

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

**Review of Rural and Regional Bus Services 2010,  
Review of Fares for Private Ferries and the Stockton Ferry**

**TRIBUNAL MEMBERS: Mr Rod Sims, Chairman  
Mr Jim Cox  
Ms Sibylle Krieger**

**SECRETARIAT: Ms Fiona Towers, Ms Jennifer Vincent  
and Mr Phil Manners**

**Held on Monday, 25 October 2010 at 2pm**

**At the offices of the  
Independent Pricing and Regulatory Tribunal  
1 Market Street, Sydney**

1 THE CHAIRMAN: We will get the proceeding under way.  
2 My name is Rod Sims. I am the chairman of IPART. I would  
3 like to welcome everybody here. Thank you very much for  
4 making the time available today. We are looking at buses  
5 as well as ferries in this joint session. I think people  
6 are mostly familiar with Jim Cox who is on my right and  
7 Sibylle Krieger who is on my left.

8  
9 Today's hearing provides both you and us with the  
10 opportunity to consider the three reviews that we are  
11 looking at today. Our afternoon today is broken up into  
12 rural and regional bus services and ferries after that.

13  
14 In terms of regional and rural buses, this will be the  
15 first issue we will be dealing with. This review is  
16 conducted under section 28J of the Passenger Transport Act.  
17 These fares apply to bus services outside the metropolitan  
18 areas. In August we released an information paper that  
19 summarised the review process. It outlined indicative fare  
20 outcomes and called for submissions from stakeholders.

21  
22 Last week we released a discussion paper commenting  
23 particularly on the fare differences between country town  
24 services and rural services. As everybody knows, rural  
25 services are 25 per cent higher for the same journey or the  
26 same distance. We are seeking to understand whether there  
27 are good reasons for that difference and if there aren't,  
28 what are the options for dealing with that issue.

29  
30 This hearing is going to recap the approach which will  
31 be taken to the review and likely fare outcomes and we are  
32 obviously inviting discussion and comment and after  
33 considering further submissions and the comments we hear  
34 today, we will be releasing a report and a fare  
35 determination in mid-December for the fare changes which  
36 will take effect in January 2011.

37  
38 The second part of this hearing is going to deal with  
39 the ferries. With respect to the hearing process, the  
40 IPART secretariat will run through some introductory  
41 comments and then we will hear from the people present.  
42 With that, could I introduce Phil Manners.

43  
44 MR MANNERS: My name is Phil Manners. I am working  
45 with the IPART Secretariat. I will just take you through a few  
46 quick slides of where our thinking has been to date. This  
47 is just to let you know what we have been thinking about to

1 improve the comments and the discussion.

2  
3 There are two issues that have been the focus of the  
4 work so far. The first is the change in the cost of  
5 providing services. This is something that IPART has  
6 considered every review for the last number of years. That  
7 is broken into two components. One is the change in the  
8 ordinary cost which is measured by the bus cost index,  
9 which I'll talk a bit further about later, and the second  
10 is other adjustments outside of the bus cost index. These  
11 reflect changes to costs related to, say, regulatory  
12 changes imposed by government or costs that aren't captured  
13 in that bus cost index.

14  
15 The second issue is the fare difference between rural  
16 and regional buses. As the chairman said, there is quite a  
17 substantial fare difference at the moment for same-distance  
18 journeys and we are looking to understand that better. An  
19 information paper was released to try and put out some  
20 thinking on these things and to get some comments.

21  
22 It is also worth pointing out some data from the new  
23 bus contract arrangements that is starting to become  
24 available, so we will present a little bit about that.  
25 That is part of the basis for some of the ideas that are  
26 coming up.

27  
28 How does IPART calculate changes in bus costs? We use  
29 the bus cost index. This is similar to the consumer price  
30 index except that the weighting reflects specific cost  
31 items for buses. The major cost items are things like fuel,  
32 capital costs, wages and a few others and then outside of  
33 this, one-off costs can also be considered.

34  
35 The aim of this index is to measure the change in the  
36 cost of services over the past 12 months. Most of the  
37 information is now available. There are only a couple of  
38 items where we are still waiting for figures to be  
39 released. These items relate to  
40 superannuation, workers compensation and payroll tax which  
41 are quite small components of the index.

42  
43 The increase in the bus cost index over the last year  
44 is 2.4 per cent which is very similar to inflation. The  
45 main drivers for that increase were the increase in capital  
46 cost, the increase in wages and offsetting this was a  
47 reduction in fuel costs of 13 per cent.

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1  
2 There are a couple of outstanding issues for the bus  
3 cost index. One is that currently we use a measure of  
4 capital costs which is from quotes obtained from the  
5 industry through Transport NSW. For every other component  
6 we have an independent measure from the Australian Bureau  
7 of Statistics. We are not sure if there are any options  
8 that are better than that at the moment.

9  
10 The second issue is productivity adjustment. For the  
11 last two reviews IPART hasn't made any productivity  
12 adjustment and at this stage we are not expecting to. The  
13 third issue is one-off costs. Bus NSW has indicated that  
14 there could be some additional one-off costs relating to  
15 air conditioning requirements, maintenance and increased  
16 fuel related to that. We are interested in stakeholder  
17 views on any of these particular issues.

18  
19 The other issue we have been looking at is the fare  
20 difference for country towns and rural bus services. Fares  
21 set by IPART are currently split into two components. One  
22 is for country town services. These services are within  
23 boundaries of towns of 7,500 people or less. There are a  
24 couple of exceptions; rural services are all others, so  
25 within the country town to outside the country town  
26 boundary as well as smaller towns.

27  
28 There is currently a large difference between the  
29 fares for these services. We are seeking to understand  
30 whether there are good reasons for this. Some of the  
31 relevant considerations or potential reasons for why there  
32 could be differences relate to the profitability and  
33 financial viability of operators servicing different areas.  
34 I will talk a bit more about that in a second. Secondly,  
35 with respect to the cost of providing services, if the costs  
36 are higher in rural areas than for country town services  
37 that could provide a justification for the difference;  
38 and thirdly, utilisation of services.

39  
40 We have some evidence on utilisation from  
41 Transport NSW. This suggests that utilisation of non-STS  
42 passengers is lower for rural areas, but in terms of adult  
43 full fare paying passengers it's about the same. Finally,  
44 there are issues of affordability and typically incomes are  
45 smaller in rural areas versus country towns.

46  
47 With respect to profitability, the data provided to

1 Transport NSW by bus operators suggests that aggregate  
2 profitability is high, with a profit margin of 34 per cent.  
3 We can break that down into operators that serve only  
4 country town areas, operators that serve only rural areas  
5 and operators that serve both. The profit margins are  
6 slightly higher for operators that serve only rural areas.

7  
8 The largest source of revenue for all operators is  
9 the contract payments related to the School Students  
10 Transport Scheme. This is the first year of reporting of  
11 this data so there are likely to be a number of issues with  
12 the data and understanding of the data. We don't have  
13 access to the data for every operator. We just have  
14 aggregate statistics.

15  
16 There are a number of options for fare structure  
17 reform. One is that we don't do any fare structure reform  
18 at all and that the status quo is okay. If structural  
19 reform was to be pursued then we see that there are three  
20 options. One would be to move all services to the current  
21 country town schedule, allowing for the adjustment to the  
22 bus cost index. A second option would be to do that but  
23 only for the shorter distance journeys and longer distance  
24 journeys would move to the rural fare schedule, or a new  
25 fare schedule somewhere between the two current fare  
26 schedules could be pursued. Our preliminary preference is  
27 for option B, although we are looking to hear views from  
28 stakeholders about what this would mean.

29  
30 If this was pursued, rural fares would fall by around  
31 19 per cent and country town fares would rise by  
32 2.4 per cent. The actual changes could be slightly more or  
33 less than that depending on rounding to the nearest  
34 10 cents of fares.

35  
36 As part of these thoughts we are particularly seeking  
37 to know the impacts on operators of fare changes and their  
38 financial viability and particularly how this would impact  
39 on their fare revenue and how it would impact on the  
40 half-fare concession payments; second, how these changes  
41 would work within the current contractual arrangements; and  
42 thirdly, whether there is any need for timing and staging  
43 of fare changes to manage these impacts.

44  
45 THE CHAIRMAN: Thank you very much, Phil. I am now  
46 going to invite any comments and questions at least initially  
47 from the people up here and then if there's anything from

1 anyone else. As you can all see, this is being  
2 transcribed, so before making a comment would you please  
3 let us know who you are and where you are from. I will  
4 invite comments from Darryl first and then come back to  
5 Joanna and then see if there are any other comments.  
6  
7 MR MELLISH: Thank you, Mr Chairman. My name is  
8 Darryl Mellish. I am the executive director of Bus NSW.  
9 We certainly appreciate the opportunity to contribute to  
10 IPART's determination and to expand on our submission.  
11  
12 In our submission we did make it clear that the fare  
13 scales that we are talking about are not the actual  
14 fare scales in the majority of cases that are charged to  
15 the passenger, the maximum fare scale permissible for the  
16 operator to set fares up to that scale. We do make the  
17 distinction in our submission that the fare box revenue is  
18 one that is returned to the operator and it is a risk  
19 funding model which is quite different to the metropolitan  
20 and the outer metropolitan services.  
21  
22 The fare revenue that an operator receives is directly  
23 linked to the services they provide and the quality of the  
24 services they provide. I think that is reasonably clear in  
25 our submission.  
26  
27 In your recent paper you do raise a number of matters  
28 that we would like to comment on and there are a couple of  
29 areas of concern. In our submission we support the cost  
30 index but we have asked you to consider including the  
31 mandating of air conditioning as a legitimate cost that  
32 should be met in some way by the passenger. It is for  
33 passenger comfort and the government have introduced from  
34 a certain date in all new vehicles that are acquired in these  
35 services that they be air-conditioned.  
36  
37 We have put forward that the calculation used by the  
38 government for this method for school student payments  
39 should be considered by IPART as a method of determining  
40 how it could impact on the fare structures going forward.  
41  
42 There was a methodology adopted which used the change  
43 in fuel consumption and change in maintenance associated  
44 with air conditioning and a calculation was done of the  
45 number of vehicles that were air conditioned at the present  
46 time and what was a reasonable span in a couple of contract  
47 periods to spread that cost over.

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1  
2 I am not sure if it was an IPART decision, but there  
3 was a government decision that when, for example, CCTV  
4 cameras were introduced for the benefit of the passenger,  
5 there was a fair adjustment to accommodate that initiative.  
6  
7 We support the use of the bus quotes obtained by  
8 Bus NSW. They were higher in the previous year because the  
9 2009 quotes were artificially influenced by bulk  
10 metropolitan purchases and not regional and rural  
11 purchases.  
12  
13 The paper that you have prepared and the presentation  
14 there raises consideration of the differences between  
15 country and rural fares and contains a table of  
16 bus operator profitability and although IPART in the paper  
17 identified the problems associated with this data, I think  
18 you incorrectly imply that operators can accommodate a  
19 reduction in revenue. We have brought a couple of country  
20 operators with us today to give you an indication of what  
21 that decision would entail.  
22  
23 The information on profitability that you have used is  
24 not suitable for determining operator profitability and it  
25 is certainly unreasonable to conclude that all operators  
26 could absorb a reduction in revenue. The report also talks  
27 about viability in contrast to profitability. It does not  
28 acknowledge that operator revenue is directly linked to  
29 services and service quality. As I said, our funding  
30 model is where the operator retains the fare box. This is  
31 not a gross-cost model and the operators' revenue is  
32 definitely linked to their ability to provide services and  
33 certainly not like the metro where the funding of buses and  
34 labour is all prescribed in a model that is met by  
35 government. This is a risk model where the operators  
36 provide the services using the revenue that they receive  
37 from carrying school children and the revenue they receive  
38 from fare paying passengers.  
39  
40 If IPART wished to understand the profitability of bus  
41 operators the details have to be properly analysed and  
42 normalised. When we did inquire about some of the  
43 information in the figures, the range in those figures was  
44 not reliable. You have only got to go to the work sheets  
45 that were used to collect the data. On the one hand, they  
46 talk about total revenue and then when you talk about the  
47 expense side there are bus only related expenses, there is

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1 an exclusion of the way you describe the owner operator and  
2 there are a number of external costs that are also  
3 included. There is a mismatch of bus business and non-bus  
4 business in the work sheet that the data is collected from.  
5 We have sought to work with Transport NSW for obtaining a  
6 better reporting system. They are using the  
7 whole-of-business credit and debit balance sheet and in  
8 many cases the businesses are intertwined with many other  
9 activities. We don't believe that the data you've used on  
10 profitability in any way allows you to reach the conclusion  
11 that operators could absorb the loss in revenue.  
12

13 The report submitted doesn't include the labour and  
14 related costs of the owners. Most of the regional rural  
15 bus operators are small family businesses and the owners  
16 and their families provide a large share of the labour. In  
17 many cases, the depot property is not owned by the bus  
18 operating entity and no rent is provided in the accounts.  
19 The net profit figures and total expenses shown in that  
20 report are incorrect. It is not a valid use of that data.  
21

22 I have told you about the reporting template. The bus  
23 businesses that we're talking about here are capital  
24 intensive and most of the small family businesses do not  
25 have the cash equity to purchase a bus. Purchases are  
26 generally made through bank loans, hire purchase or leases  
27 which are secured by external security such as the family  
28 home and personal guarantees. Therefore, return on equity  
29 is an incorrect measure for this type of business.  
30

31 Bus business assets have been accumulated over  
32 decades. Cash flow is needed for investment in the fleet  
33 and depots, so the historical value of these assets is  
34 generally seriously understated.  
35

36 The financial information used by IPART obviously, by  
37 your own admission, contains non-bus operations and there  
38 is certainly a person here who can support that today. The  
39 contracting entity in the bus business can often include  
40 other businesses, like a farm or a travel business, and the  
41 figure quoted of 74 per cent confirms to us that the data  
42 has no validity. We know that the relationship with contract  
43 payments compared to total contract revenues would give a  
44 significant number. On our rule of thumb cross-check we  
45 don't believe the data that you used - even though you do  
46 qualify it - is a valid way of making an assessment about  
47 the operator's ability to absorb the revenue.

1  
2 Transport NSW, using Ernst & Young, undertook a  
3 profitability analysis when setting the contract model to  
4 establish the school student payments and they determined  
5 that the fare structures were reasonable and concluded that  
6 profitability was not excessive and the variation relating  
7 to the efficiency risks in the different operating  
8 environments that exist in the different towns, the  
9 location of the schools and the spread of the population,  
10 for example, has a significant cost benefit arrangement.  
11 There was also a profit-sharing arrangement struck so that  
12 if profit did go above a certain level, the government gets  
13 the benefit of that profit.  
14

15 The independent Ernst & Young analysis actually  
16 normalised the data, so you're able to see whether it was  
17 bus businesses, how assets were treated, how depreciation  
18 was treated, whether labour was included and those types of  
19 figures had general support from the industry.  
20

21 The fare level and supporting operator viability were  
22 considered appropriate at that two-year review. There were  
23 significant checks and balances on the government getting  
24 value for money through the extensive new reporting  
25 mechanism being introduced and the profit-sharing  
26 mechanism to cover the government if they did feel that there  
27 were revenue increases.  
28

29 Coming now to changing the fare structures, changing  
30 the risk in the fare box model is likely to reduce the  
31 fares charged and the service levels provided. That is a  
32 likely consequence of the restructure of the fares.  
33 We understand that there is only a relatively small number  
34 of operators relying on rural fares for the continuation of  
35 their existing service plans and our position is that these  
36 operators need to be compensated. One of those operators  
37 here will shortly address you and your concern,  
38 Mr Chairman, about the significant differences that I think  
39 we can explain.  
40

41 Costs per passengers are definitely higher for  
42 regional and rural services and your question about can  
43 contracts reflect the changes, we haven't sought legal  
44 advice at this stage about what impact restructuring of the  
45 fare tables would mean to our contracts, but we certainly  
46 have a preliminary view that the change event and service  
47 changes clauses in the contract would need amending and

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1 that there would need to be a fair compensation mechanism  
2 adopted if you did proceed with a structure.  
3  
4 You have asked about affordability in country towns.  
5 Our position is that operators are reporting good take-up  
6 of the RED ticket and that operators set their fares taking  
7 into account the affordability and capacity cross-subsidy  
8 that exists. There is an in-built incentive and mechanism  
9 to take into account affordability in setting service  
10 levels and fares.  
11  
12 It will be of no surprise to you that we consider that  
13 the two-fare structure should remain and I will ask John to  
14 explain an example for you, but if you are going to change  
15 the fare structure there needs to be a mechanism to  
16 compensate operators for that loss in revenue because it  
17 does link to service levels. Would you mind if I asked  
18 John to give you an example?  
19  
20 THE CHAIRMAN: No.  
21  
22 MR KING: My name is John King. I am from Nowra  
23 Coaches. After looking at the statistics that Darryl and  
24 ourselves were looking at, I think the easiest way to explain  
25 this is as an operational structure. If we look at our country  
26 town in Nowra, we have 15,000 people. We can do 13 trips  
27 with one bus on an eight-hour shift and cover  
28 225 kilometres in that one day. We operate on better  
29 roads, better footpaths, better conditions and a lot lower  
30 maintenance costs of running that particular vehicle  
31 because it is all neat and tidy around the town.  
32  
33 If you look at a rural and regional operation, we are  
34 running without footpaths. We are doing a door-to-door  
35 service because we can't pull up on the side of the road  
36 and just let anybody off. We only get to do four trips out  
37 of an eight-hour shift with one bus and we do  
38 600 kilometres to get those four trips covered. The  
39 difference between the --  
40  
41 THE CHAIRMAN: Why is that, given the fact that we're  
42 talking about the same fare and the same distance?  
43 I understood all the other points you made. I just didn't  
44 understand that point.  
45  
46 MR KING: The distance fare within a country town is that  
47 I can get multiple uses out of that particular vehicle -

1 say, 13 trips in an eight-hour shift - but if I'm running  
2 out to 30 sections, I am only getting four trips and doing  
3 600 kilometres for the same spread of hours. You don't get  
4 the resale of that seat to whatever fare it would be  
5 because you're not actually in front of the customer on a  
6 regular basis. In a sense, the resale of that seat is  
7 halved for a rural regional route versus a country town.  
8 The runs are slower and they're running in much more  
9 diverse conditions as such.  
10  
11 I think the whole aspect of a higher fare on a rural  
12 and regional operation is that we are offering a service to  
13 the community and if there is a reduction in our fares,  
14 we would obviously have to look at the community amenity  
15 of reducing their services to a point. Most rural and  
16 regional operators are above the minimum service levels, so  
17 there could be a reduction in that structure. To reduce  
18 that fare and reduce a revenue source, at some stage we  
19 would have to reduce the cost.  
20  
21 THE CHAIRMAN: Thank you.  
22  
23 MS KRIEGER: Could I ask you a question just in terms of  
24 the broad relativities? Is it correct to say that  
25 operators earn about 90 per cent of their revenue through  
26 government contracts and about 10 per cent or less from  
27 fare-paying passengers?  
28  
29 MR KING: I can't speak for most operators, but I wouldn't  
30 say that would be right in our case because of the diverse  
31 nature of our balance sheet.  
32  
33 MS KRIEGER: I wonder if Mr Mellish has a comment on that.  
34  
35 MR MELLISH: Yes, I think John's business is a bit  
36 different. As a rule of thumb, I think you are right and  
37 that is why I made the point that the 74 per cent in your  
38 report doesn't stack up.  
39  
40 MS KRIEGER: Under the contracts that you have do I take  
41 it from what you are saying that you've not yet explored  
42 your ability to pass through changing costs that are due to  
43 changing regulatory requirements?  
44  
45 MR MELLISH: We have to go to the interpretation of the  
46 change event clause in the contract and it is not  
47 straightforward and there are thresholds involved.

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1 We don't know what thresholds relate to which part of the  
2 business, so the clauses aren't clear. There is a change  
3 in the mechanism of the contract, but how an IPART  
4 determination fits the change event and what impact it has  
5 on the threshold we consider needs a bit more  
6 consideration. If we could work with Transport NSW to  
7 understand this change event it would trigger a  
8 compensation and then obviously that is what we're asking  
9 for, if there is a drop in revenue.

10  
11 As I said, there are not a lot of operators affected,  
12 but of the ones that are affected I don't think we want to  
13 reduce the service levels in those areas. It is a matter  
14 of either compensating the operator or risk a reduction in  
15 services.

16  
17 MR COX: Firstly, a question to Mr King - could you give  
18 me an idea of how important these fares are in the total  
19 revenue of the business? In particular, I am thinking about  
20 the rural and regional fares, particularly the long distance  
21 ones.

22  
23 MR KING: They are very important to our businesses.  
24 We actually have a unique type of operation. We run from  
25 Eden to Nowra so we've got some 450 kilometres that we  
26 cover and a lot of those services are paid for by the  
27 general public and we need to charge those maximum fares.  
28 Considering that the vehicles we need to use must be to a  
29 standard that can operate on a highway - the cost of  
30 running those services - to our business it is very  
31 important to make sure we maintain those vehicles.

32  
33 MR COX: Secondly, do you in fact charge the maximum fare  
34 at the moment?

35  
36 MR KING: Yes, we do.

37  
38 MR COX: Thank you. A question for Darryl Mellish - going  
39 back, you raised the issue of air conditioning. Would you  
40 just refresh my memory? To what extent did we consider  
41 these issues in previous years and with what result and  
42 what's different this year?

43  
44 MR MELLISH: That is a good question. I am not sure  
45 I know the answer. We submitted the calculation per bus.  
46 We calculated what the impact was on fuel. We submitted  
47 the data that was available in the public domain on the

1 impact of fuel. I think everyone who runs a car knows if  
2 you run the air conditioner you use more fuel. If you've  
3 got a decent sized air conditioner sitting on the roof of  
4 your bus, it has more weight and you have to regularly  
5 maintain it. We have produced figures which we tabled last  
6 year and my understanding is that IPART said they would  
7 reconsider the air conditioning costs again this year.

8  
9 We have submitted the calculations previously and we  
10 are happy to do it again, but it did rate 4.2 litres per  
11 100 difference in fuel and I think it was \$1,979 per annum  
12 per bus. Transport NSW estimated that 30 per cent of the  
13 fleet was already air-conditioned because it services areas  
14 west of the ranges and in the northern areas where  
15 temperature was an issue.

16  
17 MR COX: I just wanted to get a sense of whether there's  
18 anything new or additional that we should think about this  
19 year that we didn't think about in previous years.

20  
21 MR MELLISH: I don't think so. It is the same argument  
22 from our side.

23  
24 MR COX: Thank you.

25  
26 THE CHAIRMAN: Perhaps I'd ask Joanna to comment.

27  
28 MS QUILTY: Thank you, Mr Chairman. My comments will  
29 largely be confined to the issue of a single fare scale for  
30 rural and regional bus services. The government is  
31 certainly committed to ensuring that public transport is  
32 affordable, particularly for those who are disadvantaged  
33 and more likely to be reliant on public transport, and  
34 I think initiatives such as the regional excursion daily  
35 (RED), which allows all-day travel for \$2.50, and more  
36 consistent concession arrangements for rural and regional  
37 passengers, are examples of that commitment.

38  
39 The movement to a single-fare scale was a  
40 recommendation in the Unsworth Review and I think at the  
41 time the government gave its in-principle support to moving  
42 in that direction.

43  
44 Where we are now is my advice is that under our  
45 contracts it would be possible to introduce a single-fare  
46 scale and I think that the decoupling of SSTS payments from  
47 the annual fare determination process means that the impact

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1 of that on bus operators would be less than it would have  
2 been under the old contracting regime.  
3  
4 However, having said that, we're very mindful of the  
5 fact that we do need to understand impacts for operators  
6 and I think there are a number of points that need to be  
7 made in relation to that. The first is my understanding is  
8 that the data around profitability has been based on  
9 whole-of-business data, so that that includes other parts  
10 of the business that operators may be running, not just  
11 those services they're contracted by Transport NSW to  
12 provide and the contract payments that we make to them.  
13  
14 The other businesses that they tend to run are around  
15 charter. That is largely around charter services. My  
16 understanding is that the profitability data does include  
17 the whole of business and not just that related to the  
18 services they provide on behalf of Transport NSW. I think  
19 it is also fair to say that the contracts are still  
20 relatively new, that operators are still getting used to  
21 the reporting requirements under those contracts and that  
22 we have had instances of some anomalies in there with  
23 operators not quite yet fully appreciating what it is they  
24 are to provide. We are working through that with  
25 operators, but it is important to acknowledge that we are  
26 still in the early days of that.  
27  
28 I think a related point is that the data that we've  
29 provided to you relates to '08-09 and that to some extent  
30 that data was still affected by the previous contract  
31 arrangements because there were wash-up payments that  
32 were made within that reporting period. We don't yet have a  
33 set of data that is clean and that relates solely to the new  
34 contracting arrangements.  
35  
36 I think the other point to note is that there is a  
37 great deal of variability out there in terms of the types  
38 of businesses that are providing these services. Whilst  
39 there can be very large operators that operate over a large  
40 part of rural and regional New South Wales, there are other  
41 very small family businesses and there are quite  
42 considerable differences between the sorts of businesses  
43 that are out there.  
44  
45 From our point of view, I think it would be preferable  
46 to have better data around these new arrangements and to  
47 have at least two years of data rather than where we are

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1 now. We would also like to have a better understanding of  
2 the impacts of moving to a single fare scale on individual  
3 operators. While it is possible to look at averages and  
4 across the whole of the industry, recognising that  
5 variability, we would like to get a better understanding of  
6 impacts on different types of operators out there.  
7  
8 As I said, initially, certainly in-principle support  
9 for moving in this direction, but I think the preference  
10 would be to wait until we have better data and a better  
11 understanding.  
12  
13 THE CHAIRMAN: Do I take it that both from the  
14 department's point of view and the Bus Association's point  
15 of view there's no better data people could give us now?  
16 It is a question to both of you.  
17  
18 MR MELLISH: There is a reporting regime that has already  
19 been prepared. We think it needs to be modified because it  
20 doesn't address this issue of whole-of-business versus bus  
21 business. Like I said, it doesn't normalise the labour and  
22 asset issue. To get reasonable data you would have to do a  
23 proper normalisation process to make sure you're comparing  
24 apples with apples. The existing regime - unfortunately, in  
25 our view - would not give you the normalised data that you  
26 would need because of the way it does mix whole of business  
27 with the bus business.  
28  
29 THE CHAIRMAN: And there is no way that the bus  
30 association could provide us with that?  
31  
32 MR MELLISH: We would probably have to do an extensive  
33 survey and appoint someone to achieve that result. In the  
34 past when we've done that it has been thought to be better  
35 done independently through Transport NSW so that they're  
36 happy with the results.  
37  
38 MS QUILTY: We certainly want to work with Bus NSW to  
39 look at how we can improve the quality of data, but it is not  
40 something we have now and I don't think it is something  
41 we're going to be able to pull together very quickly.  
42  
43 MS TOWERS: Is the '09-10 data not due until next March?  
44  
45 MR MURPHY: Basically, under the contracts, to ensure that  
46 we get third party confirmed data, the data is based on  
47 taxation returns and includes financial performance and a  
48 statement of financial position. The data will start

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1 to come in in February. The '08-09 data started to come in  
2 in February and we're still waiting for confirmation.

3  
4 MS TOWERS: Is there time to work at it so as to improve  
5 some of this between now and when it is due in March?

6  
7 MR MELLISH: Just to clarify, the financial reporting data  
8 for contract B - which is what we're talking about - is due  
9 by the end of December.

10  
11 MS KRIEGER: Could I ask a question to clarify? Do  
12 operators report their actual fare box to the department?

13  
14 MR MURPHY: Basically, under the contracts there are two  
15 reporting regimes or two reporting requirements. There is  
16 contract-specific revenue and expenditure and there's also  
17 a statement of financial performance and a statement of  
18 financial position for the whole of business. Under that  
19 contract-specific data we know the contract payments.  
20 Therefore, if the total revenue from the contract,  
21 including the fare box, was reported, we could identify the  
22 fare box proportion of those revenues.

23  
24 To be fair to Bus NSW, we met with them early March,  
25 they had a regional seminar, and basically they went  
26 through a pro forma about what should be reported under  
27 those work sheets which basically indicated that it should  
28 be all the revenue from the contracts, including fare box,  
29 not charter, only out of the business revenue, and the  
30 expenditure should be bus-related. If we went down that  
31 direction, we could actually identify the fare box  
32 component of the revenue.

33  
34 MR MELLISH: Might I add that the reason for that  
35 financial data being collected is based on operating  
36 viability so that the government can ensure the continuity  
37 of service, and it would follow the failure of  
38 King Brothers some years ago, so the financial data on a  
39 whole-of-business basis is captured for viability reasons  
40 so that the government can see that there is a continuity  
41 of the service in these regional and rural areas. The  
42 recording of financials was for that purpose rather than  
43 any other purpose.

44  
45 MR COX: I have just one question, probably directed to  
46 Joanna Quilty. It has been said that we need to wait until  
47 there is better data and in a way I sympathise with that,

1 but I am also thinking whether it might be a number of  
2 years before the better data actually filters through. How  
3 do you feel about the continuation of what you see as  
4 a sub-optimal fare structure perhaps for some  
5 considerable time while we work through and get some better  
6 data?

7  
8 MS QUILTY: I think under the new contracting arrangements  
9 we do have the opportunity to collect better data. I was  
10 hoping it wasn't going to take a number of years. I think  
11 we are very concerned about the viability of services and  
12 that operators are able to continue to operate to provide  
13 those services, so we do need to strike the right balance.

14  
15 In any event, I think Transport NSW would probably  
16 favour a staged approach to introducing any single fare  
17 scale, again recognising that for some operators in  
18 particular it may hit them hard and that if we can give  
19 them an opportunity to adjust, we think that that will have  
20 a better outcome.

21  
22 MR MELLISH: Mr Chairman, would it help if I gave you a  
23 copy of the work sheet that operators are currently  
24 provided to fill out? It identifies the issues.

25  
26 MR COX: I did want to ask one other thing. What scope -  
27 if any - does the Department of Transport have to, if you  
28 like, calibrate or adjust the outcome for operators were we  
29 to decide to move it towards a single fare scale?

30  
31 MS QUILTY: My advice is that - and I think it is just  
32 preliminary advice - under our contracts it wouldn't  
33 constitute a change event, so that there wouldn't be any  
34 compensation provided from Transport NSW. We also don't  
35 have that factored into our budget and I think Treasury  
36 would have a view about that. At this stage, it isn't  
37 something that has been factored into the forward  
38 estimates.

39  
40 MR COX: Thank you.

41  
42 THE CHAIRMAN: I am going to invite others now to talk,  
43 but just one last question back to Mr King and I am being a  
44 bit slow here. I just wanted to make sure I got this  
45 right. I heard three reasons why the costs would be higher  
46 in rural areas versus country towns and I understood two of  
47 them. The third one I think was where you were saying you

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1 could do more journeys. Is that simply because when you're  
2 within the confines of a town it's essentially more  
3 circular, closer in to the start point when you get to the  
4 end, whereas with rural you're going out in a linear  
5 fashion? I am just trying to understand if what you're  
6 talking about is fare per distance and that you're  
7 therefore essentially travelling the same distance but  
8 getting a different fare. I'm struggling to understand why  
9 you're going to be able to do more runs in the country  
10 towns than you are in the rural areas when what we are  
11 talking about is fares per distance travelled. I may be  
12 missing something and I apologise if I am.

13  
14 MR KING: The country town fare is basically in a radius  
15 of about seven sections and each section is 1.6 kilometres,  
16 whereas if it is a rural and regional route from say Nowra  
17 out to the Huskisson-Jervis Bay area - in my domain - you  
18 are talking 26 sections, so it's multiples of 1.6. The  
19 distance is greater. That is why you don't have the  
20 ability to resell that product.

21  
22 MR MELLISH: With respect to the turnover of the seat, if  
23 it's operating in a country town you've got the potential  
24 to pick up other passengers and set them down. If you're  
25 on a long spur running out of town and coming back, the  
26 ability to pick up and turn over the seat is severely  
27 restricted. As John said, in an eight-hour shift I think 4  
28 to 13 is the difference in being able to turn over that  
29 seat to carry more passengers and collect more fares. When  
30 you do the rural trip you don't have the ability to turn  
31 over the seat because the population is not there.

32  
33 THE CHAIRMAN: I do understand that. Thank you. Are  
34 there any comments? I realise we have just had a new  
35 arrival, but I am opening it up both to yourself and others  
36 if anybody's got any other comments they would like to make  
37 on this issue. Are there any other comments anyone wants  
38 to make on the bus issues before we move to the ferries?

39  
40 MR MELLISH: Just to repeat again, Mr Chairman, if there  
41 is some work to be done on air conditioning, we would be  
42 happy to provide it. If there is additional data you think  
43 we could collect, we would be happy to collect it.

44  
45 THE CHAIRMAN: All right. I will just repeat that  
46 submissions on the rural and regional buses are due by  
47 15 November and our report and determination will be

1 released in mid-December. Thank you to people for their  
2 time.

3  
4 Moving to the ferries, we are conducting our review of  
5 fares for the Stockton Ferry under section 11 of the  
6 IPART Act where we determine the maximum fares and we  
7 will make our determination in December. We are conducting  
8 our review of fares for the regulated private ferries under  
9 section 9 of the IPART Act and we will make these  
10 recommendations by December 2010. These are  
11 recommendations. The Director-General of Transport will  
12 then determine the fares that will apply.

13  
14 On 1 October we released an information paper  
15 summarising the review process for both Stockton and  
16 private ferries. I will invite Jennifer Vincent to  
17 make an introductory presentation.

18  
19 MS VINCENT: Thank you, Rod. As the Chairman  
20 mentioned in his opening comments, the Tribunal released an  
21 information paper at the beginning of this month which  
22 provided an indicative fare outcome and sought comments  
23 from stakeholders, which are due at the end of this week.  
24 At today's hearing we will recap the approach that we will  
25 be taking to the review and seek comments from the  
26 stakeholders present.

27  
28 Starting with the legal basis for the reviews, because  
29 there are actually two reviews in question under the  
30 heading "Ferries", we make recommendations for maximum  
31 fares for regulated private ferry services to the  
32 Director-General of Transport New South Wales under an  
33 arrangement with the Premier. The terms of reference for  
34 the review set out all the matters that the Tribunal is  
35 required to consider when making its recommendations.

36  
37 The second review is the review of fares for the  
38 Stockton Ferry which is operated by Newcastle Buses and  
39 Ferries, a business unit of the State Transit Authority,  
40 and those fares are determined by the Tribunal under the  
41 IPART Act and section 15 of the IPART Act details the  
42 matters the Tribunal must consider when making its  
43 determinations.

44  
45 The considerations in the terms of reference and  
46 section 15 are very similar, including the cost of  
47 providing the services, protection of consumers from abuse

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1 of monopoly powers, the impact on the environment, social  
2 impact and standards of quality, reliability and safety.  
3 The terms of reference for private ferries also includes  
4 consideration of the relativities with government-owned  
5 services.

6  
7 Moving on to how we calculate the changes in ferry  
8 costs, that is similar to the approach we take to rural and  
9 regional buses. We have cost indexes. In 2008, in  
10 response to stakeholder comments and advice from  
11 Indec Consulting, we split what was then a single cost  
12 index into two separate cost indexes to measure changes in  
13 ferry costs. We have the slow ferry cost index which  
14 measures costs for slow ferries which operate at speeds of  
15 less than 10 knots and the fast ferry cost index measures  
16 the costs for faster ferries which operate at an average  
17 speed of 18 to 20 knots. We went to two different indexes  
18 because the main costs for the two types of ferries are  
19 significantly different, particularly with regard to the  
20 fuel cost item.

21  
22 The two indexes provide an estimate of the change in  
23 the costs of the industry as a whole. It doesn't  
24 measure the actual change in costs of any individual  
25 operator. Both the indexes look at the overall change in  
26 costs of providing ferry services by examining the change  
27 in the costs of inputs, such as labour, fuel and interest  
28 costs. The items are weighted according to their share of  
29 total ferry costs. To measure those increases each cost  
30 item is inflated by a selected indicator which estimates  
31 the increase in costs over the review period, which is the  
32 year to September 30.

33  
34 Some of the information that we require to calculate  
35 the final index isn't available, so the indicative outcome  
36 that was indicated in the 1 October report is still the  
37 number that we're using, but obviously the final  
38 number could be different.

39  
40 The indicative outcomes for the two indexes are an  
41 increase of 2.1 per cent for the slow ferries and an  
42 increase of 1.2 per cent for the fast ferries. I must  
43 stress that any recommended increases will be applied to  
44 the master fare schedule that is maintained by IPART.  
45 Because we recommended fare decreases in some cases last  
46 year but no fares were reduced, some actual fares are  
47 currently higher than the master fare schedule.

1  
2 That means that in the case where the current actual  
3 fare is higher than the master fare, the percentage  
4 increase on the actual fare would be lower than the  
5 percentage we announce. We also round the fares once the  
6 index has been applied, so that can make a difference as  
7 well. As we did last year, we will actually publish the  
8 indexes and a guide to the indexes on our web site.  
9  
10 We also intend to continue the mid-year review of fuel  
11 costs. This was introduced in response to a concern that  
12 annual reviews weren't effectively addressing the  
13 volatility of fuel costs. IPART decided that to address  
14 this concern, we would do a mid-year review just of fuel  
15 costs and that we would recommend changes to fast ferry  
16 fares only if fuel costs changed by more than 10 per cent in the  
17 six months following the review of ferry fares.

18  
19 The Tribunal doesn't do a mid-year adjustment for  
20 slow ferries as fuel is a much smaller proportion of total  
21 costs for slow ferry operators. In the 2009 mid-year  
22 review the Tribunal found a decrease in diesel costs of  
23 21.5 per cent and as a result fast ferry fares were  
24 reduced on 1 July 2009. When we conducted our mid-year  
25 review this year we found there had been only a small  
26 decrease in fuel prices from the average price included in  
27 the fast ferry cost index and we did not recommend a  
28 mid-year fare change this year.

29  
30 We are asking the question of stakeholders whether you  
31 would like us to retain the mid-year fuel review and  
32 whether it is an effective approach to addressing fuel  
33 price volatility.

34  
35 Another question we ask every year is how we deal with  
36 the issue of productivity in ferry fares. We will consider  
37 adjusting the labour components of the index to account for  
38 increases in labour productivity over the course of the  
39 year if there is evidence available that there have been  
40 productivity changes. We ask whether that is appropriate  
41 and what is the best way to measure productivity changes in  
42 the private ferry industry. That about wraps it up. We  
43 will now proceed to comments from stakeholders.

44  
45 THE CHAIRMAN: Thank you, Jennifer. Could I invite the  
46 industry to go first?

47

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1 MR FAIRWEATHER: As you know, we haven't made our  
2 submission yet. We are due to make our submission by the  
3 end of this week. I suppose the biggest change for us  
4 during the year has been the introduction of the Fair Work  
5 Australia wage award. The wage component with most  
6 ferry operators, whether it be small or fast, would have to  
7 be around 50 per cent of their overall expenses.  
8  
9 The new Ports and Harbours Award showed quite a  
10 significant increase in wages and with most operators it  
11 probably increased in the order of somewhere between 6 and  
12 12 per cent. As we all know from previous experience, it  
13 is very hard to get information from some operators. From  
14 the few I have got it is very hard to then go back and ask  
15 more precise questioning about that increase. They've just  
16 given a general statement that it has gone up by this or by  
17 that.  
18  
19 Late last year we did continue to request the Minister  
20 for a change in the contract system. Early this year he  
21 recommended that that not happen, but gave a selected group  
22 of slow ferry operators a supplementary payment which has  
23 been welcomed. We are still asking for that same  
24 supplementary funding to be applied to the fast ferries.  
25 Much as the Indec report had stated that they were more  
26 viable, if you took any of the SSTS payments off the fast  
27 ferry operators, I think you would find they would struggle  
28 to survive. We still have a request in with the Minister  
29 for a supplementary payment similar to the slow ferry  
30 operators.  
31  
32 Just to finalise, the only other major things that  
33 really affect our industry are business interest rates,  
34 which we've taken into account, rents and insurances and  
35 maintenance costs are probably the things that have changed  
36 quite dramatically for some of them. Part of the things  
37 that we were asking in the new contracting system was for  
38 help in getting some new infrastructure. Now these people  
39 had to take out loans to possibly buy new infrastructure  
40 which would, as you can imagine, increase their business  
41 costs quite substantially. Borrowing substantial amounts  
42 of money for a small family business is quite a big deal.  
43 Thank you.  
44  
45 THE CHAIRMAN: I will invite comments from the end of  
46 the table.  
47

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1 MR TAYLOR: My name is Graham Taylor and I am from  
2 Action for Public Transport. I had a look at the discussion  
3 document prepared by IPART and based on what I've seen in  
4 that document and knowing that the master fare is actually  
5 slightly lower than the actual fare currently charged,  
6 we can't support any increase in fares for either the  
7 private or Stockton ferries this year, but we do support  
8 the mid-year review for fast ferries whilst these cost  
9 indexes remain in place.  
10  
11 I would like to pick up on Warwick's comments about  
12 overtures to government to restructure the private ferry  
13 industry. Not only from Warwick's perspective but from the  
14 operators' viewpoint do they see troubled times. From the  
15 passengers' perspective, we had the introduction of  
16 integrated ticketing with the My Zone system in April this  
17 year on government train, private and public buses and  
18 public ferries. This is the forerunner to electronic  
19 SmartCard ticketing and APT is very much of the view that  
20 the private ferry industry has to join the integrated  
21 ticketing club so that passengers don't have to pay extra  
22 for a bus or a train that they need to take to meet a  
23 private ferry, so it's all one fare, one package. We would  
24 very much like IPART to support a move towards integrated  
25 fares for private ferries.  
26  
27 MS QUILTY: I don't have any particular comments to make  
28 other than to note that I think you are waiting on us to  
29 provide you with some further information about the  
30 supplementary payments that are made to some of the slow  
31 ferry operators and we should be able to provide that soon.  
32  
33 MR COX: Will the supplementary payment be a continuing  
34 payment or is it just a one-off?  
35  
36 MS QUILTY: At the moment it's the government's position  
37 that those payments will continue.  
38  
39 MR COX: Thank you. Mr Fairweather, you mentioned the  
40 new award. Has that now come into operation?  
41  
42 MR FAIRWEATHER: As from 1 January this year.  
43  
44 MR COX: From 1 January 2010?  
45  
46 MR FAIRWEATHER: Yes, and then there is a period of time  
47 where it is transitioning from the old award. Some people

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1 are paying less or more, or whatever, and there is about  
2 a four-year transition there where every July it can be  
3 increased by 20 per cent until it gets to the new wage  
4 level.  
5  
6 MR COX: I was just wondering whether the supplementary  
7 payment was in some way related to or connected with the  
8 award?  
9  
10 MR FAIRWEATHER: No, it wasn't. It was a request that  
11 came back from the Indec report of some years ago where the  
12 slow operators were identified very much as being  
13 financially unviable. This was a thing that was suggested  
14 to help their viability.  
15  
16 MR COX: Thank you.  
17  
18 MS KRIEGER: I have no questions.  
19  
20 THE CHAIRMAN: Mr Fairweather, did you have any comment  
21 on whether the mid-year adjustment process should continue?  
22  
23 MR FAIRWEATHER: I would like that to continue.  
24  
25 THE CHAIRMAN: Can I ask if there are any comments or  
26 queries from anybody else?  
27  
28 MR MILES: Yes, thank you, Mr Chairman. My name is  
29 Allan Miles and I am from Action for Public Transport.  
30 I would like to support what Graham said. We realise that  
31 these figures that the industry has quoted for wages, fuel,  
32 maintenance, insurance, rents and interest are of vital  
33 importance to the private ferry proprietors, but in the  
34 overall scheme of the transport system for the Greater  
35 Sydney Area, private ferries carry only 0.08 per cent of  
36 the total load.  
37  
38 A lot of these figures which were quoted and other  
39 figures are either kept secret or they are tardy in coming  
40 in. I am of the view that "SFCI" stands for "science  
41 fiction cost index", not "slow ferry cost index". Again,  
42 I would like to support Graham's suggestion that the  
43 private ferry fares just be incorporated in the My Zone  
44 ticket. We realise that a great deal of contractual  
45 rearrangement would have to go on through the industry and  
46 transport and everything else, but this thing was done very  
47 quickly and very well. It just overrode all previous

1 concepts of cost and revenue.  
2  
3 For the most part it has worked very well. All  
4 previous IPART calculations on cost and revenues just seem  
5 to be perhaps not forgotten but are of secondary importance  
6 to getting an easier and simpler fare system for the  
7 passengers. I won't mention the election next year because  
8 that has nothing to do with it. What I would like to see  
9 is that IPART, as well as making a recommendation on  
10 paragraphs A to H, or whatever it is, also make a  
11 suggestion that the private ferries be brought into this  
12 contract arrangement in the same way as the private buses  
13 were.  
14  
15 If the private buses could be brought into the fold so  
16 easily from the passengers' point of view - and I don't  
17 know what Darryl thinks about that - it should be a fairly  
18 simple task to bring the private ferries into the fold and  
19 make a much better deal for the passengers. Thank you.  
20  
21 THE CHAIRMAN: Thank you very much. Are there any  
22 questions or further comments from anybody in the room? Is  
23 there anything else from the Tribunal?  
24  
25 MR COX: No.  
26  
27 MS KRIEGER: No.  
28  
29 THE CHAIRMAN: I think we're done. Thank you very much.  
30 Thank you again to everybody for giving us your time today.  
31 As I think we've already indicated, the submissions for the  
32 review of fares for the Stockton and private ferries are  
33 due by the end of the week and our recommendations and  
34 determinations will come out before the end of the year.  
35 Thank you everybody. I will declare this hearing closed.  
36 Thank you.  
37  
38 AT 3.08PM THE PUBLIC HEARING CONCLUDED  
39  
40  
41  
42  
43  
44  
45  
46  
47

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