

Cost recovery

Final Report – Information Paper 2

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 efficient cost of providing public transport in 2015-16 is \$4.8 billion, rising to \$5.6 billion in 2018-19.
- ▼ Fare revenue is forecast to recover 25% of the efficient costs in 2015/16. However, because not all of the costs of providing public transport are efficient, actual cost recovery for 2015/16 would be 22%.
- ▼ Under our recommended fares, recovery of efficient costs will decline slightly - from 25% to 24% over the determination period.
- ▼ If fares remain the same (other than for CPI increases), cost recovery would be 1.3% 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 forecast efficient cost of providing public transport services over the determination period.

Approach for calculating costs

- ▼ 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 subtracted operating inefficiencies from actual forecast costs to establish efficient costs.
- ▼ We did not review the efficiency of capital expenditure, as we consider decisions about capital expenditure are a matter of Government policy. Procurement of works is subject to the NSW Government Procurement Policy Framework 2015.

Currently, fare revenue recovers 22% 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
Revenue from fares	762.2	372.2	47.3	12.1	1,193.8
Actual costs	3,820.8	1,512.0	146.2	45.5	5,524.5
Actual cost recovery (%) from fares	20%	25%	32%	27%	22%

- ▼ Actual costs are net of other revenue earned for commercial activities such as advertising and charter services
- ▼ Revenue is farebox only and does not include notional CSOs for concession and free trips

When inefficient costs are removed, current cost recovery is 25%

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
Revenue from fares	762.2	372.2	47.3	12.1	1,193.8
Efficient costs	3,392.8	1,256.2	140.1	45.5	4,834.7
Efficient cost recovery from fares (%)	22%	30%	34%	27%	25%

These costs reflect CIE's recommended efficiency savings.

By 2018-19, cost recovery would be 24%

Net efficient costs recovered through recommended fares (%)

	Rail	Bus	Ferry	Light Rail	Weighted average
2016-17	20.2%	30.5%	34.2%	25.5%	23.2%
2017-18	20.6%	31.3%	33.2%	27.4%	23.6%
2018-19	21.2%	31.0%	34.6%	32.8%	24.1%

- ▼ These figures include the effects of anticipated changes in demand in response to changes in prices. Without demand changes, cost recovery would be 0.3% higher in 2018-19.
- ▼ If fares remain the same (other than for CPI increases), cost recovery would be 1.3% lower by 2018-19.
- ▼ Cost recovery would decline 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 2012 determination to 5.5% for the 2016 determination period (see Information Paper 10).

Rail – forecast operating costs

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

	2015-16	2016-17	2017-18	2018-19
Total efficient opex	1,997.6	1,997.5	1,997.5	1,997.6

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

Sydney Trains and NSW Trains RAB roll forward to 30 June 2019

	Historic (\$m, nominal)			Forecast (\$m, 2015-16)			
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Opening value	10,469.1	12,486.9	14,824.3	17,522.2	19,255.6	20,031.5	20,260.8
capex	2,096.6	2,423.9	2,916.7	2,080.0	1,510.2	1,008.6	4,587.6
disposals	-	1.5	12.3	-	-	-	-
depreciation	378.3	468.6	564.7	662.0	734.3	779.3	827.3
indexation	299.5	383.5	358.1	315.6	-	-	-
Closing value	12,486.9	14,824.3	17,522.2	19,255.6	20,031.5	20,260.8	24,021.2

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	1,183.3

- ▼ Efficient operating costs assumes a transition to -19.8% below 2018-19 forecasts for STA and -9.9% below 2018-19 forecasts for outer metro

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

Bus RAB roll forward to 30 June 2019

	Historic (\$m, nominal)		Forecast (\$m, 2015-16)			
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
STA metro						
Opening value	220.4	465.9	602.8	692.9	708.1	712.2
capex	251.2	152.0	114.1	55.4	47.0	39.0
disposals	-	-	-	-	-	-
depreciation	15.5	27.0	35.2	40.2	42.9	45.2
indexation	9.7	11.9	11.2	-	-	-
Closing value	465.9	602.8	692.9	708.1	712.2	705.9
Other metro and outer metro bus region						
Opening value		68.0	103.9	161.1	203.4	237.5
capex		39.3	61.7	51.4	45.6	43.4
disposals		-	-	-	-	-
depreciation		5.3	6.8	9.1	11.5	13.7
indexation		1.9	2.3	-	-	-
Closing value		103.9	161.1	203.4	237.5	267.2

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

	2015-16	2016-17	2017-18	2018-19
Total efficient opex	103.9	103.6	103.3	103.0

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	246.7	301.3	329.9
capex	27.5	22.8	64.4	65.7	80.7	60.2	39.1
disposals	-	-	-	0.0	0.0	0.0	2.7
depreciation	15.4	18.9	22.5	24.3	26.1	31.6	27.8
indexation	3.8	4.4	4.1	4.0	0.0	0.0	0.0
Closing balance	146.9	155.3	201.3	246.7	301.3	329.9	338.5

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	17.1	17.0	17.0	44.2

- ▼ 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 value	354.2	351.3	340.4	329.3
capex	2.6	0.7	0.5	1,866.4
disposals	-	-	-	-
depreciation	11.5	11.6	11.6	25.0
indexation	6.0	-	-	-
Closing value	351.3	340.4	329.3	2,170.8

- ▼ 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