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Private Ferry Fares Submission to IPART 2007 (Revised)



Palm Beach Ferries

September 2007



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Helping operators
make more money

Advancing Tourism and the Environment

Introduction

The **CVA** makes this submission in support of a private ferry fare increase based on industry cost movements over the last nine months, to June 30, with a **further** three months data to be submitted in early October, making a total of 12 months' data, ie to the end of September.

PART has decided to retain the industry index of cost items used in recent years and also to hold constant the percentage each of the five items in the index, as decided by it last year. It has further decided to use inflators for each of these five that are **from** readily available, publicly published information rather than the industry specific inflators used in the past.

The industry is strongly opposed to both holding constant the make-up of the index and to the move away from industry inflators. Its position is explained in detail on the pages that follow. In summary, the rise in industry costs based on this approach compared with not holding the **items** constant and using industry inflators is

Cost rise IPART approach	0.52 percent
Cost rise industry approach	1.25 percent.

These percentages

are low because of the effect of a decline in fuel prices over the past nine months

show a large variation, the IPART approach producing an increase less than half that using industry data.

The submission also addresses labour productivity, as it has in the last two years when IPART has arbitrarily reduced the rise in costs by an assumed improvement in industry productivity.

In summary,

passengers carried compared to the year before	down
staff numbers compared to the year before	Same
labour productivity	reduced.

Once again, in this small industry, labour productivity has not improved so no discount of the cost increase is justified.

On the pages that follow, the make-up of the index and the inflators are discussed in some detail.



Discussion of the Cost Index and the Inflaters

Make-up of the Index

If IPART had adopted the approach of recent years, viz varying the make-up of the index based on the movement in the current year's costs as opposed to holding it constant for five years **from** 2006, the index would look like this.

Index Item	IPART Make-up (%)	Industry Make-up (%)
Insurance	5.64	4.22
Interest	4.08	3.16
Wages	40.32	44.37
Fuel	12.03	13.41
All other	37.93	34.63
Total	100.00	100.00

Clearly, ignoring the new **mix** of costs means that the resultant total costs increase will vary **from** the industry's actual experience in the last nine months and will vary adversely **if**, for example, there was a four percent increase in wages.

Index Inflatars

Insurance

The IPART proposal is to use the insurance content of the CPI. Naturally this inflator includes houses, house contents, motor vehicles, commercial buildings, plant and equipment and many other items. The total **amount** of the premiums for this range of items for all of Australia is approximately \$30,000 m pa (or five times the premiums written by Insurance Australia Group, say). The value of the industry's premiums is \$0.213 m pa or 0.00071 percent of that total. The CPI is not a relevant inflator.

The two important points that flow from this are

the industry cost rise is specific to the industry; it is provided by the biggest marine insurance broker in Australia and is specific to commercial **marine** insurance; the CPI data is absolutely non-specific

after several years of the industry specific increase being zero, this year it is 1.75 percent; this



amount is being denied to the industry as the CPI increase is zero.

Interest

The NAB figure for small business capital and working capital is relevant to small business borrowing. It both reflects the RBA global increases **from** time to time and the competition in the market place between lenders. The proposed IPART rate, the Swap Rate for Commonwealth Bonds, has nothing to do with small business other than it reflects the price of money in the market place for everyone. It is also more **difficult** to collect **as** it must be collected daily.

In addition, accessibility is a problem. The rate proposed by IPART is available in the Australian Financial Review each day, ie it must be recorded each day and a record maintained. **Our** advisor at the NAB says this:

"I guess I can see that they would be looking for the most transparent measure - something from the Reserve Bank or Government.

"Whilst yes, it doesn't take into account the true cost to businesses and probably doesn't make 'real world' sense - I can see how they would want something from an official body.

"**However**, the problem with using the Commonwealth Bond Rate (longer term bonds) or BBSW (Bank Bill Swap Rate for short term bills) is they both change daily - so this is not feasible for pricing reviews. I guess the question to them, is how do they access the 'Commonwealth Bond Bank Bill Swap Reference Rates' - as I see this reference to the BBSW -which is announced at 11am each day. There may be some other reference rate I am unaware of.

"My recommendation if they are looking for a transparent rate is the Reserve Bank Cash Rate - i.e. currently 6.50%, which is the rate referred to when RBA moves rates up and down. This is accessible via **RBA website**. Theoretically, the bank rates (i.e. NAB rates I have been quoting you) are based off this cash rate - the only difference being the bank margin (which due to competition is fairly standard). The relativity between RBA cash rate and bank lending rates should be pretty close."

The proposed rate and the NAB rate will result in these cost increases for the period:

Commonwealth Bond Bank Bill Swap Reference Rates	4.27 percent
industry rate	1.86 percent.

The difference in these rates is significant. **IPART's** rate is more than twice the industry rate.

So,

the industry's preferred position is to use the most relevant interest rate, eg a bank small business lending rate

if **IPART** wants to insist on the use of a "global" but less relevant rate, use the RBA cash rate (see above).



Wages

The industry has an award specific to it. The award applies to no other class of employee in Australia. It is absolutely relevant to the industry. PART, however, proposes to use the level of average weekly earnings (AWE) or the Wage Price Index (WPI) compiled by the ABS. These **are** clearly global, encompassing every employee in Australia from every industry and **from** every government, **all** 10.5 **mill** of them.

The award is varied by the Fair Pay Commission annually and the amount of the variation is published by them.

The consequences of using one or other of these approaches is:

Award	2.82 percent
AWE	2.80 percent.

It is not surprising that the two **are** so close as most employees are covered by wage arrangements that **are** determined by the Commission. However, relevancy is the main point.

Fuel

PART is keen to move to **FuelTrac from** the Mobil daily gate price. There **are** two important points about the consequences of doing this.

the former is not readily available to operators and the Association as it has to be purchased

the former is a monthly figure as opposed to a daily one with the consequence that the measure is less sensitive to in-month fluctuations.

The consequence of choosing the new inflator over the old one is

fuel increase from FuelTrac	-10.14 percent
fuel increase from Mobil	-3.14 percent.

This difference is large and is the main reason the result for an PART approach to this year's cost increase, as opposed to the industry's, is so much less.

All Other

The CPI, **IPART's** suggested approach as to how to adjust this item, is a very broad measure of costs, being basically all costs in the economy. It is made up of

Food
Alcohol and tobacco
Clothing and footwear
Housing
Household contents and services
Health
Transportation
Communication
Recreation
Education
Financial and insurance services.

Most of these are irrelevant to the "All Others" item in the cost **structure** of private ferries. The industry proposes that **IPART** should use the average of the increases for the other four items in the index.

The amount of the CPI increase since September 30 2006, to June 2007, is **1.16** percent according to **ABS 6401**, all capitals. This must be wrong as the RBA has clearly been concerned about inflation of late.

The average of the industry assessments of the four other items is 0.82 percent. Whilst this is less than the CPI, it is more relevant to the industry than is the CPI.



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Productivity

As explained in the Introduction, there has been no increase in labour productivity this year.

The number of employees this year is the same as last year, at 58.

Passenger numbers are down across the board, as follows:

Passengers (% growth year on year)									
		Ch P'nt	C Coast	P Beach	Cronulla	D Island	Matilda	CI River	Average
		0	0	-14	5	0	-10	10	-1
								Say	zero

Labour productivity has not grown and there is no justification for a discount to the cost based increase for a rise in productivity.



Issues Paper

This section specifically addresses the items in the Paper.

1-8	Bus issues
9	See page 3
10	See page 4
11	See page 5
12	See page 5
13	See page 5



Conclusion

The industry's key points in this year's submission are

the potential constraint on the cost increase outcome that results from holding the index make-up unchanged for five years

the change to "global" inflators that are irrelevant to the cost increases in the **industry**.

The industry urges IPART to return to the process that was used up until last year, ie the index adjusted each year by inflators relevant to the industry.



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Attachments

Industry analysis

Insurance

Interest

Wages

Fuel

All others

Productivity



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FERRY FARES ANALYSIS 2007

(Data for the period October 1 2006 to June 30 2007)

(Fuel Prices are at Net Price, ie Exclude the Excise)

2007

	Church Point	Central Coast	Palm Beach	Cronulla	Dangar Island	Matilda	Total	
Expense Item	%	%	%	%	%	%	%	
Insurance	5.15	8.26	3.47	5.00	6.88	4.00	4.53	212,963
Interest*	6.93	4.72	2.95	1.27	6.78	2.00	3.24	152,481
Wages	64.23	37.23	41.43	51.43	57.69	43.00	45.50	2,138,241
Fuel	9.78	12.26	14.22	5.27	4.18	21.00	13.75	646,226
All other	13.91	65.65	37.93	37.02	24.47	30.00	35.51	1,668,828
Total	100.00	4,818,740						

*Palm Beach cannot isolate their own interest from the corporate total; I have used an average of all the others

IPART and Industry Options Compared

Outcome Using Ferry Data 2007 to Complete the Estimate

Expense Item	Total		Based on Industry Sources		Based on IPART Sources	
	%	\$	% incr	Weighted %	% incr	Weighted %
Insurance	4.42	212,963	1.75	0.08	0.00	0.00
Interest	3.16	152,481	1.86	0.06	4.27	0.14
Wages	44.37	2,138,241	2.82	1.25	2.80	1.24
Fuel	13.41	646,226	-3.14	-0.42	-10.14	-1.36
All other	34.63	1,668,828	0.82 (Ind av)	0.28	1.16 (CPI)	0.40
Total	100.00	4,818,740		1.25		0.42
Top four items % of total	65					

Outcome Using IPART Weighted Index to Complete the Estimate

Expense Item	Total	Based on Industry Sources		Based on IPART Sources	
	%	% incr	Weighted %	% incr	Weighted %
Insurance	5.64	1.75	0.10	0.00	0.00
Interest	4.08	1.86	0.08	4.27	0.17
Wages	40.32	2.82	1.14	2.80	1.13
Fuel	12.03	-3.14	-0.38	-10.14	-1.22
All other	37.93	0.82 (Ind av)	0.31	1.16 (CPI)	0.44
Total	100.00		1.24		0.52
Top four items % of total	62				

Insurances 2006/07

Increase (%)

Ship owners 5.00

All others 0.00

Weighted increase (%)

Ship owners 35 % of total

Weighted increase 1.75

HISTORICAL RATES FOR BUSINESS LENDING:

Effective Date	Business Mortgage Overdraft	Business Mortgage Instalment Loan	Rate Code Increase percent		
	Rate Code B 0	Rate Code BT	BO	BT	
27-Mar-97	8.55%	8.00%			
30-Jun-97	8.20%	7.65%			
8-Sep-97	8.20%	7.65%			
29-Sep-97	7.70%	7.15%			
2-Mar-98	7.95%	7.40%			
24-Apr-98	7.95%	7.40%			
11-May-98	7.20%	6.80%			
3-Aug-98	7.20%	6.80%			
23-Sep-98	7.20%	6.80%			
7-Dec-98	6.95%	6.55%			
27-Apr-99	6.95%	6.55%			
8-Nov-99	7.20%	6.80%			
7-Feb-00	7.70%	7.30%			
6-Mar-00	7.80%	7.40%			
10-Apr-00	8.05%	7.65%			
8-May-00	8.30%	7.90%			
31-Jul-00	8.40%	8.00%			
7-Aug-00	8.65%	8.25%			
26-Feb-01	8.15%	7.75%			
19-Mar-01	7.90%	7.50%			
23-Apr-01	7.40%	7.00%			
18-Jun-01	7.40%	7.00%			
17-Sep-01	7.15%	6.75%			
29-Oct-01	7.15%	6.50%			
4-Feb-02	7.15%	6.30%			
13-May-02	7.40%	6.55%			
10-Jun-02	7.65%	6.80%			
29-Sep-03	7.65%	6.80%			
10-Nov-03	7.90%	7.05%			
8-Dec-03	8.15%	7.30%			
29-Nov-04	8.15%	7.30%			
7-Mar-05	8.40%	7.55%			
8-Jul-05	8.40%	7.55%			
24-Apr-06	8.40%	7.55%			
8-May-06	8.65%	7.80%			
7-Aug-06	8.90%	8.05% Rate Oct 1 06	8.90%	8.05%	
13-Nov-06	9.15%	8.30% Rate Jun 30 07	9.15%	8.30%	
13-Aug-07	9.40%	8.55% % increase	2.81%	3.11%	
		Average increase			2.96%
		Days applying (from Nov 13 06)			230
		Weighted Increase			1.86%

Wages 2006107

Based on
 the Marine Charter Vessel (State) Award
 for part time, full time, permanent employees
 wage increases awarded by the Fare Pay Commission

	Oct-01 2006	Dec-01 2006	Jun-30 2007	Increase	
				\$	%
GPH	522.70	550.06	550.56	27.86	5.33
Master less than 20 m length	581.90	609.26	609.26	27.36	4.70
Ratio of Masters to GPH's is 3:1					
Weighted increase %					4.86
Days applying (Dec 1 2006 - Sep 30 2007)					212
Weighted Increase for time applying (21U365 x increase)					2.82

DCC Aug 21 07

All Others Items

Operator ■

Repairs and maintenance
Depreciation
Licensing fees
Berthing/mooring fees
Advertising
Motor vehicle expenses
Acct Fee
Filing Fee
Power
Hire Transport
Postage/printing
Rent/Rates
Memberships
Phone
Uniforms

Operator 2

Advertising
Accounting
Bank fees
Boat expenses
 Maintenance
 Mooring fees
 Survey
 Lease
Motor vehicle
Office expenses
Telephone
Travel
Utilities

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