

SYDNEY FERRIES MAXIMUM FARES

Changes in Sydney Ferries maximum fares from January 2013

Based on *Review of maximum fares for Sydney Ferries services from January 2013 - Final Report*, November 2012

Sydney Ferries provides passenger ferry services on Sydney Harbour and the Parramatta River under a service contract with the NSW Government agency, Transport for NSW.¹ The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for regulating the maximum fares Sydney Ferries can charge for these services.²

We have undertaken a review of these maximum ferry fares, and have made a final determination on maximum fares from January 2013. This determination applies to MyFerry single, return and 'TravelTen' tickets only.³

Maximum fare increases

Under the decision released today, the maximum fares applying to Sydney Ferries services will increase in nominal terms by 4.8% in 2013 and 5.0% per year from 2014 to 2016⁴ (or 2.4% per year above the expected rate of inflation). This is the first time we are determining a maximum average increase rather than specific fares, to provide the Government with flexibility that may be required with the introduction of the Opal Card. This means that in setting prices for individual fares in 2013, the Government (through Transport for NSW) would need to ensure that the overall average increase in prices is 4.8% or less.

Taking into account the different levels of patronage and cost-recovery on Sydney Ferries 3 service areas, we recommend that:

- ▼ Fares for MyFerry2 tickets (covering travel to and from Manly and longer parts of the Parramatta River) should increase by 2.8% in 2013 (or 0.5% plus inflation). This translates to a 20 cent increase for a single trip or \$1.60 for a TravelTen.

¹ On 28 July 2012 Harbour City Ferries began operating Sydney Ferries services.

² In line with the requirements of section 16AE of the *Passenger Transport Act 1990*.

³ We have set the maximum fares for the multi-mode tickets that can be used for Sydney Ferries services as part of our determination on CityRail fares. Fares for Pensioner Excursion Tickets (PETs) and other concession fares that can be used for Sydney Ferries services are set by the Government.

⁴ Based on a forecast inflation rate of 2.5% per year.

- ▼ Fares for MyFerry1 tickets (which cover Inner Harbour travel and parts of the Parramatta River) should increase on average by 6.7% in 2013 (or 4.3% plus inflation). This translates to a 40 cent increase for a single trip or \$3.20 for a TravelTen.

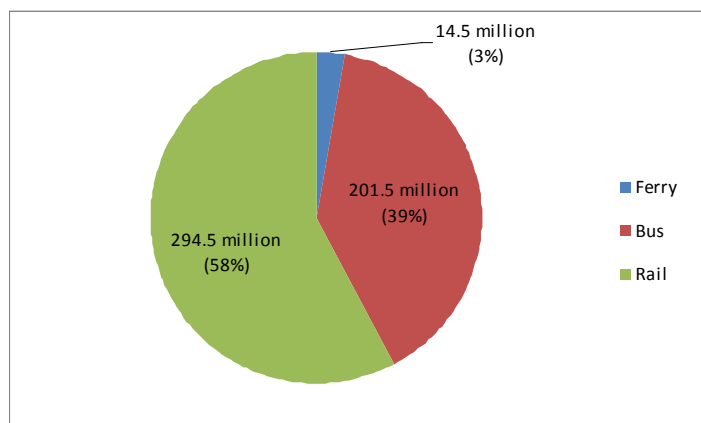
Over the 4-year determination period maximum fares will increase by 21.2% in nominal terms (or 10.0% above the rate of inflation).⁵

The Government has indicated that fares for public transport will increase by no more than inflation until service quality improves.⁶ We consider that our approach to setting maximum fares is appropriate and our analysis implies that real fare increases are needed. Therefore, we have made a determination of maximum fares that includes real fare increases. However, under the legislative framework actual fares can be set below the maximum we have determined.

How we set the average fare change

There are 14.5 million passenger journeys on Sydney Ferries each year (see Figure 1), representing just 3% of overall journeys across all public transport modes.

Figure 1 Greater Sydney metropolitan area: public transport passenger journeys 2010/11



Data source: Sydney Ferries, Annual Report 2010/11; RailCorp, Annual Report 2010/11; Transport for NSW, Annual Report 2010/11. Note this excludes patronage on light rail.

⁵ Under the draft determination, maximum fares increased by an average of 4.9% per year in nominal terms (or 2.6% per year above the expected rate of inflation). This was equal to an increase of 21.1% in nominal terms over the four-year determination period (or 11.0% above the expected rate of inflation). In finalising the determination we have updated our estimate of expected inflation.

⁶ Transport for NSW, Media Release – Public transport fare rise half IPART’s recommendation, Available from: <http://www.transport.nsw.gov.au/media-releases/public-transport-fare-rise-half-iparts-recommendation>, Accessed 29 March 2012.

Like most public transport service providers in the world, Sydney Ferries does not generate enough income from passenger fares to recover the costs of providing its services. Therefore, the Government – or taxpayers – subsidise these costs. We consider that in this situation, fares for Sydney Ferries services – like those for CityRail and Sydney bus services – should reflect the efficient costs of providing the services **minus** the value of the external benefits they generate for the community as a whole (such as reduced road congestion). This approach ensures that passengers and taxpayers each fund a fair share of the costs.

Efficient costs for Sydney Ferries for the 4 years to 1 July 2016 were estimated as part by this determination by expert consultants L.E.K. Consulting, and the proposed new fares reflect the efficient costs as determined in their report.⁷ Service quality on Sydney Ferries is high. Service outcomes have improved over the last few years and passenger satisfaction with the current service is 96% (compared to 81% and 86% with train and bus services respectively).⁸

Sapere Research Group was engaged to estimate the external benefits generated by Sydney Ferries' services, finding that the value of Sydney Ferries external benefits is small.⁹ They found that Sydney Ferries services do not substantially reduce traffic congestion, or reduce pollution associated with travel. Therefore the benefits of Sydney Ferries services to the community as a whole are low (much lower than those for CityRail services, for example).

This means that there is little **economic** justification for taxpayers to subsidise the costs of these services. We have decided that passengers should pay their fair share of efficient costs. To achieve this level of funding, fares need to increase by around 40% (or 18% before inflation). However, to reduce the impact of this increase on passengers, we have decided to transition the necessary fare increases over 7 years, rather than increase them by this amount in the 2013 determination period.

The Government has social policies that involve the provision of free or reduced fares to some passengers. These policies include providing free ferry travel for school students and concession fares for other passengers, subsidising Family Funday Sunday tickets and providing an additional discount to frequent ferry users through the multi-mode MyMulti tickets (compared to the 20% discount on single fares available through TravellTen tickets).¹⁰

⁷ See L.E.K. Consulting, *Sydney Ferries Cost Review, Final Report to IPART*, January 2012.

⁸ Bureau of Transport Statistics, 2011 Transport customer survey – customer satisfaction with public transport services, 2011.

⁹ Sapere Research Group, *External benefits of Sydney Ferry services - Final report to IPART*, August 2012 and Sapere Research Group, *Supplementary Report on externalities for Sydney Ferries - report to IPART*, November 2012.

¹⁰ For example, for a regular commuter using only Sydney Ferries services, a MyMulti1 weekly ticket offers a 39% discount on single fares compared to the 20% discount offered by a MyFerry2 TravelTen or a 23% discount on single fares compared to the 20% on a MyFerry1 TravelTen.

We consider that the cost of these social policies should be paid for by taxpayers rather than passengers. This is in addition to the subsidy that is justified by the external benefits. However, we recommend that the additional subsidy for ferry travel offered by MyMulti1 tickets be removed and that these tickets are no longer valid for travel on Sydney Ferries.

IPART's determination is based on the costs and benefits of the Inner Harbour and Manly services only. Fare increases would have been considerably higher if the costs and benefits of the high cost, low patronage Parramatta River service were taken into account. The Parramatta service accounts for around 25% of Sydney Ferries' total costs and only 10% of patronage. Thus its costs per passenger are significantly higher than those of the other services. It also competes with rail for passengers travelling between the City and Parramatta, with train fares cheaper than ferry fares and the journey time shorter. Under the current fare structure, it is not possible to set separate fares for the Parramatta service to recover an adequate percentage of costs without all passengers paying higher fares. We do not support this outcome and therefore propose the same increases for fares used for the Parramatta River service as for the other 2 services.


Manly ferry fares could be deregulated

In our draft report we recommended that Government remove fare regulation on Sydney Ferries Manly to Sydney City route. On 10 September 2012, the Minister for Transport announced "it is not our intention to deregulate fares on the Manly route".¹¹ We recognise that this is a decision for Government. However, we still consider that maximum fare regulation for the Manly service could be removed and be replaced with price monitoring.

There is considerable competition in the provision of passenger transport services between Manly and Sydney City, as well as competition on the Manly to Circular Quay ferry route itself.

Regulation is generally only necessary in a monopoly market – where a lack of competition can lead to higher prices and poorer services. The private sector operators of the (unregulated and unsubsidised) fast ferry services on the Manly route have introduced innovations that are clearly valued by passengers, with the level of competition on the Manly route delivering passenger benefits beyond those that can be achieved through regulation.

¹¹ See, eg, <http://www.smh.com.au/nsw/ferry-fares-tipped-to-rise-40-per-cent-20120910-25nh2.html> (accessed 29 October 2012).



IPART's role in relation to Sydney Ferries fares on the Manly route could be to monitor these fares only. We would resume fare regulation only if we found that competition (or potential competition) on this route had decreased or that Sydney Ferries was exercising monopoly power. If maximum fare regulation continues to apply to the Manly service this may disadvantage the Government-owned service in terms of innovation and fare flexibility compared to the fast ferry services.

What is the process for fares to change in January 2013?

Before fares change in January 2013, Transport for NSW will be required to submit a pricing proposal to IPART setting out the fares for each relevant Sydney Ferries ticket. We will assess whether this pricing proposal complies with our final decision and publish the new fares on our website in December.