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## Summary

### Fare Increase Sought

The industry seeks an increase in fares for the 2002 – 2003 year of 10.00 percent, based on the analysis in Attachment I.

### Issues

In the following section, these are addressed at length, both the issues raised by IPART and other issues of concern to the industry. In summary, these are our positions. Note that Matilda has made a separate submission in Attachment III.

#### **Approach to fare regulation**

Conclusion: the approach to setting fares should remain as in PTA 1990 but with the additional check that return on capital is adequate.

#### **Approach to industry regulation**

Conclusion: the industry has not had a chance to form a collective view on this issue so declines to comment this time.

#### **Private ferry fare structure**

Conclusion: there is absolutely no justification for fares awarded to private operators to be less than those awarded to Sydney Ferries and, in fact, for the reasons discussed, they should be commensurately higher.

#### **Service quality – private ferries**

Conclusion: service quality should be limited to these items with specific targets (frequency, etcetera) to be negotiated between the operator and Transport NSW at the time contracts are signed or renewed.

#### **Environmental issues**

Conclusion: present law and regulation is sufficient to ensure private ferries meet community acceptable standards.

## **Social impacts**

Conclusion: the industry believes that, in the context of the points above, social responsibility is that of the government.

## **Adequate fares (non-IPART issue)**

Conclusion: if private ferry fares are not adequate for operators, they will cease to operate and, therefore, cease to provide the service; in particular, there should be no discount on the fares charged by Hegarty's.

## **The School Student Transport Scheme (non-IPART issue)**

Conclusion: if the gross revenue to the industry from the student pass scheme is reduced, operators will have to make it up from somewhere else, eg from the government or from passengers

## **Terms of Reference**

These are commented on individually in the last section

## **The Industry and the CVA**

There are presently seven private ferry operators in New South Wales that the Association is aware of. All but one are members. At a meeting on February 19 last, attended by representatives of most of the operators, David Cribb from the CVA, Nick Hague from the IPART Secretariat and Tim Rierdon from Transport NSW, it was agreed that

- dollar information would not be made available in this submission or subsequently
- operators would submit their expense information in percentage form (see Attachment I)
- it would be submitted to the CVA for amalgamation into an industry index
- this industry index would be submitted to IPART.

In a subsequent telcon, Nick Hague made it clear that IPART may require access in confidence to individual company submissions.

This submission contains the information submitted by operators and in the form of the amalgamated index and makes comments on issues. The industry looks forward to hearing the results of IPART's deliberations.

## **The Issues**

IPART has sought comment on several issues. The comments sought on those relevant to private ferries appear here. In addition, we have commented on other issues, not raised in the IPART document.

## **IPART Issues**

### **Approach to fare regulation**

There are two matters here. The first is what PTA 1990 says about fare setting. The second is what IPART says.

PTA 1990 says that maximum fares must be set having regard to "... the average level of fares ... prevailing in the industry for comparable services" and "... inflationary movements in the costs ...".

If IPART is to recommend fares to Transport NSW for implementation, PTA 1990 says that IPART must only consider these things. It must not, therefore, consider other things, such as revenue and profitability.

What IPART suggests as a better way forward is the inclusion of revenue and profitability information, (para 3, page 16).

In a telcon with Nick Hague subsequent to the meeting on February 19, he explained that this information generally was desirable to ensure that an adequate level of profitability exists in an industry – merely recompensing cost rises will not achieve increased profitability.

Issues related to this are

- what is an adequate level of profitability (there is one agreed for buses)?
- is an operator to be penalised in the maximum fares he can charge if he makes efficiency gains not matched by others?

Nick's response to the second of these is that it would not be fair for to penalise someone making efficiency gains.

In the context of all this, it should be born in mind that, in a centralised, annual fare setting regime, as presently exists or as discussed by IPART, operators bear all the additional costs imposed on the business that occur in the year following a fare decision, with no opportunity to recoup them. Next year's fare increase only compensates them for the new level of cost to the extent that it exists at the end of this year. An example follows.

<b>Year</b>	<b>1</b>	<b>2</b>
<b>Labour cost</b> (fixed number of staff)	Jul-Sep @ \$16,000 pm \$48,000	Jul-Sep @ \$16,500 pm \$49,500
	Oct-Jun @ \$16,500 pm \$148,500	Oct-Jun @ \$17,000 pm \$153,000
	Total \$196,500	Total \$202,500

Here, an award increase of about three percent is awarded in the month of October in both of the years shown. At the beginning of Year 2, the owner is awarded a cost increase of three percent to match the award increase in October in Year 1. From October in Year 2, however, he bears the monthly increase in costs from October to June of nine months by \$500, or \$4,500, without recompense, which he also bore in Year 1, of course. This kind of analysis applies to all cost increases he incurs throughout the year in any year. Likewise, he gains on any savings made, such as a reduction in fuel costs. History shows us, however, that costs always go up in total.

It should be noted that owners, in fact, have very little opportunity to increase the efficiency of their businesses. Crew numbers are determined by the Waterways Authority, wages are determined by the Industrial Relations Commission, service levels are determined by the contract and other big expenses are determined by the market place, eg fuel, insurance and interest. There is not much scope for efficiency gains in all this.

Finally, the PTA mentions comparable fares for comparable services. It is not evident that until now, this aspect of the Act's requirement has ever been applied, in particular with regard to the fares charged by Sydney Ferries, the largest comparable operator. Comparisons with Sydney Ferries are addressed elsewhere.

Conclusion: the approach to setting fares should remain as in PTA 1990 but with the additional check that return on capital is adequate.

### **Approach to industry regulation**

Conclusion: the industry has not had a chance to form a collective view on this issue so declines to comment this time.

### **Private ferry fare structure**

These should be decided upon by the operators individually. They know their market best. They know if a weekly ticket or non-peak discounts or anything else is best.

IPART makes comparisons with Sydney Ferries. On this subject, there are some inequities, viz

- why should the ferries operated by Hegarty's be allowed to charge only 75 percent of the fare nominated for that year just because they operate ferries that are of an historic nature? do they not turn up and arrive on time? can passengers not go inside out of the weather? are they not clean? why is the operator not to be compensated for higher maintenance costs for older vessels? if the desired criteria for the higher fares and air-conditioning, for example, how is the operator ever going to generate enough cash to pay for them if the fares are pegged so low?
- Sydney Ferries receive two government hand-outs that private operators do not, a subsidy to cover the losses they make each year and cash injections through other subsidies; despite this public injection of cash not being available to private operators, they are expected to make a profit, ie be viable and thus continue to provide a service, at fares that are lower than those allowed for Sydney Ferries and with lower annual increases in fares (Tables 5.5 and 5.6)

Conclusion: there is absolutely no justification for fares awarded to private operators to be less than those awarded to Sydney Ferries and, in fact, for the reasons discussed, they should be commensurately higher.

### **Service quality – private ferries**

The industry is of the view that these should include

- frequency and adequacy of the timetabled trips
- achievement of a certain standard of on-time running
- provision on board of adequate shelter from adverse weather, including rain, wind and sun
- adequate standards of maintenance, other than safety, such as lights that work and toilets that are not blocked (safety issues are the province of the Waterways authority)
- provision of a suitably sized vessel for the task

Conclusion: service quality should be limited to these items with specific targets (frequency, etcetera) to be negotiated between the operator and Transport NSW at the time contracts are signed or renewed.

## **Environmental issues**

New South Wales has comprehensive environmental law that covers the operation of ferries and charter vessels in particular. This includes the POEO Act that prohibits the discharge of any foreign material, such as sewage, “grey” water<sup>(1)</sup> or vessel wash water into State waters; the Waterways Authority has been delegated responsibility, by the EPA, for policing this Act on State waters; in addition to water pollution requirements, there are others governing noise levels (such as from loud music); the industry is of the view that, if operators meet all these and other legal requirements, they are doing all that can reasonably be required of them with regard to the environment.

Conclusion: present law and regulation is sufficient to ensure private ferries meet community acceptable standards.

(1) this is water other than from toilets, such as washing up water

## **Social impacts**

IPART does not explain what it means by these words.

If it means the impact on individuals and families of a change in their life styles because of a shift in their

disposable income to commuter costs through a fare increase, then the industry has these comments:

- services provided by private enterprise to the public will only continue to be provided if the prices charged are sufficient to cover costs and produce a return on investment that is at least as good as an alternative of equivalent risk
- to the extent that government is concerned about this shift (above), it will have to compensate private service providers in order that they can provide the service at a price that does not disproportionately shift disposable income to commuter costs (which means, of course, that all members of the community are subsidising private ferry commuters) or
- provide the service themselves, also at a further cost to everyone (there is no such thing as a free lunch)

Conclusion: the industry believes that, in the context of the points above, social responsibility is that of the government.

## **Non-IPART Issues**

### **Adequate fares**

In last year's submission we made the point that, if fare increase were not adequate to provide a sufficient return to operators, they would cease to provide the service.

We take the opportunity to repeat this point. In fact, Brisbane Waters Ferries has ceased to operate for this precise reason.

Conclusion: if private ferry fares are not adequate for operators, they will cease to operate and, therefore, cease to provide the service.

### **The School Student Transport Scheme**

In its report last year, IPART devoted some space to the desirability of reforming this scheme. In recent weeks there have been reports in the press that the government may be intending to do so.

It should be pointed out that the \$450,000 pa approximately that private ferry operators receive from this scheme is an important part of their gross income. If all or part of it is done away with, operators will have to replace the shortfall from another source, such as by increased charges for the passengers originally covered by the scheme or all passengers or by a government grant.

Conclusion: if the gross revenue to the industry from the student pass scheme is reduced, operators will have to make it up from somewhere else, eg from the government or from passengers



## Terms of Reference

Most of these seem to be outside PTA 1990 (see page 4). Nevertheless, we have these comments.

- (i) The cost of providing the services is discussed in Attachment I; it is based on a cost index discussed and agreed with Nick Hague of the Secretariat over the phone after a meeting of operators with Nick and Tim Rierdon of Transport NSW (TNSW); at this meeting it was agreed that such an index would be acceptable to IPART and TNSW and that it would contain no dollar information but only a percentage breakdown of total costs, as in IPART's proforma; it was also agreed that, because of the accidental disclosure of previously submitted dollar information (in 2000), no dollar information would be submitted to IPART; in the subsequent telcon with Nick about the model, he said that he may want access in confidence to the individual submissions to the Association to verify what was submitted by the Association; these submissions will be made available but without specific dollar information, as agreed
- (ii) See page 6 above
- (iii) the industry does not think that there is an issue of protection "... from abuses of monopoly power ..." in their industry; it thinks this issue is covered adequately by IPART on page 5 of their document
- (iv) See pages 4 et sequi
- (v) PTA 1990 takes no account of the costs of capital and their reimbursement in fares set by the government; in the private ferry industry, the costs of vessels are large at about \$1.0 million each in most situations; thus a new one, depreciated over 20 years and leased over 10 years, would cost an operator about \$200,000 pa for the first 10 years; in addition, banks will generally not lend money on vessels so operators must secure these loans against other assets, such as their houses; how does the government intend to compensate operators for this capital investment? buses have a capital compensation component in their formula (page 12 of IPART's paper)
- (vi) We are not sure what this means for private ferries; we understand what it means for harvest industries, like forests; we have addressed environmental issues as requested, on page 7
- (vii) See page 7

(viii) See page 7

(ix) It is inevitable that any pricing decision will have the effect of increasing government funding to the industry as costs will inevitably have risen and therefore fares will inevitably have to rise and, in turn, the cost to government of subsidising concession and other fares will rise; the quantification of this rise in government subsidy is beyond the capacity of the Association to estimate

## Industry Responses

There are seven operators in the industry in New South Wales. Four have responded to this submission process and one will do so next week. The operators are

Operator	Contact Name	Phone
Church Point Ferry Service *	Jack Kirkpatrick	0409 223 879
Hegarty's Ferries *	Anthony Haworth	9206 1111
Clarence River Ferry Service *	Laurie Duff	6646 6423
Matilda Cruises *	Steve Skarott	9268 1195
Palm Beach Ferry Service *	Peter Verrills	0414 555 522
Cronulla – National Park Ferry Service	Carl Rogan	9523 2990
Dangar Island Ferry Service	Gordon Davey	9985 7566

\* made responses

The two who have not made submissions and we assume will not do so are

**Cronulla – National Park Ferry Service** are not members of the Association and have never attended any meetings of operators, either last year or this; we do not know why they have not responded to the fare setting process; they have been copied in on all material going to operators

**Dangar Island Ferry Service**; this business changed hands late last calendar year; the present proprietor has insufficient financial records to complete the proforma

**Private Ferries Fares - Proforma Information**

**Fares for 2002-2003**

**Fare Increase Sought**

	Operator	
Percentage	1	11.38%
Increase	2	17.95%
	3	13.97%
	4	4.76%
	5	1.94%

a.

**Average % 10.00%**

**Fare Submission**    **The industry submits that this average increase in fares is the correct amount for IPART to recommend**

**Comments**        This summary was compiled from the individual returns from private ferry operators  
                                      What they completed follows, as do the notes for its completion

## 2002 Private Ferry Fares Review

### Proforma Input to CVA

1	2	3	4
Costs	Financial Year to June 2001	Each Cost's Increase on June 2002	Comments
Labour	XX %	YY %	
Fuel	XX %	YY %	
Repairs and maintenance	XX %	YY %	
Insurance	XX %	YY %	
Depreciation	XX %	YY %	
Interest	XX %	YY %	
Licensing fees	XX %	YY %	
Berthing/mooring fees	XX %	YY %	
Advertising	XX %	YY %	
Motor vehicle expenses	XX %	YY %	
Other	XX %	YY %	
Total %	100.00 %	----	
Total \$	\$xxx,xxx	----	

**Column 1** These are the individual cost items provided by IPART; Please conform to them if you can or add others if you wish

**Column 2** Next to each cost item here, put in the percentage it was of your total costs in the June 2001 year; for example, if you spent \$220,000 on fuel and you spent \$1,200,000 in total on all your costs, fuel's entry in Column 2 will be 18.3%

All these must, obviously, add to 100.00

At the bottom of the column, enter in \$ the total of your costs; 1 may need this amount when compiling the index if 1 have to weight it for company size

**Column 3** Estimate your total spend on each cost item for the financial year to June 2002

Next to each cost item put the increase for it expressed as a percentage; for example, if you expect to spend \$240,000 on fuel in the year ended June 2002, this is an increase of \$20,000 on last year's \$220,000 or 9.1%; enter 9.1 in Column 3 next to fuel

**Column 4** Add any comments on individual items you wish to here or add them on another piece of paper if you need more space

## Private Ferries' Fare Submission

### Increases per Expense Item

#### Average Increase per Item

#### Costs

Labour	11.20%
Fuel	3.37%
Repairs and maintenance	10.27%
Insurance	29.60%
Depreciation	11.69%
Interest	-6.52%
Licensing fees	3.66%
Berthing/mooring fees	5.90%
Advertising	40.87%
Motor vehicle expenses	0.28%
Other	8.23%

DCC April 16 2002

## Church Point Ferries

	<b>Financial Year to June 2001</b>	<b>Each Cost's Increase on June 2001</b>	<b>Total Cost (2 x 3)</b>
<b>Costs</b>			
Labour	56.45%	13.10%	7.40%
Fuel	6.90%	-2.14%	-0.15%
Repairs and maintenance	9.78%	8.07%	0.79%
Insurance	3.51%	52.51%	1.84%
Depreciation	5.11%	31.25%	1.60%
Interest	8.55%	-4.59%	-0.39%
Licensing fees	2.55%	3.39%	0.09%
Berthing/mooring fees			
Advertising	0.03%	233.33%	0.06%
Motor vehicle expenses	2.70%	0.60%	0.02%
Other	4.42%	2.94%	0.13%
<b>Total %</b>	100.00%		11.38%

## Clarence River Ferries

	<b>Financial Year to June 2001</b>	<b>Each Cost's Increase on June 2001</b>	<b>Total Cost Increase (2 x 3)</b>
<b>Costs</b>			
Labour	11.70%	5.90%	0.69%
Fuel	13.00%	19.20%	2.50%
Repairs and maintenance	30.90%	27.00%	8.34%
Insurance	8.50%	36.70%	3.12%
Depreciation	1.40%	-1.40%	-0.02%
Interest	0.50%	-28.00%	-0.14%
Licensing fees	6.60%	14.90%	0.98%
Berthing/mooring fees			
Advertising	4.80%	-29.00%	-1.39%
Motor vehicle expenses	11.70%	0.80%	0.09%
Other	10.90%	34.60%	3.77%
<b>Total %</b>	100.00%		17.95%

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**Palm Beach Ferry Service**

	<b>Financial Year to June 2001</b>	<b>Each Cost's Increase on June 2001</b>	<b>Total Cost Increase (2 x 3)</b>
<b>Costs</b>			
Labour	29.40%	28.40%	8.35%
Fuel	14.40%	0.00%	0.00%
Repairs and maintenance	9.10%	7.00%	0.64%
Insurance	3.80%	38.60%	1.47%
Depreciation	12.30%	28.60%	3.52%
Interest	5.50%	0.00%	0.00%
Licensing fees	0.90%	0.00%	0.00%
Berthing/mooring fees			
Advertising	1.80%	0.00%	0.00%
Motor vehicle expenses	2.00%	0.00%	0.00%
Other	20.80%	0.00%	0.00%
<b>Total %</b>	<b>100.00%</b>		<b>13.97%</b>

**Hegarty's Ferry Service**

	<b>Financial Year to June 2001</b>	<b>Each Cost's Increase on June 2001</b>	<b>Total Cost Increase (2 x 3)</b>
<b>Costs</b>			
Labour	55.70%	4.60%	2.56%
Fuel	10.40%	0.00%	0.00%
Repairs and maintenance	20.00%	6.50%	1.30%
Insurance	1.70%	20.00%	0.34%
Depreciation	1.60%	0.000/0	0.000/0
Interest	0.00%	0.00%	0.00%
Licensing fees	0.50%	0.00%	0.00%
Berthing/mooring fees	3.70%	10.00%	0.37%
Advertising	1.00%	0.00%	0.00%
Motor vehicle expenses	0.00%	0.00%	0.00%
Other	5.40%	3.50%	0.19%
<b>Total %</b>	<b>100.00%</b>		<b>4.76%</b>



## Matilda Cruises

	<b>Financial Year to June 2001</b>	<b>Each Cost's Increase on June 2001</b>	<b>Total Cost Increase (2 x 3)</b>
<b>Costs</b>			
Labour	41.70%	4.00%	1.67%
Fuel	24.80%	-0.20%	-0.05%
Repairs and maintenance	6.10%	2.80%	0.17%
Insurance	3.30%	0.20%	0.01%
Depreciation	5.30%	0.00%	0.00%
Interest	8.10%	0.00%	0.00%
Licensing fees	0.30%	0.00%	0.00%
Berthing/mooring fees	8.10%	1.80%	0.15%
Advertising	0.60%	0.00%	0.00%
Motor vehicle expenses	0.00%	0.00%	0.00%
Other	1.70%	0.10%	0.00%
<b>Total %</b>	100.00%		1.94%

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## Attachment III

### Matilda Cruises' Submission on the Issues

Matilda Cruises currently operates three ferry services governed by the Department of Transport (DoT). Two are contracted with the DoT under the provisions of the Passenger Transport Act 1990 and the third a 'Regular Ferry Service' has been granted and exemption from contract under authority of the Director General.

1. Contract 1: Darling Harbour - Circular Quay. (DoT contract no: F006)
2. Contract 2: Lane Cove - Circular Quay (DoT contract no: C1947)
3. Rg Service 1: Homebush – Darling Harbour (Regular Ferry Service)

Under the provisions of the Act, the DoT is required to fix a maximum fare scale for Matilda's ferry services and that the fares are to be based on comparable services after allowing for inflation. We have been requested to provide this document for submission to IPART for investigation into fare prices for private ferry services.

In previous years it has been outlined by Matilda and acknowledged by the DoT, Matilda's services are comparable to State Transit's inner harbour operation. In fact, in most cases that Matilda provides a superior level of service over weekends, public and school holidays. Matilda over the past 24 months have made considerable efforts in ensuring the improvement of its product by way of both presentation and performance. The current level of comparable services between Matilda and STA, most certainly, measure up.

Taking this into consideration acknowledges that fact Matilda would be entitled to any increases its comparable service provider has already received.

This year Matilda Cruises has submitted and Industry proforma cost base analysis for its NSW Ferry operations. This analysis highlights an increase in the total cost base for the current year 2002 by 8.7% as apposed to the 2001 v 2000 increase of 12.3%. Again however, it is our recommendation the DoT appertain more consideration to actual costs of providing these services rather than cost base increases. Detailed Profit & Loss reports were provided to the DoT for an examination of the underlining concern last year, which was that of return. Currently maximum fare price's is the only achievable avenue from where Matilda as an operator can better the return performance of its ferry operations. Fare price increases this year must acknowledge the

cost base increases over a number of previous years where it has been too little too late.

### **Future Contract Service - Cost of Capital**

Matilda critically evaluates all its capital expenditure based on cash flows discounted at its cost of capital. The cost of capital is a combination of the cost of debt and the cost of shareholder's funds which require a risk premium for shareholders to invest. All investments must exceed the cost of capital or it makes no economic sense to invest the funds. Continuing to depress fare increases on Matilda's ferry services is making financial assessment on new vessels particularly difficult. Not only now, but in the future when demand will dictate additional services.

### **Environmental Issues**

NSW has comprehensive environmental law that covers the operation of ferries and charter vessels in particular. NSW Waterways has the delegated responsibility of the EPA to police this Act on State waters. Matilda continues to operate and meet all legal requirements passed down by the Waterways authority and in doing so are completing all required of them with regard to the environment.

### **Government Funding**

Currently the DoT compensates Matilda for all concession class fare purchases. This allows the private operator, Matilda, to receive the required remuneration and also meets those social impact needs of a concession class individual. As a solution to granting Matilda substantial fare price increases, those needed to make economical viability, Government funding could be constructed to include normal class fares. Thus suiting social requirement by not altering the fare price, and compensating the private provider with subsidy payments ensuring they can deliver the services our public require.

### **Fare Price**

It has been best practise to round fares to the nearest whole dollar, as many passengers do not carry small coinage and its costly for the operator to collect. Coins are progressively disappearing from normal business transactions and this needs to be recognised in setting public transport fares.

In support of social impact on the increase fare price granted to Matilda, we advise no immediate fare changes will take place until 30 days after the new price is granted. During which time Matilda will display adequate signage informing of the price increase.

**In light of the above considerations, Matilda Cruises requests the below maximum fare price amounts for its services.**

Circular Quay - Darling Harbour (Single Journey)		
Adult	Child	Concession
\$5.00	\$2.50	\$2.50

Lane Cove - Circular Quay (Single Journey)		
Adult	Child	Concession
\$5.00	\$2.50	\$2.50

Homebush - Darling Harbour Zone 1 (Single Journey)		
Adult	Child	Concession
\$5.00	\$2.50	\$2.50

Homebush - Darling Harbour Zone 2 (Single Journey)		
Adult	Child	Concession
\$6.00	\$3.00	\$3.00

## Conclusion

It is important the DoT recognise Matilda Cruises performs a quality, efficient, safe and professional ferry service on behalf of the DoT. Its requests for fare price increases or alternatively government subsidy, are necessary for the continuing complete fulfilment of these contracts. Also we request the DoT make consideration for inflationary movement, comparable service provider increases and costs for operating such a service.

Please feel free to contact myself if you require further information and I look forward to an early positive response.