

Cost recovery

Draft Information Paper 12

Introduction and key findings

In line with our legislative requirements and assessment criteria for this review, we considered the cost of providing public transport services, the need for greater efficiency in the supply of these services, and the objective to increase (or at least maintain) fare revenues or cost recovery. We found across all models:

- ▼ The forecast cost of providing public transport in 2015-16 is \$5.5 billion, and this cost is forecast to increase to \$6.4 billion in 2018-19 (the last year of the determination period). The efficient cost is less – \$4.8 billion in 2015-16, rising to \$5.6 billion in 2018-19.
- ▼ Fare revenue recovered 20.8% of the forecast cost in 2015/16, and 23.8% of the efficient cost.
- ▼ Under our draft determination, cost recovery will be largely the same – increasing slightly from 22.0% to 23.1% over the determination period.
- ▼ If fares remain the same (other than for CPI increases), cost recovery would be 1.1% lower by the end of the determination period.

The following slides provide an overview of our cost recovery approach and calculations, then detail the inputs we used to determine forecast efficient cost of providing public transport services over the determination period.

Approach for calculating costs and cost recovery

- ▼ We calculated forecast costs in 2015-16 to 2018-19 for each mode using a building block model, consistent with our standard approach:
 - ▼ We used TfNSW's forecast operating or contract costs, disposals, indexation, plus return on and of capital, and allowance for tax calculated in accordance with our standard method.
- ▼ We engaged CIE to review the efficiency of operating costs for all modes. We accepted its findings that inefficiency adds around \$859 million (\$2014-15) to costs between 2014-15 and 2018-19. We determined forecast efficient operating costs based on a transition path to CIE's recommended efficient operating costs in 2018-19.
- ▼ We did not review the efficiency of capital expenditure, as we consider decisions about capital expenditure are a matter of Government policy. We know they are based on the business case at a point in time. Procurement of works is subject to the NSW Government Procurement Policy Framework 2015.
- ▼ We calculated fare revenue by multiplying patronage by ticket prices or notional price equivalent (in the case of multi-mode tickets).

Currently, fare revenue recovers 20.8% of the actual costs of providing public transport

Forecast costs, fare revenue and cost recovery, 2015-16 (\$m, \$2015-16)

	Sydney Trains & NSW Trains	All metro and outer metro buses	Ferries	Light rail	Total/ Weighted average
Actual costs	3,824.1	1,512.0	146.8	45.7	5,528.6
Fare revenue	712.3	362.5	45.5	12.1	1,132.3
Cost recovery (%)	19.1%	24.1%	31.3%	26.7%	20.8%

- ▼ Actual costs are net of other revenue earned for commercial activities such as advertising and charter services
- ▼ Revenue is actual farebox and does not include notional CSOs for concession and free trips
- ▼ Revenue for multi-mode tickets is allocated to each mode on the basis of the estimated number of trips taken on that mode per ticket, rather than the organisation from which the ticket was purchased

When inefficient costs are removed, current cost recovery is 23.8%

Efficient costs, actual fare revenue and cost recovery, 2015-16 (\$m, \$2015-16)

	Sydney Trains & NSW Trains	All metro and outer metro buses	Ferries	Light rail	Total/ Weighted average
Efficient costs	3,396.2	1,256.3	140.6	45.7	4,838.8
Fare revenue	728.8	363.8	45.9	12.2	1,150.7
Cost recovery (%)	21.5%	29.0%	32.6%	26.7%	23.8%

- ▼ These costs reflect CIE's recommended efficiency savings.

Under our Draft Determination, forecast efficient cost recovery is around 22.6%

Net efficient costs recovered through draft fares (%)

Mode	2016-17	2017-18	2018-19	Weighted average
Rail	19.3%	19.7%	20.3%	19.8%
Bus	28.7%	29.7%	29.6%	29.3%
Ferry	32.7%	32.2%	34.0%	32.9%
Light rail	25.1%	27.2%	35.4%	31.5%
Weighted average	22.0%	22.5%	23.1%	22.6%

- ▼ These figures include the effects of anticipated changes in demand in response to changes in prices. Without demand changes, cost recovery would be 0.5% higher.
- ▼ Average cost recovery would be around 2.8% lower if there was no change to existing fares.
- ▼ Cost recovery declines slightly at the start of the determination period because:
 - ▼ the costs of building the South-West rail link are rolled into the asset base in 2014-15
 - ▼ the weighted average cost of capital used to calculate the regulated return on capital for rail has increased from 4.4% in the last determination to 5.5%.

Rail – forecast operating costs

Forecast operating costs, total and efficient (\$m 2015-16)

	2015-16	2016-17	2017-18	2018-19
Sydney Trains and NSW Trains	2,187.5	2,218.2	2,244.0	2,311.7
TfNSW opex	238.7	222.2	209.0	205.0
Total opex	2,426.1	2,440.4	2,453.0	2,516.7
Total efficient opex	1,997.6	1,997.5	1,997.5	1,997.6

- ▼ Efficient operating costs assume:
 - ▼ a transition to -21.6% below 2018-19 forecasts for Sydney Trains and NSW Trains costs
 - ▼ a transition to a lower 'steady state' expenditure in TfNSW's ticketing costs.

Rail – RAB used to determine return on assets and depreciation allowances

Sydney Trains and NSW Trains RAB roll forward to 30 June 2019 (\$m, 2015-16)

	Historic (\$m, nominal)			Forecast (\$m, 2015-16)			
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Opening balance	12,486.9	14,824.3	17,523.7	19,346.9	20,119.7	20,345.9	24,108.6
Capex	2,423.9	2,918.3	2,080.0	1,510.3	1,008.7	4,593.2	2,467.1
Disposals	-	1.5	12.3	-	-	-	-
Depreciation	468.6	564.7	665.3	737.5	782.5	830.5	885.3
Indexation	383.5	358.1	408.4	-	-	-	-
Closing balance	14,824.3	17,523.7	19,346.9	20,119.7	20,345.9	24,108.6	25,690.4

Rail – asset lives used to determine depreciation allowance

Expected economic and remaining lives of assets (years)

	Remaining life	Expected life
Initial Capital Base (ICB)	19.1	n/a
Total projects	94.2	100.0
TfNSW minor works and other	37.7	40.0
Plant and equipment	6.1	10.0
Buildings	49.5	54.0
Rolling stock	31.4	35.0
Infrastructure	33.2	38.0
Enterprise asset management (EAM)	9.2	10.0
TfNSW and RMS short-lived (IT, ticketing)	8.5	10.0

Bus – forecast operating costs

STA and other bus regions forecast operating costs, total and efficient (\$m, 2015-16)

	2015-16	2016-17	2017-18	2018-19
STA	626.2	626.4	626.9	631.7
Other metro and outer metro	681.7	690.1	692.3	694.2
TfNSW and RMS opex	122.3	112.7	105.1	103.3
Total opex	1,430.3	1,429.2	1,424.3	1,429.2
Total efficient opex	1,174.1	1,188.8	1,200.3	1,182.3

- ▼ Efficient operating costs assumes a transition to -19.8% below 2018-19 forecasts for STA and -9.8% below 2018-19 forecasts for outer metro

Bus – RAB used to determine return on assets and depreciation allowances

STA RAB roll forward to 30 June 2019 (\$m, 2015-16)

	2013-14 (nominal)	2014-15 (nominal)	2015-16	2016-17	2017-18	2018-19
Opening balance	220.4	465.9	602.8	696.0	711.1	715.0
Capex	251.2	152.0	114.1	55.4	47.0	39.0
Disposals	-	-	-	-	-	-
Depreciation	15.5	27.0	35.4	40.3	43.1	45.4
Indexation	9.7	11.9	14.5	-	-	-
Closing balance	465.9	602.8	696.0	711.1	715.0	708.6

Metro and outer metro bus regions RAB roll forward to 30 June 2019 (\$m, 2015-16)

	2014-15 (nominal)	2015-16	2016-17	2017-18	2018-19
Opening balance	68.0	103.9	161.8	204.0	238.0
Capex	39.3	61.7	51.4	45.6	43.4
Disposals	-	-	-	-	-
Depreciation	5.3	6.8	9.2	11.5	13.8
Indexation	1.9	3.0	-	-	-
Closing balance	103.9	161.8	204.0	238.0	267.7

Bus – asset lives used to determine depreciation allowance

Expected economic and remaining lives of bus assets (years)

	Remaining life	Expected life
Buildings & improvements	na	22.0
Bus depots & other works	37.9	40.0
RMS bus priority measures	15.8	20.0
Growth buses funded by TfNSW	17.0	18.0
Inner West busway	70.0	75.0
TfNSW other projects and minor works	38.1	40.0
Other non-current	na	11.6
TfNSW Ticketing, IT & customer experience etc	8.3	10.0

Ferry – forecast operating costs

Forecast operating costs, total and efficient (\$m, 2015-16)

	2015-16	2016-17	2017-18	2018-19
Total efficient opex	108.3	103.5	103.5	102.0

Ferry – RAB used to determine return on assets and depreciation allowances

Sydney Ferries RAB roll forward to 30 June 2019 (\$m, 2015-16)

	Historic (\$m, nominal)			Forecast (\$m, 2015-16)			
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Opening balance	131.1	146.9	155.3	201.3	248.1	302.9	331.7
Capex	27.5	22.8	64.4	66.0	81.1	60.5	39.3
Disposals	-	-	-	-	-	-	2.7
Depreciation	15.4	18.9	22.5	24.4	26.2	31.8	28.0
Indexation	3.8	4.4	4.1	5.2	-	-	-
Closing balance	146.9	155.3	201.3	248.1	302.9	331.7	340.3

Ferry – asset lives used to determine depreciation allowance

Expected economic and remaining lives of ferry assets (years)

	Remaining life	Expected life
Ferries	6.1	15.0
Buildings and improvements	15.4	40.0
Plant and equipment	2.3	11.5
SF wharf improvements	15.0	40.0
RMS commuter wharf upgrade program & Barangaroo ferry hub	37.9	40.0
Other non-current assets/WIP	15.0	20.0
TfNSW other projects	37.3	40.0
MPM (major periodic maintenance)	2.1	3.5
TfNSW Ticketing, IT & customer experience etc	7.9	10.0

Light rail – forecast operating costs

Total efficient operating costs (\$m, 2015-16)

	2015-16	2016-17	2017-18	2018-19
Total efficient opex	16.8	16.7	16.7	43.4

- ▼ Operating costs increase significantly in 2018-19 due to the expected commencement of the CBD and South-East light rail extension

Light rail – RAB used to determine return on assets and depreciation allowances

Light rail RAB roll forward to 30 June 2019 (\$m, 2015-16)

	2015-16	2016-17	2017-18	2018-19
Opening balance	354.2	353.1	342.1	330.9
Capex	2.6	0.7	0.5	1,870.5
Disposals	-	-	-	-
Depreciation	11.6	11.7	11.7	25.1
Indexation	7.8	-	-	-
Closing balance	353.1	342.1	330.9	2,176.3

- ▼ Light rail capital costs increase significantly in 2018-19 when the CBD and south east extension opens

Light rail – asset lives used to determine depreciation allowance

Expected economic and remaining lives of light rail assets (years)

	Remaining life	Expected life
Project - rail extension	na	66.0
Civil work, track, structures and stabling yard	62.0	70.0
Power and OHW	25.0	30.0
Stops	44.0	50.0
Plant and equipment & other	10.0	13.0
Rolling stock	27.0	30.0
TfNSW other projects and minor works	38.5	40.0
Systems (signalling, ATP, SCADA)	14.6	15.0
Ticketing, shared services, IT & customer experience	4.0	10.0