconic value of the harbour itself and that whatever  
7 particular type of watercraft a person might take to enjoy  
8 the iconic value of the harbour was really a secondary  
9 issue. So the availability of watercraft that you can use  
10 to enjoy the harbour is what is important. Who provides it  
11 and the particular amount of ferry service that is provided  
12 is not so important in terms of this iconic attraction that  
13 is provided to overseas tourists.  
14  
15 MR MILES: So you would rather have 1,000 water taxis  
16 coming from Circular Quay to Manly than two ferries?  
17  
18 MR SMART: It doesn't have to be water taxis. It could be  
19 some other type of boat. It could be a private ferry. It  
20 could be a cruise ship. It doesn't have to be a government  
21 ferry.  
22  
23 MR MILES: Another point is that if the Manly ferry  
24 service was somehow degraded or priced out of reach, there  
25 would be an effect on the retail centre at Manly. People  
26 don't go to Manly just for the fish and chips and the cheap  
27 beer. They go for the ferry ride. If they had to go to  
28 Manly by bus or had to go to Manly in a friend's car and  
29 find a park somewhere, then I think the retail money spent  
30 there would reduce and I don't think the Manly shopkeepers  
31 would appreciate that. I don't know how that fits into  
32 your external benefits.  
33  
34 MR SMART: I might just say that studies of the price  
35 elasticity of the ferry service for single tickets, which  
36 is the type of ticket that tourists are most likely to buy,  
37 show that the price elasticity is very low. Tourists are  
38 relatively insensitive to the price of the ferry ticket.  
39  
40 There is certainly no proposal to abandon the Manly  
41 ferry, or anything drastic like that. It is really just  
42 a question of what is the right price for the ferry  
43 tickets. I guess looking at these price elasticity  
44 studies, there is no reason to be afraid that there will be  
45 some serious knock-on effect for the tourism industries  
46 around Manly.  
47

1 MR MILES: Unfortunately, you can't say, "You're  
2 a tourist - you pay \$10. You're a local - you pay \$7."  
3  
4 MR SMART: In a sense, the ticket type selects the type of  
5 use. If you are a commuter, you are more likely to buy  
6 a periodical ticket. If you are a tourist, you are more  
7 likely to buy a one-off ticket.  
8  
9 MR MILES: But IPART wants to take the ferries out of the  
10 MyMultis.  
11  
12 THE CHAIRMAN: Brett, do you want to respond to Allan's  
13 point there?  
14  
15 MR EVERETT: What IPART has made recommendations on is  
16 whether the MyMulti1 ticket should be able to be used on  
17 ferries. We have said that we would recommend that because  
18 of the way that that ticket is priced and the bundle of  
19 services that are associated with it, MyMulti1 should not  
20 be used on a ferry; it should be either a MyMulti2 or a  
21 MyMulti3 ticket.  
22  
23 MR MILES: We spent years integrating everything, and you  
24 want to dis-integrate it. Another point is that the ferry  
25 patronage is 3 per cent of the total public transport  
26 patronage in the greater Sydney area. It is hardly worth  
27 bothering about. It is hardly worth making a big fuss and  
28 causing pain to everybody for 3 per cent of the patronage.  
29  
30 THE CHAIRMAN: We can take up some of these questions  
31 on ticketing and fares in the next session, Allan. Even  
32 though Sydney Ferries transport is only 3 per cent of  
33 commuters, nevertheless it is a substantial amount of money  
34 which the government is subsidising the ferry services.  
35  
36 Are there any other questions or comments?  
37  
38 MS RHIANNON COOK: I'm Rhiannon Cook from the  
39 Council of Social Service of New South Wales. I want to talk  
40 broadly about some of our concerns with the fare determination  
41 process before coming back to IPART's role in that process  
42 and the factors that it should be considering.  
43  
44 We think that the costs of public transport fares is  
45 a public policy decision. Our view is that there are two  
46 main policy objectives that the government should be trying  
47 to achieve through its decisions on fares. They are the

1 need to encourage people to switch to public transport and  
2 the need to ensure that public transport services  
3 are affordable to everyone.  
4  
5 As to the first of those - at the moment, there is no  
6 relationship between how much it costs to travel by public  
7 transport and how much it costs to travel by car. That  
8 means that there is no price signal that encourages people  
9 to use the mode of transport that will incur the least  
10 costs to society. In fact, it usually works out that once  
11 someone has paid the upfront costs of car registration and  
12 insurance and ownership, it is cheaper to drive than to  
13 catch the train or the bus.  
14  
15 If the government is serious about wanting people to  
16 switch to public transport, then the cost of public  
17 transport fares has to be considered in relation to the  
18 cost of driving. Whilst we acknowledge that that sits  
19 outside of IPART's scope, we do think that IPART could  
20 provide useful advice to government in terms of the likely  
21 impact of any fare changes on demand, and where demand is  
22 reasonably inelastic, then we think that a good case could  
23 be made for using IPART's proposed approach.  
24  
25 Our second concern is about affordability of transport  
26 services for everyone. There is no connection between the  
27 fare-setting processes and the processes that are used to  
28 develop concessions policies, so IPART cannot make  
29 a recommendation whereby the social impact of a proposed  
30 fare increase might be offset by a targeted concession  
31 measure.  
32  
33 From our perspective, this means that even when there  
34 is a strong case for increasing fares, our concern has to  
35 centre on the people that would be disadvantaged as  
36 a result. For example, we acknowledge that ferries may  
37 well be the most subsidised form of public transport in  
38 Australia and that those subsidies are generally flowing to  
39 higher income earners than the subsidies that support bus  
40 services. But we also know that if ferry fares were to  
41 increase by the amount proposed, there are some groups of  
42 people who would be significantly disadvantaged as  
43 a result.  
44  
45 We therefore think it would be valuable if IPART were  
46 able to provide additional information on the social  
47 inclusion impacts of its fare determination processes as

1 part of its recommendations to government.  
2  
3 I just want to make one quick comment on the costing  
4 of the external benefits. Brett, you talked about the  
5 social benefits primarily being for people who are not able  
6 to use other forms of public transport or people who are  
7 transport disadvantaged. We probably disagree with you  
8 about whether or not they should be factored into the  
9 assessment of external benefits, but we would also like to  
10 point out that there is research that shows that public  
11 transport services have social benefits that accrue to  
12 society as a whole. For example, estimates of congestion  
13 often don't take into account the mental health costs that  
14 are linked to congestion and the impact on work/life/family  
15 balance. Thanks.  
16  
17 THE CHAIRMAN: Thank you very much, Rhiannon.  
18  
19 MR TIM REARDON: Tim Reardon from Transport for NSW.  
20 I will make some general comments only.  
21  
22 Transport for NSW supports IPART continuing to set  
23 maximum fares by assessing the efficient costs of operating  
24 public transport services and estimating the externality  
25 benefits which accrue to the wider community from providing  
26 those services.  
27  
28 As we placed in our submission to the issues paper, we  
29 consider that IPART should adopt a consistent methodology  
30 when determining the maximum contribution that customers  
31 should be expected to pay to meet the costs of delivering  
32 services.  
33  
34 However, the actual level of fares under the maximum  
35 set by the independent pricing tribunal will continue to be  
36 a matter for government policy and decision making, and in  
37 that regard the government has also made it clear that  
38 fares should not increase by more than the consumer price  
39 index unless there have been clear service improvements.  
40  
41 In terms of service improvements - by way of example,  
42 the government's Fixing the Trains initiative seeks to  
43 reduce the cost of operating passenger rail services by  
44 unclogging the bureaucracy, establishing better-quality and  
45 value-for-money outcomes for new arrangements, such as for  
46 cleaning services of our trains, reducing duplication and  
47 waste, and improving the delivery of construction and major

1 procurement projects by transferring those responsibilities  
2 across to Transport for NSW.  
3  
4 Similarly under the Fixing the Ferries initiative, the  
5 government has franchised the operation of Sydney Ferries  
6 to a private operator for the first time, and Harbour City  
7 Ferries commenced its operations in July 2012.  
8  
9 Transport for NSW and the RMS, Roads and Maritime  
10 Services, are also working on improvements to capacity and  
11 efficiency of the government-owned wharves located on  
12 Sydney Harbour. The government announced a maritime policy  
13 agenda in early August this year, which committed to,  
14 amongst other matters, Transport for NSW undertaking  
15 a consistent and transparent wharf access policy to provide  
16 certainty to commercial ferry operators in developing new  
17 service proposals.  
18  
19 It also had flow-on benefits, such as measures to  
20 support proposed Sydney Harbour destination plans by  
21 identifying opportunities for increasing access for  
22 recreational boat users, something that the Boating  
23 Industry Association, amongst others in the community, has  
24 been wanting for some time.  
25  
26 They are simply measures that are intended to improve  
27 value for money for the New South Wales taxpayers. Again,  
28 as I indicated, they are just general comments only at this  
29 point in time. Thank you.  
30  
31 THE CHAIRMAN: Thank you very much, Tim. Are there any  
32 other comments around the table?  
33  
34 Why don't we move out to the people in the audience.  
35 Are there any questions or comments from people in the  
36 audience?  
37  
38 MR PAUL TREVASKIS: Thank you, Mr Chairman. I'm chair of  
39 the Blue Mountains Integrated Transport Forum. Sadly, we  
40 have missed the IPART inquiry into the fare structure  
41 because of the transition stage within the Blue Mountains  
42 Commuters, but I am still chair of the Integrated Transport  
43 Forum. Some of the issues that have been raised at the  
44 forum about services are to ask why increase the fare  
45 structure when we have breakdowns on the system; staff  
46 review has removed staff off stations or reduced their  
47 time; upgrading on the weekends causes disruption to people

1 using public transport, but there is an increase in the  
2 number of people using the off-peak services. On the  
3 Blue Mountains, we have four cars on most of the trains in  
4 the off-peak area, and those trains are roughly between  
5 80 and 90 per cent full. And, of course, the commuters in  
6 the peak period have witnessed breakdowns. Cleaning of the  
7 trains has been a problem.  
8  
9 Recently, the Mid Mountains Neighbourhood Centre  
10 received funds to do a survey in the mountains. They did  
11 a survey with the youth, which is our future, and their  
12 concern was that outside of their school period, they are  
13 finding it very hard to use the system with the fare  
14 structure, and any increase will disadvantage them.  
15  
16 Across the board now, we have the long-term transport  
17 plan, CityRail's future with rolling stock, we have a taxi  
18 review and a couple of others which are in the pipeline, so  
19 really I begin to wonder should IPART have ceased looking  
20 at fare structure until we knew what the new structure is  
21 going to be that promises more fast services and more new  
22 trains, such as the Warratah?  
23  
24 They still haven't made up their minds on the  
25 replacement for the inner-city carriages and the XPT  
26 CountryLink carriages as well. Incidentally, this is  
27 another challenge we have with New South Wales trains,  
28 where we are combining the Intercity and the CountryLink.  
29  
30 In the past two or three months, our concentration has  
31 been on trying to get a grip on what is happening. So I'll  
32 have to go back to the forum and say I've been to IPART and  
33 I'm totally confused. I will have to look at your website,  
34 go through everything and find out where we go from there.  
35 For a man who is just over 80, it's a bit of a challenge.  
36 Thank you.  
37  
38 THE CHAIRMAN: Thank you very much, Paul. Are there any  
39 more comments or questions from the floor?  
40  
41 MR MORI FLAPAN: Mori Flapan is my name. I'm a private  
42 individual. I just want, firstly, to ask a few questions.  
43 The L.E.K. report suggests that efficiencies can be made,  
44 but I could not see where they had been taken into account  
45 in the Sapere report. In determining the costs in your  
46 determination, have you actually taken into account the  
47 L.E.K. recommendations?

1  
2 THE CHAIRMAN: Mori, I will let Steph answer that one now,  
3 and then you can continue on.  
4  
5 MS STEPHANIE BIESAGA: To the extent possible, SRG has  
6 tried to use efficient costs in its report.  
7  
8 MR FLAPAN: SRG - who are they?  
9  
10 MS BIESAGA: Sapere Research Group. They undertook the  
11 externality study. You are right, the efficiencies  
12 identified later in the period that L.E.K. analysed are not  
13 explicitly quantified in SRG's work, because they have done  
14 a point-in-time estimate of the externality associated with  
15 the current services and the current cost.  
16  
17 That is something we can do some further work on, but  
18 that work will be very assumptions laden, which is why we  
19 have not done it to date.  
20  
21 MR COX: Steph, aren't I right in thinking that the  
22 determination model is taking the efficient costs and then  
23 subtracting the --  
24  
25 MS BIESAGA: In terms of how we have used L.E.K. in the  
26 draft determination, yes, that is the cost base we have  
27 used, but we have effectively rolled forward the  
28 externalities figure calculated at this point in time  
29 rather than tried to estimate what it might be in six or  
30 seven years' time if those L.E.K. savings have been  
31 realised.  
32  
33 THE CHAIRMAN: Okay, Mori?  
34  
35 MR FLAPAN: Thank you, Steph. On that basis, when you  
36 look at the way that the IPART is to determine the maximum  
37 fares, it says it needs to deduct inefficient costs.  
38 That's one of the things.  
39  
40 The other thing is to deduct the value of the external  
41 benefits that the services generate. As you will see  
42 later, there is some dispute over the types of  
43 externalities the ferries accrue and their magnitude.  
44  
45 As well as that, the proposal has no allowance for  
46 facilitating a truly integrated transport system. I will  
47 touch on this later, but the idea of an integrated

1 transport system is a matter of broad government policies,  
2 and I am not sure exactly how broad government policies are  
3 taken into account by an independent tribunal.  
4  
5 Finally, the proposal suggests that Manly ferry  
6 passengers might have to subsidise the Parramatta River  
7 services. That is one of the options, from what I could  
8 gather, and I have to ask the question: how is that a fair  
9 share?  
10  
11 MS BIESAGA: We have knocked Parramatta River out of the  
12 equation. We have taken the costs and benefits out of the  
13 cost base that we used to set the fare change. We are  
14 saying that if the government wants to deliver that  
15 service, then the broader taxpayer should fund it, not  
16 passengers.  
17  
18 MR FLAPAN: But there is actually a paragraph in the  
19 determination, if I remember correctly, that says,  
20 "However, if the government decides not to carry that, this  
21 is what the fare would be for Manly ferry passengers", and  
22 it would be equivalent to that for the Inner Harbour. So  
23 there is a suggestion that Manly ferry passengers would  
24 have to subsidise the Parramatta route.  
25  
26 MS BIESAGA: No. What we have said is that if Manly  
27 remains within the purview of regulation, then under our  
28 average fare increase, that applies across the  
29 Inner Harbour and Manly. It would be a higher increase.  
30 It is possible that, in time, Manly ferry passengers could  
31 subsidise Inner Harbour ones, but we have taken Parramatta  
32 out of the equation, so it is not a case of Manly  
33 passengers subsidising Parramatta ones  
34  
35 MR FLAPAN: All right, so Manly passengers would then  
36 subsidise Inner Harbour ones?  
37  
38 MS BIESAGA: Potentially, depending on what fare changes  
39 the government decides to make within our price cap.  
40  
41 MR FLAPAN: It seems to be an inequitable thing. On one  
42 side, you are putting the various modes of transport into  
43 silos and saying that a person who uses the train should  
44 not subsidise the ferry; but, on the other hand, the  
45 reality is that within those modes, there are different  
46 costs for delivering different services, and those are  
47 aggregated and spread among the system.

1  
2 What I am asking for is a truly integrated transport  
3 system where the costs are spread among the entire system  
4 and everyone can have a choice as to how they go between  
5 point A and point B and we don't have to have this  
6 situation where if I want to travel between point A and  
7 point B, I have to look at the different transport options  
8 and try to work out which tickets I have to buy and which  
9 is going to be the cheapest.  
10  
11 As I mention in my submission, I carry five different  
12 travel tickets in order to use the system at the moment.  
13  
14 MS BIESAGA: Yes, I think that's a really good point. The  
15 way the legislative framework is set up at the moment, it  
16 does envisage us making individual determinations for each  
17 mode. That framework is currently under review by  
18 Transport for NSW, so there is certainly an opportunity  
19 there.  
20  
21 MR FLAPAN: Could I then make the point that if you don't  
22 know the efficient costs in the future, if you don't know  
23 how these services are going to be ascertained, whether  
24 there is going to be an integrated system, why make what is  
25 effectively a major policy decision on ferries, which will  
26 increase the costs and affect the users, when you don't  
27 know the answers to these things? Why not wait to see what  
28 happens?  
29  
30 MS BIESAGA: If there is a significant change in costs or  
31 service offerings, then the Tribunal can make another  
32 determination.  
33  
34 MR FLAPAN: Yes, but why do this now? It's my  
35 understanding that there is a wish of government and  
36 society as a whole to make public transport attractive, so  
37 why make it less attractive while you're trying to work out  
38 how to make it more attractive?  
39  
40 MS BIESAGA: I wouldn't say we're trying to work out how  
41 to make it either less or more attractive.  
42  
43 THE CHAIRMAN: I think we will take that one on board,  
44 Mori. Are there any other questions or comments from the  
45 floor?  
46  
47 MR TREVASKIS: I missed one. One of the issues that is

1 quite prominent with using the system is a lack of ticket  
2 control at the gated stations where either there is no-one  
3 there, so people are jumping over or going through without  
4 cancelling their tickets, or last week at Parramatta, in  
5 the control box, the chap was sitting there, but the gate  
6 was open and people were streaming through. This happens  
7 similarly at Penrith, Blacktown, Parramatta and sometimes  
8 in the Sydney CBD.  
9  
10 So I think, okay, CityRail works out their service  
11 requirements to the number of passengers, but their data,  
12 for that reason, is very suspect. So I can't see how we  
13 can increase fares when we have a lot of people either not  
14 paying or not using their ticket in the manner in which it  
15 should be used.  
16  
17 When you see a hundred-odd people getting off a train  
18 at Parramatta and you might say 50 per cent are cancelling  
19 the tickets and the other 50 per cent are just going  
20 through, this bugs me because the honest people are paying  
21 their fair share and the others are using it to their  
22 advantage.  
23  
24 Finally, I'll ask the representative of Transport for  
25 NSW to say to management that you have a control box there,  
26 you have staff that are allocated to that area, and they  
27 should be doing it, because once we get electronic  
28 ticketing, they are going to get an awful shock when they  
29 get a letter in the mail saying they owe a certain amount  
30 of money. The reputation of this government will not be  
31 uplifted. It will be downgraded.  
32  
33 So I wish to put it on record that RailCorp should be  
34 controlling the gated stations as soon as possible to get  
35 ready for integrated ticketing and improve the income.  
36 Thank you.  
37  
38 THE CHAIRMAN: Thank you very much, Paul.  
39  
40 Let's move on to the second session, which is  
41 concerned with the fare outcomes that result from our draft  
42 determination of fares for CityRail and Sydney Ferries  
43 services.  
44  
45 MR FLAPAN: Mr Chairman, is there going to be something on  
46 the second part of the first item, the Sapere report  
47 itself?

1  
2 THE CHAIRMAN: There has been an opportunity to comment  
3 on the Sapere Research Group, but if you have an additional  
4 point you would like to make on that, you can make it now  
5 or you can wait for the next session, which is still  
6 CityRail and Sydney Ferries.  
7  
8 MR FLAPAN: All right, I'll wait.  
9  
10 THE CHAIRMAN: Thanks, Mori.  
11  
12 MR LACHLAN MANTELL: Mr Chairman, could I ask a  
13 question about the Sydney Ferries?  
14  
15 THE CHAIRMAN: Yes.  
16  
17 MR MANTELL: Thank you. I am Lachlan Mantell from 2GB.  
18 I'm just wondering is this the first time you've heard  
19 about the two-thirds cost breakdown for Sydney Ferries, and  
20 come 1 January, how is that likely to affect the costs of  
21 tickets compared to where they are at now?  
22  
23 MS BIESAGA: This is the first time we have done that  
24 analysis that establishes what we think is the fair share  
25 of efficient costs that passengers should pay, so, yes, it  
26 would be the first time we have seen the two-thirds,  
27 one-third. In terms of what would happen come 1 January,  
28 that is a question for government. We just set the  
29 maximum.  
30  
31 MR MANTELL: So you have done a percentage breakdown on,  
32 say, trains. I think it's at 13.2 between now and 2015.  
33 Will you do a similar estimate with ferries, or is that  
34 already here?  
35  
36 THE CHAIRMAN: That will be taken up in the next session.  
37  
38 Session 2 - CityRail and Sydney Ferries - fare outcomes  
39 under the draft determinations  
40  
41 THE CHAIRMAN: So let's move on to the next session, which  
42 is directly on those issues concerning fares. In previous  
43 fare reviews, we have set maximum fares for the individual  
44 ticket that can be used for a particular rail or ferry  
45 service.  
46  
47 As part of these current fare reviews, we have changed

1 our approach and have made a draft decision to set  
2 a maximum average fare change across all tickets for  
3 a given mode rather than specifying maximum individual  
4 fares.  
5  
6 Today we are going to explain these changes and invite  
7 discussion and comment on them. So I will invite Steph to  
8 discuss the fare outcomes that result from our draft  
9 determinations.  
10  
11 MS BIESAGA: In the case of our CityRail draft  
12 determination, that covers all of the MyTrain tickets, so  
13 that is singles, returns, off-peak returns, and also the  
14 weekly, monthly, quarterly and annual TravelPasses. It  
15 also covers the MyMulti tickets, so the multi-mode tickets  
16 that allow any combination of travel on bus, train, ferry  
17 and light rail. Finally, this determination also covers  
18 the Newcastle TravelPass.  
19  
20 For Sydney Ferries, it is a much smaller suite of  
21 tickets. We are just looking at the MyFerry1 and MyFerry2,  
22 single, return and TravelTen.  
23  
24 I will just point out, as has been said before, that  
25 we have no role in setting the fares for concession tickets  
26 or pensioner excursion tickets, and that includes the  
27 Family FunDay Sunday ticket.  
28  
29 As Peter mentioned, in past determinations we have  
30 generally set a maximum fare for each individual ticket  
31 that can be used on each of the modes that we regulate.  
32 However, for these two new draft determinations, we have  
33 decided to set a maximum increase in fares for each mode.  
34 I will go into the reasons for that in a minute.  
35  
36 In terms of the fare outcomes, applying the framework  
37 that Brett talked about earlier gives us an average  
38 increase in maximum fares for CityRail of 4.4 per cent  
39 a year over the next three years. I just want to point out  
40 that this includes an estimate of inflation, so without  
41 inflation, that increase is 2.3 per cent per year.  
42  
43 For Sydney Ferries, the comparable numbers are  
44 4.9 per cent, which is the maximum average increase in  
45 fares each year, and that is for four years. Again, it  
46 includes an estimate of inflation. Without inflation, the  
47 real increase is 2.6 per cent a year.

1  
2 We do provide for an inflation-inclusive increase, and  
3 as part of the finalisation of the determination we will be  
4 updating our estimate of inflation, so there will be some  
5 slight movement due to that.  
6  
7 So why have we gone for a maximum average fare  
8 increase rather than setting individual maximum fares for  
9 each ticket? One of the main contextual issues that we  
10 have had to consider in making these draft determinations  
11 is the introduction of the Opal, which everyone knows is  
12 the electronic ticket that is going to apply to public  
13 transport in the greater Sydney area.  
14  
15 We want to make sure that our determination supports  
16 the rollout of Opal, and initially we thought that the best  
17 way of doing that might be through making annual fare  
18 determinations so that we could respond a lot more quickly  
19 than we are able to now to any changes in fare structure or  
20 any changes in product services or offerings. But this  
21 approach implicitly assumes that we would continue setting  
22 maximum fares for each of those individual products and  
23 tickets.  
24  
25 After we thought about it a bit more, we decided that  
26 a better approach would be to set a maximum average  
27 increase across all tickets within a mode and do this for  
28 a three-year or four-year time frame. We think this option  
29 is better, because it does give the government more  
30 flexibility, so if it wants to do any fare restructuring or  
31 adjust the relative prices of any tickets, it can do this,  
32 but it doesn't have to limit its ability to recover the  
33 revenue that we have allowed in our determination.  
34  
35 The flexibility to do that is actually quite limited  
36 when we set individual maximum fares, because of course the  
37 government can only go below those fares. In fact, the  
38 government has been forced to forgo revenue since it  
39 introduced the simplified MyZone fare structure in April  
40 2010, because all of those new fares had to be below the  
41 existing maximum that the Tribunal had determined at the  
42 time. The result of this is that taxpayers end up funding  
43 more than their fair share of efficient costs, and  
44 passengers less.  
45  
46 Setting a three-year or four-year determination has  
47 the advantage of letting the government know how much

1 revenue it can recover through fares over the medium term.  
2 So this is the preferred approach that we have taken with  
3 these new determinations.  
4  
5 In terms of what the determinations will actually mean  
6 for individual fares, we can't say, because it will be the  
7 government, through Transport for NSW, that sets the level  
8 of fares. However, we can give a rough indication. For  
9 example, if next year the maximum average increase we have  
10 allowed for CityRail fares is applied uniformly across all  
11 the existing fares, then the increase is between 20 cents  
12 and 40 cents on the MyTrain single - that is compared to  
13 the current \$3.40 to \$8.20 - or between \$1 and \$3 for  
14 a MyTrain weekly, and that is compared to the current  
15 prices of \$26 to \$59.  
16  
17 In terms of the total increase we have allowed over  
18 the period, it is 7.1 per cent over the three years, or  
19 around 14 per cent if we include our current estimates of  
20 inflation.  
21  
22 Looking at Sydney Ferries, there is a slightly  
23 different approach. We propose making a four-year  
24 determination, although we wouldn't actually reach our  
25 target level of cost recovery from fares until after  
26 seven years. Whilst we have set a maximum increase across  
27 all fares, our analysis does suggest that the Manly service  
28 only needs small real increases in fares, while the  
29 Inner Harbour service needs either a higher fare change or  
30 significantly more patronage growth.  
31  
32 In terms of our indicative fare change for next year,  
33 we have suggested that the MyFerry2 fare increase by  
34 10 cents, from \$7, and the MyFerry1 fare increase by  
35 40 cents, from \$5.60. In terms of the total over the  
36 determination period, we are looking at a fare increase of  
37 11 per cent above the rate of inflation, and that is around  
38 21 per cent if we include inflation.  
39  
40 We obviously recognise that a significant fare change  
41 on an individual fare will potentially impose some  
42 substantial adjustment costs on passengers. Once we  
43 decided to determine the average maximum fare change rather  
44 than setting individual maximum fares, we considered  
45 whether passengers needed additional protections against  
46 large fare increases and, in particular, whether there was  
47 a need to adopt some sort of side constraint or price limit

1 on individual fare changes. That would be something like  
2 determining that an individual fare can only increase by up  
3 to X per cent or so many dollars.  
4  
5 For CityRail, this determination affects around  
6 50 tickets, but for Sydney Ferries, it is only about six.  
7 So there is certainly a difference there between the two  
8 modes.  
9  
10 Our draft decision is that additional constraints are  
11 not needed. It is our view that if we do impose additional  
12 limits within the average fare change, then this will limit  
13 the government's flexibility in introducing the Opal, which  
14 is the primary reason for moving to setting a maximum  
15 average fare change in the first place. Ultimately, the  
16 government is accountable to the electorate for the  
17 decisions it makes, and this includes decisions on  
18 individual fares for public transport services. In the  
19 past, no government has really proposed large increases in  
20 individual fares.  
21  
22 We also think that pricing can be used to signal the  
23 costs of using the public transport system at different  
24 points in time and, in particular, the costs imposed during  
25 peak demand periods. We don't want to make a determination  
26 that prevents differential pricing of public transport in  
27 peak and off-peak times.  
28  
29 As I have mentioned previously, for Sydney Ferries, we  
30 have made some specific recommendations for the fare for  
31 each ticket. We haven't done this for CityRail, but what  
32 we have done is developed a number of pricing objectives  
33 that we think should underpin any fare-setting proposal.  
34 We will ask Transport for NSW, on behalf of the government,  
35 to report against these objectives when it submits its fare  
36 proposal.  
37  
38 In terms of how this new approach will actually work,  
39 obviously the government, through Transport for NSW, will  
40 have discretion to set the fares for the relevant CityRail  
41 and Sydney Ferries tickets, so long as the average increase  
42 across all those tickets is equal to or less than the  
43 maximum increase that we have determined.  
44  
45 Obviously, they could choose to increase all tickets  
46 by the maximum amount or they could choose to increase some  
47 by more, but this would have to be offset by a change in

1 other fares that was lower than the average.  
2  
3 Once we receive a fare proposal, we will go through an  
4 internal assessment to check that the fare complies. One  
5 of the features of the determination is that if fares are  
6 increased by less than the allowed maximum in one year,  
7 then in the next year fares can increase so that the  
8 revenue forgone in the previous year is added to the new  
9 year's allowance and can be recovered through fares. So if  
10 you do not increase to the full extent in one year, it  
11 doesn't mean that that opportunity to increase fares has  
12 been missed. There is scope for catch-up.  
13  
14 Just a point of clarification - there is nothing in  
15 this new determination that stops fares from changing more  
16 than once a year. There is nothing that prevents the  
17 withdrawal of existing tickets or even the addition of new  
18 ones.  
19  
20 THE CHAIRMAN: Thank you very much, Steph. Are there any  
21 questions or comments around the table?  
22  
23 MR REARDON: We support the independent pricing tribunal's  
24 proposed approach in setting maximum average fare increases  
25 for CityRail and Sydney Ferries services as opposed to  
26 setting maximum fares for each ticket product, for all of  
27 the reasons that have just been outlined. It provides  
28 a greater level of flexibility as we move towards rolling  
29 out the Opal electronic ticketing system, commencing in  
30 late 2012 for Sydney Ferries services.  
31  
32 As Opal will be a pay-as-you-go system, which will  
33 require tap-on and tap-off for a journey, the correct fare  
34 will be automatically deducted. It is a very different  
35 proposition to what we currently have on foot, and it  
36 requires a greater deal of flexibility in how we roll out.  
37 It requires that, because in maintaining our vision of the  
38 customer at the centre of everything we do, we need to  
39 ensure that we respond to customer need as we roll out,  
40 commencing with ferries.  
41  
42 In saying all that, though, I would repeat that the  
43 government has indicated that it will require fares to rise  
44 in accordance with CPI until there are service  
45 improvements, and that remains the case. But certainly our  
46 view is, and our issues paper indicated, that initially we  
47 were where IPART was about year-on-year increases, but the

1 average maximum approach over multiple years we certainly  
2 support.  
3  
4 THE CHAIRMAN: Thanks very much, Tim. Are there other  
5 questions or comments around the table?  
6  
7 MR MILES: I am glad Tim mentioned the Opal card. We are  
8 a bit concerned that so much faith is being put into the  
9 fact that the Opal card is just around the corner. We have  
10 been hearing that for 12 or 16 years now, and it's still  
11 not here. We have no idea what the fare charging regime  
12 will be, what the discount availability will be, what the  
13 daily caps will be, what the free Sunday will be. My point  
14 is that if you go on to the Brisbane or Melbourne websites,  
15 and perhaps the others, they have details of how many trips  
16 you can get per week before you get free ones, off-peak  
17 discounts, daily caps. We have heard nothing about this at  
18 all.  
19  
20 On the TfNSW website, which used to be the PTTC  
21 website, the last news was September last year. We have  
22 been told nothing about what is happening, and we are  
23 supposed to be the customers. So I think it is a bit  
24 optimistic to say that the ferry and rail fares are being  
25 shunted in the general direction of Opal when we have no  
26 idea what Opal is going to do. Thank you.  
27  
28 THE CHAIRMAN: Thanks, Allan. Are there any other  
29 questions or comments around the table?  
30  
31 MR REARDON: I will just make a follow-up comment to that.  
32 We have MyZone currently on foot across trains, buses and  
33 ferries. That is current ticketing and fares policy in  
34 this state, and that is what we deliver in the greater  
35 metropolitan area for our services.  
36  
37 Opal will commence with ferries at the end of this  
38 year, and the government will make more announcements  
39 closer to that time. But at the moment, the MyZone fare  
40 structure is our current arrangement that we have on foot  
41 at this point of time.  
42  
43 THE CHAIRMAN: Thanks, Tim. Rhiannon, do you want to say  
44 anything?  
45  
46 MS COOK: No.  
47

1 THE CHAIRMAN: Are there any questions or comments from  
2 the floor?  
3  
4 MR FLAPAN: Thank you, Mr Chairman. I had better address  
5 all three, because I might miss out this time. Firstly,  
6 with the Sapere report and the pricing that is shown there,  
7 I have raised a number of issues in a separate submission  
8 that dispute the figures in that analysis. It concerns me  
9 that this pricing is based on the content of that report.  
10 It has already admitted that it doesn't take into account  
11 reforms that are in another report that is being considered  
12 by this Tribunal.  
13  
14 I think that the idea of ferry fares being increased  
15 so markedly compared to other fares is unreasonable. When  
16 you read the reports, you hear people talking about  
17 affluent people and disadvantaged people, but the reality  
18 is that there are many people in between. They are the  
19 ordinary, middle class and they don't have concessions and  
20 they also don't have great affluence, and they're getting  
21 increasing rates and increasing costs through government in  
22 all different sorts of ways. There isn't, in that group,  
23 a large capacity to absorb the sorts of increases that are  
24 being proposed in this.  
25  
26 The way that I read the Sapere report is that that's  
27 okay because if they can't afford it, they can go on buses  
28 and by car. The problem with that is that there is a cost  
29 to society in them doing it. There is an external cost  
30 that has not been taken into account in the Sapere report.  
31 There is congestion. There is an emissions aspect. There  
32 also has to be an expansion of the buses that serve these  
33 various harbour side suburbs.  
34  
35 The problem is - and I do raise this in my comments -  
36 that we don't know how the analysis in the Sapere report  
37 took into account the very specific needs of the  
38 harbour side suburbs. Those suburbs don't have expressways.  
39 Most of them don't have the benefit of the trains. Most of  
40 them have major road infrastructure problems already.  
41  
42 There have been various proposals to improve road  
43 infrastructure, but at this stage they are not in place, so  
44 I can't see how we can say, all right, we'll go down a path  
45 that may encourage people to go by car and to go by bus  
46 when the infrastructure isn't there for them at this stage.  
47

1 In regards to the pricing, I am also concerned that  
2 the pricing is an important part of formulating a long-term  
3 transport strategy, and I haven't seen any reference to  
4 that bigger picture.

5

6 In my submission, I mention that if I go from Manly to  
7 the city by myself, it is cheaper, yes, for me to go by  
8 ferry. But if I have just two of us, if my wife comes  
9 along, it is far cheaper for me to go by car. That is the  
10 reality. So if you are setting prices, and I think the  
11 point was well raised before, you also have to measure it  
12 against the alternatives. What is the cost of the  
13 alternatives?

14

15 Recently, there was a report talking about road  
16 charging for private vehicles. That may be one way of  
17 addressing the problem in the future, but that isn't there  
18 at the moment. The people who are using ferries are being  
19 asked to cover a deficit, which is disputed - we're being  
20 asked to cover that deficit. We know there is a deficit on  
21 the roads with the private vehicles and those people are  
22 not being asked to cover their costs, yet we on public  
23 transport are. Thank you.

24

25 THE CHAIRMAN: Thank you very much, Mori. Are there any  
26 other questions or comments on the fare setting?  
27 All right, thank you.

28

29 Session 3 - Rural and regional buses

30

31 THE CHAIRMAN: Let's move on to item 3 on the agenda,  
32 which is rural and regional buses. This is the third  
33 session and this review is conducted under section 28J of  
34 the Passenger Transport Act. In this session, we are  
35 talking about the fares that apply to bus services outside  
36 the metropolitan areas, that is, in the areas outside  
37 Sydney, Newcastle, Wollongong, the Central Coast and the  
38 Blue Mountains.

39

40 Unlike our review of fares for CityRail and Sydney  
41 Ferries, when determining fares for rural and regional bus  
42 services, we apply an industry cost index. The index  
43 includes a basket of bus operators' cost items, including  
44 labour, fuel, insurance and interest expenses.

45

46 In August we released an issues paper for this year's  
47 review, and we have just released our draft report and

1 determination. As part of this year's review, we are  
2 updating the weightings and inflators used within the  
3 index. We have also considered using a regulatory period  
4 longer than the current one-year period.

5

6 Today we will present our draft decisions on these  
7 issues and invite discussion and comment on them. After  
8 considering further submissions and the comments we hear  
9 today, we will be releasing a report and a fare  
10 determination in mid-December for fare changes to take  
11 effect in January 2013.

12

13 With that, I invite Phil Manners to discuss rural and  
14 regional buses.

15

16 MR PHIL MANNERS: I will keep it fairly brief. A draft  
17 decision document was released last week, so maybe there  
18 has not been a lot of chance for people to understand what  
19 is in it. Firstly, I will just go through what was in the  
20 draft determination.

21

22 In previous reviews, prices for rural and regional  
23 buses had been set annually using the bus industry cost  
24 index. For this determination, we are proposing to move to  
25 a five-year determination. Each year, it would still be  
26 set annually, but there would not be the same review  
27 process that there currently is. Within that five-year  
28 period, IPART has the option to remake a determination at  
29 any time, so if there are material changes to the industry,  
30 then that could lead to a determination being made earlier  
31 than that.

32

33 Bus fares are set for 70 sections, each of  
34 1.6 kilometres. It is proposed that we continue to do  
35 that. For the first year of the proposed five-year period,  
36 the estimated fare increase is 3.3 per cent, which is  
37 slightly higher than the consumer price index. In the  
38 years after that, the increase will be determined by the  
39 inflators that are applied in the bus industry cost index,  
40 so the increase is not known at this stage.

41

42 For each year, we are proposing to apply  
43 a productivity adjustment of 0.3 per cent. This is  
44 different from previous determinations, where there has not  
45 been an adjustment made.

46

47 The bus industry cost index will be at the core of the

1 proposed approach. It is essentially a set of cost items  
2 that relate to how you provide services for rural and  
3 regional buses. Each year, each cost item is increased by  
4 some measure of the changing costs, and then they are  
5 weighted together to give an aggregate change in the cost  
6 of providing bus services.  
7  
8 The approach proposed in the draft decision is very  
9 similar to what has been used before. There are only two  
10 changes. The first is a change to the capital cost measure  
11 for buses. We are proposing to replace that with using the  
12 CPI and an RBA business lending rate. Currently, we get  
13 bus purchase costs from Transport for NSW, but that is not  
14 going to work that well with an automatic indexation  
15 process.  
16  
17 The second area where we are proposing change is for  
18 non-wage labour costs, where the Australian Bureau of  
19 Statistics has stopped using its wage cost index and  
20 non-wage cost indices, so we have to make a change there  
21 and we have consolidated those into a single labour cost  
22 item.  
23  
24 One of the submissions to the review raised the issue  
25 of monopoly power by some rural and regional bus operators.  
26 We have seen, in the data that we get, that contracts are  
27 very profitable for some operators and not that profitable  
28 for others.  
29  
30 We do not consider that we can address this through  
31 regulated fares unless we try to set a fare for each of the  
32 78 contract regions separately. One area where this may be  
33 able to be addressed is through competitive tendering for  
34 future bus contracts. In that way, the costs would be  
35 minimised to the government, even though fares would remain  
36 the same for all passengers.  
37  
38 A second area where we have made recommendations is  
39 about the contract reporting requirements for bus  
40 operators. A lot of data is collected from bus operators.  
41 The quality and consistency of this data is not always  
42 clear, and we have recommended that data that is not going  
43 to be used and won't be relevant, particularly for future  
44 competitive tendering arrangements, should not be collected  
45 and that data that is collected is complete and accurate.  
46  
47 Finally, for routes shorter than 40 kilometres, they

1 cannot be provided unless there is a contract with the  
2 New South Wales government, so we have made  
3 a recommendation that that restriction on competition be  
4 removed for routes with significant numbers of fare-paying  
5 passengers.  
6  
7 There are five specific questions for stakeholders  
8 that we would be interested in getting views on. Is the  
9 length of the regulatory period of five years considered  
10 appropriate? Under what circumstances do we need to review  
11 this earlier than the five-year period, and do we need to  
12 specify these earlier? Are our relatively minor proposed  
13 changes to the bus industry cost index appropriate? Do the  
14 cost weights that we have used align with the current  
15 operator costs? And are the suggested inflators the best  
16 available for measuring changes over the next five years?  
17  
18 THE CHAIRMAN: Thanks very much, Phil. Are there any  
19 questions from around the table?  
20  
21 MR DARRYL MELLISH: Yes, Mr Chairman. Thanks for the  
22 opportunity to comment. Darryl Mellish from BusNSW.  
23 I would firstly like to put on the record that these  
24 services that we are talking about under government  
25 contracts are not a gross cost contract. The operator  
26 takes the farebox risk and integrates the route services  
27 with the school services. People need to understand that.  
28  
29 The response from BusNSW to the points raised is that  
30 we support the move to a five-year process, but we would  
31 like to see some examples of what would trigger a review  
32 within the five years. There is reference to material  
33 change in efficient costs not captured in the BICI, but we  
34 would like to see greater certainty and examples of where  
35 you may look at a determination within that five-year  
36 period.  
37  
38 We support the use of the existing weights, as  
39 recommended in the report. We think it is the best option  
40 put forward. Using Transport for NSW data is not reliable.  
41 We don't think it is worth the expense of going to a new  
42 review, and we have tested the current weightings.  
43  
44 I think the Tribunal needs to understand that the data  
45 collected by Transport for NSW was not to look at  
46 profitability in the sense that IPART considers it. It was  
47 to look at broad viability of the operator, because many of

1 these businesses are multi-function businesses, with farms  
2 and travel, businesses outside the costs model. We find  
3 that a lot of small operators, in reporting their P&L and  
4 balance sheets, are not understanding cash versus accrual  
5 accounting, how to handle depots, if they are owned versus  
6 leased, how to handle wages, if they are dividend versus  
7 non-dividend. So the reliance on that data, even using the  
8 data to make reference to tendering, we find is  
9 particularly disappointing, which I will come back to.  
10  
11 We support the existing inflators, but we would really  
12 ask you to consider whether you have made an oversight  
13 about the superannuation guarantee charge. As you know,  
14 the legislation is changing the superannuation guarantee  
15 charge over seven years, changing the 9 per cent rate to  
16 12 per cent. From my understanding, this is not captured  
17 in the report or the index at all, which would have  
18 a significant impact on the industry.  
19  
20 We do not oppose the decision not to consolidate the  
21 section bands. We understood that it was more cosmetic  
22 rather than real, but there was some benefit in marketing  
23 and promoting fewer fare bands. The Tribunal's decision to  
24 remain with the 70-plus sections we support.  
25  
26 We are worried about the 0.3 per cent productivity  
27 increase. We don't support that. The reason is that it  
28 doesn't allow us to take into account specific factors that  
29 are relevant in these operations that reduce our  
30 productivity, for example, congestion or introduction of  
31 employment conditions imposed, which we can't change, in  
32 the speed or the timetable of the services. On the one  
33 hand, you are assuming productivity applies across the  
34 economy for all sorts of reasons, but on the other hand you  
35 are not taking into account the productivity offsets that  
36 occur in our industry.  
37  
38 The funding model that is designed under these  
39 contracts of sharing risk already provides an assumption  
40 about productivity offsets, so we believe that you are  
41 double-counting and it would be unfair to apply the  
42 0.3 per cent across the industry.  
43  
44 We have major concerns with the comments about  
45 tendering and the removal of exclusive rights. If that is  
46 relying on that data reliability issue that was mentioned  
47 before, then that is a pretty ordinary reason to make such

1 a broad comment. We would certainly seek clarification of  
2 why such recommendations would come into such a report. We  
3 do not believe it is in the public interest to make those  
4 recommendations. It is contrary to written information we  
5 have had from the Minister for Transport, and we seek  
6 information on the investigation and consultation that was  
7 made to support this recommendation.  
8  
9 There are hundreds of small businesses out there  
10 providing services every day, and this announcement has  
11 already created major uncertainty. The value of their  
12 investments and support from their financiers will  
13 disintegrate if such a broad recommendation is not followed  
14 up with detailed investigation.  
15  
16 We ask you what research and investigation was done to  
17 arrive at those recommendations? We put forward, if there  
18 are concerns about the information available from  
19 reporting, that a task force be set up and that we work  
20 together to identify what the best competitive or  
21 non-competitive model is.  
22  
23 We have been through this now probably over 20 years,  
24 three cycles, and it has been considered that industry  
25 benchmarks, with operator taking the integration of school  
26 and route services, does provide the best value for money.  
27 If there are variations in fares being charged, it is  
28 within the context of that risk model. There were controls  
29 previously in place, before IPART determined fares, that  
30 limited the fare increase even if it was within the maximum  
31 fare scale.  
32  
33 They are my comments, Mr Chairman. We would certainly  
34 seek clarification, particularly on those recommendations  
35 regarding tendering and removing exclusivity, and seek some  
36 assurance that the hundreds of businesses out there who are  
37 now being approached by their banks have some comfort that  
38 they will continue to operate in their present form.  
39  
40 THE CHAIRMAN: Thanks very much, Darryl. Are there any  
41 other comments from around the table?  
42  
43 MR REARDON: In terms of the questions - as to support for  
44 the five-year regulatory period, there are no particular  
45 issues from ourselves in terms of multi-year, similar to  
46 comments raised on Sydney Ferries and CityRail, within the  
47 context that the pricing tribunal will have the

1 flexibility, for any major events that do occur, to  
2 undertake a review within that period, as it may require.  
3 That is the first one.  
4  
5 On the comments about significant changes and what  
6 they may be, I don't think I will express a view. Darryl  
7 has asked the Tribunal to respond in your final  
8 determination. If there is any event, such as a policy  
9 event, that would trigger, we would expect you would have  
10 the flexibility within the five-year period to review as  
11 you need to.  
12  
13 In terms of the bus industry cost index itself, over  
14 the years it has been reviewed at various stages. We do  
15 not particularly have a major comment on the major cost  
16 categories except to state that they appear to be covered.  
17 I will leave it up to BusNSW to make specific comments in  
18 certain areas. The fact that you have independent  
19 inflators that you review is sufficient, from our point of  
20 view, in terms of any comment on that. That's about it.  
21  
22 THE CHAIRMAN: Thanks, Tim. Are there any other questions  
23 or comments around the table?  
24  
25 MS COOK: I want to make a comment on the spread of the  
26 proposed fare increases across short and long journeys.  
27 The current proposal is that there will be minimal  
28 increases for short journeys and bigger increases for  
29 longer journeys. Whilst of course we welcome the minimal  
30 increases for short journeys, we are concerned about the  
31 bigger increases for the long journeys, because anecdotally  
32 it appears to us that a lot of the affordability concerns  
33 that are raised with us are around those longer journeys  
34 that happen with between-town travel.  
35  
36 A lot of people use buses to travel between towns  
37 because they don't have any options. That includes older  
38 people and people with a disability, who travel from one  
39 town to another in order to access health services, and  
40 also lots of young people who haven't yet obtained  
41 a licence, who need to travel to another town in order to  
42 access employment or educational opportunities.  
43  
44 The cost of transport for those young people is often  
45 a disincentive for them to pursue employment or educational  
46 opportunities and also contributes to the movement of young  
47 people away from regional New South Wales.

1  
2 We are currently conducting qualitative research on  
3 transport affordability, and I just want to share with you  
4 one of the stories that we have collected. It is a real  
5 story, but I won't use her real name. Jane lives about  
6 30 kilometres from Lismore. She is 18 years old and  
7 doesn't have her driver's licence because she doesn't have  
8 access to a vehicle in which she can get the required  
9 number of hours.  
10  
11 Jane works as a trainee in Lismore four days a week  
12 and travels in and out of town by bus, paying a full fare  
13 each way of \$10. The bus timetable means she is unable to  
14 carry out any errands or socialise after work, so she also  
15 often travels into Lismore on one of her days off.  
16 Altogether she spends \$100 a week on bus fares. That is  
17 22 per cent of her weekly income of \$450.  
18  
19 So the comment or the question I have is: why that  
20 weighting of the fare increases towards the longer  
21 journeys, and is there any information on the social impact  
22 of that weighting?  
23  
24 MR MANNERS: Just responding, Rhiannon, to that first  
25 issue about the bigger increases for the longer fares - the  
26 approach that has been taken is to apply the 3.3 per cent  
27 to existing fares, and because longer fares currently have  
28 a higher price, that means they get a bigger cent increase,  
29 even though it is the same percentage increase.  
30  
31 We have found in the information that we have gathered  
32 that most bus operators do not appear to charge the maximum  
33 fares for longer journeys, anyway, so to that extent the  
34 fares set by IPART don't bind operators in any way. So  
35 there is probably minimal social impact with some of the  
36 longer fares.  
37  
38 THE CHAIRMAN: Are there any other questions or comments  
39 from the floor?  
40  
41 MR FRANK D'APUZZO: I am a member of BusNSW. I am also  
42 a bus operator, and I am one of these rural and regional  
43 bus operators. We operate in Lismore. The main concern  
44 I have is the recommendation that IPART speaks about  
45 relating to tendering.  
46  
47 You must understand that bus operations are capital

1 intensive. A bus is a very expensive item to purchase. To  
2 comply with our contractual obligations means that we need  
3 to invest significant amounts of money each year.  
4  
5 Because of that, we need to have a fantastic  
6 relationship with our bankers. As most of you would know,  
7 when you borrow lots of money, there are lots of covenants  
8 in these agreements that you have with your lenders. These  
9 sorts of announcements do not fare very well with these  
10 bankers.  
11  
12 Darryl has already mentioned that operators have been  
13 approached by the bankers, particularly with the  
14 announcement about metropolitan bus operations going to  
15 tender. We have all gone through the third degree with our  
16 financiers.  
17  
18 So unless there has been proper review and proper  
19 assessment of what benefits you can achieve by tendering,  
20 it concerns the industry that you make off-the-cuff  
21 announcements without proper analysis. I would like to,  
22 again, support the comments Darryl made. As I said, I need  
23 to invest lots of money each year in new equipment, and the  
24 bankers are concerned. May I please express our concerns.  
25 Rather than make off-the-cuff announcements, do a proper  
26 analysis. Thank you.  
27  
28 MR COX: I want to ask Darryl just to supplement one of  
29 his answers, if he would be good enough to do that. When  
30 you were talking about productivity, you mentioned that you  
31 thought our proposal for a productivity factor in fares  
32 amounted to double-counting because there was adjustment of  
33 the contracts. That is as I understood what you were  
34 saying. Could you expand on that, for my benefit, and draw  
35 out the relevance of fares, please?  
36  
37 MR MELLISH: Yes. The way the regional and rural  
38 contracts are structured is that the operator takes the  
39 risk of the investment in the fleet - the number of the  
40 fleet, the mix of the fleet, the number of the drivers.  
41 They are not a gross cost contract, and it has an in-built  
42 mechanism to be efficient.  
43  
44 The profitability argument was covered in the contract  
45 by providing a profit-sharing arrangement with the  
46 government if profit was above a certain level. So the  
47 incentive to be efficient and achieve productivity benefits

1 is actually in-built into the funding model in terms of the  
2 contract, in our opinion, and 90 per cent of the operating  
3 revenue comes from those other government sources. We  
4 believe that they are the correct mechanism, in this net  
5 cost contract, to influence productivity and not using  
6 a fare mechanism to do it in a maximum fare scale.  
7  
8 As I said, members have spoken to me about, what about  
9 the congestion that means that they are unable to run buses  
10 on timetable, they require more buses and more drivers,  
11 they have to pay minimum engagements and have to pay  
12 public holidays, which they can't recover through the model  
13 because it's a risk sharing, not a gross cost, model.  
14  
15 MR COX: Thank you.  
16  
17 MR REARDON: Just a couple of points to follow up.  
18 Government has announced and is well under way with the  
19 tendering of bus contracts in the metropolitan area, for  
20 the metro bus system contracts in four regions, and has  
21 made comment about tendering further regions in the greater  
22 metropolitan area. There has been no comment or  
23 announcement from the government in relation to rural and  
24 regional services. I just want to put that on the record  
25 for clarification.  
26  
27 Moving on to comments around the quality of  
28 performance data and clarification on that - firstly, rural  
29 and regional bus services do impose a significant cost to  
30 taxpayers, so we shouldn't lose sight of that,  
31 notwithstanding that there are net cost contracts out  
32 there.  
33  
34 Within that, the quality of the performance data, like  
35 any other contract mechanism, is only as good as the  
36 operator provides to Transport for NSW. A point of  
37 clarification is that it is in all of our interests. It is  
38 not Transport for NSW data. It is collected from operators  
39 for Transport for NSW, and then there are quality comments  
40 raised by the IPART about the quality of that data. We  
41 need to continuously improve that, but it is in all our  
42 interests to ensure that that data improves, both from  
43 operators and from Transport for NSW.  
44  
45 We have put in some processes to do that, such as  
46 creation of an automated tool to assist operators, and  
47 I think we have raised that more recently at the BusNSW

1 regional conference. The clarification is that it requires  
2 Transport for NSW and operators, who are producing that  
3 data for Transport for NSW, to improve that quality.  
4 Thanks.  
5  
6 THE CHAIRMAN: Thanks, Tim. Are there any other questions  
7 or comments from the floor?  
8  
9 MR D'APUZZO: In relation to data, again, before the new  
10 revenue contracts were signed up by operators, Transport  
11 for NSW, or the Department of Transport - whatever they  
12 were called at the time - arranged for proper analysis of  
13 financial data through an external party, Ernst & Young.  
14 They actually analysed properly the data provided by  
15 operators and normalised it according to normal accounting  
16 standards, and their conclusion was that there were no  
17 excessive profits in the industry.  
18  
19 So rather than getting Transport for NSW employees and  
20 the comment by IPART about the data not being accurate and  
21 some of the data not being necessary, I think I should go  
22 on record that rather than being accused of excessive  
23 profits, there should be proper analysis done by proper  
24 professionals outside Transport for NSW.  
25  
26 THE CHAIRMAN: Thanks, Frank. Are there any other  
27 questions or comments?  
28  
29 MR FLAPAN: Mr Chairman, I did actually ask for another  
30 item on the agenda, and I am not sure whether this is the  
31 right time to raise this, but there is no other time that  
32 I can see, and that is the proposal that fares for Manly  
33 would not come under IPART but would be left to market  
34 forces.  
35  
36 THE CHAIRMAN: Possibly we should have discussed that in  
37 the last session, but just let me see whether anybody else  
38 has anything for this session. Are there any other  
39 questions or comments on --  
40  
41 MR REARDON: If I could, just one last one. I place on  
42 the record, for clarification, that Transport for NSW is  
43 full of proper professionals. I wouldn't mind  
44 clarification of that last comment that was raised. I am  
45 sure it wasn't meant in the spirit it was given, but we do  
46 deal with matters in a professional manner in the  
47 organisation.

1  
2 THE CHAIRMAN: Indeed. Point taken, Tim.  
3  
4 MR D'APUZZO: I'm sorry, no offence intended. I am just  
5 saying that proper accounting standards should be followed  
6 in the analysis. I am not suggesting that Transport for  
7 NSW aren't professionals. I am just saying that it depends  
8 on the data, what data we're collecting, and I made the  
9 reference that IPART's comment was that unnecessary data  
10 was being collected, so it may be producing incorrect  
11 results.  
12  
13 THE CHAIRMAN: Thank you for that clarification. Now, are  
14 there any other comments or questions on the rural and  
15 regional buses?  
16  
17 MR TREVASKIS: The comment from Transport for NSW,  
18 which I could be taking wrongly, that it was going to cost  
19 taxpayers to provide regional bus services in country  
20 New South Wales - as social beings, I cannot see why  
21 country services, especially bus services, can be  
22 subsidised. I have relatives and friends in the country  
23 area. What is coming through is that they are looking for  
24 public transport, as the lady has indicated, for access to  
25 health, education, jobs, et cetera.  
26  
27 In the case of Bathurst-Orange or Blayney-Orange,  
28 I have networking with the Lachlan Regional Transport  
29 Committee. I don't know whether you have had a submission  
30 from them, but I will certainly be talking to the  
31 chairperson to look at this in depth, because this should  
32 be a vehicle to improve the country bus services in  
33 New South Wales.  
34  
35 I have been on the school bus up near the Lismore way  
36 with the children, and it is quite pleasant. I think under  
37 the long-term transport plan, I will be putting in  
38 a submission on that, which I have already started, because  
39 we can transfer jobs out of the Sydney basin - and this is  
40 what I will put in my submission - because they're not  
41 going to a manufacturing area; you are doing, as they said  
42 in one of the comments, insurance and, well, shifting paper  
43 around, if you like. I'm pleased I came today, because  
44 I am going to be busy tomorrow. Thank you.  
45  
46 THE CHAIRMAN: Thank you, Paul.  
47

1 MR REARDON: Just in response, the government has set out  
2 the long-term transport master plan, which Transport for  
3 NSW put out several months ago as a draft and is now  
4 receiving further submissions prior to finalisation.  
5 Within that, there is a lot of focus on each region in  
6 New South Wales in terms of delivery of public transport  
7 services, including obviously the bus mode.  
8  
9 Within that, we will take on board social, economic,  
10 environmental and other objectives in how we deliver  
11 services. The point I was raising was the fact that these  
12 services, like all others that government delivers, require  
13 a great deal of taxpayer funding. We need to ensure over  
14 the next 20 years that we use that taxpayer funding as  
15 effectively as possible.  
16  
17 MR TREVASKIS: Thank you very much.  
18  
19 Session 4 - The Stockton ferry  
20  
21 THE CHAIRMAN: Let's move on to the next item on the  
22 agenda, which is Stockton ferries, and then I suggest,  
23 Mori, that we can deal with the point that you want to  
24 raise about the Manly ferry.  
25  
26 MR FLAPAN: Thank you.  
27  
28 THE CHAIRMAN: Moving to the Stockton ferry, we are  
29 conducting a review of the fare for this service under  
30 section 11 of the IPART Act, where we determine the maximum  
31 fares. We will make our Stockton ferry determination in  
32 December, with fares to change in January 2013.  
33  
34 We have just released an information paper summarising  
35 the review process for the Stockton ferry fare review and  
36 calling for submissions.  
37  
38 I will invite Steph to discuss relevant issues for  
39 this review.  
40  
41 MS BIESAGA: Last Friday, we released an information paper  
42 for the Stockton ferry fare review. Normally we do this  
43 review in conjunction with a review of fares for some  
44 private ferry services, but we only just this morning  
45 received the terms of reference for private ferries, so we  
46 will do that in due course and today we will briefly  
47 consider Stockton.

1  
2 This is a service that is operated by Newcastle Buses  
3 and Ferries within the State Transit Authority and its  
4 fares are determined under the IPART Act.  
5  
6 In terms of our approach to the review, we look at how  
7 the industry's costs have changed over the preceding year,  
8 and we apply that change in costs to the maximum fare. It  
9 is very similar to the approach we take in rural and  
10 regional buses. We don't undertake the same level of  
11 analysis as we have done for Sydney Ferries. The Stockton  
12 ferry is a very small service. It is less than 500,000  
13 passengers a year.  
14  
15 In terms of how we calculate the changes in costs -  
16 again, like rural and regional buses, we use a cost index  
17 for the Stockton ferry. It is the slow ferry cost index,  
18 which we apply to those ferries operating at speeds of less  
19 than 10 knots. The index was established in 2008 after an  
20 industry cost review that Indec Consulting did for us. The  
21 index gives us a change in ferry costs for the industry as  
22 a whole and obviously doesn't measure the actual change in  
23 costs for any individual operator.  
24  
25 In common with rural and regional buses, we also apply  
26 a productivity adjustment to the index. This year, the  
27 Tribunal has decided to take a consistent approach to  
28 measuring the scope for productivity improvements across  
29 all the industries where we regulate prices or fares using  
30 a cost index, so this is rural and regional buses, some of  
31 the ferry services, taxi fares and local government rates.  
32  
33 We have basically established a long-term measure of  
34 economy-wide productivity that will then apply to the whole  
35 index, and we make an adjustment where we think this is  
36 considered appropriate on industry-specific grounds.  
37  
38 The measure that the Tribunal has gone with is the  
39 gross output multi-factor productivity in the market  
40 sector. Over the 15 years to 2010, this measure increased  
41 on average by 0.3 per cent per year. That is why we make  
42 the adjustment 0.3 per cent.  
43  
44 Based on the most recently available information, the  
45 overall increase in the slow ferry cost index this year is  
46 2.9 per cent; that is after the productivity adjustment.  
47 Applying this to the current maximum fare for the Stockton

1 ferry service would increase the regular fare from \$2.40 to  
2 \$2.50.  
3  
4 We are just waiting for some ABS data to finalise the  
5 price change, but that will be out by the end of October  
6 and the Tribunal will make a determination in due course.  
7 I am happy to take any comments or questions that anyone  
8 might have on the Stockton ferry fare.  
9  
10 THE CHAIRMAN: Thank you, Steph.  
11  
12 MR MILES: I'm just curious, are there any weekly tickets  
13 or TravelTens or that sort of thing for the Stockton ferry?  
14  
15 MS BIESAGA: I can't remember offhand.  
16  
17 MR MILES: They only have the time tickets, don't they?  
18  
19 MS BIESAGA: They do have a time ticket in Newcastle, but  
20 I'm not actually sure if that applies to the Stockton  
21 ferry. Most of the passengers on Stockton ferry are school  
22 kids, so they are covered on the SSTS scheme. There is  
23 certainly a concession available, but I'm not sure about  
24 other discounts.  
25  
26 MR REARDON: There are single fares and a range of pass  
27 products, including MyMultis, that are valid there. It is  
28 three, isn't it?  
29  
30 MR PADDY FISCHER: Yes, they don't have a return fare, so  
31 it is just a single cash fare, and then the specific  
32 TravelPass products for Newcastle and MyMulti tickets.  
33  
34 MR COX: I think I'm right in saying that this  
35 determination affects only the single fare.  
36  
37 MS BIESAGA: Yes, that's right.  
38  
39 THE CHAIRMAN: Thank you collectively. Are there any  
40 other questions or comments on the Stockton ferry?  
41  
42 MR TREVASKIS: I use the ferry throughout the year on  
43 occasions. I have a granddaughter up there and one of my  
44 daughters in an associated area. It is \$2.50 one way, is  
45 it?  
46  
47 MS BIESAGA: Yes, that's right.

1  
2 MR TREVASKIS: I can travel from Glenbrook to Stockton for  
3 \$2.50. It's crazy. Anyway, thank you.  
4  
5 MS BIESAGA: Yes, there are those concessions.  
6  
7 THE CHAIRMAN: Thank you. I think that's it for Stockton  
8 ferry.  
9  
10 Mori, would you like to ask a question on the Manly  
11 ferries?  
12  
13 MR FLAPAN: Thank you, Mr Chairman. The determination, as  
14 far as I can gather, suggests that the IPART would no  
15 longer set fares for the Manly route, on the basis that it  
16 is subject to competition. That's correct?  
17  
18 THE CHAIRMAN: That is basically correct.  
19  
20 MR FLAPAN: Okay. The concern that I have is that the  
21 private operators there at the moment actually set  
22 a considerably greater fare than the current Manly ferry  
23 fare, so that would mean that the competitive environment  
24 may indeed be that fares could increase - there's nothing  
25 to stop them - to match the private operator.  
26  
27 And it may well be - there's nothing to stop this  
28 happening - that during the day, it remains at the current  
29 level, and at night, when the private operator is not  
30 running, they go up to the full fare to match what the  
31 private operators are doing.  
32  
33 The concern I also have is that in determining the  
34 ticket price, the tickets have been determined using the  
35 TravelTen and there has been no talk about the effect of  
36 selling single fares. The long-range marginal cost has  
37 always been determined in the Sapere report on the basis of  
38 TravelTen. It ignores the premium that is actually being  
39 placed on single fare and return fare sales. That  
40 additional revenue has not been factored in, from what  
41 I could see.  
42  
43 THE CHAIRMAN: I'm not sure that understanding is correct,  
44 Mori.  
45  
46 MS BIESAGA: On the first point, we are not suggesting  
47 that IPART step away from Manly completely. We are

1 recommending that fares be deregulated and that we have  
2 a price monitoring role. Price monitoring is not uncommon.  
3 We would look for evidence of Sydney Ferries exercising  
4 monopoly power, and if we saw that, then we would suggest  
5 that we step back in.

6  
7 I don't think we can say which way fares would move if  
8 the Manly ferry was deregulated at this stage. As I say,  
9 we are not suggesting that we just walk away from it. We  
10 are suggesting that IPART still continue to monitor Sydney  
11 Ferries prices across that route.

12  
13 In terms of your comment on the use of the TravelTen  
14 price in the SRG report on externalities, that is used to  
15 estimate the optimal fare. It is not used in IPART's fare  
16 calculation. The second point is that while we use that  
17 average of a TravelTen fare, that is actually more than  
18 what Sydney Ferries collects in fare revenue.

19  
20 MR FLAPAN: I understand that, but some of that is  
21 a social aspect to do with concessions, and so on. What  
22 you are actually doing still is using that fare that an  
23 ordinary person pays and saying --

24  
25 MS BIESAGA: Yes, you're right.

26  
27 MR FLAPAN: And you're comparing against long-range  
28 marginal cost.

29  
30 MS BIESAGA: Firstly, we didn't ask SRG to take into  
31 account an appropriate level of social subsidy.

32  
33 MR FLAPAN: But I'm not talking about that at the moment.  
34 I'm talking about the fact that you are selling single  
35 fares, getting revenue from that, and that is not reflected  
36 in the fare that was used to compare against long-range  
37 marginal costs in the Sapere report

38  
39 MS BIESAGA: And what I have just said is that, yes, we  
40 use the average for TravelTen price, but that is still  
41 higher than the actual average fare collected by Sydney  
42 Ferries.

43  
44 MR FLAPAN: Yes, but the average fare collected on Manly  
45 ferries. The fares that are sold below that are a --

46  
47 MS BIESAGA: We didn't ever ask Sapere to take that into

1 account.

2  
3 MR FLAPAN: Let me finish. The fares that are sold below  
4 that are concession fares, weekly TravelPasses, and so on.  
5 They are a government determination as to social benefit.  
6 This analysis is based on the FerryTen fare per journey.  
7 There is an additional number of tickets, particularly on  
8 the Manly route, that are sold as single fares at  
9 a premium. There has been no accounting for that benefit  
10 in this.

11  
12 MS FIONA TOWERS: Mike Smart uses what you are saying to  
13 work out his optimal fare. That optimal fare hasn't  
14 influenced the Tribunal's decision-making processes. We  
15 have taken into consideration single fares in working out  
16 the average fare change. It is two separate processes.

17  
18 MR FLAPAN: But it is very important, because the Sapere  
19 report suggests that the long-range marginal costs of  
20 ferries exceeds the fare that comes in. That influences  
21 the way that people review these things and it certainly  
22 has influenced the language used in the determination, in  
23 the report that came out, that we read. It also influences  
24 the way that people consider the issue of competition and  
25 monitoring of fares.

26  
27 MS BIESAGA: We deal with the level of subsidy that the  
28 government chooses to provide for concessions in our  
29 report. It is not part of the suite of things we asked  
30 Sapere to consider.

31  
32 MR FLAPAN: No, no. Exactly. That's what I am saying.

33  
34 MS TOWERS: We are not asking passengers to pay for that  
35 social benefit.

36  
37 MR FLAPAN: I understand that, and that is why the premium  
38 that is on single fares that passengers are required to pay  
39 should be reflected in the benchmark used for determining  
40 whether they are meeting long-range marginal costs.

41  
42 MR COX: What you would like to see is some comparison  
43 between single fares and the optimal fare?

44  
45 MR FLAPAN: That's right.

46  
47 MR COX: We will see what we can do.

1  
2 THE CHAIRMAN: Okay, why don't we take that on board.  
3 Anything else, Mori?  
4  
5 MR FLAPAN: No, thanks - oh, nothing I would want to raise  
6 here, but there is my submission, and, yes, there is a lot  
7 more.  
8  
9 THE CHAIRMAN: Indeed, we have your submission.  
10  
11 Are there any other questions or comments? No. It  
12 just leaves me to thank you all very much for coming and to  
13 thank you for your participation. Have a good afternoon.  
14  
15 AT 4PM THE HEARING CONCLUDED  
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