

Report on the Determination of Fares for Sydney Ferries

From 18 December 2005



IPART

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**
of New South Wales

Report on the Determination of Fares for Sydney Ferries

From 18 December 2005

Determination 10, 2005

December 2005

ISBN 1 920987 47 9

This work is copyright. The *Copyright Act 1968* permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

The Tribunal members for this review are:

**Dr Michael Keating AC, Chairman
Mr James Cox, CEO and Full Time Member
Ms Cristina Cifuentes, Part Time Member**

Inquiries regarding this paper should be directed to:

***Dennis Mahoney ☎ 02 9290 8494
Steven Tropoulos ☎ 02 9290 8403***

Independent Pricing and Regulatory Tribunal of New South Wales

Level 2, 44 Market Street, Sydney NSW 2000

☎ (02) 9290 8400 Fax (02) 9290 2061

www.ipart.nsw.gov.au

All correspondence to: PO Box Q290, QVB Post Office NSW 1230

Determination No 10, 2005

**Section 11
Independent Pricing and Regulatory Tribunal Act 1992**

Sydney Ferries

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No: 05/45

1. Background

- (1) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* provides the Tribunal with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in schedule 1 of the IPART Act.
- (2) Sydney Ferries (**Sydney Ferries**) is listed as a government agency for the purposes of schedule 1 of the IPART Act. The services of Sydney Ferries declared as monopoly services (**Monopoly Services**) under the *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998 (Order)* are regular passenger services (within the meaning of the *Passenger Transport Act 1990*) excluding the services supplied in accordance with the ticket known as the "SydneyPass". Accordingly, the Tribunal may determine the prices for Sydney Ferries' Monopoly Services.

[Note: The Order applies to Sydney Ferries by operation of clause 135, Schedule 7 of the Transport Administration Act 1988]

- (3) In investigating and reporting on the pricing of Sydney Ferries' Monopoly Services, the Tribunal has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (4) In accordance with section 13A of the IPART Act, the Tribunal has fixed a maximum price for Sydney Ferries' Monopoly Services or has established a methodology for fixing the maximum price.
- (5) By section 18(2) of the IPART Act, Sydney Ferries may not fix a price below that determined by the Tribunal without the approval of the Treasurer.

2. Application of this determination

- (1) This determination fixes the maximum prices (or sets a methodology for fixing the maximum prices) that Sydney Ferries may charge for the Monopoly Services.
- (2) This determination commences on the later of 18 December 2005 and the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (3) The maximum prices for the tickets:
 - (a) in table 1 of this determination apply from the Commencement Date to the date that this determination is replaced; and
 - (b) in table 2 of this determination apply from 3 January 2006 to the date that this determination is replaced.

3. Replacement of Determination No. 3 of 2004

This determination replaces Determination No. 3 of 2004 from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under Determination No. 3 of 2004 prior to its replacement.

4. Monitoring

The Tribunal may monitor the performance of Sydney Ferries for the purposes of:

- (a) establishing and reporting on the level of compliance by Sydney Ferries with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by Sydney Ferries.

5. Schedule

Schedule 1 and the Tables in that schedule set out the maximum prices that Sydney Ferries may charge for the Monopoly Services.

6. Definitions and Interpretation

Definitions and interpretation provisions used in this determination are set out in Schedule 2.

Schedule 1

Maximum prices

1. Application

This schedule sets the maximum prices that Sydney Ferries may charge for Monopoly Services.

2. Maximum prices

The maximum prices that may be charged by Sydney Ferries for:

- (a) a ticket listed in column 1 of Table 1 are the corresponding prices shown in columns 2 and 3 of Table 1; and
- (b) a ticket listed in column 1 of Table 2 are the corresponding prices shown in columns 2 and 3 of Table 2.

Tables 1 and 2

Table 1 Maximum prices for Single and FerryTen tickets

Tickets	Maximum prices	
	Adult (\$)	Concession (\$)
Single		
Inner Harbour Zone 1	5.00	2.50
Inner Harbour Zone 2	5.30	2.60
Manly / Rydalmere	6.20	3.10
Parramatta	7.50	3.70
Manly JetCat	7.90	
FerryTen		
Inner Harbour Zone 1	32.50	16.20
Inner Harbour Zone 2	34.50	17.20
Manly / Rydalmere	46.60	23.30
Parramatta	52.60	26.30
Manly JetCat	65.70	

[Note: all half fare concessions have been rounded down to the nearest 10 cents.]

Table 2 Maximum prices for TravelPass and DayTripper tickets

Tickets	Maximum prices	
	Adult (\$)	Concession (\$)
TravelPass		
Weekly Blue	30.00	15.00
Weekly Green	40.00	20.00
Weekly Orange	37.00	18.50
Weekly Pink	47.00	23.50
Weekly Pittwater	51.00	25.50
Weekly Purple	54.00	27.00
Weekly Red	32.00	16.00
Weekly Yellow	44.00	22.00
DayTripper	15.00	7.50

[Note: all half fare concessions have been rounded down to the nearest 10 cents.]

Schedule 2

Definitions and Interpretation

1. Definitions

1.1 General definitions

In this determination:

Commencement Date means the Commencement Date as defined in clause 2(2) of section 1 (**Background**) of this determination.

GST means the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act, 1999*.

IPART Act means the *Independent Pricing and Regulatory Tribunal Act 1992*.

Monopoly Services means the Monopoly Services defined in clause 1(2) of section 1 (**Background**) of this determination.

Sydney Ferries means Sydney Ferries defined in clause 1(2) of section 1 (**Background**) of this determination, constituted under the *Transport Administration Act 1988*.

Tribunal means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

2. Interpretation

2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute; and
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation, other body corporate or government agency.

2.2 Explanatory notes

Explanatory notes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.

2.3 Prices inclusive of GST

Prices specified in this determination include GST.

Report No 10, 2005

**Section 11
Independent Pricing and Regulatory Tribunal Act 1992**

Sydney Ferries

**Independent Pricing and Regulatory Tribunal
of New South Wales**

Reference No: 05/45

TABLE OF CONTENTS

1	INTRODUCTION	1
	1.1 Overview of determination	1
	1.2 Structure of report	2
2	TRIBUNAL'S REVIEW AND DECISION-MAKING PROCESS	3
	2.1 Scope	3
	2.2 Review process	3
	2.3 Decision making	4
3	SYDNEY FERRIES' COST OF SERVICE	5
	3.1 Total costs	5
	3.1.1 Operating costs	6
	3.2 Total revenue	8
	3.3 Cost recovery	9
	3.4 Expected impact of Tribunal's determination on cost recovery in 2005/06	10
4	SERVICE QUALITY	13
	4.1 Service quality over 2004/05	13
	4.2 Planned service improvements	16
5	TRIBUNAL'S CONSIDERATION OF RELATIVITIES BETWEEN TICKETS	17
	5.1 Parity between Sydney Ferries and private operator fares	17
	5.2 Discounts for multi-trip tickets	18
	5.3 Ferry component of TravelPass tickets	19
6	IMPLICATIONS FOR SYDNEY FERRIES, ITS PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING	21
	6.1 Implications for Sydney Ferries	21
	6.2 Implications for passengers	21
	6.3 Implications for the environment	22
	6.4 Implications for Government funding	23
7	THE NEW FARES	25
	APPENDIX 1 IPART ACT REQUIREMENTS	27
	APPENDIX 2 PREMIER'S LETTER	29
	APPENDIX 3 LIST OF SUBMISSIONS, PARTICIPANTS AT HEARING	31
	APPENDIX 4 SYDNEY FERRIES COST, PATRONAGE AND EFFICIENCY TRENDS	33
	APPENDIX 5 ABBREVIATIONS USED IN THIS REPORT	37

1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) has completed its 2005 review of fares for Sydney Ferries.

Based on this review, the Tribunal has determined the maximum fares that Sydney Ferries can charge for public transport services from 18 December 2005 for tickets unique to the Sydney Ferries services and 3 January 2006 for multi-modal tickets, namely all TravelPass and DayTripper products.

1.1 Overview of determination

The Tribunal has determined that the increase in maximum fares charged by Sydney Ferries will be between zero and 20 cents for adult single tickets, between zero and \$2.20 for FerryTens, between zero and \$2.00 for TravelPasses. Rail-bus-ferry TravelPass prices and DayTripper prices are to be unchanged.

The increases resulted from the Tribunal's decisions to:

- increase most tickets at least in line with the general rate of inflation
- marginally reduce maximum discounts on Inner Zone FerryTens
- round upwards or downwards the fares for all adult single and FerryTen tickets to the nearest 10 cents and all TravelPass weekly adult tickets to the nearest dollar
- round all concession tickets so they are not more than half the corresponding full adult fare.

In reaching its pricing decisions, the Tribunal considered Sydney Ferries' submission to the review, in which it requested that the Tribunal consider its pricing proposal in the context of a multi-year price path. The Tribunal is willing to consider the case for setting a multi-year price path, but requires more time than was permitted by the timeframe for this review. Therefore, it intends to investigate the case for a multi-year price path and take into account both Sydney Ferries proposal and the results of its own detailed investigations of Sydney Ferries' patronage and costs.

Given this, the Tribunal's 2005 determination can be seen as an interim measure. Its decision to increase single ticket prices by between zero and 20 cents results primarily from its assessment of Sydney Ferries' costs, cost recovery levels and service quality. It did look at the scope for efficiency gains, but intends to examine this issue more fully during its investigations into a multi-year price path. It expects Sydney Ferries to provide appropriate measures of its efficiency and any gains it has made against these measures during that review.

These pricing decisions aim to balance the competing concerns of Sydney Ferries, its customers and other stakeholders. In particular, they are designed to maintain Sydney Ferries' current cost recovery ratio without placing excessive financial pressure on passengers or encouraging a major passenger shift away from ferries.

1.2 Structure of report

This report explains the Tribunal's 2005 determination in more detail, including why it reached its pricing decisions and what those decisions mean for Sydney Ferries, its passengers, the community in general and the environment. It is structured as follows:

- Chapter 2 outlines the review and decision-making process the Tribunal used to reach its decisions
- Chapter 3 looks at the changes in Sydney Ferries' costs over 2004/05, and its current and expected levels of cost recovery
- Chapter 4 discusses the Tribunal's considerations in relation to Sydney Ferries' quality of the service
- Chapter 5 outlines the Tribunal's considerations in relation to changes in relativities between various ticket types
- Chapter 6 considers the implications of the Tribunal's decisions for Sydney Ferries, its passengers, the environment and Government funding
- Chapter 7 sets out the new maximum fare for each ferry ticket arising from this determination.

2 TRIBUNAL'S REVIEW AND DECISION-MAKING PROCESS

The Tribunal has made this price determination in accordance with Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). In reaching its decisions, the Tribunal had regard to each of the factors listed in section 15 of the Act (see Appendix 1). It also took into account a letter from the then Premier dated 18 May 2004 (see Appendix 2), which asked it to consider a range of matters raised in the 2003 Ministerial Inquiry into Sustainable Transport¹ as part of its review.

The scope of the determination, and the process the Tribunal followed in undertaking its review and reaching its decisions are outlined below.

2.1 Scope

The Tribunal's role in regulating Sydney Ferries is to set the maximum fares that it can charge for public transport services. Because the Tribunal regulates monopoly services only, its price determinations for Sydney Ferries explicitly exclude any services that are deemed to fall outside the definition of a monopoly service, such as cruises and charters.

At present, Sydney Ferries' half-fare concession prices change automatically, in line with changes to full-fare prices unless the Government decides to alter the half-fare relationship to the full fares determined by the Tribunal. However, the Tribunal does not set the State Government's social policy. Therefore, any changes to this policy that affect fares or concessions granted to pensioners, children and students are matters for the Government.

2.2 Review process

The Tribunal's review process included undertaking its own research and analysis, and conducting public consultation. As part of this process, the Tribunal:

- invited Sydney Ferries and other interested parties to submit their views, and received 14 written responses (Appendix 3 lists the respondents)
- requested and received detailed financial data from Sydney Ferries
- held a public hearing on 28 October 2005 and invited some of the parties who submitted written responses to participate in a round-table discussion of issues at the hearing (Appendix 3 lists the participants and observers).

In addition, the Tribunal explicitly considered all the matters outlined in section 15 of the IPART Act. These matters, listed in full in Appendix 1, relate to:

- **costs**— the cost of providing the services concerned
- **consumer protection**—protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions; effect on inflation
- **economic efficiency**—greater efficiency in the supply of services; the need to promote competition; effect of functions being carried out by another body

¹ Widely known as the Parry Report.

- **financial viability**—rate of return on public sector assets including dividend requirements; impact on pricing of borrowing, capital and dividend requirements of agencies
- **environmental protection**—promotion of ecologically sustainable development via appropriate pricing policies; considerations of demand management and least-cost planning.

It also considered each of the issues raised in the Premier's letter dated 18 May 2004 (Appendix 2) including:

- making determinations based on a 5-year price path
- making fare increases up to the Consumer Price Index (CPI) subject to operators achieving efficiency gains
- making fare increases above the CPI subject to operators delivering clearly demonstrated customer benefits through improvements in service quality linked to specific initiatives.

Finally, it considered the information and analysis it obtained through its investigation and public consultation.

2.3 Decision making

In reaching its decisions on fares, the Tribunal weighs the relative interests of public transport stakeholders. For example, public transport passengers seek affordable public transport and ongoing improvements in service quality. Sydney Ferries, as a public transport agency, seeks prices that will provide a suitable level of cost recovery and the ability to enhance services. The general community seeks to minimise the public subsidy of public transport and to maximise the benefits of these services to the environment and the economy. The diversity of these interests and concerns means that the Tribunal must trade-off passenger affordability concerns, service quality expectations and social and environmental benefits against the financial viability of Sydney Ferries and public funding requirements.

The Tribunal's consideration of the matters listed in section 15 of the IPART Act is discussed throughout the report. Appendix 1 indicates where each matter is discussed in the body of the report. Further information relating to the Tribunal's review, including access to all public submissions and the transcript of the public hearing, can be found on the Tribunal website: www.ipart.nsw.gov.au.

3 SYDNEY FERRIES' COST OF SERVICE

One of the main factors the Tribunal considered in reaching its pricing decisions was the costs that Sydney Ferries incurs in providing regulated passenger ferry services on Sydney Harbour, and the extent to which the revenue it generates through fares for these services recovers these costs. It particularly focused on the change in costs and revenues over the 2004/05 financial year, and the projected change over 2005/06.

The Tribunal found that Sydney Ferries' overall costs rose by 1.7 per cent in 2004/05, but its operating costs rose by 7.6 per cent primarily due to increases in labour and fuel costs. Revenue from regulated fares also rose by 7.6 per cent, and cost recovery improved (although it is still less than 60 per cent). Over the next three years, Sydney Ferries' expects to make net cost savings in the range of 3 to 7 per cent of total costs.

After considering this cost information, and taking to account Sydney Ferries' mixed performance in relation to service quality (see Chapter 4), the Tribunal decided that, on balance, an increase in maximum fares was warranted and that this increase should be broadly in line the movement in the Sydney CPI for the 2004/05 financial year. However, as fares are rounded to the nearest 10 cents, the increase in individual fares differs from the CPI increase. The overall increase will allow Sydney Ferries to maintain (or slightly improve) its current cost recovery ratio, and will not have adverse impacts on customers, patronage, the environment or Government funding.

In reaching this pricing decision, the Tribunal was influenced by its decision to fully investigate the case for setting a multi-year price path for Sydney Ferries. It has already initiated detailed, independent investigations of Sydney Ferries' patronage, costs and other matters to inform this review. Given this context, the Tribunal considered it appropriate to postpone detailed scrutiny of Sydney Ferries' efficiency levels. It expects Sydney Ferries to provide appropriate measures of its efficiency and any gains it has made against these measures during the course of the multi-year price path review.

The following sections discuss Sydney Ferries' costs, revenue and cost recovery in more detail, and outline the expected effect of the Tribunal's determination on its cost recovery ratio for the coming year.

3.1 Total costs

The Tribunal examined the data Sydney Ferries provided on the costs it incurred in the last two years and its projected costs for the next three years (Table 3.1). This data shows that Sydney Ferries' total costs for 2004/05 were around \$100 million, which represents a 1.7 per cent increase since 2003/04. The main drivers of these costs are:

- labour costs, which comprised 50 per cent of total costs in 2004/05 (three-quarters of these costs were wages and salaries)
- vehicle fleet fuel and maintenance which comprised 18 per cent
- vehicle fleet depreciation which comprised 12 per cent.

The increase in total costs was due to a 7.6 per cent increase in operating costs, which was offset by big falls in interest and depreciation costs. Those big falls occurred when Sydney Ferries was separated from the State Transit Authority on 1 July 2004. The debt and assets attributed to the new entity were substantially lower than was attributed to it in the STA books.

Table 3.1 Sydney Ferries costs

Costs	2003/04 \$000s	2004/05 \$000s	% change FY05	Annual growth FY05-FY08
Labour	47,032	50,161	6.7%	4.0%
Fuel	4,321	6,085	40.8%	10.0%
Maintenance	11,797	12,310	4.3%	2.8%
Other	15,233	15,760	3.5%	2.8%
Operating costs	78,383	84,316	7.6%	4.0%
Depreciation	14,409	12,103	-16.0%	-0.7%
Interest	5,807	3,900	-32.8%	8.5%
Total costs	98,599	100,319	1.7%	3.7%

Source: Sydney Ferries 2005 financial model. Data for 2004/05 are forecasts provided as at May 2005. 'Other costs' refer to rent, insurance, cleaning, advertising, uniforms, utilities, security.

Sydney Ferries projects that its operating costs would grow at around 4.0 per cent per annum over the next three years, in the absence of any major cost saving initiatives.² Rising debt will add to interest costs so that total cost growth is projected to be around 3.7 per cent per annum to 2007/08.

If the Corporation can achieve its targeted net cost savings, it expects to contain the growth in total costs to 2 per cent per annum to 2007/08.³ However, at the public hearing, Sydney Ferries noted that the need to address recent safety-related incidents would result in extra costs being incurred in 2005/06 which were not included in its cost forecasts supplied to the Tribunal.

3.1.1 Operating costs

Sydney Ferries' operating costs rose by 7.6 per cent in 2004/05, due to increases in each of its main operating cost items – labour, fuel and maintenance.

Labour costs rose by 6.7 per cent, which is double the increase in these costs in 2003/04. Sydney Ferries attributes the size of this increase to the implementation of an Enterprise Bargaining Agreement, which allows for a 4 per cent increase in wages and salaries per annum, back-dated to 2003/04. This meant that Sydney Ferries paid the increases for both 2003/04 and 2004/05 in the 2004/05 financial year.⁴

² In its submission, p 40, Sydney Ferries called this its "Cost scenario #1".

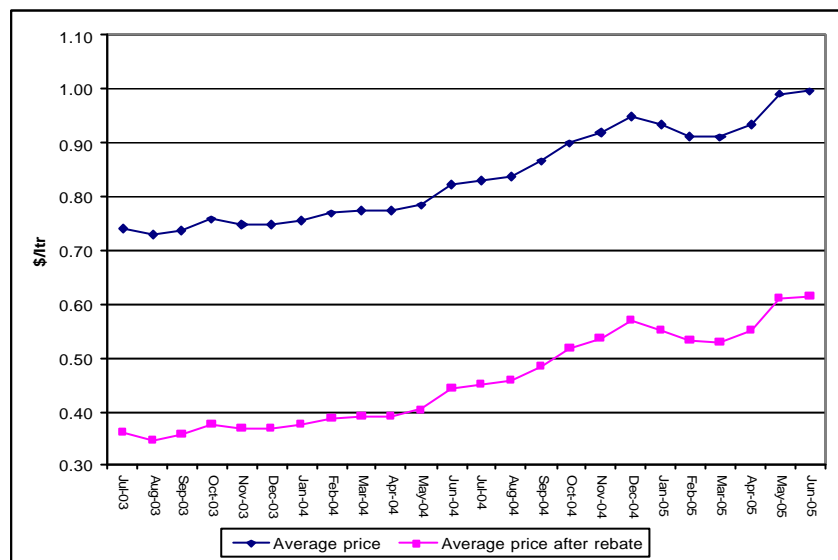
³ Sydney Ferries called this "Cost scenario #2".

⁴ Sydney Ferries private communication.

Sydney Ferries forecasts that labour costs will increase by 4 per cent per annum over 2005/06 to 2007/08 even though it is seeking to “optimize workforce utilization and achieve savings in the areas of overtime and sick leave payments.”⁵

Sydney Ferries’ fuel costs rose sharply in 2004/05, in part reflecting the rise in the world price of oil. Once adjusted for the diesel fuel rebate, its fuel bill rose by more than 40 per cent although the average unit cost of its diesel rose 20 per cent in line with bus fuel costs.⁶ The 40 per cent rise is measured on the post-rebate price (the lower line in Figure 3.1).

Figure 3.1 Average diesel fuel prices before and after diesel fuel rebate



Source: Sydney Ferries.

Sydney Ferries is evaluating a proposal to participate in a whole-of-Government Fuel Contract for the supply of fuel and lubricants to create efficiencies through aggregated government purchasing power. The Corporation is also examining how to cut fuel consumption, alternative fuels and alternative energy technologies and will shortly trial biodiesel.⁷ But despite these initiatives, Sydney Ferries projects that its fuel bill will rise by 10 per cent per annum to 2007/08.

Maintenance costs increased by 4.3 per cent in 2004/05 and without major cost savings, Sydney Ferries projects that these costs will rise by a further 2.7 per cent per annum to 2007/08. However, it expects that major cost saving plans for Balmain Shipyard will be implemented, especially from 2006/07 onwards.⁸ Balmain Shipyard costs have increased by almost 15 per cent per annum since 1998.⁹

⁵ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 20.

⁶ Private bus diesel fuel prices rose 19.9 per cent in 2004/05 as measured by the Bus Industry Cost Index provided to the Tribunal for the fare review of private non-metropolitan buses. The Commonwealth diesel fuel rebate is a constant 38.143 cents per litre and is payable on diesel fuel and like fuels used in a range of activities, including rail and marine (but not bus) travel. Source: www.ato.gov.au/taxprofessionals.

⁷ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 26.

⁸ At the public hearing, the CEO stated: “We have been undergoing a review of Balmain Shipyard, and ... that has been done in three stages. One was to identify efficiencies that could be achieved out at the shipyard; the second part is really putting together - which has now been completed - a plan about how we will deliver every aspect of that review and reform at the shipyard; and we now just about to embark on implementation of those reforms. The efficiencies and targets are based upon increasing trade workforce utilisation of productivity. We have focused on improving maintenance planning and

Sydney Ferries has indicated how it intends to achieve its projected cost savings. As a percentage of total costs, it expects to make net savings of 3.4 per cent in 2005/06, 3.2 per cent in 2006/07, and 6.6 per cent in 2007/08.¹⁰

3.2 Total revenue

On the Tribunal's preferred measure of revenue, Sydney Ferries' revenue rose by 9.8 per cent in 2004/05 (Table 3.2).¹¹ Within this rise, 'Other revenue' grew strongly as a result of rises in advertising, rental and interest income. Healthy growth also occurred in regulated fare revenue and in revenue derived from fares not regulated by the Tribunal.

Table 3.2 Sydney Ferries' revenue

Revenues	2003/04 \$000s	2004/05 \$000s	% change FY05	Annual growth FY05-FY08
Regulated fares	37,647	40,510	7.6%	3.8%
Non-regulated fares	4,364	4,859	11.3%	2.8%
Farebox revenue	42,011	45,369	8.0%	3.7%
SSTS	369	378	2.4%	2.8%
Half fares	8,955	9,188	2.6%	1.6%
Other revenue	1,213	2,778	129.0%	2.8%
Revenue (IPART)	52,548	57,713	9.8%	3.3%
CSOs	19,089	33,812	77.1%	-14.4%
Capital grants	0	4,830		0.0%
Total Revenue	71,637	91,525	27.8%	-2.5%

Source: Sydney Ferries 2005 financial model. As with Table 3.1, the IPART measure of cost recovery does not include the cost savings that Sydney Ferries includes in its "Cost scenario #2".

The Tribunal calculates that Sydney Ferries' total fare-related revenue (including farebox revenue plus concessional payments) rose by 9.8 per cent. This increase was partly driven by the 4.2 per cent rise in fares determined by the Tribunal last year.

scheduling processes and improving the inventory management practices at the shipyard... Opportunities for cost reduction have also been identified with respect to procurement practices. The majority of our costs in procurement are actually those relating to the shipyard and as part of the shipyard reform procurement has also been looked at in that sense as well." Transcript, p.11 ln 35-47; p 12, ln 11-15.

⁹ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 26.

¹⁰ Sydney Ferries, 2005 financial model.

¹¹ Total revenue rose 27.8 per cent but this was largely due to a one-off allocation in Community Service Obligation (CSO) payments and the commencement of annual capital grants for ferry refurbishment and other capital items. The CSO was related to the corporatisation of Sydney Ferries in July 2004.

3.3 Cost recovery

The Tribunal measures cost recovery by dividing relevant revenue by relevant costs (Table 3.3). Relevant revenue includes the revenues the service provider collects from passengers (farebox plus free and concessional revenue), or is reimbursed by Government for carrying certain passengers at less than full fare, or earns from other business activities (such as advertising revenue). It does *not* include CSO funding or general subsidies from Government that simply fund a gap when costs exceed revenues.

Table 3.3 Calculating cost recovery ¹²

Relevant revenue	Divided by	Relevant costs
<ul style="list-style-type: none"> • Farebox • Plus revenue reimbursements for free and concession fares • Plus other business revenue (except profits from asset disposals) 		<ul style="list-style-type: none"> • Operating expenses (except costs of asset disposals) • Less any efficiency savings

Relevant costs include the costs the service provider incurs in operating its passenger services – usually its cash operating costs plus depreciation and interest less the cost of asset disposals.

Using this method, the Tribunal calculates that Sydney Ferries' cost recovery ratio for 2004/05 was 57.5 per cent (Table 3.4).

Table 3.4 Sydney Ferries' cost recovery

1998/99	1999/00	2000/01	2001/02	2002/03	2003/04*	2004/05*
63.0%	63.5%	67.7%	54.1%	50.1%	53.3%	57.5%

* Based on Sydney ferries 2005 financial model.

When the numerator and denominator are examined separately, cost growth has often outstripped revenue growth (Table 3.5). An exception was in 2000/01 when Olympics-related tourist inflows gave patronage and revenues a temporary boost. However, revenues also grew faster than costs in 2003/04 and 2004/05, boosted in both years by fare rises of 7.5 per cent in 2003/04 and 4.2 per cent in 2004/05 and core¹³ patronage growth of 8.8 and 1.7 per cent respectively.¹⁴

¹² Cost recovery in this report is defined differently from that used in the Ministerial Inquiry. The Inquiry only included farebox and other business revenue in the numerator. Cash operating costs and capital spending were included in the denominator. The Inquiry's 'cost recovery' ratios showed the size of the gap which would need to be funded in order to make public transport 'sustainable'.

¹³ 'Core' refers to Daily, FerryTen, TravelPass and DayTripper ticket purchases.

¹⁴ Source: Sydney Ferries, 2005 financial model.

Table 3.5 Annual changes in cost recovery components

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Revenues	0.3%	9.5%	8.3%	-4.8%	0.2%	11.6%	9.8%
Costs	9.1%	8.6%	1.5%	19.1%	8.2%	5.0%	1.7%

Source: 1998/99-2002/03: 2004 Determination p 16; 2003/04-2004/05: Sydney Ferries 2005 financial model.

In its submission to last year's fare review, Sydney Ferries anticipated a rise in the total number of trips for 2004/05 of about 7.5 per cent. It now estimates that the number of trips in this year rose by 1.7 per cent while total ticket sales actually fell by almost 1 per cent in 2004/05. For 2005/06, Sydney Ferries projects increases in patronage (trips and tickets) of one per cent across the board.

Further detail about aspects of Sydney Ferries' costs, patronage and efficiency are provided in Appendix 4.

3.4 Expected impact of Tribunal's determination on cost recovery in 2005/06

Given Sydney Ferries' projections on patronage growth for 2005/06, the fare rises determined by the Tribunal are expected to result in a slight increase in Sydney Ferries' cost recovery ratio to 58.6 per cent (provided that other assumptions about costs and patronage remain unchanged).¹⁵

The Tribunal recognises that full cost recovery from fares is not an achievable target. The Corporation does not have a public target, but at the public hearing last year it expressed a desire to achieve a ratio of around 65 per cent¹⁶ (which is similar to the level it achieved in 2000/01, at the time of the Sydney Olympics).

The Tribunal notes that Sydney Ferries' current level of cost recovery is not particularly low by Australian and international public transport system standards.¹⁷ It also notes that 2003 Ministerial Inquiry into Sustainable Transport did not specify an appropriate level of cost recovery for Sydney Ferries. However, it did conclude that the balance between costs and revenues should be made more sustainable. It suggested that this should be achieved

¹⁵ To obtain a 2005/06 revenue figure the Tribunal has increased the corporation's estimate of its 2004/05 revenues by 4.24 per cent to reflect 1 per cent higher patronage and the fare rises determined by the Tribunal. It has then compared the revenue estimate with Sydney Ferries projected total costs for 2005/06 to derive an estimate of the cost recovery ratio for 2005/06.

¹⁶ IPART *Report on the Determination of Fares for Sydney Ferries 2004*, p 20.

¹⁷ To make this comparison, it is necessary to calculate the percentage of *operating* costs covered by farebox revenue. For Sydney Ferries, this was 53.8 per cent in 2004/05 and compares with other Australian and international public transport systems that range from 30 per cent to 50 per cent. "Only a few countries such as Singapore and Hong Kong can run their public transport systems from fares revenue. Even in Europe where public transport use is high, fares revenue generally accounts for between 40% and 60% of operating costs. In the UK, where the privatised bus system has a high fares policy, fares account for about 70% of revenue. However, ... this has been at the expense of bus usage. In North America, fare box revenue is generally between 30% and 50% of operating costs. In California fares average 28% of operating costs whereas in Metropolitan Toronto (which represents only the inner half of the Greater Toronto Area) fares are about 65% operating costs. In Australian cities the ratio of fares to operating cost is generally in the same range as American Cities - 30% to 50%." Emmerson Richardson, Senior Executive, Transport Planning Sinclair Knight Merz in *Funding Choices for Sustainable Urban Transport*, (Metropolitan Transport Forum March 2004), p 12.

primarily through efficiency gains rather than fare increases, and cited several pieces of anecdotal evidence of inefficiency related to the Manly JetCat services and staff hours and conditions.¹⁸ Sydney Ferries did not address these specific examples directly in its submission.

As it indicated last year, the Tribunal also believes that Sydney Ferries could improve its cost recovery ratio by pursuing efficiency gains, and this approach is likely to be more effective than increasing fares. For example, in 2004/05, total farebox revenue was \$45.4m, concessions payments were \$9.6m and total costs were \$100.3m. If costs were reduced 5 per cent, the saving would be around \$5.0m. In comparison, a 5 per cent increase in fares (assuming unchanged patronage) would yield only an extra \$2.0m (with another \$0.5m via concession payments). Given the size of the cost base relative to the farebox, a 1 per cent reduction in costs would have an impact on cost recovery equal to a 2 per cent rise in the farebox - and without risking a decline in patronage.

The Tribunal will consider further the right level of cost recovery for Sydney Ferries as part of its medium term inquiry next year.

¹⁸ Ministerial Inquiry, Final Report, p 25.

4 SERVICE QUALITY

Another of the main factors the Tribunal considered was the service quality Sydney Ferries delivered over 2004/05, and whether this quality had changed since the previous year. The IPART Act requires the Tribunal to consider the standards of quality, reliability and safety in setting Sydney Ferries' fares.

In its submission, Sydney Ferries noted that it had made "demonstrable efficiency improvements" and intended to implement "progressive service level improvements" from 2005/06 year onwards. It argued that these improvements provided grounds for a real fare increase.¹⁹

The Tribunal considered Sydney Ferries' service quality over 2004/05 and its planned service improvements for the coming years, based on the data provided by the Corporation and from comments in stakeholders' submissions. Its considerations are summarised below.

4.1 Service quality over 2004/05

In last year's report the Tribunal noted that Sydney Ferries' performance measurement processes did not provide it with sufficient information for it to make a detailed assessment of service quality. For example, its performance statistics (based on its key performance indicators) are too broad, the accuracy of their measurement is not quantified, and they are not always relevant for passengers. The Tribunal also noted that it intended to consider issues related to Sydney Ferries' performance measurement and planned improvements in service quality and efficiency in detail in the 2005 review, and that it expected Sydney Ferries to develop better performance criteria and reporting processes and to announce its business plans prior to then.²⁰

Sydney Ferries did make available its 2004/05 business plan, which the Tribunal reviewed. The plan recognizes, at a high level, that increasing customer satisfaction and winning new customers are key strategic themes. The plan also lists the general strategies to achieve its aims²¹. However, it does not provide any quantitative detail to allow the Tribunal to assess progress on service quality indicators.

Sydney Ferries also provided performance statistics related to its key performance indicators (KPIs) for safety and reliability (Tables 4.1 and 4.2) for 2004/05. While each of these KPIs can be considered a measure of quality, the quality and reliability of these statistics, and their relevance to passengers might be further improved.

¹⁹ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 1.

²⁰ IPART *Report on the Determination of Fares for Sydney Ferries 2004*, p 11.

²¹ Improve frequency of service, increase running on time, minimal interruption through breakdowns, increase comfort waiting at wharves, deliver new services for existing customers, deliver basic requirements and deliver new product offerings. Source: Sydney Ferries Corporation: *2004/05 Business Plan: Final* pp 28-29.

Table 4.1 Historical safety KPIs

Key Performance Indicator	2002/03	2003/04	Target 2004/05	Result 2004/05
No. 'major' vessel incidents ²² per year	6	7	Nil	3
No. passenger injuries ²³ per million passenger journeys	7.21	14.71	13	10.4
No. minor vessel incidents per hundred services	0.09	0.19	0.08	0.04
Lost time injury incidence rate (injuries per 100 employees) ²⁴	7.5	5.3	4.8	5.9
Lost time injury frequency rate (per million hours worked) ²⁵	40.12	28.8	26.0	33.8
No. major incidents of environmental damage per year	N/A	N/A	Nil	Nil
No. minor reportable environmental incidents	N/A	N/A	14	8

Table 4.2 Historical reliability KPIs

Key Performance Indicator	2002/03	2003/04	Target 2004/05	2004/05
Percentage of services that run "on time" (within 5 mins of scheduled time to leave Circular Quay)	99.0%	98.7%	99.5%	98.8%
Percentage of scheduled services that run	99.3%	99.1%	99.5%	98.9%
Number of service cancellations	986	1,147		1,915

Source: 2002/03 and 2003/04 data from Sydney Ferries Submission 2005 pp 17-19. Target 2004/05 and 2004/05 from Sydney Ferries private communication 4 November 2005.

The Tribunal notes that Sydney Ferries' performance against four of the KPIs improved compared to 2003/04 – the number of 'major' vessel incidents per year, number of passenger injuries per million passenger journeys, number of minor vessel incidents per hundred services, and percent of services that run 'on time'. However, for three of these KPIs, the performance was still short of the 2004/05 targets set by Sydney Ferries.

Sydney Ferries' performance against another four KPIs – lost time injury incidence rate and lost time injury frequency rate, percentage of scheduled services that run and number of services cancelled – deteriorated compared both to 2003/04. Further, the 2004/05 data on vessel incidents discussed above does not reflect several ferry incidents that occurred in the second half of calendar 2005.

Sydney Ferries intends to extend its list of monitored KPIs.²⁶ Other service improvements have occurred which cannot be reflected in the KPIs. For example, Sydney Ferries have added an extra service to Cabarita.²⁷

²² "Major" vessel incidents is defined as incidents causing multiple/substantial injuries to persons, or death, and/or material damage to infrastructure or vessels.

²³ 'Passenger injuries' includes any passenger reports including illness

²⁴ Lost time injury (LTI) is any injury resulting in one hour or more lost from work

²⁵ Definition of LTI used is one hour lost compared to industry definition of full shift

²⁶ According to the CFO of Sydney Ferries "... certainly there needs to be more transparency in the measurement of some of the key performance indicators. We would argue that service level

In previous years, customer surveys have indicated broad satisfaction with Sydney Ferries' service quality. However, this year, the Tribunal received several submissions that were more critical. For example:

The last two or three times Sydney Bus and Ferry fares have been increased, the news has reported that the increased revenue would be used to improve the services... we are still waiting for those improvements to be implemented.

I use both Sydney Buses and Sydney Ferries in a daily commute. The vehicles of both organisations are dirty and often in a bad state of repair. The Rivercats in the Sydney Ferries fleet are in a terrible state. Work orders are not carried out, the vessels are dirty, fixtures are broken and they are often out of service (meaning another ferry with crew must be chartered - surely not a cheap alternative to maintenance). The Parramatta River services also need to run later into the evening (the vessels are equipped with both headlights and radar) in order to attract a greater patronage. Inner Harbour services run until midnight. CityRail uses marketing, why don't the ferries try it if they need to increase passenger loads?

-- Submission from a member of the public

...in recent months the number of ferries either cancelled or replaced by bus services is such that Sydney Ferries ought not to be able to increase fares in a climate where services are either not delivered or are below par. A complete audit of services cancelled or replaced over the last 6 months should be provided in any submission to increase fares.

-- Submission from a member of the public

The Manly service has been riddled with mechanical failures, vessel crashes, crew shortages and peak services being cancelled or replaced by buses. Is this what they think a "high" level of service quality involves? The Manly ferry and Jetcat ticket prices are already very high, and the discount offered through purchase of a Travel10 or weekly is not great. To me, the request for a fare increase is unacceptable.

-- Submission from a member of the public

There is no question of the appeal of ferry travel, but given the shortcomings this year due to maintenance problems and several accidents, few Manly commuters would agree with the proposition that they are experiencing high levels of service quality. Quite the contrary. Commuters have experienced cancellations, inconvenience and several accidents/incidents that have received considerable media coverage so the timing of this ambit claim is unfortunate to say the least.

-- Submission from Mr David Barr, MP (Member for Manly)

Given this mixed evidence in relation to Sydney Ferries' service quality in 2004/05, the Tribunal does not believe its performance in this area provides grounds for a fare increase substantially in excess of the growth rate in the CPI.

improvements can be measured along a number of quantitative and qualitative dimensions such as safety, on-time running, alignment to customer requirements, frequency of service, alignment of service to customer demand, accessibility for disabled passengers, a whole raft of measures that we can use. We have at this stage developed a few measures but we certainly will work towards improving the measurement of those key performance indicators." Public hearing transcript p 29, lines 22-34.

4.2 Planned service improvements

Sydney Ferries outlined a range of planned service improvements including:

- the development of a fleet replacement strategy
- improved fleet availability to enable greater patronage during peak times
- route optimization
- improved revenue protection measures.

Of these, Sydney Ferries quantified only the planned improvements to fleet availability. It intends to lift availability of its 31 vessels from 75 per cent to 80 per cent by improving Balmain Shipyard operations.²⁸ Such a lift implied that an average of 24.8 vessels would be available for service, rather than 23.25 vessels.

As the Tribunal noted last year, it is not convinced that it can justify fare increases on the basis planned service improvements, since these have not been implemented as yet (and therefore are not demonstrable). Consumer groups at the public hearing made the same point.²⁹

In addition, the Tribunal notes that Sydney Ferries has experienced some safety-related incidents in recent months. According to Sydney Ferries the requirement for safe travel will mean costs additional to those in its submission.³⁰ It is unclear to the Tribunal to what extent these extra costs should be counted as costs of service improvements. It notes that implementing the recommendations of the Taylor Report in previous years had improved Sydney Ferries' safety standards.

²⁸ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 21.

²⁹ PIAC noted, "...the community ... think[s] the fare increases should follow the service improvements, not the other way around, but again that is difficult to judge when we have old data. The point has already been made that even some of the changes to service and improvements in service in recent times have come at little or no additional cost to Sydney Ferries, so it is hard to look at on that basis. CPI plus X, yes, that is not a bad model - we are used to it, that is fine - but it is hard to see that it gives the Tribunal very much assistance at all." Transcript page 25 lines 4-13.

³⁰ According to the CFO "Obviously in recent months there have been a few circumstances which are requiring a re-look at our safety performance and the maintenance of that performance. So certainly there will be some additional costs over the next 12 to 18 months with respect to that." Public hearing transcript page 14, lines 25-29.

5 TRIBUNAL'S CONSIDERATION OF RELATIVITIES BETWEEN TICKETS

As part of its review, the Tribunal looked at the parity in fare structures across public and private bus and ferry services. In particular, it considered Sydney Ferries' contentions that:

- the price of Sydney Ferries single and multi-trip tickets is lower than that of private ferry operator tickets for comparable services
- the discounts for Sydney Ferries multi-trip tickets are significantly higher than international and interstate benchmarks and higher than the discounts offered by the two private ferry operators on Sydney Harbour.³¹

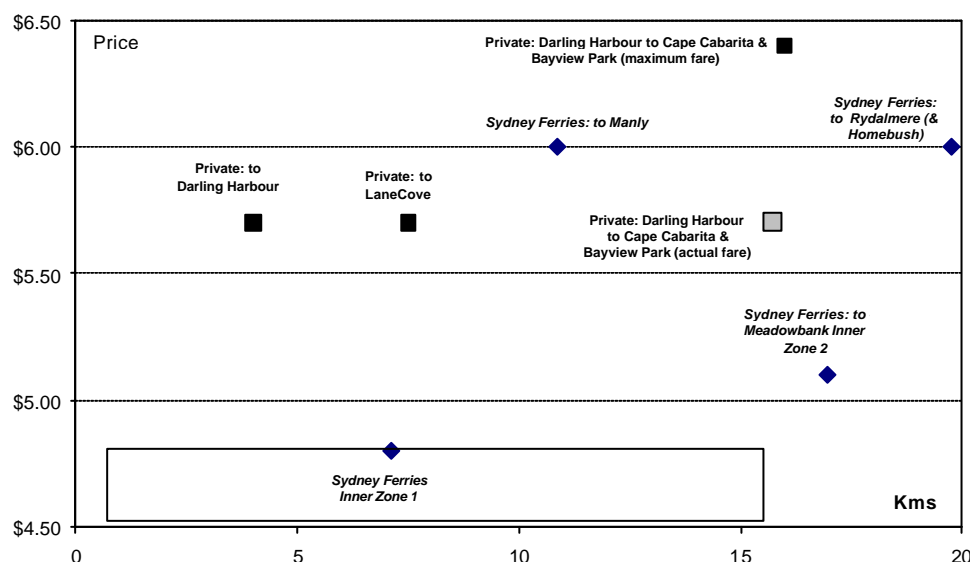
It also considered the ferry component of the bus-ferry TravelPass tickets, taking into account the increase it has determined for the bus component of these tickets. The Tribunal's considerations on each of these issues are summarised below.

5.1 Parity between Sydney Ferries and private operator fares

Two years ago, the Tribunal determined sizeable increases in some very low private ferry fares to bring them into better alignment with Sydney Ferries short-distance fares. This year, Sydney Ferries noted that the passenger ferry fares set by the Director-General for the private ferries' runs were higher than two Sydney Ferries fares, and requested an increase to bring these fares more into line.

Figure 5.1 compares the five Sydney Ferries single ticket fares with the three private ferry single ticket fares, relative to kilometres travelled.

Figure 5.1 Harbour ferries, maximum single ticket fares



Notes:

1. All journeys commence at Circular Quay unless otherwise stated.
2. Inner Zone 1 includes all wharves from Circular Quay except Manly and the last four up the Parramatta River – Meadowbank, Homebush, Rydalmere, Parramatta.
3. Sydney Ferries fares to Parramatta, and to Manly on the JetCat, are not shown.

³¹ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 2.

While Figure 5.1 suggests that the fares charged for its Inner Zone 1 and Inner Zone 2 tickets represent a lower price per kilometre, the Tribunal is not convinced that these fares are directly comparable with the private ferry fares. For example:

- The Sydney Ferries Inner Zone 1 ticket covers 35 wharves.³² The ticket for the private ferry run from Circular Quay to Darling Harbour is one of the shortest trips on the harbour.
- The ticket for the private ferry runs of Matilda Cruises' from Circular Quay to Lane Cove and Palm Beach Ferries Darling Harbour to Cape Cabarita/Bayview Park include a complementary newspaper, whereas the Sydney Ferries tickets do not.
- Matilda Cruises' ferries that run from Circular Quay to Darling Harbour are faster and end at a better positioned wharf.³³

In addition, the Tribunal agrees with the view put by NCOSS that comparing the fares of private and public operators is not necessarily appropriate unless there is an integrated fares network:

...if we were in a situation with something like an integrated transport network, and we have got something like that with the buses, then perhaps it would be fair to talk about aligning public and private fares, because there is an integrated network, and presumably you would want to have some consistency in fare levels between journeys. At this stage I find it very difficult to find justification for any comparability between public and private fares.³⁴

Because of the differences between the operators and the routes in question, the Tribunal decided not to adjust Sydney Ferries fares to be more in line with the private ferry fares for this interim increase.

5.2 Discounts for multi-trip tickets

In its submission, Sydney Ferries argued that the discounts on its FerryTens (shown on Table 5.1) are larger than other public transport providers within Australia and internationally. The average discount on FerryTens is 28 per cent. This compares with an average of 23 per cent on a wide range of similar Australian and international products.³⁵

³² The length of the boxed area in Figure 5.1 covering Inner Zone 1 indicates the large range of route kilometres covered by this ticket. The diamond is positioned arbitrarily along the top of the box.

³³ CEO of Matilda's Cruises offered two reasons why Matilda can attract passengers despite a \$5.70 ticket price compared to a Sydney Ferries single ticket price of \$4.80, "The Rocket is much quicker [than Sydney Ferries' ferries] from Darling Harbour to Circular Quay. ... Because of the location of Matilda around Pier 26, where there is this huge hub of tourists going into the aquarium in particular, that adds or aids their ability to run that tourist service between Circular Quay and Darling Harbour." Public hearing transcript p 51, lines 24-25.

³⁴ Public hearing transcript p 23, lines 19-27.

³⁵ Sydney Ferries Submission to IPART Review of Ferry Fares 2005 p 37.

Table 5.1 FerryTen tickets and their discount to ten single tickets

FerryTen Ticket (Adult)	2004/05 Ticket Price	FerryTen discount on single fare
Inner Zone 1	\$30.30	36.9%
Inner Zone 2	\$33.10	35.1%
Manly Ferry	\$45.10	24.8%
Rydalmere	\$45.10	24.8%
Parramatta	\$51.90	29.9%
Manly Jet Cat	\$65.70	16.8%

At the public hearing, Sydney Ferries further argued that “we shouldn’t selectively impose price increases on the leisure market, because the commuter market also contributes to the cost structures of our organisation”.³⁶ However the Tribunal does not consider that this is a ground for reducing the discount on FerryTen discounts; rather, it is an argument for not increasing them.

The Tribunal understands that there are two market segments being serviced by Sydney Ferries, perhaps best termed 'tourists' and 'commuters'. Sydney Ferries indicated that tourists buy the bulk of its single tickets and commuters buy the bulk of the multi-ride tickets. The issue of the appropriate level of discount for what is largely the commuter market segment is a matter of judgement. The Tribunal will consider this further as part of its investigation of a multi-year price path. In the interim, in view of its investigations on a multi-year price path, it has decided on a minor adjustment to the largest discounts on two Inner Zone FerryTen tickets, reducing them both to as close as possible to 35 per cent.

5.3 Ferry component of TravelPass tickets

The Ministry of Transport proposed that the Tribunal increase the ferry and bus components of all TravelPass products. Since the Tribunal is not currently conducting a review of rail fares, it has decided not to alter the price of any TravelPass or equivalent product that involves a rail component.

It has, however, decided to increase the ferry component of the three bus-ferry TravelPass products to reflect increased costs of providing these services. The increase in these TravelPass prices is between 50 cents and \$2.00.

³⁶ Public hearing transcript p 16, lines 27-29.

6 IMPLICATIONS FOR SYDNEY FERRIES, ITS PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING

6.1 Implications for Sydney Ferries

The Tribunal's decision to increase fares by between zero and 20 cents for adult single tickets, between zero and \$2.20 for FerryTens and between zero and \$2.00 for TravelPasses should result in a modest increase in Sydney Ferries' cost recovery ratio in 2005/06.

Given Sydney Ferries' expected patronage growth of 1 per cent and its (current) forecast cost base, the cost recovery ratio is expected to rise to 58.6 per cent in 2005/06. This is well up on the low of 50.1 per cent in 2002/03 and a slight improvement on 57.5 per cent in 2004/05. However, achieving this cost recovery ratio will depend on:

- patronage growing as expected
- projected operational cost savings being achieved.

In addition, as Chapter 3 discussed, Sydney Ferries noted at the public hearing the need to address recent safety-related incidents (and possibly to consider additional security measures³⁷). This need would result in extra costs in 2005/06, which were not included in its cost forecasts supplied to the Tribunal.

6.2 Implications for passengers

In assessing the likely impact of the fare rises it has determined on passengers, the Tribunal considered incomes of Sydney residents who use ferries. The income range for passengers is very wide, in part because ferries are used by both commuters and non-commuters.

Table 6.1 presents the latest income profile available from the Transport Population and Data Centre (TPDC) of users who pay full adult fares on Sydney public transport services. Three measures of income are shown in the tables, mean personal and household incomes and median household incomes.

Table 6.1 Income profile of full-fare paying resident public transport users, 2003

Mode	No. of trips (average weekday)	Average Personal Income	Average Household Income	Median Household Income
Priv Bus Sydney	70,330	\$32,025	\$68,563	\$53,456
STA buses	267,937	\$44,569	\$87,618	\$73,164
Sydney Ferries	29,508	\$81,231	\$132,756	\$137,800
CityRail	498,032	\$49,222	\$93,818	\$81,848
Taxis	118,251	\$62,001	\$101,305	\$93,756

Source: TDPC Household Survey 2003.

³⁷ Public hearing transcript p 13, lines 8-10.

Clearly, resident Sydneysiders who use Sydney Ferries have higher income profiles than the users of other modes of public transport.

An additional consideration is the distribution of incomes, rather than the average alone. As data presented in last year's report showed, the majority of frequent ferry users are in households whose income exceeds \$100,000 per annum. Around 10 per cent are made by residents from households with incomes less than \$40,000. About 30 per cent of trips are made by passengers from \$40,000 to \$100,000 income households.

Among Sydney residents, the three largest groups of ferry users are full-time workers (49 per cent), pensioners (17 per cent) and part-time/casual workers (10 per cent)³⁸.

Given this data, and the modest fare increases that have been determined, the Tribunal does not consider that they will have an unduly adverse impact on passengers. For example, the absolute rise in ferry singles that will not exceed 20 cents. The rise in FerryTens will be less than this, in per ticket terms. Table 6.2 provides some examples to show how the new fare increases apply across a selection of trips.

Table 6.2 Specific examples of fare changes

Ferry trip description	Single Trip		FerryTen	
	Old Fare \$	New Fare \$	Old Fare \$	New Fare \$
Woolwich to Circular Quay	4.80	5.00	30.30	32.50
Manly to Circular Quay	6.00	6.20	45.10	46.60
Parramatta to Circular Quay	7.40	7.50	51.90	52.60

6.3 Implications for the environment

Public transport is an environmentally friendly alternative to the use of private motor vehicles. The extent to which environmental benefits, notably reduced pollution, can be realised will depend on factors such as the relative cost of public versus private transport, and the propensity for private vehicle users to switch to public transport. This, in turn, will be influenced by accessibility, service quality and frequency of public transport.

The Tribunal has considered usage trends of public transport, and the extent to which fare increases may affect demand for public transport services. The TPDC collects and publishes information on Sydney household travel patterns.

This information suggests that the long-term relative shift towards the use of private vehicles, at the expense of public transport and walking is continuing. Data indicates that between 1991 and 2003, public transport's share of total trips slipped from 11.9 per cent on an average weekday (4.8 per cent on weekends) to 10.5 per cent (4.1 per cent). The (small) share of ferries was relatively stable during the week but has declined on weekends.

In contrast, the share of private vehicles trips made on weekdays increased from 66.9 per cent in 1991 to 70.2 per cent in 2002. Overall, the actual number of weekday trips

³⁸ Transport Data Centre *Ferry Users in Sydney* Issues Paper 2003/01, July 2003, p 2.

undertaken by car increased by around 24 per cent, compared to around 12 per cent for rail. Bus trips fell 3 per cent between 1991 and 2002.

Most of the evidence available to the Tribunal suggests that price has only a small influence on the decision to use public transport. Other issues such as service quality, timeliness, frequency, convenience and accessibility are likely to be more important determinants of public transport demand.

For its 2001/02 determination of public transport fares, the Tribunal commissioned an independent study by the Centre for International Economics (CIE) on subsidies and the social costs and benefits of public transport.³⁹ The study indicated that changes in public transport fares are unlikely to have a major impact on patronage levels, and that a range of factors are considered by the traveller when determining travel mode. The study stated:⁴⁰

The effectiveness of public transport subsidies in controlling transport externalities depends partly on the influence they have on fares, and, through these, on the relative price of travel by these modes compared with car. The influence is only partial because subsidies can also be used to change the quality of service at a given fare – through expenditure that change journey speed, frequency, reliability, comfort and safety. The EPA and NCOSS have emphasised that these factors play a significant role in inhibiting public transport patronage. Mees (2000, p 86) also points out that ‘... public transport is already cheaper than owning and operating a car. It is flexibility, convenience and door to door travel times that count most’.

Given all of the above, the Tribunal does not expect this determination to have adverse environmental effects through a switch from public ferry transport to cars or buses.

6.4 Implications for Government funding

The Tribunal is required under Section 16 of the IPART Act 1992 to report on the likely annual cost to the Government if fares were not increased to the maximum permitted, and Sydney Ferries were compensated from the Consolidated Fund for the revenue foregone.

The increase in farebox revenue for Sydney Ferries from this determination on a full year basis, assuming unchanged patronage in response to the fare increase, is \$1.7m.⁴¹ That amount is the maximum possible loss to Sydney Ferries if the Government were to leave fares at 2004/05 levels.

However, for 2005/06, the Government will continue to contribute around \$37.5m to the funding of Sydney Ferries via the SSTA, half-fare concessions and other community service obligations.

³⁹ Centre for International Economics, *Subsidies and the social costs and benefits of public transport*, March 2001. Available from the Tribunal's website, www.ipart.nsw.gov.au.

⁴⁰ *ibid*, pp 38 and 43.

⁴¹ These estimates do not include the higher reimbursements for free and concessional travel paid by Government when fares are increased.

7 THE NEW FARES

The exact ticket changes that have been determined are shown below.

Ticket	Current Fare 04/05	New Fare 05/06 (rounded)	Absolute change	% Rise
Daily singles				
Inner Harbour Adult	\$4.80	\$5.00	\$0.20	4.17%
Inner Harbour Conc.	\$2.40	\$2.50	\$0.10	4.17%
Meadowbank Adult	\$5.10	\$5.30	\$0.20	3.92%
Meadowbank Conc.	\$2.50	\$2.60	\$0.10	4.00%
Rydalmere Adult	\$6.00	\$6.20	\$0.20	3.33%
Rydalmere Conc.	\$3.00	\$3.10	\$0.10	3.33%
Parramatta Adult	\$7.40	\$7.50	\$0.10	1.35%
Parramatta Conc.	\$3.70	\$3.70	-	-
Manly Adult	\$6.00	\$6.20	\$0.20	3.33%
Manly Conc.	\$3.00	\$3.10	\$0.10	3.33%
Manly Jet Cat	\$7.90	\$7.90	-	-
FerryTens				
Inner Harbour Adult	\$30.30	\$32.50	\$2.20	7.26%
Inner Harbour Conc.	\$15.10	\$16.20	\$1.10	7.28%
Meadowbank Adult	\$33.10	\$34.50	\$1.40	4.23%
Meadowbank Conc.	\$16.50	\$17.20	\$0.70	4.24%
Rydalmere Adult	\$45.10	\$46.60	\$1.50	3.33%
Rydalmere Conc.	\$22.50	\$23.30	\$0.80	3.56%
Parramatta Adult	\$51.90	\$52.60	\$0.70	1.35%
Parramatta Conc.	\$25.90	\$26.30	\$0.40	1.54%
Manly Adult	\$45.10	\$46.60	\$1.50	3.33%
Manly Conc.	\$22.50	\$23.30	\$0.80	3.56%
Manly Jet Cat	\$65.70	\$65.70	-	-
Travel Passes				
Blue Adult (BF)	\$29.00	\$30.00	\$1.00	3.45%
Blue Conc.(BF)	\$14.50	\$15.00	\$0.50	3.45%
Green Adult (RBF)	\$40.00	\$40.00	-	-
Green Conc. (RBF)	\$20.00	\$20.00	-	-
Orange Adult (BF)	\$36.00	\$37.00	\$1.00	2.78%
Orange Conc. (BF)	\$18.00	\$18.50	\$0.50	2.78%
Pink Adult (RBF)	\$47.00	\$47.00	-	-
Pink Conc. (RBF)	\$23.50	\$23.50	-	-
Pittwater Adult (BF)	\$49.00	\$51.00	\$2.00	4.08%
Pittwater Conc.(BF)	\$24.50	\$25.50	\$1.00	4.08%
Purple Adult (RBF)	\$54.00	\$54.00	-	-
Purple Conc. (RBF)	\$27.00	\$27.00	-	-
Red Adult (RBF)	\$32.00	\$32.00	-	-
Red Conc. (RBF)	\$16.00	\$16.00	-	-
Yellow Adult (RBF)	\$44.00	\$44.00	-	-
Yellow Conc. (RBF)	\$22.00	\$22.00	-	-
DayTripper				
DayTripper Adult (RBF)	\$15.00	\$15.00	-	-
DayTripper Conc.(RBF)	\$7.50	\$7.50	-	-

BF = Bus and Ferry.

RBF = Rail, Bus, Ferry.

APPENDIX 1 IPART ACT REQUIREMENTS

Section 15 requirements

Section 15 of the IPART Act 1992 details the matters to be considered by the Tribunal when making a determination. The section is reproduced in full below.

(15) Matters to be considered by Tribunal under this Act

- (1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):
 - (a) the cost of providing the services concerned,
 - (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
 - (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,
 - (d) the effect on general price inflation over the medium term,
 - (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
 - (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the [Protection of the Environment Administration Act 1991](#)) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
 - (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
 - (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
 - (i) the need to promote competition in the supply of the services concerned,
 - (j) considerations of demand management (including levels of demand) and least cost planning,
 - (k) the social impact of the determinations and recommendations,
 - (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).
- (2) In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.
- (3) To remove any doubt, it is declared that this section does not apply to the Tribunal in the exercise of any of its functions under section 12A.
- (4) This section does not apply to the Tribunal in the exercise of any of its functions under section 11 (3).

Table A1.1 indicates where the matters have been considered throughout the report by the Tribunal in making this determination.

Table A1.1 Tribunal consideration of section 15 matters and Premier's letter

Section 15	Report reference
(a) cost of providing the service	Chapter 3
(b) protection of consumers from abuse of monopoly power	Section 6.2
(c) appropriate rate of return and dividends	N/A
(d) effect on general price inflation	N/A
(e) improved efficiency in supply of services	Sections 3.1, 3.3, 3.4, Appendix 4
(f) ecologically sustainable development	Section 6.3
(g) impact on borrowing, capital and dividend requirements	Section 6.4
(h) additional pricing policies	N/A
(i) need to promote competition	N/A
(j) considerations of demand management	N/A
(k) the social impact on customers	Section 6.2
(l) standards of quality, reliability and safety of the services	Chapter 4
Premier's letter	
1. a 5-year price path	Section 1.1
2. CPI increase subject to efficiency gains	Section 2.2
3. Above CPI increase if customer benefits through improvements in service quality linked to specific initiatives	Chapter 4, Appendix 4

N/A – Not applicable to this review

Section 16 requirements

Section 16 of the IPART Act requires the Tribunal to report on the likely impact to the Consolidated Fund if fares were not increased to the maximum permitted. This information is contained in Chapter 6.

APPENDIX 2 PREMIER'S LETTER



**Premier of New South Wales
Australia**

18 May 2004

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

I am writing in relation to IPART's forthcoming review processes with respect to passenger transport fares for 2004-2005, in the context of the Government's recently announced transport reforms.

In light of recent performance issues on the CityRail network, I direct under section 7(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act') that the 2004-05 IPART fare review process for CityRail be deferred until further notice. However, fare reviews of other public transport modes should proceed.

Following the Ministerial Inquiry into Sustainable Transport, the NSW Government has committed to delivering parity in fare structures and consistent service levels across public and private bus and ferry transport operators.

I therefore request under section 13(l)(c) of the Act that, when making its investigations into passenger transport fares for all public transport modes, the Tribunal consider the following matters that arise from the Inquiry's recommendations:

- the making of a determination based on a 5-year price path;
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to efficiency gains; and
- providing for fare increases above the CPI to clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives such as bus priority measures.

In respect of the Tribunal's section 9 investigations of privately owned public transport fares, I would ask that you also have regard to the above matters.

Bus Services:

In order to progress with a consistent fare structure for the bus industry and to implement reforms arising from the Unsworth Review of Bus Services, several changes to the existing arrangements, including legislation and the role of IPART, are being considered by the

Government. The proposed legislative amendments will not commence in the first half of 2004.

When calling for public and industry submissions I request, pursuant to section 13(l)(c) of the Act, that IPART consider the Government's preferred approach of moving to a single fare review, including moving to a single fare change applicable to all bus operators.

I also request that IPART consider whether any State Transit fare increase for 2004-05 and later years should be applied on a "weighted average" basis aimed at better aligning Government and private operator fares. Such an approach would result in IPART determining an overall price change for bus fares. Individual fare products may be adjusted to varying degrees but the changes must, in aggregate, be less than or equal to the overall adjustment determined by IPART.

For non-commercial bus services, the Government is developing a new funding approach along the lines recommended by the Unsworth Review of Bus Services (see p.70 of the Final Report), but this may not be completed for 2004-05. Therefore it may be appropriate that the process used for the 2003-04 review be used in 2004-05.

Ferry Services:

In respect of ferry services, under section 13(l)(c) of the Act, I also request that IPART consider adopting the same process outlined above (i.e. single fare increase figure for both private and public operators). As there are no relevant legislative changes planned in relation to ferries, I request that in all other respects IPART consider following existing processes for 2004-2005.

I have no objection to the contents of this letter being made publicly available, if you consider it appropriate.

If your officers wish to discuss these matters, they should contact Ms Zoe de Saram, Policy Manager, Economic Development Branch, at The Cabinet Office on (02) 9228 4930.

Yours sincerely

Bob Carr
Premier

APPENDIX 3 LIST OF SUBMISSIONS, PARTICIPANTS AT HEARING

The Tribunal received submissions from the following organisations and individuals:

Organisations

Action for Public Transport
Blue Mountains Commuter and Transport Users Association
Council of Social Service of New South Wales (NCOSS)
Manly Council
Sydney Ferries
Vaucluse Progress Association

Individuals

Anonymous
Mr Ian Abbottsmith
Mr David Barr MP, Member for Manly
Mr Simon Clancy
Mr Kevin Eadie
Mr Scott Freeman

The participants at the public hearing on 28 October 2005 were:

Representatives of IPART:

Dr Michael Keating AC, Chairman
Mr James Cox, CEO and Full-time Member
Ms Cristina Cifuentes, Part-time Member
Ms Fiona Towers, Director Energy and Transport
Dr Dennis Mahoney, Program Manager, Transport

On the round-table:

Action for Public Transport (Mr Allan Miles and Mr Graeme Taylor)
Council for Social Services (Mr Dinesh Wadiwel)
Matilda-Captain Cook Cruises (Mr Anthony Haworth)
Public Interest Advocacy Centre (Mr Jim Wellsmore)
Sydney Ferries (Ms Sue Sinclair and Ms Wendy Hughes)

Observers who made comment during proceedings:

Mr Bill Allen
Mr Ian Abbottsmith
Mr Paul Trevaskis, Blue Mountains Commuter and Transport Users Association

Also in attendance were:

Mr Andrew Nicholls (Ministry of Transport)
Ms Elizabeth Reedy (ITSRR)
Mr Steven Tropoulos (IPART)
Ms Sheridan Rapmund (IPART)

APPENDIX 4 SYDNEY FERRIES COST, PATRONAGE AND EFFICIENCY TRENDS

This appendix contains further detail on Sydney Ferries' costs of service, including its previous fare changes, costs and inflation, trends in patronage and cost efficiency.

Previous fare changes, costs and inflation

Apart from the past two years, the Tribunal has usually determined a weighted average fare increase for Sydney Ferries which has been below the rate of growth of total costs (Table A4.1) but above the rate of general inflation as measured by the rise in the Sydney Consumer Price Index.

Table A4.1 Sydney Ferries fare increases, cost growth and inflation

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Fare increase	7.0%	8.6%*	5.0%	2.0%	7.5%	4.2%
Total cost growth	8.6%	1.5%	19.1%	8.2%	5.0%	1.7%
Sydney CPI	2.4%	6.2%*	3.0%	2.8%	2.2%	2.5%

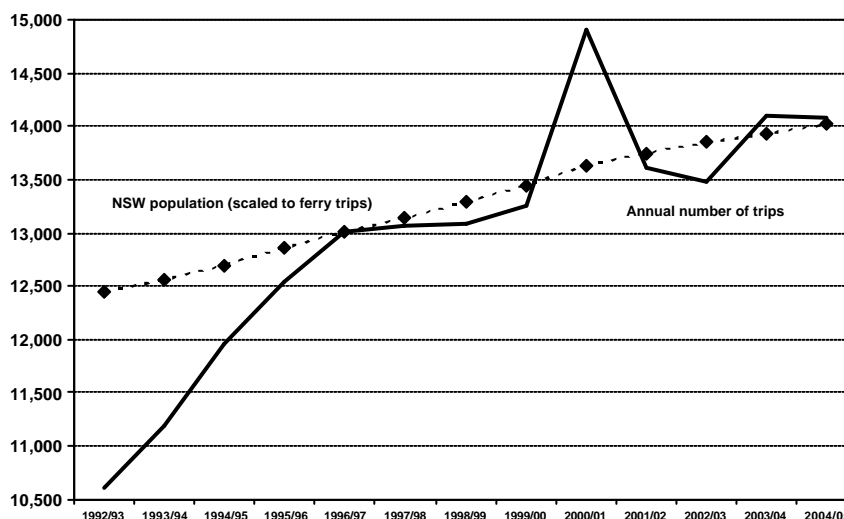
* includes a GST adjustment estimated to be about three percentage points. Sources: Sydney Ferries and ABS.

In 2001/02 and 2002/03 Sydney Ferries incurred substantial cost increases as a result of major safety-related expenditures that followed in response to the recommendations of the Taylor Report.⁴² In the last two years, cost growth has been much slower.

Trends in patronage

In general, the number of ferry trips taken over the last eight years has kept pace with the growth in the NSW population (Figure A4.1).

Figure A4.1 Annual number of trips taken, 000s



Source: Sydney Ferries and ABS.

⁴² Waterways Authority *Review of Operations of Sydney Ferries*, 2001. The report was briefly discussed in last year's determination *Report on the Determination of Fares for Sydney Ferries*, IPART, November 2004 ch 4.

In terms of ticket sales rather than trips, recent ticket sales have strongly favoured the growth in DayTripper tickets (Table A4.2).

Table A4.2 Change in ticket sales 2003/04 – 2004/05

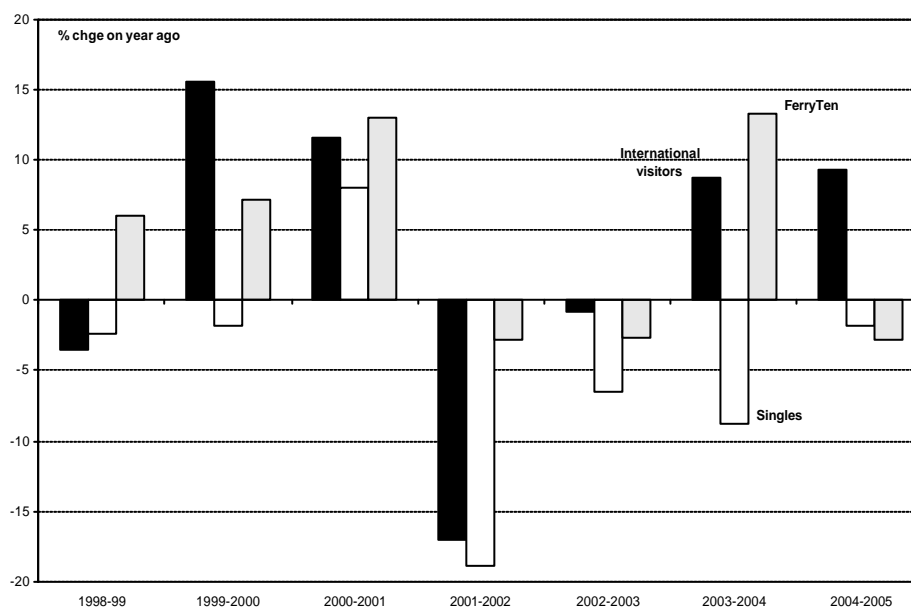
Ticket type	Change 03/04-04/05
Total Daily	-1.8%
Total FerryTen	-2.8%
Total TravelPass	-6.7%
Total DayTripper	16.8%
Total ticket sales	-0.9%

Source: Sydney Ferries 2005 financial model.

Last year, Sydney Ferries anticipated a rise in the total number of trips for 2004/05 of about 7.4 per cent. It now estimates that the number of trips taken rose by 1.7 per cent while total ticket sales actually fell by almost 1 per cent in 2004/05. In 2005/06, Sydney Ferries projects increases in patronage (trips and tickets) of one per cent across the board.

Until 2004/05, year-by-year changes in Sydney Ferries trip numbers appeared to be reasonably well correlated with changes in tourist visitor numbers⁴³, at least in terms of direction of change (Figure A4.2). In 2004/05, despite a solid rise in tourist numbers, sales of three major types of ferry tickets fell, including the tourist-oriented singles tickets and FerryTens.⁴⁴

Figure A4.2 Sydney Ferries' ticket sales and international visitors into Sydney



Source: Sydney Ferries (adult fares) and Australian Bureau of Statistics.

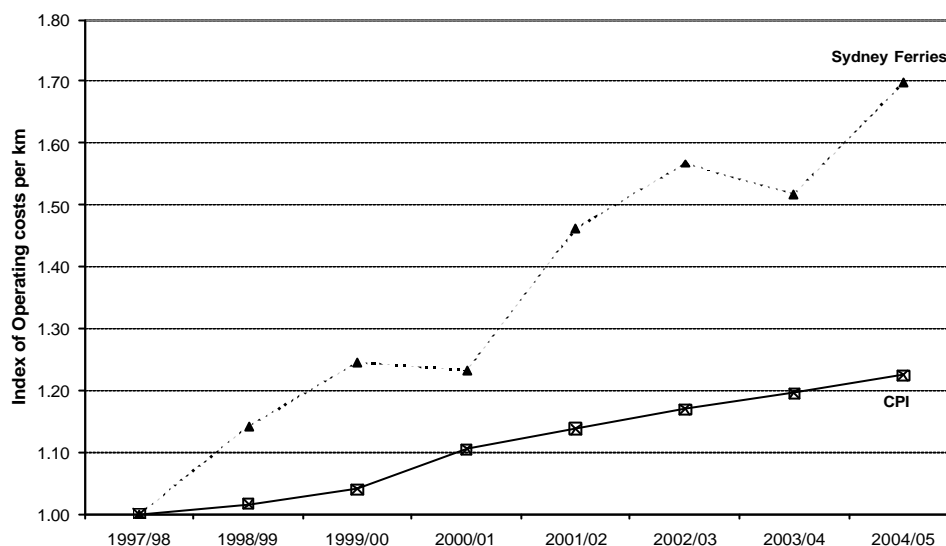
⁴³ 'Tourist visitors' are here defined as to those arriving in Sydney via the international terminal at Kingsford Smith airport and who classify themselves for customs purposes as either visiting friends, on holidays or attending conventions.

⁴⁴ The rising popularity of the \$15 DayTripper is probably playing a key switching role in the latest declines. Patronage drivers will be a key part of the work being undertaken for the Tribunal by an independent consultant as part of the Tribunal's investigation of a multi-year price path for Sydney Ferries.

Trends in efficiency

One measure of cost efficiency is operating costs per kilometre travelled.⁴⁵ Last year, Sydney Ferries' operating cost per kilometre rose 11.8 per cent.⁴⁶ That result reinforces the general impression of a broad continuation of the trend towards decline cost efficiency that has been in place for some years (Figure A4.3).

Figure A4.3 Sydney Ferries operating costs per km travelled



Source: Sydney Ferries financial data 2004 and 2005. A break in the data means that the levels of operating costs for 2003/04 and 2004/05 are not strictly comparable with previous years.

Other partial productivity measures, based on data from Sydney Ferries, have been constructed in an attempt to give a broader impression of cost efficiency and productivity trends. The measures, corrected for inflation, are presented in Table A4.3. They fluctuate significantly from year to year, making it difficult to discern clear trends.

Fare increases subject to efficiency gains

The Premier's letter of 18 May 2004 asked the Tribunal to have regard to efficiency gains when granting a fare rise up to the CPI. The above discussion indicates the extent or otherwise of efficiency gains in recent years. The Tribunal anticipates that Sydney Ferries will further assist it by providing appropriate measures of efficiency and the gains made in them during the investigation into a multi-year price path.

⁴⁵ The Tribunal recognises the limitations of partial productivity analysis. For example, it does not consider all inputs/outputs in combination and does not reflect changes in the operating environment that can impact on costs. However, it provides a readily understandable and measurable indicator and can be constructed with relatively limited data.

⁴⁶ The 11.8 per cent rise in 2004/05 was the result of a 7.6 per cent rise in operating costs combined with a fall of 3.8 per cent in vessel kilometres travelled.

Table A4.3 Performance indicators for Sydney Ferries

Real 2004/05 \$	99/00	00/01	01/02	02/03	03/04	
Indicators	Actual	Actual	Actual	Actual	Actual	
Operating costs/ Vessel Km	\$56.78	\$54.88	\$61.28	\$63.79	\$59.94	
Operating costs per passenger journey	\$5.63	\$4.92	\$6.20	\$6.31	\$5.66	
Labour costs/ Employee	\$86,301	\$85,377	\$85,299	\$81,664	\$82,811	
Fleet running costs/Vessel	\$701,355	\$508,934	\$717,075	\$704,701	\$531,176	
Passenger journey/Employee	29,011	30,495	26,433	23,933	24,405	
% change						4yr % change
Operating costs/ Vessel Km	7.3%	-3.3%	11.6%	4.1%	-6.0%	5.6%
Operating costs per passenger journey	7.2%	-12.6%	26.0%	1.7%	-10.3%	0.6%
Labour costs/ Employee	0.4%	-1.1%	-0.1%	-4.3%	1.4%	-4.0%
Fleet running costs/Vessel	15.8%	-27.4%	40.9%	-1.7%	-24.6%	-24.3%
Passenger journey/Employee	-4.0%	5.1%	-13.3%	-9.5%	2.0%	-15.9%

Source: Sydney Ferries financial data 2004.

APPENDIX 5 ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
APT	Action for Public Transport
HTS	Household Travel Survey; collected and published by TPDC
KPIs	Key performance indicators
NCOSS	Council of Social Service of New South Wales
MoT	Ministry of Transport
PIAC	Public Interest Advocacy Centre
SFC	Sydney Ferries Corporation, a business name for Sydney Ferries
SSTS	SSTS or School Student Transport Scheme provides subsidised travel for eligible school students on government rail, government and private bus and ferry services and long distance coaches. The scheme can only be used for travel between home and school.
STA	State Transit Authority
TPDC	The Transport Population and Data Centre. It is the major source of transport data for the Sydney Statistical District (Sydney, Wollongong, Blue Mountains, Central Coast and Newcastle). The TDC is a division of the Department of Infrastructure, Planning and Natural Resources.

IPART

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
of New South Wales**

Level 2, 44 Market Street, Sydney NSW 2000

PO Box Q290, QVB Post Office, NSW 1230

Telephone: (02) 9290 8400

Facsimile: (02) 9290 2061

Email: ipart@ipart.nsw.gov.au

