



Review of maximum fares for private  
ferry services for 2022 to 2025

## Issues Paper

June 2021

Transport >>



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## Tribunal Members

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## Invitation for submissions

IPART invites written comment on this document and encourages all interested parties to provide submissions addressing the matters discussed.

### Submissions are due by Friday, 6 August 2021

We would prefer to receive them electronically via our online submission form [Lodge a submission](#)

You can also send comments by mail to:

Review of maximum fares for private ferry services 2022 to 2025

Independent Pricing and Regulatory Tribunal

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# Issues Paper

IPART has commenced a review to determine maximum fares for 7 private ferry operators that hold passenger service contracts with Transport for NSW (TfNSW) under the *Passenger Transport Act 2014*. Table 1 shows the private ferry services covered by our review.

Table 1 Private ferry operators covered by our review

Ferry operator	Route
Brooklyn Ferry Service	Brooklyn to Dangar Island
Captain Cook Cruises	Circular Quay to Lane Cove
Central Coast Ferries	Woy Woy to Empire Bay
Church Point Ferry Service	Scotland Island and western foreshore of Pittwater
Clarence River Ferries	Yamba to Iluka
Cronulla and National Park Ferry Service	Cronulla to Bundeena
Palm Beach Ferries	Palm Beach to Mackerel Beach and the Basin Palm Beach to Ettalong and Wagstaffe

For many years IPART has had a role in reviewing, recommending, and more recently, determining, the maximum fares that private ferry operators can charge. Our most recent review was in 2017 when we determined fares to apply from 1 January 2018 to 31 December 2021. Please see the [Information Paper](#) – context for the review for information about fares during the current determination.

## What we have been asked to consider in this review

The fares we determine in this review will apply from 1 January 2022 to 31 December 2025. Operators may charge less than the maximum fare. In addition to determining fares for the next 4 years, our [terms of reference](#) require us to consider the impact of the viability payments several private ferry operators receive from TfNSW and any reforms to these payments.

To do this we will consider the efficient costs of the operators, and the matters set out in [section 124 of the \*Passenger Transport Act 2014\*](#) and our terms of reference .



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## How we will conduct the review

Our approach consists of the following 5 steps:

1. invite each ferry operator to submit a fare proposal, alongside information to support their proposal including forecast operating and capital costs and patronage for the review period
2. estimate the "cost reflective fare" by calculating total efficient costs net of government concession and school student payments and dividing this by forecast patronage
3. investigate whether there is a gap between the operator's proposed fare and the "cost reflective fare"
4. review whether viability payments are needed to meet any gap between the proposed fare and the "cost reflective fare"
5. consider how to manage the risk of costs fluctuating over the determination period.

Figure 1 shows these steps.

This is a change from the approach we took in our 2017 review. As mentioned above, in addition to determining fares for the next 4 years, our [terms of reference](#) require us to "consider the impact of the viability payments" that several private ferry operators receive and "any reforms to these payments". These are payments that were introduced in 2010 for slow ferry operators providing essential services to students under the School Student Transport Scheme (SSTS) after it was found that they were not financially viable, and that raising fares would not solve the problem.<sup>i</sup>

In order to assess whether viability payments are still necessary, we need to be able to estimate the efficient costs of each operator. This means we are not able to take a light-handed approach to regulating the fares for the 2 private ferry operators which operate in competitive markets as we did in our 2017 review.<sup>ii</sup> This is because we are making recommendations about both the revenue they receive in fares from passengers, and the revenue they receive as viability payments from the NSW Government.

Figure 1 Steps in our approach



The sections below outline our proposed steps in more detail, and the questions on which we are seeking comment.

## Step 1: invite ferry operators to propose fares

In March 2021 we invited each ferry operator to propose fares for each year of the review period. We also asked the operators for their forecast operating and capital costs and forecast patronage to support their proposals. We received fare proposals from 4 operators, as shown in Table 2.

Brooklyn Ferry Service and Captain Cook Cruises (Lane Cove route) operate under a net contract with Transport for NSW (TfNSW), which means they receive a monthly contract payment net of fare revenue. We therefore requested fare proposals from TfNSW (which bears the fare revenue risk for these 2 services). TfNSW advised that they prefer the fares for these services to be set in line with efficient costs. Clarence River Ferries have not submitted a fare proposal.

Table 2 Ferry operators' fare proposals for 2022 to 2025 (\$2021, including GST)

Operator	Current maximum fare	2022	2023	2024	2025	Average annual increase
Brooklyn Ferry Service	9.00			TfNSW has not proposed fares		
Captain Cook Cruises	7.80			TfNSW has not proposed fares		
Central Coast Ferries <sup>a</sup>	8.30	9.10	10.00	11.00	12.10	10%
Church Point Ferry Service	9.70	9.90	10.10	10.30	10.50	2%
Clarence River Ferries	9.50			Has not proposed fares		
Cronulla and National Park Ferry Service	7.40	7.80	8.20	8.60	9.00	5%
Palm Beach Ferries – Mackerel Beach and the Basin	8.70	9.10	9.30	9.50	9.70	3%
Palm Beach Ferries – Ettalong and Wagstaffe	12.50	13.20	13.50	13.80	14.10	3%

a. Central Coast Ferries proposed a fare increase of 10% each year.

Source: Current private ferry fares and fare proposals from operators.

Several private ferry operators offer discounted multi-trip tickets. We could regulate all fares, including multi-trip tickets, using a weighted-average price cap (WAPC). However, when we have consulted on this in previous reviews, stakeholders have not supported this approach. It would also increase complexity for operators in setting fares and for us in monitoring compliance with the cap. Therefore, as in previous reviews, we propose to determine the maximum single adult fare, and invited ferry operators to propose fares for a single adult ticket only.

## IPART seeks comments on the following

1. Do you agree with the maximum fares proposed by:
  - Central Coast Ferries
  - Church Point Ferry Service
  - Cronulla Ferry Service
  - Palm Beach Ferries?
  
2. For the operators which have not proposed fares, do you agree that we should estimate cost reflective fares to determine maximum fares?

## Step 2: estimate the cost reflective fare

The cost reflective fare is the fare that is enough to recover the efficient costs of providing the ferry service. Efficient costs include:

- operating costs such as labour, fuel, insurance, repairs and maintenance, office rent and utilities, advertising, and berthing and mooring fees
- capital costs such as replacing vessels and vessel refurbishment
- allowances for depreciation and a return on assets.

As fuel costs can be volatile from year to year, at Step 5 we consider the mechanism for managing this, and other potential cost risks, over the determination period.

We have engaged Indec Pty Ltd to estimate the efficient costs of providing private ferry services over the period 2022 to 2025. Indec will review the ferry operators' forecast operating and capital costs and assess whether they are reasonably efficient.

Where there is a lack of data and / or operators have not provided cost information, Indec will use a combination of the relevant operator's historical cost data and benchmark costs against other operators, to estimate efficient costs. They will also consult with ferry operators to better understand their costs. Operators will have an opportunity to provide further information on costs and respond to both Indec's and IPART's draft reports.

We will use these efficient cost estimates to calculate cost reflective fares for each operator by:

- estimating the total efficient costs for each year
- subtracting the government payments the operator receives for school students and concession tickets
- calculating the fare for each ferry service needed to cover efficient costs, based on the operator's forecast estimate of annual patronage.

We asked operators to forecast their patronage for the 4 years of the determination period (2022 to 2025). This was particularly difficult given the impact the COVID-19 pandemic has had on patronage since early 2020, and the ongoing uncertainty about future lockdowns and / or restrictions on passenger numbers.

Once we have estimated the cost reflective fare, we will compare this to the fares proposed by the ferry operators. Where operators have not proposed fares, we will compare the cost reflective fare to the current fare. In both cases we will seek feedback if there is a difference in these fares.

IPART seeks comments on the following



3. Do you support our proposed approach to estimating cost reflective fares?

### Step 3: compare proposed fares to cost reflective fares

The third step in our review will be to consider any difference between the cost reflective fare and the proposed fare (or the current fare, where no fare has been proposed). This will help inform whether a viability payment may be required.

As shown in Figure 1, after we compare the proposed fare and cost reflective fare, there are several different scenarios that could follow:

1. If the cost reflective fare is below the proposed fare, it indicates that the proposed fare is higher than necessary to recover the efficient costs of that ferry service, and we are likely to determine a maximum fare that is lower than that proposed.
2. If the cost reflective fare is close to the proposed fare, it indicates that the proposed fare is enough to recover efficient costs of that ferry service, and the operator does not require additional revenue such as a viability payment.
3. If the cost reflective fare is materially higher than the proposed fare, it indicates that the proposed fare is insufficient to recover efficient costs of that service.



Fares based on efficient costs protect passengers and ensure enough revenue for ferry operators

## Step 4: review the need for viability payments

If we find in Step 3 that the proposed fare will not recover the efficient costs of operating the ferry service, the fourth step in our review will be to consider how this shortfall should be met. The options include:

- IPART determining a higher fare than has been proposed
- IPART recommending a government subsidy (by continuing or adjusting the viability payment)
- a combination of both.

The increases in fares proposed by the operators range from between 2% and 10% per annum as shown in Table 2. We are seeking feedback on how much of any gap between proposed fares and the cost reflective fare should be met by taxpayers (via a government subsidy – the viability payment) and how much by passengers (via higher fares).

Our considerations about the appropriate balance between passengers and taxpayers will be guided by:

- External benefits generated by the private ferry services (such as avoided congestion, avoided pollution and active transport benefits). We have calculated these external benefits in past reviews and found that they were exceeded by the existing viability payments.
- The role of the private ferry in the community it services. That is, to what extent is the private ferry an essential public transport service for a community which has few other transport options? And to what extent does it service leisure travellers who could be expected to cover the full cost of their journeys without subsidy?
- How passengers respond to changes in fares. For example, raising fares may reduce patronage and therefore not produce the required revenue.
- The factors set out in [section 124 of the \*Passenger Transport Act 2014\*](#) and our terms of reference, including the impact of our determination on the use of public transport, the need to increase the proportion of travel undertaken by sustainable modes, and the social impact of the determination.

### IPART seeks comment on the following



4. If the cost reflective fare is higher than the proposed fare, should this be paid by passengers, or as a subsidy, or a mix?

## Step 5: assess the risk management mechanism

The fifth step in our review will consider the usefulness of the current fuel cost adjustment mechanism, and whether there are other costs outside the control of ferry operators that we should include as part of a risk management mechanism.

The small, family run nature of some of the private ferry services makes them vulnerable to significant changes in costs. Therefore, we included a risk management mechanism in our current determination to mitigate against large diversions between our forecast and actual fuel costs over the 4-year period.

If fuel costs change (increase or decrease) by more than 20% in a year, then maximum fares for the following year would increase or decrease by multiplying the percentage change in the diesel price exceeding  $\pm 20\%$ , by the proportion of an operator's total costs that fuel accounts for, as shown in Box 1.

### Box 1 Fuel cost adjustment mechanism

$$\Delta \text{Max Fare}_{t+1,i} = \% \text{ of fuel cost}_{t,i} * \Delta \text{Fuel cost}_t \text{ in excess of } \pm 20\%$$

Where

- $\Delta \text{Max Fare}_{t+1,i}$  is the percentage change to be applied to the maximum fare for a ferry operator  $i$  in year  $t$
- $\% \text{ of fuel cost}_{t,i}$  is the proportion of fuel in the total operating cost for a ferry operator  $i$  in year  $t$
- $\Delta \text{Fuel cost}_t$  is the percentage change between the average fuel price in year  $t$  and the average fuel price in year  $t-1$ .

To calculate " $\Delta \text{Fuel cost}_t$  in excess of  $\pm 20\%$ ", if  $\Delta \text{Fuel cost}_t$  is a positive number, 0.2 will be subtracted from that number, and if it is a negative number, 0.2 will be added to that number.

Source: IPART, *Review of fares for private ferry services – Maximum fares for private ferry services from January 2018 to December 2021 - Final Report and Determination*, November 2017, p 23.

During the current determination we have measured the annual change in fuel costs based on the average diesel price for the 12 months to September. We have used the daily average Sydney retail prices supplied by FUELtrac, excluding GST and excise duty.

As shown in Table 3, the change in the price of diesel has fluctuated during the current determination period. However, not by  $\pm 20\%$  in a single year as required to trigger the fuel price adjustment mechanism. As a result, we are considering the usefulness of the mechanism and the level of the threshold.

Table 3 Annual change in diesel price (Sydney)

Year	September – September % change in diesel price (Sydney)
2018	13
2019	4
2020	-10

Source: Fueltrac data and IPART analysis

In our 2017 review we initially proposed a  $\pm 10\%$  threshold for the fuel adjustment mechanism but considered that to trigger a change to our determination on the maximum fares, the change in fuel costs should be material. With a threshold of  $\pm 10\%$ , the likely fare change would be only a few cents. As fares are rounded to the nearest 10 cents, this would mean that fares may not be adjusted even if the  $\pm 10\%$  threshold was reached.<sup>iii</sup>

However, as mentioned above, the  $\pm 20\%$  threshold has meant that fuel adjustment mechanism was not triggered during the current determination. Given this, there are several options we could consider such as:

1. not having a fuel adjustment mechanism in the determination
2. retaining the fuel adjustment mechanism with the current  $\pm 20\%$  threshold
3. retaining the fuel adjustment mechanism with a lower threshold
4. including other costs outside the control of ferry operators in an adjustment mechanism.

We are seeking feedback on these options.

#### IPART seeks comments on the following

5.  Should the fuel adjustment mechanism be retained in the fare determination? If so, is a 20% fuel price change the right threshold?
6.  Are there any other costs which are outside the control of ferry operators that could be included in an adjustment mechanism?

## Survey of private ferry usage

We engaged ORIMA Research to design and conduct surveys about how people use private ferry services, including the reasons why they do, or do not, use them, and the extent to which fares and other factors influence their use of private ferries. This was the first time that we have undertaken a survey of private ferry usage. To ensure we reached as many people as possible, 2 surveys were undertaken:

1. A random survey of residents in the local areas in which the private ferries operate. This commenced as an online survey and then continued as a phone survey to ensure enough respondents were reached and captured both users and non-users of private ferries.
2. A user survey designed to be undertaken on board the ferries. This was a shorter version of the main survey. All operators were approached to participate by promoting the survey on board their ferries and at their wharves.

We will release ORIMA's report when it is available, prior to closing submissions on this Issues Paper.

## Next steps

We are seeking submissions to this Issues Paper from all interested stakeholders by 6 August 2021. Page ii at the front of this document explains how to do this. Below is a list of the questions we are seeking feedback on.

Before releasing our Draft Report with our draft determinations for maximum fares in late September we will assess the ferry operators' fare proposals in line with our proposed approach discussed above. In making our draft recommendations we will also consider stakeholders' submissions and responses to specific questions in this Issues Paper, and the results of the resident and passenger surveys. We will also undertake further analysis of the matters we are required to consider under our terms of reference. All stakeholders including ferry operators will have a further opportunity to provide comments on our draft recommendations and participate in our public forum.

See also [Information Paper](#) on the context for our review:



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## IPART seeks comments on the following

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- |    |  |   |
|----|--|---|
| 1. | Do you agree with the maximum fares proposed by: <ul style="list-style-type: none"><li>- Central Coast Ferries</li><li>- Church Point Ferry Service</li><li>- Cronulla Ferry Service</li><li>- Palm Beach Ferries?</li></ul> | 5 |
| 2. | For the operators which have not proposed fares, do you agree that we should estimate cost reflective fares to determine maximum fares?  | 5 |
| 3. | Do you support our proposed approach to estimating cost reflective fares?  | 6 |
| 4. | If the cost reflective fare is higher than the proposed fare, should this be paid by passengers or as a subsidy, or a mix?   | 7 |
| 5. | Should the fuel adjustment mechanism be retained in the fare determination? If so, is a 20% fuel price change the right threshold?   | 9 |
| 6. | Are there any other costs which are outside the control of ferry operators that could be included in an adjustment mechanism?  | 9 |

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**ISBN 978-1-76049-515-2**

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- <sup>i</sup> IPART, *Review of fares for private ferry services and the Stockton service for 2010*, [Report, Recommendations and Determination](#), December 2009, pp 9-10.
  - <sup>ii</sup> IPART, *Review of fares for private ferry services* – Maximum fares for private ferry services from January 2018 to December 2021 - [Final Report](#), November 2017, p 11.
  - <sup>iii</sup> IPART, *Review of fares for private ferry services* – Maximum fares for private ferry services from January 2018 to December 2021 - [Final Report](#), November 2017 pp 23-24.