

**Report on the Determination of
Fares for Sydney Ferries**

From 12 December 2004

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES**

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Determination 3, 2004

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1 INTRODUCTION

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) has completed its 2004 review of fares for Sydney Ferries. Based on this review, the Tribunal has determined the maximum fares that Sydney Ferries can charge for public transport services from 12 December 2004.

1.1 Overview of determination

The Tribunal has determined that Sydney Ferries may increase all ticket types except TravelPass products by an average of 5.0 per cent. It may not increase TravelPass products (including DayTripper tickets) at all this year, after several years of sizeable increases. The average rise in Sydney Ferries' fares overall will therefore not exceed 4.2 per cent.

In reaching these decisions, the Tribunal was guided by the requirements set out in the *Independent Pricing and Regulatory Tribunal Act 1992*. It had regard to each of the factors listed in section 15 of the Act (see Appendix 1), and it is satisfied that its determination achieves a reasonable balance between them. It also took into account a letter from the Premier dated 18 May 2004 (see Appendix 2), which asked it to consider a range of matters raised in the 2003 Ministerial Inquiry into Sustainable Transport¹ as part of its fare review.

Sydney Ferries proposed a 9 per cent fare increase, but the Tribunal found that this level of increase could not be justified, as it could not be clearly related to recent increases in its efficient costs, or to a clearly defined business plan that detailed proposed service improvements and their associated costs. However, it considered that an increase above the CPI was warranted in recognition of the fact that Sydney Ferries has incurred extra expenditure in implementing the recommendations of the 2001 review of the safety of its operations (the Taylor Report²) and its low level of cost recovery.

The Tribunal's determination aims to balance the competing concerns of Sydney Ferries and its customers. In particular, its pricing decisions should prevent a further decline in the cost recovery ratio without placing excessive financial pressure on passengers. In addition, the determined average maximum fare increase of 4.2 per cent is unlikely to cause any major passenger shift from ferries to buses or cars (where the latter in particular would have adverse consequences for traffic congestion, pollution and greenhouse gas emissions).

The Tribunal is concerned about the efficiency with which Sydney Ferries delivers its services and its performance measurement criteria and reporting processes. It intends to consider these matters in detail as part of next year's fare review, and expects Sydney Ferries to address them in its submission to that review.

¹ Widely known as the Parry Report.

² Following incidents involving Sydney Ferries' vessels, the Minister for Transport directed that an independent review into the operations of Sydney Ferries be carried out by the Chief Executive of the Waterways Authority, Mr Matthew Taylor, in 2001. Waterways engaged consultants Fellows Medlock & Associates to prepare a report and make recommendations. In November 2003, Fellows Medlock & Associates were engaged to review the progress made in implementing the recommendations.

1.2 Structure of report

This report explains the Tribunal's determination in detail, including why it reached its decisions and what those decisions mean for Sydney Ferries, its passengers, the community in general and the environment. It is structured as follows:

- Chapter 2 outlines the review and decision-making process the Tribunal used to reach its decisions
- Chapter 3 provides a summary of submissions made by Sydney Ferries and other stakeholders
- Chapters 4 to 7 discuss key matters the Tribunal considered in making its determination, including safety and service quality; Sydney Ferries' revenues, costs and cost recovery trends; and the implications of its decisions for Sydney Ferries, its passengers, the environment and Government funding
- Chapter 8 provides a full summary of the new maximum fares arising from this determination
- Chapter 9 outlines the areas that the Tribunal expects Sydney Ferries to address in its next submission to the next fare review in 2005.

2 TRIBUNAL'S REVIEW AND DECISION-MAKING PROCESS

The Tribunal has made this price determination in accordance with Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). The scope of the determination, and the process the Tribunal followed in undertaking the review and reaching its decisions are outlined below.

2.1 Scope

The Tribunal's role in regulating Sydney Ferries is to set the **maximum fares** that it can charge for public transport services. Because the Tribunal regulates Government monopoly services only, its price determinations for Sydney Ferries explicitly exclude any services that are deemed to fall outside the definition of a Government monopoly service, such as cruises and charters.

At present, Sydney Ferries' half-fare concession prices change automatically, in line with changes to full-fare prices unless the Government alters the half-fare relationship to the full fares determined by the Tribunal. However, the Tribunal does not set the State Government's social benefit policy. Therefore, any changes to that policy that affect fares or concessions granted to pensioners, children and students are matters for the Government.

As in previous determinations, this determination includes a full schedule of maximum full-fares and corresponding concession fares for regulated Sydney Ferries services.

2.2 Review process

The Tribunal's review process included undertaking its own research and analysis, and conducting public consultation. As part of this process, the Tribunal:

- invited Sydney Ferries and other interested parties to submit their views, and received 12 written responses (Appendix 4 lists the respondents)
- requested and received detailed financial data from Sydney Ferries
- held a public hearing on 30 September 2004 and invited some of the parties who submitted written responses to participate in a round-table discussion of issues at the hearing (Appendix 4 lists the participants and observers).

In addition, the Tribunal explicitly considered all the matters outlined in section 15 of the IPART Act. These matters, which are listed in full in Appendix 1, relate to:

- **consumer protection**—protecting consumers from abuses of monopoly power; standards of quality, reliability and safety of the services concerned; social impact of decisions; effect on inflation
- **economic efficiency**—greater efficiency in the supply of services; the need to promote competition; effect of functions being carried out by another body
- **financial viability**—rate of return on public sector assets including dividend requirements; impact on pricing of borrowing, capital and dividend requirements of agencies
- **environmental protection**—promotion of ecologically sustainable development via appropriate pricing policies; considerations of demand management and least-cost planning.

It also considered each of the issues raised in the Premier's letter dated 18 May 2004 (Appendix 2) including:

- making determinations based on 5-year price paths
- providing fare increases that reflect the rise in the Consumer Price Index (CPI) as long as the agency involved had made efficiency gains
- providing fare increases above the CPI if agencies could demonstrate improvements in service quality that were linked to specific initiatives.

Finally, it considered the information and analysis it obtained through its investigation and public consultation.

2.3 Decision making

In reaching its decisions on fares, the Tribunal had to weigh the relative interests of public transport stakeholders. For example, public transport passengers seek affordable public transport and ongoing improvements in service quality. Sydney Ferries, as a public transport agency, seeks prices that will provide a suitable level of cost recovery and the ability to enhance services. The general community seeks to minimise the public subsidy of public transport and to maximise the benefits of these services to the environment and the economy.

The diversity of these interests and concerns required the Tribunal to trade-off passenger affordability concerns, service quality expectations and social and environmental benefits against the financial viability of Sydney Ferries and public funding requirements.

The Tribunal's consideration of the matters listed in section 15 of the IPART Act is discussed throughout the report. Appendix 1 indicates where each matter is discussed in the body of the report. Further information relating to the Tribunal's review, including copies of all submissions, can be found on the Tribunal website: www.ipart.nsw.gov.au.

3 SUMMARY OF SUBMISSIONS

The Tribunal received and considered submissions from Sydney Ferries and other stakeholders as part of its review. The main matters explored in these submissions are summarised below.

3.1 Sydney Ferries submission

Sydney Ferries was established as a State Owned Corporation, independent of the State Transit Authority (STA), on 1 July 2004. The stated aim of its establishment is to achieve service and operational improvements and greater transparency and accountability. The Sydney Ferries submission to the Tribunal was the first by the new corporation. It sought a 9 per cent fare rise on the following grounds:

- the continuing decline in its level of cost recovery
- improved customer service
- passenger affordability
- the magnitude of the general government subsidy it receives relative to CityRail and STA.

3.1.1 Sydney Ferries sought a 9 per cent fare rise

Sydney Ferries sought a 9 per cent fare rise for 2004/05. In support of this request, it cited the 2003 Ministerial Inquiry into Sustainable Transport and argued:

Overall, the inquiry found that by international standards, public transport fares in Sydney were cheap, there were high levels of government subsidies and cost recovery levels were worsening. It concluded that this was not sustainable and that there was a strong case for users to contribute a greater share, linked to improvements in service quality. It also concluded that agencies could contribute to improving the financial position through improving operating efficiency and lowering costs. It recommended that the Tribunal should set fares over say a five-year price path. Of direct relevance to Sydney Ferries, it concluded that ferry services generally were costly in terms of government support [and that] modest real fare increases were warranted.³

Sydney Ferries also asserted that a 9 per cent fare increase would ensure that it could continue to provide a “financially sustainable, safe and reliable service” which patronage growth and reform of the business alone would be unable to provide.

The Tribunal notes that Sydney Ferries did not provide specific justification for a 9 per cent rise. At the public hearing, the Sydney Ferries stated:

Why 9 per cent? There is not a magic formula that says 9 per cent is the right answer. It certainly needs to be more than CPI in our view. There is a level at which it is clearly unaffordable. How you strike that balance is a difficult question.⁴

³ Sydney Ferries submission, p 12.

⁴ Transcript of public hearing, p 12, lines 23-27.

Sydney Ferries argued that CPI alone would be inadequate compensation:

...every business is unique but there have been cost increases that the ferries have borne which have been above CPI and fuel is the best example. We are aware that currently, as most of the community is aware, in the last month our fuel prices have gone up something like 4 or 5 cents a litre in one month. That has been a trend over time, so one of our issues is, and we made the point in the submission, that the CPI is a very broad-based measure of consumer spending. What Sydney Ferries spends its money on, and ferry services generally, is fuel and labour and ferry parts and so on, and that is a different basket of goods and that has been increasing at a faster rate than the general CPI and not offset by efficiencies.⁵

3.1.2 Level of cost recovery

Sydney Ferries argued that the continuing decline in its level of cost recovery indicated that a fare increase of 9 per cent is justified. It pointed out that it received around \$42m through its farebox in 2003/04, but incurred costs of close to \$100m (Table 3.1). When combined with money received from Government for carrying passengers at concessional rates, the revenue from fares represented just over 50 per cent of costs. Sydney Ferries also provided information to show that it had experienced sharp and sustained declines in cost recovery from 2001/02 onwards (Table 3.2).⁶

Table 3.1 Sydney Ferries revenue and expenses in 2003/04

Preliminary 2003/04	\$million
Farebox	42.0
Government concessions	9.3
Government CSOs	19.1
Other revenue	1.2
Total Revenue	71.6
Payroll	47.6
Fuel	4.3
Fleet running and maintenance	12.2
Depreciation	14.4
Other expenses	15.2
Interest	5.8
Total Expenses	99.5
Operating Loss	27.9

Source: Sydney Ferries submission, p 8.

Table 3.2 Sydney Ferries cost recovery ratio

1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
68.5%	63.0%	63.5%	67.7%	54.1%	47.5%	52.8%

Source: Sydney Ferries submission, p 7.

⁵ Transcript of public hearing p 11, lines 5-18.

⁶ Sydney Ferries has adopted the Tribunal's measure of revenue in the numerator of its cost recovery calculations in Table 3.2. For 2003/04, that includes \$9.3m of reimbursements from Government for passengers carried at concessional rates. This lifts cost recovery to just above 50 per cent, not the 42 per cent that might be inferred from looking at farebox revenue alone.

3.1.3 Customer service and passenger affordability

Sydney Ferries argued that a 9 per cent fare increase is warranted on the grounds of its improved customer service levels and passenger affordability. In relation to its customer service levels, it included in its submission performance statistics that showed that less than two per cent of its ferries failed to run on time and less than one per cent of its timetabled services did not run.

It also cited results of an independent survey undertaken in 2003 that asked 500 passengers to rate aspects of Sydney Ferries services out of 10. Sydney Ferries asserted that this survey found that customer satisfaction was high, ranging from 7.13 on the issue of 'timetables meeting needs' to 8.39 for 'running on time'. It claimed that in terms of overall customer satisfaction, it was ranked in the top 31 per cent of companies and the top 27 per cent of government bodies.

At the public hearing, it pointed out that it had improved services to customers by:

- increasing services up the Parramatta River, with more stops
- increasing the frequency of some of the Eastern Suburbs runs
- introducing a new service to King Street wharf at Darling Harbour.

This year, few submissions to the Tribunal made negative comment on the service quality of Sydney Ferries.

New accreditations gained by Sydney Ferries indicate that safety is improving. It is now accredited to an internationally recognised quality management system⁷ and the International Safety Management Code⁸.

In relation to passenger affordability, Sydney Ferries argued that ferry passengers' current incomes suggest that they could afford a 9 per cent rise. The personal and household incomes of its resident ferry passengers are, on average, well above the incomes of other Sydney residents (and public transport users).⁹ It also claimed that patronage growth was not likely to be affected by such a fare increase, as it had not been affected by the 7.5 per cent increase the Tribunal determined last year.

3.1.4 Magnitude of Government subsidy to Sydney Ferries

Finally, Sydney Ferries argued that a 9 per cent fare increase was justified due to the much greater size of the government subsidy it receives, relative to that received by other NSW public transport service providers such as Sydney Buses and CityRail. According to its calculations, Sydney Ferries received a subsidy of 24 cents per kilometre in 2004/05. The Ministerial Inquiry reported subsidies of 7 cents per kilometre and 20 cents per kilometre for Sydney Buses and CityRail respectively.

⁷ STA gained internationally recognised certification for its customer service delivery. The certification (ISO 9001:2000) is achieved through an independent audit, and recognised by Standards Australia.

⁸ Recognised by the International Maritime Organisation.

⁹ The Tribunal's 2003/04 determination included similar data. Updated data are in chapter 7 of this report.

At the public hearing, Sydney Ferries pointed out that the amount of public funding it receives had increased significantly for 2004/05. The general support of Government rose from \$18-\$19m in 2003/04 to \$33m.¹⁰

In addition, Sydney Ferries argued that the 9 per cent fare increase it sought for 2004/05 should be seen as an interim increase pending it developing a case for a 5-year price path. It intends to submit such a case at next year's fare review. It also acknowledged that, even with a 9 per cent fare rise, it needed to grow its business and improve efficiency through reform of its cost structure.

3.2 Other stakeholders' submissions

3.2.1 Action for Public Transport

Submissions by Action for Public Transport (APT) argued for no change in the ferry singles because the prices of these fares are high relative to bus and train fares for the same distances. It also argued that the case for a large fare rise was weak because all ferry product prices have risen rapidly over the previous eight years, except for the DayTripper ticket, which remains cheap relative to its alternatives.

In relation to this argument the Tribunal notes that the actual rise in ticket prices should be considered net of GST from the point of view of Sydney Ferries and inclusive of GST from the point of view of the passenger. To make the difference explicit, it has calculated percentage changes in both sets of prices from 1995/96 to 2003/04 (Table 3.3). This analysis shows that ferry fare rises have been sizeable, with rises in singles and TravelPasses being less than those for FerryTens.

Table 3.3 Changes in Sydney Ferries ticket prices net of, and inclusive of, GST

	1995/96	2003/04 net of GST	% ch 8 yrs to 03/04	% p.a.	2003/04 incl. GST	% ch 8 yrs to 03/04	% p.a.
Single Ride Fares							
INNER ZONE 1	\$2.80	\$4.09	46.1	4.9%	\$4.50	60.7	6.1%
MANLY	\$3.60	\$5.27	46.5	4.9%	\$5.80	61.1	6.1%
PARRAMATTA	\$4.20	\$6.36	51.5	5.3%	\$7.00	66.7	6.6%
RYDLEMERE	\$3.60	\$5.27	46.5	4.9%	\$5.80	61.1	6.1%
JETCAT	\$4.80	\$6.82	42.0	4.5%	\$7.50	56.3	5.7%
TravelTen							
INNER ZONE 1	\$16.40	\$25.91	58.0	5.9%	\$28.50	73.8	7.2%
MANLY	\$24.60	\$39.00	58.5	5.9%	\$42.90	74.4	7.2%
PARRAMATTA	\$29.00	\$44.82	54.5	5.6%	\$49.30	70.0	6.9%
RYDLEMERE	\$24.60	\$39.00	58.5	5.9%	\$42.90	74.4	7.2%
JETCAT	\$39.60	\$56.82	43.5	4.6%	\$62.50	57.8	5.9%
TravelPass - Bus and Ferry							
Blue	\$17.10	\$26.36	54.2	5.6%	\$29.00	69.6	6.8%
Orange	\$23.30	\$32.73	40.5	4.3%	\$36.00	54.5	5.6%
2 Zone	\$17.20	\$26.36	53.3	5.5%	\$29.00	68.6	6.7%
Pittwater	\$34.30	\$44.55	29.9	3.3%	\$49.00	42.9	4.6%
TravelPass - Bus, Ferry and Rail							
Red	\$20.00	\$29.09	45.5	4.8%	\$32.00	60.0	6.1%
Green	\$26.00	\$36.36	39.9	4.3%	\$40.00	53.8	5.5%
Yellow	\$30.00	\$40.00	33.3	3.7%	\$44.00	46.7	4.9%
Pink	\$33.00	\$42.73	29.5	3.3%	\$47.00	42.4	4.5%
Brown	\$38.00	\$49.09	29.2	3.3%	\$54.00	42.1	4.5%
Purple	\$45.00	\$49.09	9.1	1.1%	\$54.00	20.0	2.3%
Bus and Ferry Daily Ticket	\$12.00	\$13.64	13.6	1.6%	\$15.00	25.0	2.8%

¹⁰ "In 2004/05 the Government has allocated significant additional funding as part of the budgetary process. Last year, being 2003/04, the general support for Sydney Ferries was \$18m to \$19m. This year, 2004/05, it is \$33m, so quite a significant increase." Transcript of public hearing, p 8, lines 3-7.

In addition, rises in ferry tickets have been larger than those for buses and trains. For example, Table 3.4 shows the change in Sydney Bus tickets for singles, TravelTens and the BusTripper over the same period. The rises are much lower than the rises in ferry tickets.

Table 3.4 Changes in Sydney Buses ticket prices net of, and inclusive of, GST

	1995/96	2003/04 net of GST	% ch 8 yrs to 03/04	% p.a.	2003/04 incl. GST	% ch 8 yrs to 03/04	% p.a.
Single Ride Fares							
1-2 Sections	\$ 1.20	\$ 1.45	20.8	2.4%	1.60	33.3	3.7%
10-15 Sections	\$ 3.30	\$ 3.64	10.3	1.2%	4.00	21.2	2.4%
16-21 Sections	\$ 4.00	\$ 4.36	9.0	1.1%	4.80	20.0	2.3%
TravelTen							
1-2 Sections	\$ 8.00	\$ 10.73	34.1	3.7%	11.80	47.5	5.0%
3-9 Sections	\$ 16.00	\$ 22.27	39.2	4.2%	24.50	53.1	5.5%
10-15 Sections	\$ 24.00	\$ 30.18	25.8	2.9%	33.20	38.3	4.1%
16-21 Sections	\$ 32.00	\$ 38.00	18.8	2.2%	41.80	30.6	3.4%
BusTripper	\$ 7.80	\$ 9.91	27.1	3.0%	10.90	39.7	4.3%

Sources for Tables 3.3 and 3.4: Sydney Ferries and STA. Single ride bus tickets for sections 3-5 and 6-9 are not shown because they commenced in 1999/00 when the section 3-9 ticket was split in two.

APT also made several comments on Sydney Ferries service performance standards, vessel classes and costs. On service standards, it noted that a 99.1 per cent reliability measure on 168,000 trips a year still meant that Sydney Ferries cancelled over 1500 trips. It further suggested that “the figure looks worse if you multiply that by the number of wharves where people stood waiting and watching”.¹¹

On vessel classes, Sydney Ferries has seven vessel classes in a fleet of 31 vessels and has stated that “the impact of this is a much higher cost structure than would apply to a purpose-built fleet.” APT commented that it “thought the existing fleet WAS (sic) a purpose-built fleet”.

On costs, at the public hearing, APT questioned the rapid increase in Sydney Ferries’ costs, in particular the lack of differentiation between price and volume changes in the costs supplied by Sydney Ferries.¹² Without such differentiation, it could see no justification for any fare rise above the CPI.

3.2.2 Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) provided the Tribunal with extensive comment at the public hearing. It put the view that there was a case for a “modest increase, but certainly not something in the order of 9 per cent”. It also stated that prior to any significant price increase, it would want to see details of Sydney Ferries’ business case and more details on costs – essentially a “price path which will sort out the issues about cost and put the pressure back on the costs that are rising.”¹³

¹¹ Action for Public Transport submission, 20 August 2004, p 5.

¹² The Tribunal made the same point: “In looking at your own projections for costs in the coming year, and coming years, do you already have an index of some sort? Do you have something that you say ‘this is what we expect our costs will rise by on a unit basis?’” Sydney Ferries replied: We have done some estimates of that. ... and we would be happy to provide that to the Tribunal at some point”. Transcript of public hearing, p 19, lines 24-35.

¹³ Transcript of public hearing, p 13, lines 21-34.

PIAC also argued that affordability ought not to be the deciding factor on whether a fare increase is warranted (a view also expressed by the NSW Council of Social Services in its submission). In addition, it questioned Sydney Ferries on how to define the limits of affordability and, in any case, suggested that the main focus should be on costs.

3.2.3 Other submissions and comments

Other submissions and comments by consumer groups or individuals at the public hearing covered a range of issues. These included the likely shape and nature of Tcard, interchange penalties in a transport system built around products and not journeys, definitions of subsidy and affordability, congestion at Circular Quay and the demise of double-ended ferries and Sydney Ferries' endeavours to boost patronage and control costs.

One submission noted the lack of discussion by Sydney Ferries on measures to stimulate patronage and on the issues of integrated ticketing and TravelPasses. In particular, it was urged:

If IPART and Sydney Ferries wish to enhance the cost recovery of Ferries, they need to increase patronage by increasing their catchment. This can only be achieved by integrating ferries with the transport task.¹⁴

Several submissions noted that Sydney Ferries had made few concrete proposals to lift patronage. One submission also noted that there was no mention of targeting particular customer groups with their different profiles in the across-the-board request for a fare rise.

On affordability, some stakeholders argued that it ought not to be measured solely by incomes because that did not take account of living costs in the catchment area. One observer at the public hearing also suggested that there was circularity in the argument that only the 'wealthy' use ferries and could therefore afford to pay more:

... the reason why they, the wealthy, use it is because the others can't afford it.¹⁵

On the definition of subsidy in terms of passenger kilometre, several submissions and observers at the public hearing pointed out its defects, including that:

- it is sensitive to trip distances - and ferry trips are less circuitous than bus trips
- it excludes costs that are not directly incurred by Sydney Buses but that are incurred nonetheless, such as the cost of roads and bus transit lanes.

¹⁴ Mr D. Caldwell submission, p 2.

¹⁵ Transcript of public hearing, p 21, lines 31-32.

4 SAFETY AND SERVICE QUALITY

The Tribunal notes that Sydney Ferries claims to have achieved high levels of customer satisfaction, and that few submissions to its review made negative comments about its service quality. It also notes that Sydney Ferries claims to have improved service quality in the past year, and has expressed its commitment to making further improvements to the quality and efficiency of its services as part of the 10-year business plan it is developing.

However, its current performance measurement processes do not provide the Tribunal with sufficient information for it to make a detailed assessment of service quality. In addition, it cannot justify a large fare increase on the basis of planned service or efficiency improvements in the absence of a clearly defined business plan that has been rigorously reviewed and includes specific targets and associated actions.

Nevertheless, it recognises that Sydney Ferries has incurred additional costs as a result of implementing the recommendations of the Taylor Report¹⁶. It also acknowledges that the new corporation has been in existence for only a few months, and is not yet in a position to provide detailed information on its future plans. For these reasons, it considers that a modest fare increase above the level of the CPI is warranted. But it intends to consider issues related to Sydney Ferries' performance measurement and planned improvements in service quality and efficiency in detail in the next fare review. It expects it to develop better performance criteria and reporting processes and to announce its business plans prior to then.

4.1 Additional costs relating to safety and reliability

In recent years, Sydney Ferries has incurred higher levels of expenditure on safety and quality systems due to the recommendations of the Taylor Report, which covered improvements in safety, changing manning levels, quality systems and other areas. It has stated that the great majority of those recommendations have now been implemented,¹⁷ and that the implementation has added between \$3m and \$4m (or 3 to 4 per cent) to its annual costs.

At the public hearing, it noted:

... we now are quality certified, we now have a significant training function, we now have a group that is maintaining quality systems, we have enhanced the head office safety function, we have enhanced training for our general purpose hands and so on, and that has all come at a cost. Unfortunately, while that cost has been increasing there has not been the efficiencies in the balance of the business to offset it which we would hope in future there will be. There has been increased spending on safety and quality of which the customers have the benefit.¹⁸

¹⁶ Waterways Authority, *Review of Operations of Sydney Ferries*, 2001.

¹⁷ This assertion is somewhat at odds with the March 2004 Fellows et al review of the implementation of the Taylor Report which suggested that implementation still had a considerable way to go.

¹⁸ Transcript of public hearing, p 10.

The Tribunal notes that new accreditations gained by Sydney Ferries indicate that the safety of its services is improving. It is now accredited to an internationally recognised quality management system¹⁹ and the International Safety Management Code²⁰.

4.2 Service quality and efficiency improvements

Sydney Ferries believes that it has made several improvements in its ferry services over the past year but it did not provide detailed evidence in support of its view. Instead, it listed the following as improvements to service:

- increased number of runs and more stops on Parramatta River Services
- increased frequency of service on the Eastern Suburbs routes
- a new service to King Street wharf.

It also assured the Tribunal at the public hearing that it is currently developing a 10-year financial model for the business and objectives for service, business growth and efficiency improvements. Some of its strategies for containing operating costs will include:

- making roster savings
- undertaking services currently performed by STA in-house at lower cost
- adopting a major periodic maintenance program that will minimise ad hoc corrective maintenance
- removing inefficiencies and improving quality control at the Balmain Shipyard.

The Tribunal looks forward to receiving the business plan and objectives relating to higher patronage, lower costs and better service. It also looks forward to seeing progress on the various commitments Sydney Ferries made in its submission and at the public hearing.

Last year, cost recovery was expected to improve, in part because a review by SKM²¹ identified potential efficiency gains for Sydney Ferries in:

- reducing fleet size
- improving the utilisation of crews to reduce the level of overtime at penalty rates
- re-specifying the period of operation of ticket outlets at the Circular Quay wharves
- divesting the ownership of wharves (although the savings from this could be offset by access fees charged by the new owners)
- reducing the insured value of vessels (subject to prudent risk management)
- reducing the level of inventory holdings
- developing best practice maintenance.

These recommendations, if fully achieved, were expected to reduce Sydney Ferries costs by \$3m to \$4m a year. As a consequence, the Tribunal used \$3.5m as its estimate of potential cost savings for 2003/04 in its cost recovery calculation last year.

¹⁹ STA gained internationally recognised certification for its customer service delivery. The certification (ISO 9001:2000) is achieved through an independent audit, and recognised by Standards Australia.

²⁰ Recognised by the International Maritime Organisation.

²¹ Sinclair Knight Merz, *Sydney Ferries Cost Efficiency Review Study 2003*, Final Report, 24 June 2003.

In recognition of the recent changes in Sydney Ferries' structure and management, no such adjustment has been made this year.²² However, the Tribunal expects Sydney Ferries to provide detailed information on its progress towards achieving these and related efficiency gains in its submission to the next fare review.

4.3 Performance measurement

Sydney Ferries' current performance criteria and reporting processes need to be improved so that the Tribunal can make a more detailed assessment of service quality at the next fare review. The performance statistics currently provided to the Tribunal are too broad, and the accuracy of their measurement is not quantified and they are not always relevant for passengers. The Tribunal raised similar concerns in previous years.

The Government's response to the first recommendation of the Ministerial Inquiry indicates that it also wishes to see improved performance reporting. Recommendation #1 of the Inquiry was as follows:

As part of an improved incentive structure to achieve service improvements in public transport, public transport operators should be required to demonstrate their performance against a set of carefully chosen KPIs. This requirement should be reflected in a transparent five year contract between the operators' CEO and Board and the Ministry of Transport. Failure to perform satisfactorily against the KPIs should trigger a government review at the conclusion of the contract of alternatives.

The Government responded to this recommendation by stating that it:

...does support the establishment of KPIs and annual review through the performance benchmarks established under the Statement of Corporate Intent process and from advice provided by the Independent Transport Safety and Reliability Regulator.²³

²² At the public hearing, Sydney Ferries noted: "the SKM report which was done last year ... identified savings of about \$3.5m which could be achieved. Some of that was achieved but certainly not all of it, that is clear, for a variety of reasons, partly because corporatisation was coming, changes to management, et cetera. I would have to say I think that \$3.5m is conservative. We should be looking at more than that and we will be looking at more than that, albeit it is not public yet, it is not signed off, but I think that was a good piece of work. It gives you an idea of where we are aiming. The challenge will be what time frame you get that, and I would not like to hold out that that will happen in the balance of this financial year, but it will happen." Transcript of public hearing, p 30, lines 3-16.

²³ *NSW Government's Response to the Final Report of the Parry Inquiry*, Ministry of Transport website.

5 SYDNEY FERRIES REVENUE, COSTS AND COST RECOVERY

The Tribunal considered Sydney Ferries' argument that a large fare increase is justified because of the continuing decline in its level of cost recovery. Although it accepts that costs have risen faster than revenues for several years, resulting in a sharp decline in its cost recovery level, it does not accept that continuing to allow significant increases in ferry fares is the only way to address the problem. Rather, the Tribunal considers that focus should also be placed on improving efficiency and controlling costs as the way to improving cost recovery.

Nevertheless, the Tribunal is concerned about the low level of cost recovery. It considers a modest fare increase above the CPI is warranted to prevent a significant further reduction over the coming year. It intends to investigate Sydney Ferries' cost control measures in detail as part of next year's fare review.

The Tribunal's approach to calculating cost recovery, cost recovery history, patronage and revenue trends, cost trends, and cost recovery outlook for 2004/05 are discussed below.

5.1 Tribunal's approach to calculating cost recovery

The Tribunal measures cost recovery by dividing relevant revenue by relevant costs. Relevant revenue includes the revenues the service provider collects from passengers (farebox plus free and concessional revenue), or is reimbursed by Government for carrying certain passengers at less than full fare, or earns from other business activities (such as advertising revenue). It does not include community service obligation (CSO) funding or general subsidies from Government that simply fund a gap when costs exceed revenues.

Relevant costs include the costs the service provider incurs in operating its passenger services – usually its cash operating costs plus depreciation and interest less the cost of asset disposals. In some cases, the Tribunal removes an amount for potential efficiency savings if an independent study has identified opportunities for saving. This is designed to estimate the **efficient costs** of the business, rather than accepting the actual costs at face value.²⁴

Cost recovery is then simply as the percentage of costs which are covered (recovered) by its revenues (Table 5.1).²⁵

Table 5.1 How the Tribunal calculates cost recovery

Relevant Revenue		Relevant Costs
<ul style="list-style-type: none"> • Farebox • Plus revenue reimbursements for free and concession fares • Plus other business revenue (except profits from asset disposals) 	Divided By	<ul style="list-style-type: none"> • Operating expenses (except costs of asset disposals) • Less efficiency savings (if identified)

²⁴ From 2005/06, the Sydney Ferries 10-year business plan, suitably reviewed by an independent consultant engaged by the Tribunal, may assist the Tribunal in its consideration of efficient costs and as a basis for considering a multi-year price path.

²⁵ Cost recovery in this report is defined differently from that used in the Ministerial Inquiry. The Inquiry only included farebox and other business revenue in the numerator. Cash operating costs and capital spending were included in the denominator. The 'cost recovery' ratios showed the size of the gap which would need to be funded in order to make public transport 'sustainable'.

5.2 Cost recovery history

Information provided by Sydney Ferries indicates that over the past six years, the annual costs of running the ferries have generally risen much faster than its revenues (Table 5.2).

Table 5.2 Growth of Sydney Ferries revenue and costs

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Revenue	0.3%	9.5%	8.3%	-4.8%	0.2%	4.9%
Costs	9.1%	8.6%	1.5%	19.1%	8.2%	4.8%

The exception was in 2000/01, when revenues were boosted by the international, interstate and intrastate tourist inflows associated with the Sydney Olympics. Those inflows gave a big, but temporary, boost to patronage and thus to revenues.

Over the following year costs soared 19.1 per cent as staff and maintenance costs were lifted to a higher level to implement some of the 55 recommendations of the Taylor Report.

The outcome of costs rising faster than revenues is that the cost recovery ratio has deteriorated sharply since its Olympics-year peak 68 per cent to 50 per cent (Table 5.3).

Table 5.3 Sydney Ferries cost recovery

1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
63.0%	63.5%	67.7%	54.1%	50.1%	50.2%

Note: the Tribunal has not been able to reproduce the cost recovery figures cited in the Sydney Ferries submission. The calculations above are based on the Tribunal's analysis of confidential Sydney Ferries data.

5.3 Patronage and revenue trends

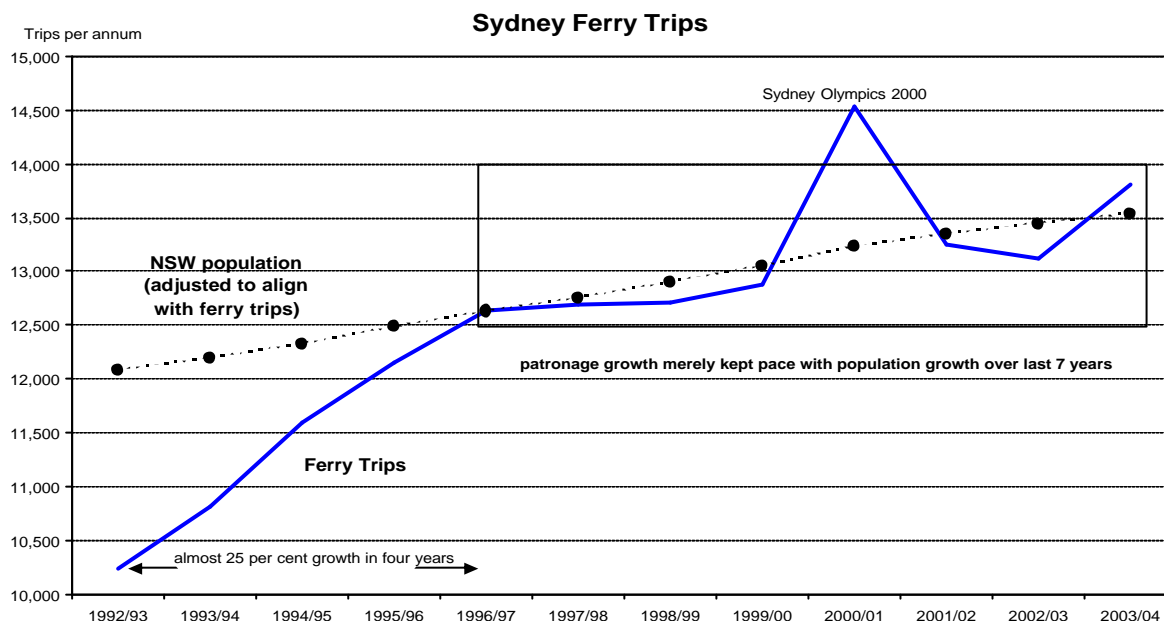
In general, the number of ferry trips taken over the last seven years (excluding SSTs) has simply kept pace with the growth in the NSW population (Figure 5.1).

However, as APT pointed out in its submission, increases in ferry fares have generally been higher than general inflation. Apart from in 2002/03, the average rise in Sydney Ferries fares has been about double the rate of household inflation over the seven years since 1996/97 (Table 5.4). For more detail on historical relationships between ferry patronage, full fares and discounts, see Appendix 3.

5.3.1 Patronage projections for 2004/05

In 2004/05, Sydney Ferries projects increases in patronage of 5 per cent on singles, FerryTens, DayTrippers and PET, 4 per cent on TravelPasses, 48 per cent on 'other' tickets and 25 per cent on the School Student Transport Scheme (SSTS).²⁶ The rise in the total number of trips projected for 2004/05 is about 7.5 per cent. This would take total annual trips (including SSTS) to their highest level in over a decade (Figure 5.2).

Figure 5.1 Annual number of trips taken, 000s



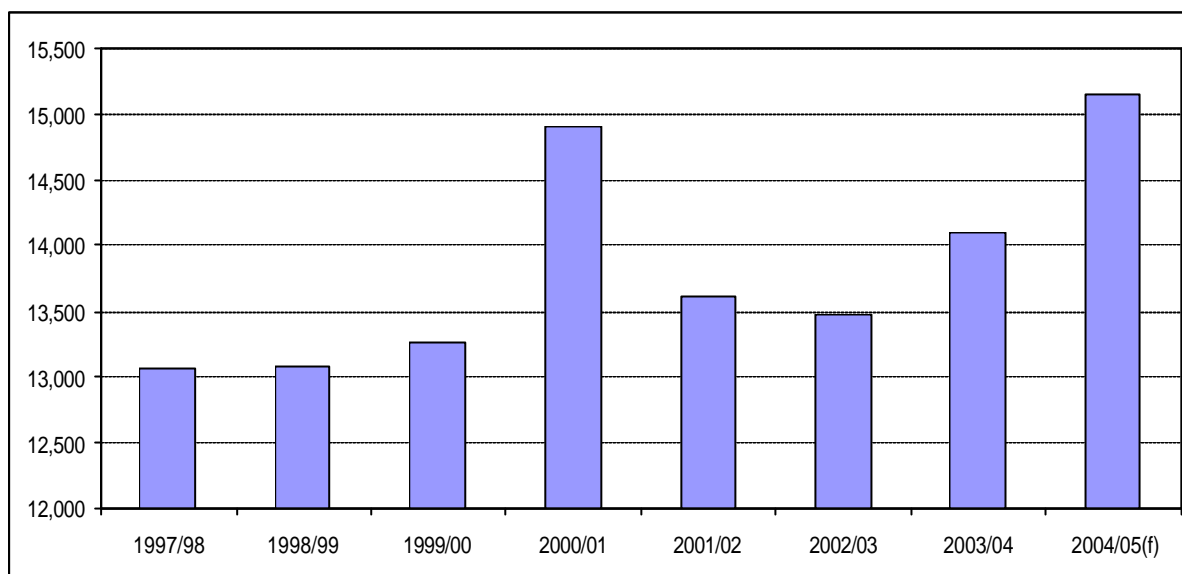
Source: Sydney Ferries and ABS. The ferry trips exclude SSTS.

Table 5.4 Average percentage fare rises

	1997/98	98/99	99/00	2000/01	01/02	02/03	03/04
Sydney Ferries	2.3	3.3	7.0	8.6	5.0	2.0	7.5
Inflation Rate (National CPI)	0.0	1.3	2.4	6.0	2.9	3.1	2.2

²⁶ The big rises in the last two categories were provided in hard-coded form in a confidential data file supplied to the Tribunal by Sydney Ferries.

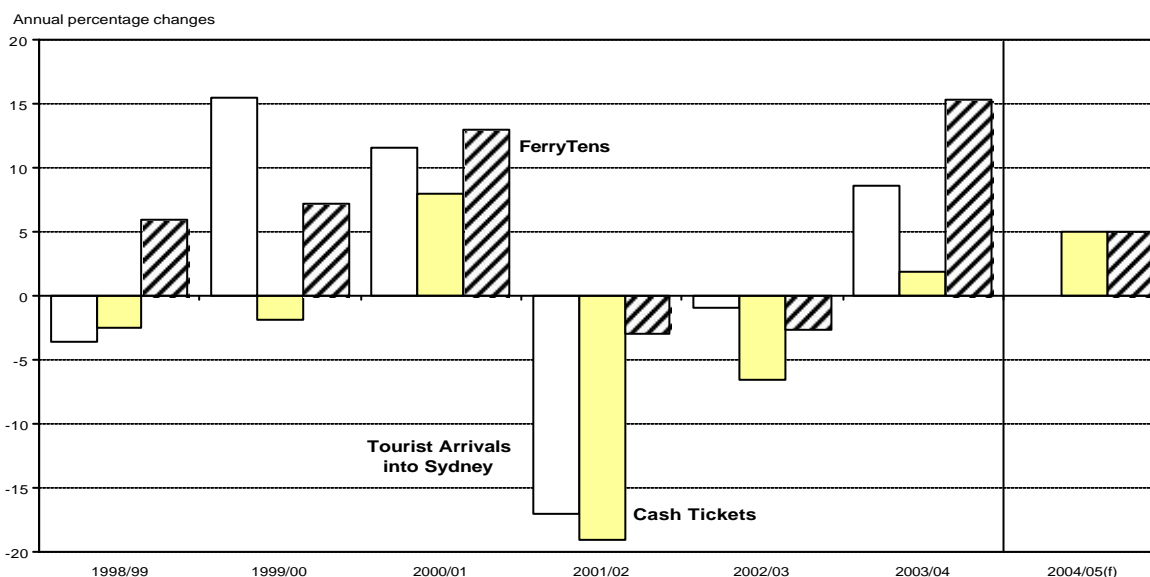
Figure 5.2 Past and forecast annual patronage, 000s



Source: Sydney Ferries. Trips include SSTs.

Sydney Ferries appears to have based its 2004/05 patronage projections largely on its 2003/04 actual patronage growth of 4.7 per cent, with some acceleration due to expected increases in international tourism inflows and a generally buoyant national economy that boosts interstate and intrastate visitor numbers. On a year-by-year basis, Sydney Ferries trip numbers do appear to be well correlated with tourist visitor numbers (Figure 5.3).

Figure 5.3 Sydney Ferries ticket sales and international visitors into Sydney



Source: Sydney Ferries adult fares and Australian Bureau of Statistics.

5.4 Cost trends

Last year, the Tribunal noted that Sydney Ferries costs had risen faster than its revenues for the previous five years. In recognition of the downtrend in cost recovery, it increased ferry fares by 7.5 per cent (compared to 5.0 per cent for the other government passenger transport services).

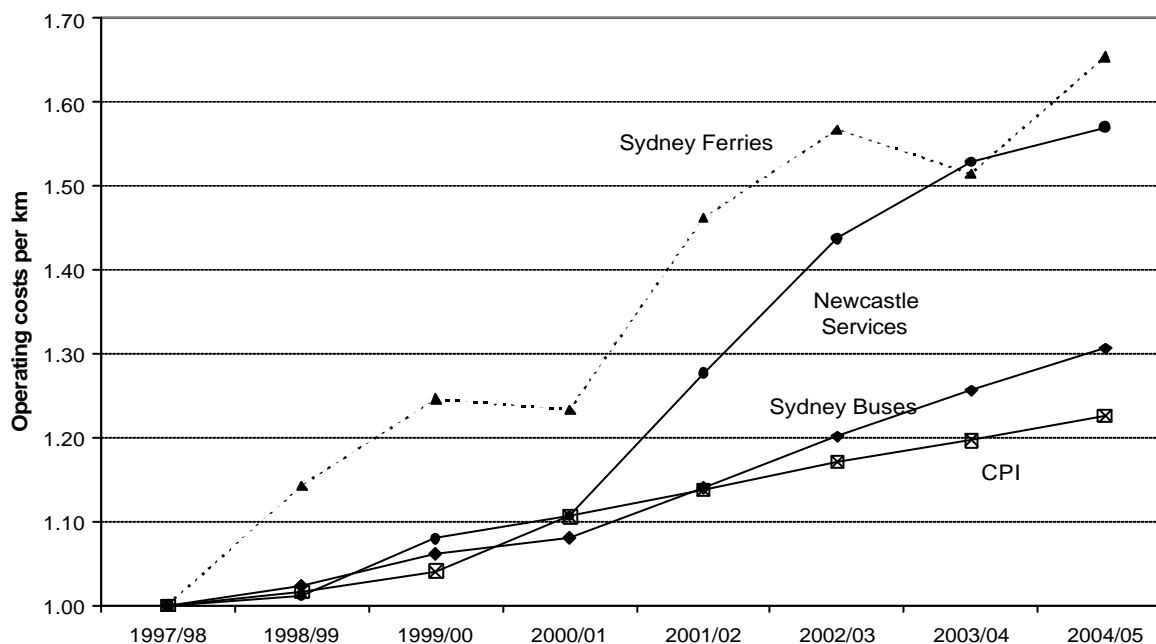
As a result of the fare rise and expected restraint in costs following Taylor Report-related rises of 19 per cent and 8 per cent in 2001/02 and 2002/03 respectively, Sydney Ferries was expected to show improved cost recovery in 2003/04. The expected improvement did not eventuate. Instead, revenue growth of 4.9 per cent was all but matched by cost growth of 4.8 per cent.

A large reduction in maintenance costs caused a fall of 3.4 per cent in operating costs in 2003/04. But total costs, which include depreciation and interest, rose 4.8 per cent. This large fall in maintenance costs is unlikely to be sustained, as it was related to the purchase of several new vessels and the retirement of old vessels. Without the fall in maintenance costs, operating costs would have risen 3.7 per cent and total costs 10.9 per cent.

At the public hearing, the Tribunal expressed its concerns about the rising trend in Sydney Ferries costs. It noted the growth in operating costs per kilometre travelled by ferries and compared this to similar measures for Newcastle Services and Sydney Buses (Figure 5.4).

The Tribunal expects Sydney Ferries to address the issue of cost control in its next submission.

Figure 5.4 Operating cost per kilometre; selected agencies



Source: IPART calculations based on data supplied by STA, Sydney Ferries and the ABS.

5.5 Cost recovery outlook

Given Sydney Ferries' projections on patronage growth for 2004/05, the Tribunal's determination of a weighted average fare rise of 4.2 per cent would result in cost recovery rising to **53.9 per cent**, provided that other assumptions on Sydney Ferries costs and patronage remain unchanged.

It is not clear what level of cost recovery is appropriate for Sydney Ferries. It does not have a public target, but at the hearing expressed a desire for the level to return to around 65 per cent.²⁷ The Ministerial Inquiry did not specify an appropriate level of cost recovery for Sydney Ferries. However, it did conclude that the balance between costs and revenues should be made more sustainable. To achieve this, it emphasised efficiency gains rather than fare increases and to this end cited several pieces of anecdotal evidence on the Manly JetCat services and staff hours and conditions.²⁸

The Tribunal also considers that pursuing efficiency gains is a crucial way for Sydney Ferries to increase its cost recovery ratio. It is also likely to be more effective. For example, in 2003/04 total farebox revenue was \$42.0m, concessions payments \$9.3m and total costs \$99.5m. If costs were reduced 5 per cent, the saving would be in the order of \$5.0m. In comparison, a 5 per cent increase in fares (assuming unchanged patronage) would yield only an extra \$2.1m (with another \$0.5m via concession payments).

Given the size of the cost base relative to the farebox, a 1 per cent reduction in costs would have an impact on cost recovery equal to a 2 per cent rise in the farebox, suggesting that cost savings, if available, would be a much more effective way of improving cost recovery – and without risking any decline in patronage.

5.6 Other grounds for a fare rise advanced by Sydney Ferries

5.6.1 Patronage unresponsive to fare increases

Sydney Ferries argued that patronage growth was not impacted following the 7.5 per cent fare rise last year. However, the Tribunal does not believe this is a justification in itself for an even higher fare rise this year.

5.6.2 Large size of Government subsidy

The Tribunal was also not persuaded by the case for a large fare rise based on the size of government subsidy. Apart from other methods of measurement that should be considered, the size of the subsidy as presently measured can fluctuate considerably from year to year, reflecting the lumpy nature of capital injections by the Government. A measure that smoothed results over a range of years would therefore be preferable to one or two annual observations.

²⁷ "If we go back seven years, on the Tribunal's data we were at cost recovery levels of the mid 65s, about 63 per cent, and we are down to about 50 per cent now. I would have thought that getting back to that level was a manageable gain. That is something we are developing at the moment but we are not in a position to table that yet". Transcript of public hearing, p 9, lines 4-10.

²⁸ Ministerial Inquiry, Final Report, p 25.

That said, with the information available to it from three public transport agencies' information returns, the Tribunal has re-calculated the subsidy per passenger kilometre (Table 5.5).²⁹

Table 5.5 Tribunal estimates of subsidy per passenger km

	CityRail	STA Buses	Sydney Ferries*
2001	23.9 cents	13.6 cents	30.4 cents
2002	23.4 cents	14.2 cents	35.7 cents

* If large Ferries Capital Replacement Grants that were provided only in 2001 and 2002 are excluded, the Sydney Ferries subsidy measure reduces to 21.6 cents and 19.8 cents respectively.

Sources: TPDC for distance and average trip length, STA, Sydney Ferries and RailCorp for value of subsidies.

The ferry subsidy was 30.4 cents for 2001, well above the subsidy for CityRail. Excluding a large Ferries Capital Replacement Grant (which fell away to zero in 2003/04) would put the subsidy at 20.6 cents per km. However, 2004/05 (when data on distances travelled by all modes become available) might well show Sydney Ferries with a much higher subsidy because of \$33m in capital funding (mentioned already in footnote 10).

²⁹ The Tribunal used the same methodology as the Ministerial Inquiry but arrived at a higher subsidy for CityRail and Sydney Buses because it used higher 'average journey distance' based on data which relates to full-fare paying passengers only and because the Inquiry incorrectly combined STA and private buses in its calculation for Sydney Buses. Details of the Tribunal's calculations are available on request.

6 FURTHER MATTERS FOR CONSIDERATION

This chapter and the next discuss other matters required to be considered by the Tribunal when making its fare determinations. This chapter discusses an appropriate rate of return on public assets, the effect of the determination on inflation, impacts on Sydney Ferries' borrowing, capital and dividend requirements and the need to promote competition, demand management and least cost planning. The Tribunal also considered matters raised in the Premier's letter. Chapter 7 considers the protection of consumers and environmental and social impacts.

6.1 IPART Act - Section 15 matters

6.1.1 An appropriate rate of return on Sydney Ferries assets

Consideration of an appropriate rate of return on Sydney Ferries' net asset base of \$80m projected for 2004/05 and the issue of appropriate dividends to Government are academic questions for as long as cost recovery runs below 100 per cent. At present levels, around 50 per cent, the urgent task is to derive better value from the existing assets. Sydney Ferries has outlined how it intends to pursue this goal. The Tribunal awaits the development and availability of the business plan to better grasp the prospects for improved cost recovery.

6.1.2 Inflationary effects

The Tribunal's determination is unlikely to affect general price inflation. Public transport spending is a very small component of the basket of goods and services that are monitored in inflation statistics, and ferry trips are few compared to all public transport trips.

6.1.3 Effect on Sydney Ferries' financial position

A 4.2 per cent average rise in fares will support the financial position of Sydney Ferries. Despite expecting a 5.4 per cent rise in its costs in 2004/05, because Sydney Ferries has a strong patronage growth forecast, the cost recovery ratio is expected to rise to 53.9 per cent in 2004/05. A ratio close to 54 is well up on 2002/03 and 2003/04, but the risks are:

- that patronage will not grow as expected at its fastest rate since the Olympics year
- that costs will not be contained to a 5.4 per cent rise as expected.

That said, even a steady cost recovery ratio should provide a base against which to judge the greater financial and operational flexibility promised by Sydney Ferries.

6.1.4 Need to promote competition

In principle, Sydney Ferries faces competition from other public transport modes and the private motor vehicle. In practice, that competition from other public transport modes is only effective where bus routes and train lines offer a genuine alternative for passengers.

In another sense, however, ferries, buses and trains may be complementary modes of transport and not direct competitors. Several submissions and participants at the public hearing made observations about an apparent disconnect that seems to have arisen between buses and ferries in particular. For example:

Brown TravelPass reduce[s] bus fares from the catchment area of the ferries which in the old days was very strong along the Mosman corridor... The STA has gone out of its way to cut feeder services, increasing fares, making it almost impossible to use ferry services as part of the system.³⁰

6.1.5 Demand management and least cost planning

These issues were discussed in Chapter 4 on Sydney Ferries' plans to improve its operations and in Chapter 5 on patronage trends. At this stage, plans to improve operations and increase patronage are not publicly available. The Tribunal expects them to become available once the Statement of Corporate Intent and 10-year planning framework have been approved by the Government.

6.2 Matters in the Premier's letter

6.2.1 Five-year price path considerations

Recommendation #18 of the Ministerial Inquiry, which primarily concerned CityRail, elicited a response from Government that:

Public transport agencies will seek fare adjustments through IPART. The Government supports a 5 year price path to give transport agencies revenue certainty.

The Tribunal has considered the possibility of implementing a 5-year or a multi-year price path for fares. The advantage of revenue certainty it may generate must be weighed against the detailed informational requirements that ought to underpin it. Those requirements may be reflected in the Statement of Corporate Intent and related business objectives on which Sydney Ferries is currently working. For the present, such information is not available. The Tribunal will consider this issue further next year.³¹

6.2.2 Fare increases up to the CPI subject to efficiency gains

The lack of detailed information on efficiency measures and the gains made in them by Sydney Ferries has made it difficult for the Tribunal to reach a view on their role in the present review. The Tribunal notes, however, that Sydney Ferries has accepted the need to make efficiency improvements and is working on plans to achieve these improvements. The Tribunal has had regard to this in developing its determination. The Tribunal expects Sydney Ferries to provide appropriate measures of efficiency and the gains made in them for detailed consideration at the next review.

6.2.3 Fare increases above CPI for service improvements

As noted above, Sydney Ferries has incurred expenditure to improve the safety and reliability of its services. The list of improvements in Sydney Ferries' submission and discussion at the hearing demonstrated that some service improvements had been made. The Tribunal has had regard to these factors and the high level of customer satisfaction with Sydney Ferries services in considering this year's price determination. It intends to consider these issues further next year on the basis of a detailed submission from Sydney Ferries.

³⁰ Transcript of public hearing, p 21, lines 38 to p 22 line 12.

³¹ "Sydney Ferries is not in a position to make a detailed submission based on five years of prospective data at this time. However, Sydney Ferries will make a solid, well-reasoned and substantiated submission in support of a five-year determination from 1 July 2005." Sydney Ferries submission, p 11.

7 IMPLICATIONS FOR PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING

7.1 Implications for passengers

The Tribunal is sensitive to the financial burden of fares on public ferry passengers. In particular, its fare decisions are to have regard to social impacts. It should be noted that part of the price increase is an allowance for inflation, which was around 2.2 per cent in 2003/04.

In assessing the likely impact of the fare increases, the Tribunal examined the incomes of Sydney residents who use ferries. The income range for passengers is very wide, in part because ferries are used by both commuters and non-commuters.

Table 7.1 presents the latest income profile available from the Transport Population and Data Centre (TPDC) of users who pay full adult fares on Sydney public transport services. Three measures of income are shown in the tables, mean personal and household incomes and median household incomes.

Table 7.1 Income profile of full-fare paying resident public transport users, 2002

Mode	No. of trips (average weekday)	Average Personal Income	Average Household Income	Median Household Income
Priv Bus Sydney	70,524	\$32,423	\$66,781	\$56,212
STA Buses	257,345	\$44,581	\$86,214	\$69,524
Sydney Ferries	30,010	\$72,307	\$121,765	\$120,952
CityRail	494,730	\$46,847	\$86,842	\$71,864
Taxis	116,182	\$60,163	\$109,760	\$95,472

Source: TDPC Household Survey 2002.

Further, according to the TPDC July 2003 issues paper, the average ferry user (including non-full fare paying passengers) has an annual personal income of between \$31,200 and \$41,599, while the average Sydney resident aged 15 years and over has an annual personal income of between \$10,400 and \$20,799 per annum.³²

Clearly, resident Sydneysiders who use Sydney Ferries have higher income profiles than the users of other modes of public transport. This outcome may reflect the fact that the catchment areas for ferry users are households who can afford the more highly-priced properties along the harbour foreshores.

It may also reflect the fact that ferry fares are considerably higher than equivalent bus trips (of which three examples are shown in Table 7.2). It should not be surprising, therefore, to find residents with lower incomes using buses, trading time for money. Such an observation somewhat undermines any case for a fare rise based on the affordability of the rise as judged by the incomes of current users of the service.

³² Transport Data Centre, *Ferry Users in Sydney*, July 2003.

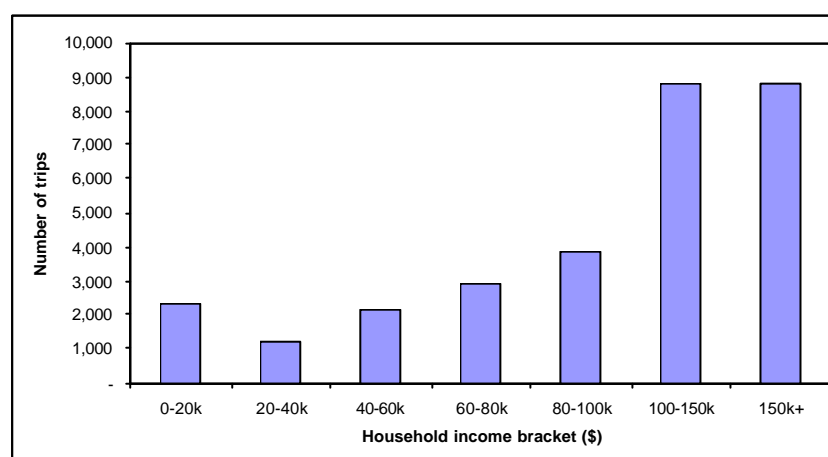
Table 7.2 Sydney Ferries and STA tickets – selected trips 2003/04

Service	Kms	2003/04	Percentage	Absolute	2003/04	Percentage	Absolute
		Single Adult fare	Premium to STA fare	Premium to STA fare	TravelTen price	Premium to STA T10	Premium to STA T10
SFC Woolwich-Circular Quay	7.3	\$4.50	66.7	\$1.80	\$28.50	44.7	\$8.80
SFC Manly-Circular Quay	13.0	\$5.80	65.7	\$2.30	\$42.90	75.1	\$18.40
SFC Parramatta-Circular Quay	26.7	\$7.00	45.8	\$2.20	\$49.30	17.9	\$7.50
STA Woolwich-Wynyard	12.6	\$2.70			\$19.70		
STA Manly-Wynyard	15.0*	\$3.50			\$24.50		
STA Parramatta-Wynyard	27.6	\$4.80			\$41.80		

* via North Sydney

Sources: STA and Sydney Ferries.

Even with the incomes data itself, an additional consideration is the *distribution* of incomes, rather than the average alone. The number of ferry trips per annum taken by Sydney residents of different household incomes is shown in Figure 7.1. The majority of frequent ferry users are in households whose income exceeds \$100,000 per annum.

Figure 7.1 Full-fare paying passengers per weekday by household income – Sydney Ferries

Almost 60 per cent of trips are made by residents belonging to households with incomes over \$100,000. Around 10 per cent are made by residents from households with incomes less than \$40,000. About 30 per cent of trips are made by passengers from \$40,000 to \$100,000 income households.

The TPDC 2003 paper notes that three largest groups of ferry users are full-time workers (49 per cent), pensioners (17 per cent) and part-time/casual workers (10 per cent)³³.

Without identifying whether he was a pensioner, part-time worker or full-time worker, one person who made a submission to the Tribunal stated that his annual income is below \$20,000 and that he relies on the ferry service for transport to the city from Manly. He argued against the case for a large fare rise based on affordability grounds.

³³ Figures are for Sydney residents only and excludes travel on Sydney Ferries by visitors and tourists.

The absolute rise in ferry singles will not exceed 40 cents. Table 7.3 provides some examples to show how the new fare increases apply across a selection of trips.

Table 7.3 Specific examples of fare changes

Ferry trip description	Single Trip		FerryTen	
	Old Fare \$	New Fare \$	Old Fare \$	New Fare \$
Woolwich to Circular Quay	4.50	4.80	28.50	30.30
Manly to Circular Quay	5.80	6.00	42.90	45.10
Parramatta to Circular Quay	7.00	7.40	49.30	51.90

7.2 Implications for the environment

Public transport is an environmentally friendly alternative to the use of private motor vehicles. The extent to which environmental benefits, notably reduced pollution, can be realised will depend on factors such as the relative cost of public versus private transport, and the propensity for private vehicle users to switch to public transport. This, in turn, will be influenced by accessibility, service quality and frequency of public transport.

The Tribunal has considered usage trends of public transport, and the extent to which fare increases may affect demand for public transport services. The TPDC collects and publishes information on Sydney household travel patterns.

This information suggests a relative shift towards the use of private vehicles, at the expense of public transport and walking. Data indicates that between 1991 and 2002, public transport's share of total trips slipped from 11.9 per cent on an average weekday (4.8 per cent on weekends) to 10.5 per cent (4.1 per cent). The (small) share of ferries was relatively stable during the week but has declined on weekends.

In contrast, the share of private vehicles trips made on weekdays increased from 66.9 per cent in 1991 to 70.2 per cent in 2002. Overall, the actual number of weekday trips undertaken by car increased by around 24 per cent, compared to around 12 per cent for rail. Bus trips fell 3 per cent between 1991 and 2002.

The majority of evidence available to the Tribunal suggests that price has only a small influence on the decision to use public transport. Other issues such as service quality, timeliness, frequency, convenience and accessibility are likely to be more important determinants of public transport demand.

During the 2001/02 Determination of Public Transport Fares, the Tribunal commissioned an independent study by the Centre for International Economics (CIE) on subsidies and the social costs and benefits of public transport.³⁴ The study indicated that changes in public transport fare levels are unlikely to have a major impact on patronage levels, and that a range of factors are considered by the traveller when determining travel mode. The study states:³⁵

³⁴ Centre for International Economics, *Subsidies and the social costs and benefits of public transport*, March 2001. Available from the Tribunal's website, www.ipart.nsw.gov.au.

³⁵ Op cit, pp 38 and 43.

The effectiveness of public transport subsidies in controlling transport externalities depends partly on the influence they have on fares, and, through these, on the relative price of travel by these modes compared with car. The influence is only partial because subsidies can also be used to change the quality of service at a given fare – through expenditure that change journey speed, frequency, reliability, comfort and safety. The EPA and NCOSS have emphasised that these factors play a significant role in inhibiting public transport patronage. Mees (2000, p 86) also points out that ‘... public transport is already cheaper than owning and operating a car. It is flexibility, convenience and door to door travel times that count most’.

The Tribunal does not expect this determination to have adverse environmental effects through a switch from public ferry transport to cars or buses.

Support for the financial health of the Sydney public transport system should be supportive of the environment. The Tribunal acknowledges the financial burden facing the various government agencies and private organisations as they aim to improve public transport standards in line with community expectations, and sees appropriate fare increases as one means of assisting in their long-term viability.

7.3 Implications for Government funding

The Tribunal is required under Section 16 of the *Independent Pricing and Regulatory Tribunal Act 1992* to report on the likely annual cost to the Government if fares were not increased to the maximum permitted, and Sydney Ferries were compensated from the Consolidated Fund for the revenue foregone.

The increase in farebox revenue for Sydney Ferries from this determination on a full year basis, assuming unchanged patronage in response to the fare increase is \$1.7m.³⁶ That amount is the maximum possible loss to Sydney Ferries if the Government were to leave fares at 2003/04 levels.

In previous years, submissions received by the Tribunal indicated varying attitudes to public subsidies of transport. Some complained that public transport is over-subsidised, while others argued that the relative subsidies for road travel are even greater (with detrimental effects such as congestion and pollution).

³⁶ These estimates do not include the higher reimbursements for free and concessional travel paid by Government whenever fares are increased.

8 FARE DETERMINATION IN DETAIL

The Tribunal has determined that Sydney Ferries single ticket and FerryTen prices are to rise by a weighted average 5.0 per cent and that TravelPass ticket prices are to remain unchanged.

The exact ticket changes that have been determined, consistent with the above, are shown in Table 8.1 along with the percentage and absolute changes and the proportion of revenue derived from each ticket type (relative to total revenue derived from singles, FerryTens and TravelPasses).

Table 8.1 Sydney Ferries fares and percentage changes

TICKET TYPE	CLASS	2003/04 Ticket Price	2004/05 Ticket Price	Percentage Change	Absolute Change	2003/04 Revenue %
SINGLE RIDE						
SINGLE INNER ZONE1	ADULT	\$4.50	\$4.80	6.7%	\$0.30	15.2%
SINGLE INNER ZONE2	ADULT	\$4.80	\$5.10	6.3%	\$0.30	0.4%
SINGLE MANLY FERRY	ADULT	\$5.80	\$6.00	3.4%	\$0.20	30.0%
SINGLE PARRAMATTA	ADULT	\$7.00	\$7.40	5.7%	\$0.40	1.7%
SINGLE RYDALMERE	ADULT	\$5.80	\$6.00	3.4%	\$0.20	1.2%
SINGLE INNER ZONE1	CONC	\$2.20	\$2.40	9.1%	\$0.20	1.4%
SINGLE INNER ZONE2	CONC	\$2.40	\$2.50	4.2%	\$0.10	0.0%
SINGLE MANLY FERRY	CONC	\$2.90	\$3.00	3.4%	\$0.10	1.9%
SINGLE PARRAMATTA	CONC	\$3.50	\$3.70	5.7%	\$0.20	0.1%
SINGLE RYDALMERE	CONC	\$2.90	\$3.00	3.4%	\$0.10	0.1%
SINGLE MANLY JETCAT	ADULT	\$7.50	\$7.90	5.3%	\$0.40	5.2%
FERRYTEN						
INNER ZONE 1	ADULT	\$28.50	\$30.30	6.3%	\$1.80	11.8%
INNER ZONE 2	ADULT	\$31.10	\$33.10	6.4%	\$2.00	0.2%
MANLY FERRY/RYDALMERE	ADULT	\$42.90	\$45.10	5.1%	\$2.20	6.7%
PARRAMATTA	ADULT	\$49.30	\$51.90	5.3%	\$2.60	0.0%
RYDALMERE	ADULT	\$42.90	\$45.10	5.1%	\$2.20	0.1%
INNER ZONE 1	CONC	\$14.20	\$15.10	6.3%	\$0.90	0.3%
INNER ZONE 2	CONC	\$15.50	\$16.50	6.5%	\$1.00	0.0%
MANLY FERRY	CONC	\$21.40	\$22.50	5.1%	\$1.10	0.3%
PARRAMATTA	CONC	\$24.60	\$25.90	5.3%	\$1.30	0.0%
RYDALMERE	CONC	\$21.40	\$22.50	5.1%	\$1.10	0.0%
MANLY JETCAT	ADULT	\$62.50	\$65.70	5.1%	\$3.20	7.0%
TRAVELPASS						16.4%
						100.0%

The overall rise in singles and FerryTens is kept to 5.0 per cent because of the small rise in the Single Manly ticket, from which Sydney Ferries derives about 30 per cent of its farebox revenue.

The fares are usually gazetted in a format different from Table 8.1. The format which is gazetted, without reference to previous fares, percentage changes or revenue shares, is shown below.

8.1 Sydney Ferries fares schedule

The fares schedule is part of Determination No. 3 of 2004 made by the Tribunal under section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992*.

Table 8.2 Maximum fares for Sydney Ferries services from 12 December 2004

Ferry Fares	Adult (\$)	Concession (\$)
Single		
Inner Harbour Zone 1/Upper Parramatta River	4.80	2.40
Inner Harbour Zone 2	5.10	2.50
Manly / Rydalmere	6.00	3.00
Parramatta	7.40	3.70
Manly JetCat	7.90	
FerryTen		
Inner Harbour Zone 1/Upper Parramatta River	30.30	15.10
Inner Harbour Zone 2	33.10	16.50
Manly / Rydalmere	45.10	22.50
Parramatta	51.90	25.90
Manly JetCat	65.70	

Note: all half fare concessions have been rounded down to the nearest 10 cents.

TravelPass product prices will be unchanged. These prices would, in any case, normally be determined in conjunction with fare reviews for Sydney Buses and CityRail. It is not the intention of the Tribunal to alter the prices of these products.

9 ISSUES FOR SYDNEY FERRIES TO CONSIDER PRIOR TO 2005 REVIEW

The 2004 Sydney Ferries fare determination has raised a number of issues that the Tribunal wishes to consider in more detail before making its next determination. The most significant of these issues for Sydney Ferries include:

- developing better performance criteria and reporting processes
- announcing its business plan and 10-year objectives
- defining cost control measures and channels of accountability (possibly a subset of the business plan)
- detailing how Sydney Ferries intends to encourage growth in passenger volumes.

It would also be useful to the Tribunal to have discussions with Sydney Ferries before the next review concerning the development of the unit cost index on which Sydney Ferries has already done some work.³⁷

The proposed introduction of integrated ticketing will also have implications for the Tribunal's future determinations, primarily with regard to fare structures. Issues facing Sydney Ferries (in conjunction with other agencies) that may be affected by integrated ticketing include:

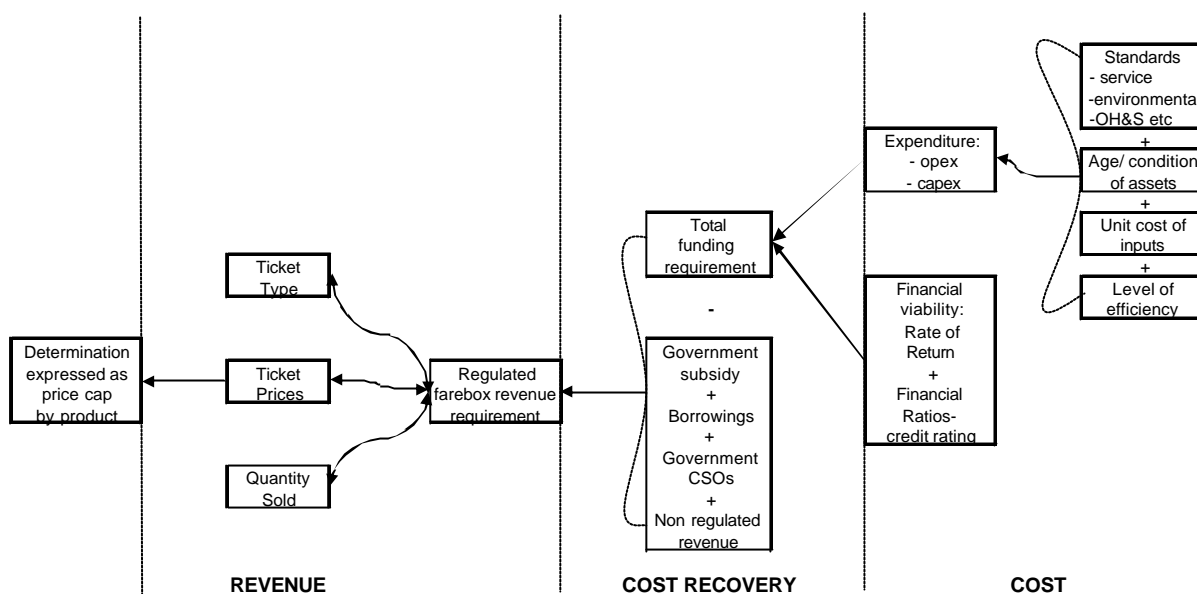
- deciding on an appropriate level of discount that should apply to multi-trip and periodical fares, especially in the light of the uniform percentage discount being proposed by the Ministry of Transport across the whole of the metropolitan bus network
- defining TravelPass zones that may not be based on distance from the CBD (eg, it is not possible to purchase a pass that radiates from Parramatta)
- considering the removal of multiple flagfalls from multi-modal tickets.

An overview of the key areas which the Tribunal would like to consider in any future fare determination is shown in Figure 9.1.

It would be highly desirable for the submission of Sydney Ferries to the next fare review to address each of the areas highlighted in Figure 9.1. One added incentive for submitting such detail is that it would help support any case Sydney Ferries may mount for a multi-year fare path.

³⁷ Transcript of public hearing, p 19, lines 24-35, as quoted in footnote 12 on p 9 of this report.

Figure 9.1 Overview of key areas



In particular, Sydney Ferries should:

- indicate expenditure trends and what is driving them eg, mandatory standards, patronage growth, vessel selection, condition of assets, service quality
- demonstrate that only the costs of the regulated businesses are being included for consideration in the regulated fare determination
- nominate its targeted credit rating and what that implies for borrowings and fare increases
- assess its total funding requirement broken down by component (eg, non-regulated revenue, Government Community Service Obligations, farebox and other revenue)
- provide an analysis of its passenger market segments and implications for fare structure and fare levels
- analyse the costs and benefits of multi-ride and multi-modal ticket discounts relative to single fares.

APPENDIX 1 IPART ACT REQUIREMENTS

Section 15 requirements

Section 15 of the IPART Act 1992 details the matters to be considered by the Tribunal when making a determination. The section is reproduced in full below.

(15) Matters to be considered by Tribunal under this Act

- (1) In making determinations and recommendations under this Act, the Tribunal is to have regard to the following matters (in addition to any other matters the Tribunal considers relevant):
 - (a) the cost of providing the services concerned,
 - (b) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services,
 - (c) the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales,
 - (d) the effect on general price inflation over the medium term,
 - (e) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers,
 - (f) the need to maintain ecologically sustainable development (within the meaning of section 6 of the [Protection of the Environment Administration Act 1991](#)) by appropriate pricing policies that take account of all the feasible options available to protect the environment,
 - (g) the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets,
 - (h) the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body,
 - (i) the need to promote competition in the supply of the services concerned,
 - (j) considerations of demand management (including levels of demand) and least cost planning,
 - (k) the social impact of the determinations and recommendations,
 - (l) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).
- (2) In any report of a determination or recommendation made by the Tribunal under this Act, the Tribunal must indicate what regard it has had to the matters set out in subsection (1) in reaching that determination or recommendation.
- (3) To remove any doubt, it is declared that this section does not apply to the Tribunal in the exercise of any of its functions under section 12A.
- (4) This section does not apply to the Tribunal in the exercise of any of its functions under section 11 (3).

Table A1.1 indicates where the matters have been considered throughout the report by the Tribunal in making this determination.

Table A1.1 Tribunal consideration of section 15 matters and Premier's letter

Section 15	Report reference
(a) cost of providing the service	Sections 3.1, 4.1, 5.4
(b) protection of consumers from abuse of monopoly power	Section 5.6.1, 7.1
(c) appropriate rate of return and dividends	Section 6.1.1
(d) effect on general price inflation	Section 6.1.2
(e) improved efficiency in supply of services	Section 4.3
(f) ecologically sustainable development	Section 7.2
(g) impact on borrowing, capital and dividend requirements	Section 6.1.1, 6.1.3
(h) additional pricing policies	Section 6.2
(i) need to promote competition	Section 6.1.4
(j) considerations of demand management	Section 6.1.5
(k) the social impact on customers	Section 7.1
(l) standards of quality, reliability and safety of the services	Section 4
Premier's letter	
1. a 5-year price path	Section 6.2.1
2. CPI increase subject to efficiency gains	Section 6.2.2
3. Above CPI increase if customer benefits through improvements in service quality linked to specific initiatives	Section 6.2.3

Section 16 requirements

Section 16 of the IPART Act requires the Tribunal to report on the likely impact to the Consolidated Fund if fares were not increased to the maximum permitted. This information is contained in Section 7.3.

APPENDIX 2 PREMIER'S LETTER



**Premier of New South Wales
Australia**

18 May 2004

Mr James Cox
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
NSW 1230

Dear Mr Cox

I am writing in relation to IPART's forthcoming review processes with respect to passenger transport fares for 2004-2005, in the context of the Government's recently announced transport reforms.

In light of recent performance issues on the CityRail network, I direct under section 7(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act') that the 2004-05 IPART fare review process for CityRail be deferred until further notice. However, fare reviews of other public transport modes should proceed.

Following the Ministerial Inquiry into Sustainable Transport, the NSW Government has committed to delivering parity in fare structures and consistent service levels across public and private bus and ferry transport operators.

I therefore request under section 13(l)(c) of the Act that, when making its investigations into passenger transport fares for all public transport modes, the Tribunal consider the following matters that arise from the Inquiry's recommendations:

- the making of a determination based on a 5-year price path;
- providing that fare increases up to the Consumer Price Index (CPI) should be subject to efficiency gains; and
- providing for fare increases above the CPI to clearly demonstrate customer benefits through improvements in service quality linked to specific initiatives such as bus priority measures.

In respect of the Tribunal's section 9 investigations of privately owned public transport fares, I would ask that you also have regard to the above matters.

Bus Services:

In order to progress with a consistent fare structure for the bus industry and to implement reforms arising from the Unsworth Review of Bus Services, several changes to the existing arrangements, including legislation and the role of IPART, are being considered by the

Government. The proposed legislative amendments will not commence in the first half of 2004.

When calling for public and industry submissions I request, pursuant to section 13(l)(c) of the Act, that IPART consider the Government's preferred approach of moving to a single fare review, including moving to a single fare change applicable to all bus operators.

I also request that IPART consider whether any State Transit fare increase for 2004-05 and later years should be applied on a "weighted average" basis aimed at better aligning Government and private operator fares. Such an approach would result in IPART determining an overall price change for bus fares. Individual fare products may be adjusted to varying degrees but the changes must, in aggregate, be less than or equal to the overall adjustment determined by IPART.

For non-commercial bus services, the Government is developing a new funding approach along the lines recommended by the Unsworth Review of Bus Services (see p.70 of the Final Report), but this may not be completed for 2004-05. Therefore it may be appropriate that the process used for the 2003-04 review be used in 2004-05.

Ferry Services:

In respect of ferry services, under section 13(l)(c) of the Act, I also request that IPART consider adopting the same process outlined above (i.e. single fare increase figure for both private and public operators). As there are no relevant legislative changes planned in relation to ferries, I request that in all other respects IPART consider following existing processes for 2004-2005.

I have no objection to the contents of this letter being made publicly available, if you consider it appropriate.

If your officers wish to discuss these matters, they should contact Ms Zoe de Saram, Policy Manager, Economic Development Branch, at The Cabinet Office on (02) 9228 4930.

Yours sincerely

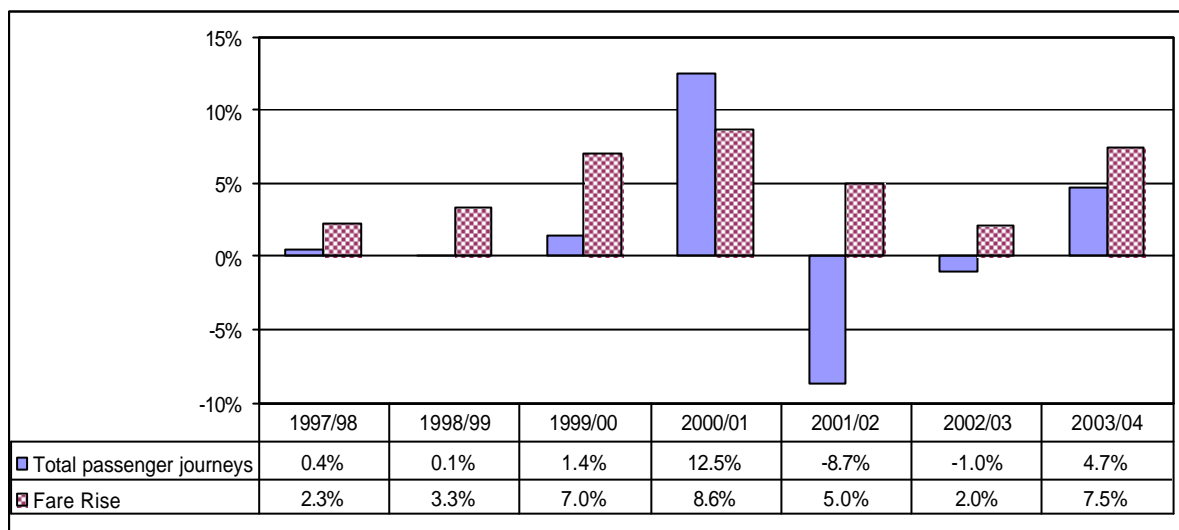
Bob Carr
Premier

APPENDIX 3 CURRENT SYDNEY FERRIES PATRONAGE, FARES AND DISCOUNTS

Patronage and fares

Revenue growth for Sydney Ferries has been driven more by fare increases than patronage growth over the past seven years, as indicated by Figure A3.1.

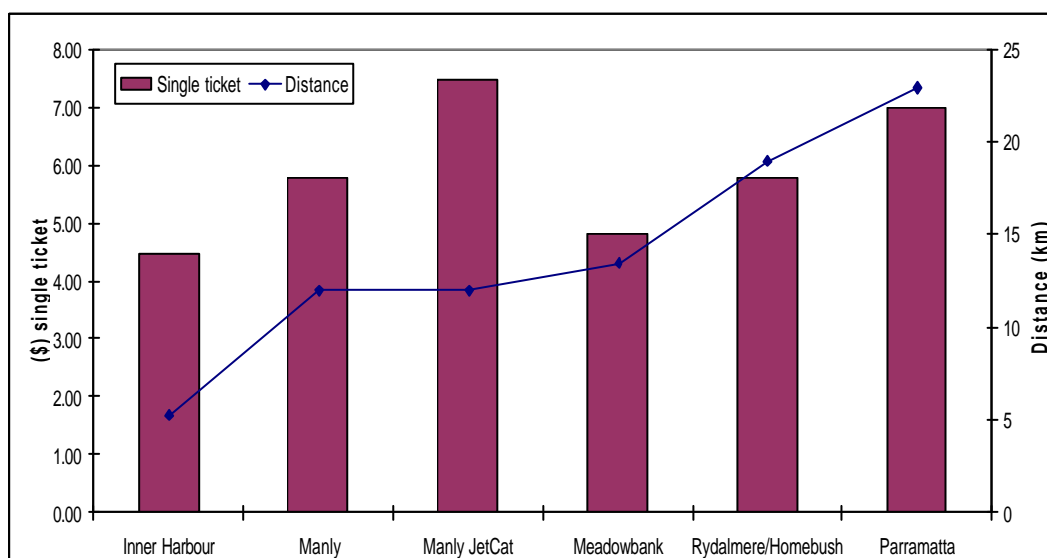
Figure A3.1 Annual patronage and fare changes



Fares and distance

There is a broad relationship between Sydney Ferries fares and distance travelled, after adjusting for the Manly JetCats (Figure A3.2).

Figure A3.2 Sydney Ferries single ticket fares and distance travelled

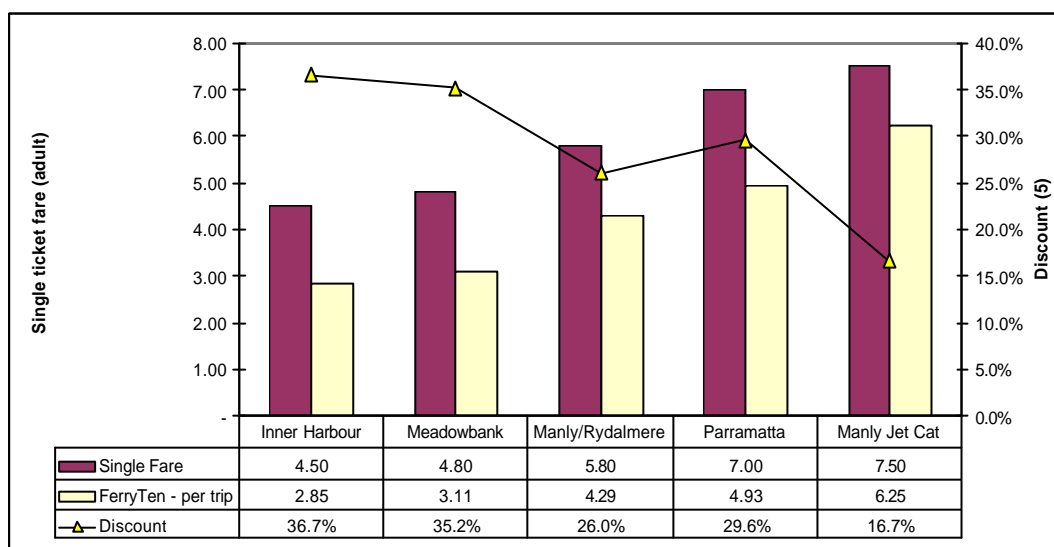


Singles and FerryTens

The major revenue earners for Sydney Ferries are singles and FerryTens, especially Inner Harbour trips and trips to Manly. Figure A3.3 illustrates the relative prices currently charged on singles and FerryTens and makes explicit the discount on the FerryTens relative to ten single trips.

No case was made by Sydney Ferries or participants in submissions or at the public hearing to alter the relativities between these fares and the Tribunal could see no reason to suggest that these should be altered at different rates in 2004/05.

Figure A3.3 Prices of ferry singles and FerryTens



There does appear to be significant divergences in the size of the discounts and the Tribunal expects Sydney Ferries to comment on the appropriate level of discount in the light of discounting changes in the metropolitan bus industry and address any anomalies in its next submission.

APPENDIX 4 LIST OF SUBMISSIONS, PARTICIPANTS AT HEARING

The Tribunal received submissions from the following organisations and individuals:

Organisations

Action for Public Transport
Council of Social Service of New South Wales (NCOSS)
Independent Transport Safety and Reliability Regulator (ITSRR)
Manly Council
Sydney Ferries

Individuals

Ms Loma Bridge
Mr David Caldwell
Mr Chris Dickson
Mr Mitchell Geddes
Ms Estalle Lazer
Mr Peter Mills
Ms Leyla Spencer

The participants at the public hearing on 30 September were:

Representatives of IPART:

Mr James Cox, Acting Chairman
Ms Cristina Cifuentes, Part-time Member
Dr Dennis Mahoney, Program Manager, Transport
Mr Steven Tropoulos, Analyst Transport

On the round-table:

Sydney Ferries (Ms Sue Sinclair and Mr Gary Pedersen)
Matilda Cruises (Mr Larry King and Ms Kate Morressey)
Action for Public Transport (Mr Allan Miles)
Public Interest Advocacy Centre (Mr Jim Wellsmore)

Observers who made comment during proceedings:

Mr David Caldwell
Mr Robert Caldwell
Mr Peter Mills
Mr Mitchell Geddes

Also in attendance were:

Mr Richard Langereis (Ministry of Transport)
Mr Andrew Nicholls (Ministry of Transport)
Ms Elizabeth Reedy (ITSRR)

APPENDIX 5 ABBREVIATIONS USED IN THIS REPORT

ABS	Australian Bureau of Statistics
HTS	Household Travel Survey; collected and published by TPDC
KPIs	Key performance indicators
MoT	The Ministry of Transport, formerly the Transport Co-ordination Authority, formerly the Department of Transport
SFC	Sydney Ferries Corporation, a business name for Sydney Ferries
SSTS	SSTS or School Student Transport Scheme provides subsidised travel for eligible school students on government rail, government and private bus and ferry services and long distance coaches. The scheme can only be used for travel between home and school.
STA	State Transit Authority
TPDC	The Transport Population and Data Centre. It is the major source of transport data for the Sydney Statistical District (Sydney, Wollongong, Blue Mountains, Central Coast and Newcastle). The TDC is a division of the Department of Infrastructure, Planning and Natural Resources.



INDEPENDENT PRICING AND REGULATORY TRIBUNAL

OF NEW SOUTH WALES

DETERMINATION UNDER SECTION 11 (1) OF THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT, 1992

Reference No.:	04/259
Determination:	No. 3, 2004
Government agency:	Sydney Ferries
Government monopoly services:	Regular passenger services (within the meaning of the <i>Passenger Transport Act, 1990</i>) supplied by Sydney Ferries, excluding services supplied via the ticket "SydneyPass".

The Government monopoly services were declared by the Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998, made on 24 February 1998 and published in Gazette No. 38 dated 27 February 1998 at page 1015. The order applies to Sydney Ferries by operation of clause 135, Schedule 7 of the Transport Administration Act 1988.

The price of any type of Sydney Ferries ferry ticket must not exceed the price set out for that type of ticket in the table which forms part of this Determination.

James Cox
Acting Chairman
22 November 2004

Maximum fares table for Sydney Ferries from 12 December 2004

Ferry Fares	Adult (\$)	Concession (\$)
Single		
Inner Harbour Zone 1/Upper Parramatta River	4.80	2.40
Inner Harbour Zone 2	5.10	2.50
Manly / Rydalmere	6.00	3.00
Parramatta	7.40	3.70
Manly JetCat	7.90	
FerryTen		
Inner Harbour Zone 1/Upper Parramatta River	30.30	15.10
Inner Harbour Zone 2	33.10	16.50
Manly / Rydalmere	45.10	22.50
Parramatta	51.90	25.90
Manly JetCat	65.70	

Note: all half fare concessions have been rounded down to the nearest 10 cents.