2014 Review of Stockton and private ferry fares
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

22 September 2014

<u>Re: IPART review of Private Ferry Fares 2014</u>

Dear Sir/Madam

As indicated by INDEC previously in their 2009 report, the slow ferry services are marginally profitable and marginally economically viable business ventures, whilst they do provide a steady source of regular income, they do not warrant much more than a small family run business structure, with owners performing operational, management & administration roles, often not drawing what would be a *Full Time Equivalent* (FTE) wage rate for these roles, this is where the general public would deem these ventures as “lifestyle businesses”.

Where the operators of these services wish to undertake fleet renewal or major refit of aged (often heritage) vessels, the costs factors encountered mean that profit margins are severely affected or depleted for a considerable number of years after the fact. This does not equate to an immediate or reasonable return on capital improvements investment or repayment of capital costs expended in the purchase of any new vessel, unless over a long term contract period. In our case, the limited nature of our contract period (4 years, if granted the two one year extensions possible under the contract clauses) makes the capital improvements undertaken during our contract period the only real benefit to the business, these improvements consume almost entirely the financial benefit possible during the period and therefore, we do not expect to achieve much more that recoup our investments within our current contract period, based on the current payments and fares system.

Knowing that Private Ferry Services provide public transport under contract to TfNSW, under conditions that government run equivalent services would not be considered possible, note cost and fare differentials with the Stockton service, IPART should take the initiative to ensure that fares / funding / support payments and profitability provide a solution to the financial viability of these services, in reality a mechanism should be put in place to assure that the Regulated Ferry Services can run sustainably as stand-alone businesses.

It is further important to note that these ferry services operate in areas where base patronage is set by local residents and commuters, and therefore, there is difficulty in increasing levels of custom on regular services, as demographics in these areas are somewhat fixed and slow to change.

With respect to the annual fare review currently underway, we have received mixed signals from consultants and other parties, and whilst providing substantial data to facilitate the consultants job. We now strongly believe that the current industry specific indices are somewhat unequitable as shown in the after rounding increases applied to our fare last year, a proposed 2.4% increase after rounding resulted in a fare increase of 1.6%, (In comparison to the Stockton Ferry which was increased by 4%), which in reality, did not correspond to cost factor increases we endured during the period, and that to move to a CPI increase could represent a better solution, I further believe that rounding should only be occurring on a round up basis, allowing the operator to discount down where they wish.

Furthermore we also believe that if and when the current industry based indices (if used) result in a cost multiplier lower than the CPI increase for the same period, that the fare increase allowable for the period should never fall below the CPI rate. Needless to say that these mechanisms still only result in a continuance of the same level of financial viability currently encountered in the Private Ferry industry, and do not encourage investment in fleet upgrades, which are made through necessity to maintain service standards with major impacts on long term profitability of the business venture.

We believe that IPART should attempt to determine that a mechanism be put in place whereby operator's cashbox revenue increases whilst addressing a fare reduction to passengers, possibly through TfNSW funding a portion of the full fare, as is done under the bus contracts regime, this would however have to be done in a manner which does not disrupt cash flow on a monthly basis, as the current payment system for HFC and STSS payments from TfNSW on the 3 or 6 monthly cycle already mean that operators encounter periods where cash at hand after wages and fuel is quite negligible . Discussions with other operators also indicate a desire to have the half fare and free fare class tickets which are legislated by TfNSW addressed as a possible increase to cash box revenue, through TfNSW proportional funding, as these ticket classes are stipulated by TfNSW and imposed upon the private service providers, who operate under a NSW RMS regime whereby all passenger classes count equally as part of the ferry passenger compliment.

One query that we raised last year with no answer, and may be of value to all operators' would be "**what was the original basis calculation for the "master or base fare" which is subsequently modified by either the CPI or current industry specific indices, for each service"**, herein may lie a source of calculation so as to modify the fare system and create a more equitable base fare which would be more amenable to a set annual increase.

Kind Regards,

(via email)

Richard Stockley
Brooklyn Ferry Service Pty Ltd