

# Review of Fares for Sydney Ferries in NSW

From 2 January 2007

Transport - Report and Determination  
December 2006





Independent Pricing and Regulatory Tribunal

# **Review of Fares for Sydney Ferries in NSW**

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**Determination No 10, 2006**

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# **Report No 10, 2006**

## **Sydney Ferries**

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**Independent Pricing and Regulatory Tribunal  
of New South Wales**

**Reference No: 06/480**



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## 1 INTRODUCTION AND OVERVIEW

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) is responsible for setting the maximum fares that Sydney Ferries Corporation (Sydney Ferries) can charge for public transport services. The Tribunal has undertaken its 2006 review of these fares, and determined new fares for 2007.

### 1.1 Overview of determination

The Tribunal has determined that Sydney Ferries can increase its existing maximum fares by 3.2 per cent before rounding.<sup>1</sup> The resulting prices are then to be rounded up or down to the nearest 10 cents for single tickets and the nearest dollar for adult travel passes. As a result of this rounding, the weighted average increase in maximum fares will be 3.9 per cent.<sup>2</sup> This increase is less than the 4.3 per cent weighted average increase proposed by Sydney Ferries.<sup>3</sup> In the future, the difference in fare increases before and after rounding will be smoothed out, as the Tribunal intends to apply future fare increases to an unrounded 'masterfare schedule' rather than to existing fares.

The Tribunal's determination will affect the price of individual fares as follows:

- standard single tickets will increase by between 20 and 30 cents (for all services including Manly JetCat services)
- FerryTens will increase by between \$1.00 and \$2.10
- Travel Passes (bus and ferry) will increase between \$1.00 and \$2.00.

The price of rail-bus-ferry TravelPasses and DayTripper tickets will not change.<sup>4</sup>

The Tribunal is satisfied that its decision to increase maximum fares is justified because:

- Sydney Ferries' costs have increased by more than the change in the CPI, in particular its fuel and labour costs
- Sydney Ferries has implemented a number of initiatives to improve the standards of quality, reliability and safety of its services which will benefit customers
- in the Tribunal's view, it is reasonable to require Sydney Ferries' customers to pay slightly more to ensure an appropriate proportion of its costs are recovered through ticket revenue.

### 1.2 Overview of Tribunal's rationale

In making this determination, the Tribunal rejected Sydney Ferries' proposal to increase the price of standard single tickets and FerryTens by 4.7 per cent, JetCat single tickets by 6.3 per cent, and JetCat FerryTens by 5.9 per cent.

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<sup>1</sup> Except for bus/ferry TravelPasses which increase by 3.8 per cent consistent with the Tribunal's 2006 determination on Sydney metropolitan bus fares.

<sup>2</sup> Based on a revenue weighted average.

<sup>3</sup> Sydney Ferries Corporation, submission to the Tribunal, 2006. Available on the Tribunal's website.

<sup>4</sup> Rail-bus-ferry TravelPasses and DayTripper tickets were part of the Tribunal's decision on fares for CityRail from 2 July 2006 which is available on the Tribunal's website.

The Tribunal considered the fact that Sydney Ferries' costs – particularly its labour and fuel costs – have increased significantly in the last financial year. It also took into account that the corporation is implementing several initiatives designed to increase its efficiency and improve the quality, reliability and safety of its public transport services.

However, the Tribunal concluded that Sydney Ferries had failed to demonstrate that its costs for 2005/06 are *efficient* costs, or that it has achieved a sustained improvement in service standards. The Tribunal welcomes Sydney Ferries' commitment to improving its efficiency and service standards in the coming years. But it believes that the fare increases sought by Sydney Ferries in its proposal cannot be justified until the corporation provides clear evidence that these improvements have been achieved.

The Tribunal notes that Sydney Ferries' substantial labour costs have been increasing for several years, and this trend is expected to continue in the future. The Tribunal has been concerned about the efficiency of these costs for some time and this review has identified the opportunity for cost savings in this area. Prior to commencing the 2006 fare review, it commissioned a consultant to examine Sydney Ferries' operating and capital expenditure. The consultant identified significant potential for efficiency savings in the corporation's proposed operating expenditure for 2006/07 and beyond, including substantial savings in labour costs. Given this, the Tribunal considers that Sydney Ferries – and its owner, the NSW Government – must take action to realise these savings. The users of Sydney Ferries' services should not be asked to fund inefficient costs.

While the Tribunal considers that there is scope for Sydney Ferries to increase its efficiency, Sydney Ferries has experienced real costs increases in 2005/06. Therefore, the Tribunal concluded that a fare increase less than the change in the CPI is inappropriate given that fuel costs increased considerably in 2005/06 and at least some of the cost increases experienced by Sydney Ferries are to improve the safety and reliability of the services provided for the benefit of passengers. The Tribunal must also balance the interests of passengers and the general community, many of whom contribute to the public funding of Sydney Ferries without using its services. Striking the appropriate balance between passenger and public funding of Sydney Ferries services was a key consideration in the Tribunal's decision to increase fares.

The Tribunal also notes that the extent to which Sydney Ferries' fare revenue recovers the costs of providing its services has declined significantly over the last six years. This is largely because its costs have increased at a faster rate than its revenue. This trend is not sustainable. Unless effective action is taken to control costs, NSW taxpayers will soon be required to fund more than half of Sydney Ferries' costs.

The Tribunal recognises that Sydney Ferries has experienced a lot of change in its senior management in the last several years, and that the current management is not responsible for its poor performance over this time. However, the Government needs to ensure that management is held accountable for Sydney Ferries' future performance.

The Tribunal intends to closely examine Sydney Ferries' performance, particularly its cost efficiency, at the next fare reviews. It is pleased to note that Sydney Ferries has indicated that it expects to be able to realise efficiency savings over the next years. The Tribunal expects to start receiving information on these savings in 2007. The Tribunal also intends to continue to work with Sydney Ferries, to gather the data required for it to consider setting a medium-term price path in the future.

The Tribunal is satisfied that its 2006 determination balances the competing concerns of Sydney Ferries, its customers and other stakeholders.

### **1.3 Structure of report**

This report explains the Tribunal's 2006 determination in more detail, including why it reached its pricing decisions and what those decisions mean for Sydney Ferries, its passengers, its requirement for government funding, 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 discusses the Tribunal's considerations in relation to Sydney Ferries' costs over 2005/06, and its current and expected levels of cost recovery
- Chapter 4 discusses its considerations in relation to Sydney Ferries' service quality
- Chapter 5 sets out the new maximum fare for each ferry ticket as a result of this determination
- Chapter 6 considers the implications of the Tribunal's decisions for Sydney Ferries, its passengers, its need for government funding, and the environment
- Chapter 7 outlines what information the Tribunal requires from Sydney Ferries for future reviews.



## 2 TRIBUNAL'S REVIEW AND DECISION-MAKING PROCESS

The Tribunal's role in regulating Sydney Ferries is to set the maximum fares that the corporation can charge for public transport services. Because the Tribunal regulates monopoly services only, its price determinations for Sydney Ferries explicitly exclude any services that are deemed to fall outside the definition of a monopoly service, such as cruises and charters. Its determinations also exclude the fares and concessions granted to pensioners, children and students who use Sydney Ferries' services. At present, these half-fare and concession prices change automatically, in line with changes to the full-fare prices determined by the Tribunal. Any changes to the relationship between concession and full-fare prices are a matter for the NSW Government.

The Tribunal's review process, and the matters it took into consideration in conducting its review and reaching its decisions are outlined below.

### 2.1 Review process

As part of its review, the Tribunal conducted public consultation and undertook its own research and analysis. In particular, the Tribunal:

- invited Sydney Ferries and other interested parties to make written submissions to the review (see Appendix 2 for a list of the submissions received)
- requested detailed financial data from Sydney Ferries
- held a public hearing on 20 October 2006 and invited some of the parties who made submissions to participate in a round-table discussion of issues (see Appendix 2 for a list of participants and observers)
- considered Booz Allen Hamilton's review of Sydney Ferries' projected patronage growth to 2007/08<sup>5</sup>
- considered Grant Thornton's review of Sydney Ferries' projected operating and capital expenditure to 2008/09.<sup>6</sup>

The Tribunal then considered Sydney Ferries' submission and the issues raised in other stakeholder submissions and the public hearing. It also analysed the financial information provided by Sydney Ferries, and examined its consultants' reports. Originally, the Tribunal commissioned the consultants' reports to help it consider the case for determining a medium-term price path for Sydney Ferries. However, because Sydney Ferries did not propose a medium-term price path in its submission, the Tribunal considered the consultants' findings in relation to 2006/07 but recognised that they were undertaken with the view of being used to determine a medium-term price path.

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<sup>5</sup> Booz Allen Hamilton, *Review of patronage trends and projections for Sydney Ferries*, October 2006. Available on the Tribunal's website.

<sup>6</sup> Grant Thornton, *Review of the operating and capital expenditure of Sydney Ferries Corporation*, October 2006. Available on the Tribunal's website.

## 2.2 Matters considered

The Tribunal made this price determination in accordance with Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (the IPART Act). In doing so, the Tribunal explicitly considered each of the factors it is required to consider under section 15 of the IPART Act. These matters, which are listed in full in Appendix 1, relate to:

- costs – the cost of providing the services concerned
- 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.

In reaching its decisions on fares, the Tribunal weighed 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. Due to the diversity of these interests and concerns, the Tribunal had to trade-off passenger affordability concerns, service quality expectations and social and environmental benefits against the financial viability of Sydney Ferries and its requirement for public funding.

The Tribunal's consideration of the matters listed in section 15 of the IPART Act is discussed throughout the report. Further information relating to the Tribunal's review, including all public submissions, the transcript of the public hearing, and the consultants' reports, can be found on the Tribunal website: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

### 3 SYDNEY FERRIES' COSTS

One of the main factors the Tribunal considered in reaching its fare decision was the costs that Sydney Ferries incurs in providing regulated passenger ferry services, and the extent to which the revenue it generates through fares for these services recovers these costs. It particularly focused on the changes in costs and revenues over the 2005/06 financial year, and the projected changes for 2006/07. It also recognises that operating costs such as fuel have increased by 37 per cent in 2005/06 and are forecast to increase again by 28 per cent in 2006/07.

Sydney Ferries' overall costs rose by 7.7 per cent in 2005/06, and its operating costs rose by 6.6 per cent. The bulk of this increase is due to increases in the price of fuel and labour costs. The Tribunal notes that Sydney Ferries has indicated that some of the increases in labour costs will enhance the safety and reliability of the services provided. At the same time, its revenue from regulated fares rose by 1.4 per cent, its total revenue<sup>7</sup> fell by 2.2 per cent, and its cost recovery ratio fell from 58.3 per cent to 52.9 per cent.

The Tribunal also considered the findings of Grant Thornton, the consultant it commissioned to review Sydney Ferries' projected operating and capital expenditure for the period 2006/07 to 2008/09.<sup>8</sup> Grant Thornton identified potential efficiency savings in Sydney Ferries' forecast operating expenditure for 2006/07 of \$6.5 million. The Tribunal notes that most of these savings relate to labour costs, so may be difficult to achieve in the short term. Nevertheless, Sydney Ferries has indicated that it does expect to make some efficiency savings in the coming year, through measures such as the introduction of new Enterprise Bargaining Agreements and shorter rosters.

The Tribunal also notes that Sydney Ferries has forecast a further increase in its operating costs of \$8.3 million in 2006/07. This means that even if the corporation were to achieve *all* the potential efficiency savings identified by Grant Thornton for that year, its operating costs would still be some \$2 million more than in 2005/06.

After considering all this cost information, and taking into account Sydney Ferries' service quality performance (see Chapter 4) and the matters outlined in Chapter 2, the Tribunal decided to allow a fare increase in line with the change in the CPI<sup>9</sup> since its last determination. The Tribunal considers that, on balance, this level of increase is justified to limit the decline in Sydney Ferries' cost recovery ratio. As a result of the increase, Sydney Ferries' cost recovery ratio is expected to decline only slightly over 2006/07.

The following sections discuss Sydney Ferries' costs, cost efficiency, revenue and cost recovery in more detail, and outline the expected effect of the Tribunal's determination on its cost recovery ratio for the coming year.

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<sup>7</sup> Excluding CSOs and capital grants.

<sup>8</sup> Grant Thornton, *Review of the operating and capital expenditure of Sydney Ferries Corporation*, October 2006. Available on the Tribunal's website.

<sup>9</sup> The change in CPI used in the decision was the All Groups CPI, Weighted Average for Sydney, for the four quarters to the September quarter over the average of the four quarters for the same period of the previous year.

### 3.1 Total costs

The Tribunal examined the data Sydney Ferries provided on its actual costs for the last three years and its projected costs for 2006/07 (Table 3.1). This data shows that Sydney Ferries' total costs for 2005/06 were around \$106 million, which represents a 7.7 per cent increase since 2004/05. This increase is due to higher operating costs, including:

- a 13 per cent increase in labour costs, which comprised 50 per cent of its total costs in 2005/06
- a 37 per cent increase in fuel costs, which comprised nearly 8 per cent of its total costs.

**Table 3.1 Sydney Ferries' costs**

Costs	2004/05		2005/06		2006/07(f)	
	\$'000	%	\$'000	%	\$'000	%
Operating costs	82,348	83.2	87,779	82.4	96,112	83.6
<i>Labour</i>	47,232	47.7	53,520	50.2	59,944	52.1
<i>Fuel</i>	6,037	6.1	8,300	7.8	10,600	9.2
<i>Maintenance</i>	12,485	12.6	9,102	8.5	8,201	7.1
<i>Other</i>	16,594	16.8	16,857	15.8	17,367	15.1
Depreciation	12,087	12.2	14,651	13.8	14,208	12.4
Interest	4,511	4.6	4,117	3.9	4,681	4.1
Total costs	98,947	100.0	106,547	100.0	115,001	100.0

Source: Sydney Ferries Corporation 2006 financial model. 'Other costs' refer to rent, insurance, cleaning, advertising, uniforms, utilities, security.

Sydney Ferries projects that its total operating costs will grow by around another 9.5 per cent in 2006/07 in the absence of any efficiency savings. Most of this increase is due to a forecast increase in labour costs of \$6.4 million or 12 per cent, which will take this component to 52 per cent of total costs. A substantial increase in fuel costs is also forecast for 2006/07.

Not all of Sydney Ferries' operating costs are increasing - its maintenance costs fell in 2005/06, and are forecast to fall again in 2006/07. According to Sydney Ferries, these falls are largely due to accounting changes<sup>10</sup> and the absence of Freshwater dockings in 2005/06. Freshwater dockings do not occur every year and as a consequence maintenance costs will vary according to the scheduled number of dockings in any given year. Table 3.2 shows the value of Sydney Ferries' cost items in 2005/06, and the change in this value since 2004/05.

<sup>10</sup> The introduction of Australian Equivalents to International Reporting Standards (AEIRS).

**Table 3.2 Value and change in costs in 2005/06**

<b>Costs</b>	<b>2005/06 \$'000</b>	<b>% change from 2004/05</b>
Operating costs	87,779	6.6
Labour	53,520	13.3
Fuel	8,300	37.5
Maintenance	9,102	-27.1
Other	16,857	1.6
Depreciation	14,651	21.2
Interest	4,117	-8.7
<b>Total costs</b>	<b>106,547</b>	<b>7.7</b>

Source: Sydney Ferries Corporation 2006 financial model.

### 3.2 Cost efficiency

The Tribunal is not satisfied that Sydney Ferries' costs, particularly its labour costs, are efficient. It notes that labour costs have risen by 13 per cent in 2005/06, and are forecast to jump a further 12 per cent in 2006/07. It also considers that increases of this size are not sustainable, particularly given that Sydney Ferries' patronage growth is flat and its revenue is falling (see sections 3.3 and 3.4).

Sydney Ferries contends that its high and rising labour costs are due to the fact that it must provide a diversity of ferry services while also meeting safety and service standards. However, Grant Thornton found that Sydney Ferries' labour costs are considerably higher than those of comparable private ferry operators (Table 3.3). It also found that there is potential for Sydney Ferries to reduce its labour costs over the next three years (Table 3.4).

**Table 3.3 Labour costs comparison**

	<b>Master/Engineer \$</b>	<b>General Purpose Hand \$</b>
Benchmark	66,000	36,750
Sydney Ferries	95,000	68,224
Difference (\$)	29,000	31,474
Difference (%)	43.9	85.6

Source: Grant Thornton "Review of the operating and capital expenditure of Sydney Ferries Corporation". October 2006.

**Table 3.4 Potential for efficiency savings in Sydney Ferries' forecast operating expenditure - Grant Thornton**

Operating expenditure	2006/07 \$000	2007/08 \$000	2008/09 \$000
Labour	5,807	4,710	6,235
Fuel	-630	-188	233
Repairs and maintenance	785	805	825
Other expenses	500	555	560
Total	6,461	5,882	7,853

Source: Grant Thornton, *Review of the operating and capital expenditure of Sydney Ferries Corporation*, October 2006.

The efficiency of Sydney Ferries' costs was discussed at the Tribunal's public hearing on 20 October 2006, with many stakeholders questioning the efficiency of these costs. For example, David Barr MP, Independent member for Manly stated:

The costs are primarily fuel and labour. ...but the one that stands out starkly is labour costs, so we have a structural problem.

It is a difficult issue I realise, but what is happening is that consumers are being asked to pay for the structural problems of the Sydney Ferries Corporation's labour problems.<sup>11</sup>

The Tribunal notes that Sydney Ferries is currently implementing several cost management strategies, such as the new enterprise bargaining agreements, shorter rosters and enhanced revenue protection measures. Sydney Ferries has indicated that it anticipates that these measures will result in efficiency savings during 2006/07. The Tribunal welcomes these measures, and expects to start receiving information on the savings realised as part of its 2007 review. It considers that even small efficiency savings over the next 12 months will help provide it with evidence that Sydney Ferries is taking responsibility for controlling its costs.

In addition, the Tribunal noted that Sydney Ferries' fuel costs increased significantly in 2005/06. The corporation's fleet consumes between 10 and 15 million litres of fuel each year<sup>12</sup>. The cost of this fuel rose by 37 per cent in the last year, and by 40 per cent increase in 2004/05. As a result, fuel costs have almost doubled as a proportion of total costs over the last 2 years. However, the Tribunal acknowledges Sydney Ferries' capacity to control such costs increases may be limited.

<sup>11</sup> David Barr MP, comment at the public roundtable on 20 October 2006. Transcript available on the Tribunal's website.

<sup>12</sup> Source: Grant Thornton, *Review of the operating and capital expenditure of Sydney Ferries Corporation*, October 2006.

### 3.3 Total revenue

Using the Tribunal's preferred measure of revenue – which includes farebox revenue from regulated and unregulated fares, plus revenue from School Student Travel Scheme (SSTS) and concession fares and other revenue – Sydney Ferries' revenue fell by 2.2 per cent in 2005/06 (Table 3.5).

**Table 3.5 Sydney Ferries's revenue**

Revenues	2004/05 \$000s	2005/06 \$000s	% change FY05
Regulated fares	40,260	40,812	1.4
Non-regulated fares	4,813	4,517	-6.2
<b>Farebox revenue</b>	<b>45,073</b>	<b>45,329</b>	<b>0.6</b>
SSTS	367	318	-13.4
Half fares	9,188	9,521	3.6
Other revenue	3,058	1,254	-59.0
<b>Revenue (IPART)</b>	<b>57,686</b>	<b>56,421</b>	<b>-2.2</b>
CSOs	33,812	33,082	-2.2
Capital grants	4,830	4,830	0.0
<b>Total Revenue</b>	<b>91,498</b>	<b>89,503</b>	<b>-2.2</b>

Source: Sydney Ferries Corporation 2006 financial model.

Within this measure, 'other revenue'<sup>13</sup> fell by almost 60 per cent in 2005/06, compared to an increase of 152 per cent in 2004/05. Revenue from SSTS and non-regulated fares also fell in 2005/06, while overall revenue from regulated fares increased by 1.4 per cent. This increase in regulated fares was largely driven by fare increases determined by the Tribunal last year, as patronage of regulated services went up by a mere 0.2 per cent.

The Tribunal is concerned about Sydney Ferries' combination of falling revenue and increasing costs (see section 3.1), and expects to see evidence that it is taking action to address both issues at the next fare review. There is also concern within the community, and pressure for Sydney Ferries to be held accountable for its performance. For example, Mike Baird, the Liberal candidate for the seat of Manly, raised this issue at the Tribunal's public hearing on 20 October 2006:

In terms of accountability, we have the position where from 2000 to 2006 . . . revenue has increased by 14.4 per cent and costs have increased by 46.1 per cent.

I mean, there has to be a point where there is a degree of accountability. We cannot have a cycle where we continue . . . to support poor management.<sup>14</sup>

<sup>13</sup> Other revenue includes among others rental income, commissions, advertising, premiums on loans and sundry income.

<sup>14</sup> Mike Baird, comment at the public roundtable on 20 October 2006. Transcript available on the Tribunal's website.

As already noted, the Tribunal expects Sydney Ferries to provide information on the cost savings it achieves during the 2006/07 at the next fare review. It also expects the corporation to provide information on the measures it undertakes to increase patronage levels, and their success.

### 3.4 Cost recovery

The Tribunal measures cost recovery by dividing the service provider's relevant revenue by its relevant costs (Table 3.6). Relevant revenue includes the revenues collected from passengers (farebox plus free and concessional revenue), or reimbursed by Government for carrying certain passengers at less than full fare, or earned from other business activities (such as advertising revenue). It does *not* include 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.

**Table 3.6 Calculating cost recovery<sup>15</sup>**

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

Using this method, the Tribunal calculated that Sydney Ferries' cost recovery ratio for 2005/06 was 52.9 per cent (Table 3.7). It notes that there has been a significant decline in Sydney Ferries' cost recovery ratio. As a consequence of this decline, taxpayers are being asked to pay an increasing subsidy for public ferry services.

**Table 3.7 Sydney Ferries' cost recovery ratio**

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (forecast)
Revenues (\$m)	45.5	49.3	47.0	47.1	52.5	57.7	56.4	58.6
Costs (\$m)	71.7	72.9	86.8	93.9	98.4	98.9	106.5	115.0
Cost recovery (%)	63.5	67.7	54.1	50.1	53.4	58.3	52.9	51.0 <sup>16</sup>

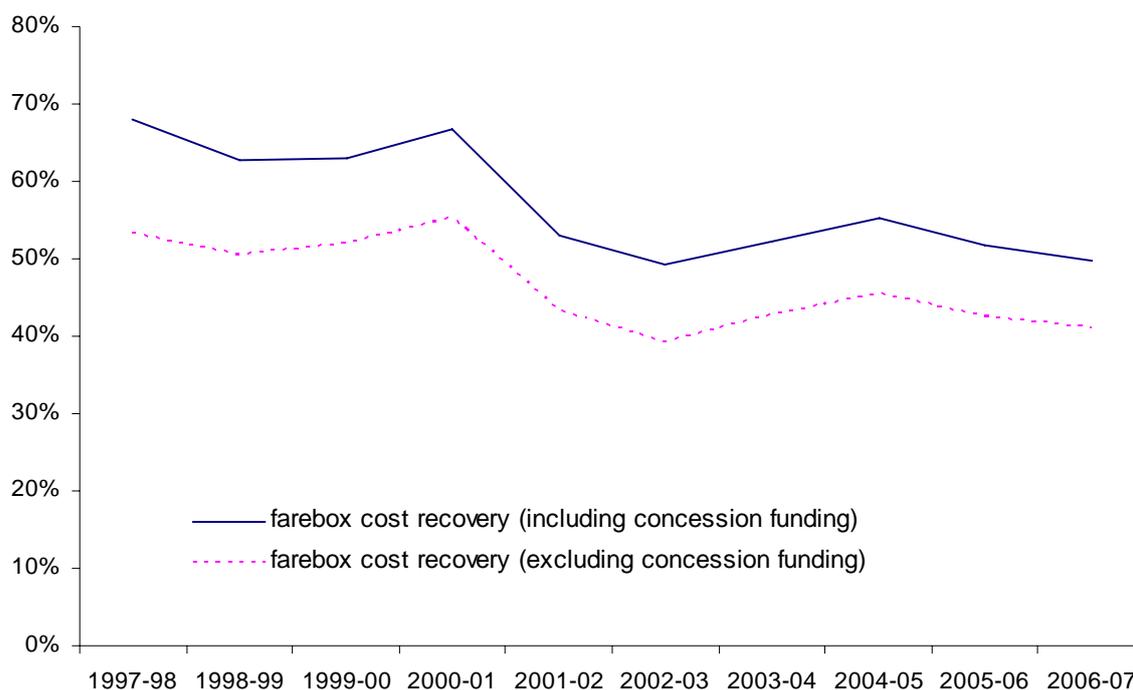
Source: Tribunal's analysis, based on Sydney Ferries Corporation 2006 financial model.

Figure 3.1 shows the decline in farebox cost recovery for Sydney Ferries. Farebox cost recovery is defined as passenger revenue divided by total costs. It shows the proportion of Sydney Ferries' total costs<sup>17</sup> directly funded by users. Farebox revenue cost recovery excluding concession funding declined by 6 per cent in 2005/06.

<sup>15</sup> 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 Inquiry's 'cost recovery' ratios showed the size of the gap which would need to be funded in order to make public transport 'sustainable'.

<sup>16</sup> Includes the impacts of Sydney Ferries' proposed fare rises.

<sup>17</sup> As has been noted previously, total costs are defined as operating costs plus depreciation and interest expenses.

Figure 3.1 Farebox cost recovery<sup>18</sup>

When relevant revenue and relevant costs are examined separately, cost growth has often outstripped revenue growth (Table 3.8).<sup>19</sup> In particular, between 2000/01 to 2005/06 revenue rose by about half as much as costs. Over this same period, patronage in absolute numbers remained fairly stable (Table 3.9). For 2006/07, Sydney Ferries projects an increase in patronage of one per cent across all passenger types.

Table 3.8 Annual percentage changes in cost recovery components

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 (forecast) <sup>20</sup>
Revenues	8.3	-4.8	0.2	11.6	9.8	-2.2	4.0
Costs	1.5	19.1	8.2	4.8	0.5	7.7	7.9

Source: Sydney Ferries Corporation 2006 financial model.

Table 3.9 Patronage trends – all tickets

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Patronage (000)	14,912	13,613	13,474	13,967	14,052	14,028	14,168
Percentage change	-	-8.8	-1.0	4.2	0.6	-0.2	1.0

Source: Sydney Ferries Corporation 2006 financial model.

<sup>18</sup> 2006/07 forecast is based on Sydney Ferries' projections and proposed fares.

<sup>19</sup> One exception was in 2000/01 when Olympics-related tourist inflows gave patronage and revenues a temporary boost. Other exceptions were in 2003/04 and 2004/05, when the Tribunal determined fare increase of 7.5 per cent and 4.2 per cent respectively.

<sup>20</sup> Forecast using Sydney Ferries Corporation's proposed fare changes.

### 3.5 Expected impact of Tribunal's determination on cost recovery in 2005/06

Given Sydney Ferries' projections on patronage growth for 2006/07, the fare rises determined by the Tribunal are expected to result in a slight decrease in Sydney Ferries' cost recovery ratio to 50.8 per cent (provided that other assumptions about costs and patronage remain unchanged).

The Tribunal has not received advice from the government on what the appropriate level of cost recovery for Sydney Ferries may be. It also notes that the 2003 Ministerial Inquiry into Sustainable Transport did not specify an appropriate level of cost recovery for Sydney Ferries. However, this inquiry did conclude that the balance between costs and revenues should be made more sustainable. It suggested that this should be achieved primarily through efficiency gains rather than fare increases.<sup>21</sup>

As it indicated last year, the Tribunal also believes that Sydney Ferries should improve its cost recovery ratio by pursuing efficiency gains. This approach is likely to be more effective than increasing fares. For example, in 2005/06, total farebox revenue was \$45.3 million, concessions payments were \$9.8 million and total costs were \$106.5 million. If costs were reduced by 5 per cent, the saving would be around \$5.0 million. In comparison, a 5 per cent increase in fares (assuming unchanged patronage) would yield only an extra \$2.3 million (with another \$0.5 million 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 – and without risking a decline in patronage.

### 3.6 Productivity

The Tribunal notes that the form of regulation for private ferry operators uses a unit-based cost index to measure changes in costs. The Tribunal applies a productivity adjustment to the labour component of the index so that productivity gains can be shared between operators and consumers. The regulation for Sydney Ferries is different because a cost index is not used. Moreover, the farebox revenue that Sydney Ferries receives does not cover its costs. Therefore, the Tribunal places a greater emphasis on improving cost recovery.

However, in determining the appropriate increase in fares for Sydney Ferries the Tribunal has considered scope for efficiency improvements (see section 3.2).

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<sup>21</sup> Ministerial Inquiry, Final Report, p 25.

## 4 SERVICE QUALITY

The Tribunal considered Sydney Ferries' service quality over 2005/06 and its planned service improvements for the coming years and comments in stakeholders' submissions. In its submission, Sydney Ferries noted that it is currently undertaking several initiatives to improve the quality of the services it provides, particularly in relation to safety, fleet availability and reliability.

Other stakeholders expressed dissatisfaction with Sydney Ferries' performance in relation to a range of quality issues including cancellation of ferries at the Manly wharf, on-time running of ferries at the Manly wharf, poor communication from Sydney Ferries' staff and dirty ferries. For example, one stakeholder submitted that:

The level of service currently offered by the Manly Ferry and JetCat has deteriorated markedly over the last couple of years. It is rare that a week goes by when I am not personally inconvenienced by a Manly Ferry and/or JetCat being late or cancelled entirely.<sup>22</sup>

The Tribunal concluded that Sydney Ferries' performance in relation to service quality was mixed over the last 12 months, and that the corporation did not demonstrate consistent improvement in this performance. The sections below discuss Sydney Ferries' service quality for 2005/06 in detail, and its planned service improvements for the coming years.

### 4.1 Service quality in 2005/06

Sydney Ferries provided the Tribunal with information on its performance against its key performance indicators for the safety, availability and reliability of its services for 2005/06 (Table 4.1). The Tribunal notes that although each of these key performance indicators can be considered a measure of service quality, their relevance to passengers and the quality and reliability of the data used to measure performance might be further improved. For example, on-time running is measured at Circular Quay only. It also notes that Sydney Ferries has set fairly high targets for its performance against these key indicators.

Based on its analysis of the data provided, the Tribunal considers that Sydney Ferries' service quality performance for 2005/06 was mixed. For example, the percentage of services that ran 'on time' decreased slightly and the number of customer complaints increased. The number of customer complaints increased significantly, and was 52 per cent higher than the target. However, the number of reportable vessel incidents decreased, and was less than the target number. The number of significant incidents also decreased, but did not meet the target.

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<sup>22</sup> Glen Butler, submission to Sydney Ferries Corporation's fare proposal 2006. Available on the Tribunal's website.

Table 4.1 Key performance indicators

Key Performance Indicator	2002/03	2003/04	2004/05	Target 2005/06	Result 2005/06
Number of significant incidents	6	7	3	<i>Nil</i>	2
No. passenger injuries <sup>23</sup> per million passenger journeys	7	15	11	18	17
Number of reportable vessel incidents	NA	NA	89	70	69
Percentage of services that run "on time" (within 5 mins of scheduled time to leave Circular Quay)	99.0	98.7	98.8	99.5	98.3
Number of customer complaints	NA	NA	832	820	1,243
Customer satisfaction index	NA	NA	NA	NA	76
Percentage of scheduled services that run	99.3	99.1	98.9	99.5	98.8
Fleet availability	NA	NA	74	80	71

Source: Sydney Ferries Corporation submission 2006, p 15 and previous Tribunal reports on Sydney Ferries Corporation.

Sydney Ferries also indicated that other service improvements have occurred which are not reflected in the key performance indicators. For example, Sydney Ferries has:

- added additional peak services to Cabarita
- introduced daily services to Garden Island
- added additional services to Rose Bay and Watsons Bay on weekends.

The submissions from other stakeholders indicate that ferry passengers are not satisfied with the quality of the service provided by Sydney Ferries. For example, one passenger noted that:

The standard of service, particularly on the JetCats, has declined considerably from when I started using the service six or so years ago.

There are other alternatives to increasing fares across the board: there seems to be a ludicrous over-staffing of the wharfs by [Sydney Ferries'] employees of very low quality (evidenced by poor communication, poor planning and a general failure to recognise that they are in a customer-service oriented environment (it is my observation that rudeness and a general sense of idleness are commonplace)).<sup>24</sup>

Action for Public Transport submitted that:

[Sydney Ferries] has a poor reputation for customer service. Interestingly, customer service is a key strategic objective for [Sydney Ferries] as noted on p.13 of their submission. Infrequent ferry passengers are confounded by the difficulty of using automatic ticket selling machines at Circular Quay. Regular passengers are offended by

<sup>23</sup> 'Passenger injuries' includes any passenger reports including illness.

<sup>24</sup> Richard Gordon, submission to Sydney Ferries Corporation's fare proposal 2006. Available on the Tribunal's website.

the indifference shown by [Sydney Ferries] staff when service disruptions occur. Passenger complaints in 2005/06 exceeded the target of 820 by 423 or over 50 per cent.<sup>25</sup>

Given this mixed evidence in relation to Sydney Ferries' service quality in 2004/05, the Tribunal does not believe its performance in this area provides grounds for a fare increase in excess of the growth rate in the CPI.

## 4.2 Planned service improvements

Sydney Ferries outlined a range of planned service improvements including:

- commencement of the development of a safety plan including a new safety management system
- upgrade of the Collaroy control system to improve service safety and reliability
- upgrade and expansion of the CCTV network and associated infrastructure to improve passenger safety and information
- improved revenue protection measures.

Sydney Ferries also indicated that it is changing timetables and introducing new routes to drive patronage growth.

At this stage, it is unclear what impacts these measures will have on the safety, availability and reliability of services provided by Sydney Ferries. The Tribunal accepts that implementing these measures will most probably have a positive impact on passenger satisfaction and safety, and although it is sympathetic to funding investments which would increase the level of safety of the services provided through higher fares, it would expect that at least part of the costs could be funded by efficiency gains achieved in other areas of the business.

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<sup>25</sup> Action for Public Transport, submission to Sydney Ferries Corporation's fare proposal 2006. Available on the Tribunal's website.



## 5 THE NEW FARES

The Tribunal has determined that the increase in maximum fares charged by Sydney Ferries will be 3.2 per cent before rounding<sup>26</sup>. The Tribunal notes that the 3.2 per cent increase in fares before rounding may result in different percentage increases in individual fares. This is due to rounding practices and the weighted average increase in fares after rounding is 3.9 per cent<sup>27</sup>. In the future, the difference between fare increases before and after rounding will be smoothed out as the Tribunal intends to apply any future fare increases to an unrounded 'masterfare schedule', rather than the existing fares.

This overall increase resulted from the Tribunal's decisions to:

- increase fares for standard tickets and FerryTens by 3.2 per cent, in line with the change in the general rate of inflation<sup>28</sup>
- increase fares for two-mode TravelPasses by between \$1.00 and \$2.00, consistent with the Tribunal's determination on Sydney metropolitan buses
- round upwards or downwards the fares for all adult single and FerryTen tickets to the nearest 10 cents, all TravelPass weekly adult tickets to the nearest dollar and all concession tickets so they are not more than half the corresponding full adult fare.

In terms of the absolute change in maximum prices, the Tribunal's determination will result in the following fare changes:

- standard single tickets will increase by between 20 and 30 cents
- FerryTens will increase by between \$1.00 and \$2.10
- bus-ferry Travel Passes will increase by between \$1.00 and \$2.00
- rail-bus-ferry TravelPass and DayTripper prices will not change.<sup>29</sup>

The Tribunal also noted the submissions from Manly commuters calling for a differentiation in fares between the commuter and leisure market segments. Sydney Ferries on the other hand proposed to increase fares for its Manly services (normal services and the premium JetCat service) by more than its other services. The Tribunal did not consider it appropriate to differentiate fares between market segments or routes in this review as:

- such a differentiation in fares should be considered for all routes serviced
- there is merit in pursuing a general review of fares and relativities between different ticket types on offer
- the relativities between multi-ride tickets, particularly those which cover more than one public transport mode should be reviewed
- reform of the fares charged for premium services such as the JetCats needs further investigation to ascertain price elasticities and revenue implications.

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<sup>26</sup> Except for bus/ferry TravelPasses which increase by 3.8 per cent consistent with the Tribunal's 2006 determination on Sydney metropolitan bus fares.

<sup>27</sup> Revenue weighted average - Tribunal's own calculation.

<sup>28</sup> Sydney CPI, year to September (4 quarters).

<sup>29</sup> Rail-bus-ferry TravelPasses and DayTripper tickets were part of the Tribunal's decision on fares for CityRail from 2 July 2006 which is available on the Tribunal's website.

For example, the Tribunal notes that a FerryTen used for travel between Manly and Circular Quay will be \$48.10 from 2 January 2007, while a TravelPass which can be used for the same route for 7 days unlimited travel will be \$ 38.00.

The Tribunal invites Sydney Ferries to consider these points as part of its next fare proposal to the Tribunal.

The Tribunal also considered Sydney Ferries fare elasticities when making its fare decisions (Table 5.1). In particular, the Tribunal noted that the elasticities for JetCat Travel indicate that increases in the fares may actually lead to a reduction in revenue as passengers switch to the relatively cheaper Manly Ferry or other transport modes.

**Table 5.1 Sydney Ferries fare elasticities**

<b>Fare type</b>	<b>Elasticity</b>
<i>Commuters</i>	
Ferry single	-0.183
JetCat single	-0.268
Ferry TarvelTen	-0.344
JetCat TravelTen	-1.943
Ferry on bus/ferry TravelPass	-0.347
Ferry on bus/train/ferry TravelPass	-0.308
<i>Non-commuters</i>	
Ferry single	-0.042
JetCat single	-0.199
Ferry TarvelTen	-0.436
JetCat TravelTen	-1.612
Ferry on bus/ferry TravelPass	-0.718
Ferry on bus/train/ferry TravelPass	-1.296

Source: Hensher and Raimond, 1996.

The new prices for individual fares are shown on Tables 5.2 to 5.4 below. The Tribunal intends to use the unrounded fares shown on these tables as the 'masterfare schedule'. That is, any future fare increases will be calculated based on these unrounded fares.

Table 5.2 Daily single fares from January 2007

	Current Fare (\$)	Unrounded fare (\$)	New Fare 06/07 (\$)	Absolute change (\$)	% Rise
	05/06	06/07	(rounded)		
<b>Daily singles</b>					
Inner Harbour Adult	5.00	5.16	<b>5.20</b>	0.20	4.0
Inner Harbour Conc.	2.50	-	<b>2.60</b>	0.10	4.0
Meadowbank Adult	5.30	5.47	<b>5.50</b>	0.20	3.8
Meadowbank Conc.	2.60	-	<b>2.70</b>	0.10	3.9
Rydalmere Adult	6.20	6.40	<b>6.40</b>	0.20	3.2
Rydalmere Conc.	3.10	-	<b>3.20</b>	0.10	3.2
Parramatta Adult	7.50	7.74	<b>7.70</b>	0.20	2.7
Parramatta Conc.	3.70	-	<b>3.80</b>	0.10	2.7
Manly Adult	6.20	6.40	<b>6.40</b>	0.20	3.2
Manly Conc.	3.10	-	<b>3.20</b>	0.10	3.2
Manly Jet Cat	7.90	8.15	<b>8.20</b>	0.30	3.8

Table 5.3 FerryTen fares from January 2007

	Current Fare (\$)	Unrounded fare (\$)	New Fare 06/07 (\$)	Absolute change (\$)	% Rise
	05/06	06/07	(rounded)		
<b>FerryTens</b>					
Inner Harbour Adult	32.50	33.54	<b>33.50</b>	1.00	3.1
Inner Harbour Conc.	16.20	-	<b>16.70</b>	0.50	3.1
Meadowbank Adult	34.50	35.60	<b>35.60</b>	1.10	3.2
Meadowbank Conc.	17.20	-	<b>17.80</b>	0.60	3.5
Rydalmere Adult	46.60	48.09	<b>48.10</b>	1.50	3.2
Rydalmere Conc.	23.30	-	<b>24.00</b>	0.70	3.0
Parramatta Adult	52.60	54.28	<b>54.30</b>	1.70	3.2
Parramatta Conc.	26.30	-	<b>27.10</b>	0.80	3.0
Manly Adult	46.60	48.09	<b>48.10</b>	1.50	3.2
Manly Conc.	23.30	-	<b>24.00</b>	0.70	3.0
Manly Jet Cat	65.70	67.80	<b>67.80</b>	2.10	3.2

**Table 5.4 TravelPasses and DayTripper fares from January 2007**

	Current Fare (\$)	Unrounded fare (\$)	New Fare 06/07 (\$)	Absolute change (\$)	% Rise
	05/06	06/07	(rounded)		
<b>Travel Passes<sup>30</sup></b>					
Blue Adult (BF)	30.00	31.14	<b>31.00</b>	1.00	3.3
Blue Conc.(BF)	15.00	-	<b>15.50</b>	0.50	3.3
Green Adult (RBF)	41.00	-	<b>41.00</b>	-	-
Green Conc. (RBF)	20.00	-	<b>20.50</b>	-	-
Orange Adult (BF)	37.00	38.41	<b>38.00</b>	1.00	2.7
Orange Conc. (BF)	18.50	-	<b>19.00</b>	0.50	2.7
Pink Adult (RBF)	48.00	-	<b>48.00</b>	-	-
Pink Conc. (RBF)	23.50	-	<b>24.00</b>	-	-
Pittwater Adult (BF)	51.00	52.94	<b>53.00</b>	2.00	3.9
Pittwater Conc.(BF)	25.50	-	<b>26.50</b>	1.00	3.9
Purple Adult (RBF)	55.00	-	<b>55.00</b>	-	-
Purple Conc. (RBF)	27.00	-	<b>27.50</b>	-	-
Red Adult (RBF)	33.00	-	<b>33.00</b>	-	-
Red Conc. (RBF)	16.00	-	<b>16.50</b>	-	-
Yellow Adult (RBF)	45.00	-	<b>45.00</b>	-	-
Yellow Conc. (RBF)	22.00	-	<b>22.50</b>	-	-
<b>DayTripper<sup>31</sup></b>					
DayTripper Adult (RBF)	15.00	-	<b>15.40</b>	-	-
DayTripper Conc.(RBF)	7.50	-	<b>7.70</b>	-	-

BF = Bus and Ferry., RBF = Rail, Bus, Ferry.

<sup>30</sup> Rail-bus-ferry TravelPasses tickets were part of the Tribunal's decision on fares for CityRail from 2 July 2006 which is available on the Tribunal's website.

<sup>31</sup> DayTripper tickets were part of the Tribunal's decision on fares for CityRail from 2 July 2006 which is available on the Tribunal's website. There is no unrounded fare for DayTrippers as the Tribunal accepted RailCorp's proposal to increase DayTrippers by 40 cents.

## 6 IMPLICATIONS FOR SYDNEY FERRIES CORPORATION, ITS PASSENGERS, THE ENVIRONMENT AND GOVERNMENT FUNDING

Before finalising its determination, the Tribunal analysed the likely impact of its pricing decisions on Sydney Ferries, its passengers, the government and general community and the environment, as required under section 15 of the IPART Act. The Tribunal considers that its determination achieves an appropriate balance between the different interests and concerns of these stakeholders.

### 6.1 Implications for Sydney Ferries

The Tribunal's analysis indicates that, as a result of its 2006 determination, Sydney Ferries' revenue<sup>32</sup> will increase by \$2.2 million in 2006/07, assuming that its patronage levels do not change in response to the fare increase.

However, Sydney Ferries' cost recovery ratio is expected to decline from 52.9 in 2005/06 to 50.8 per cent in 2006/07. This ratio is much lower than in previous years, and its achievement depends on:

- patronage growth of 1 per cent (in line with Sydney Ferries' forecast)
- total cost growth of 7.9 per cent (in line with Sydney Ferries' forecast).

In addition, as Chapter 3 discussed, Sydney Ferries is expected to achieve at least some additional cost savings in the future which may result in a higher cost recovery ratio.

### 6.2 Implications for passengers

In assessing the likely impact of the fare rises it has determined on passengers, the Tribunal considered incomes of Sydney residents who use ferries.

Table 6.1 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 6.1 Income profile of full-fare paying resident public transport users, 2003**

Mode	No. of trips (average weekday)	Average Personal Income	Average Household Income	Median Household Income
Priv Bus Sydney	66,817	\$32,044	\$74,688	\$56,732
STA buses	268,118	\$47,701	\$92,410	\$74,672
CityRail	484,876	\$53,385	\$99,621	\$83,980
<b>Sydney Ferries</b>	<b>24,959</b>	<b>\$77,848</b>	<b>\$129,745</b>	<b>\$137,800</b>

Source: TPDC Household Survey 2004.

<sup>32</sup> Revenue excluding CSOs and capital grants.

Clearly, resident Sydneysiders who use Sydney Ferries have higher income profiles than the users of other modes of public transport.

Among Sydney residents, the 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)<sup>33</sup>.

Given this data, and the modest fare increases that have been determined, the Tribunal does not consider that its determination will have a significant, adverse impact on passengers. For example, the absolute rise in ferry singles will not exceed 30 cents. The rise in FerryTens will be less than this, in per trip terms. Table 6.2 provides some examples that illustrate how the new fare increases apply across a selection of trips.

**Table 6.2 Specific examples of fare changes**

Ferry trip description	Single Trip		FerryTen	
	Old Fare \$	New Fare \$	Old Fare \$	New Fare \$
Woolwich to Circular Quay	5.00	5.20	32.50	33.50
Manly to Circular Quay	6.20	6.40	46.60	48.10
Parramatta to Circular Quay	7.50	7.70	52.60	54.30

### 6.3 Implications for government and the general community

The Tribunal's pricing decisions have implications for the government in terms of its budget position and for the general community as taxpayers.

Section 15(1)(c) of IPART Act requires the Tribunal to take into account the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of NSW. However, given Sydney Ferries' low level of cost recovery, rate of return considerations are subordinate to:

- the Section 15(1)(g) requirement that the Tribunal consider the impact of pricing policies on borrowing, capital and dividend requirements, and
- the Section 16 requirement that the Tribunal report on the likely impact to the Consolidated Fund if fares were not increased to the maximum permitted.

Sydney Ferries' level of cost recovery in the 2005/06 financial year was 52.9 per cent. As a result of the Tribunal's 2006 determination, Sydney Ferries' level of cost recovery is expected to fall to 50.8 per cent in 2006/07. This is because forecast increases in expenses (associated mainly with rising labour costs) will be higher than forecast increases in revenue from fare increases. As a result, the level of funding that must come from the Consolidated Fund will increase.

The level of government funding required for Sydney Ferries (including CSOs) in 2006/07 will be equivalent to \$22 per household or \$56 million of total government funding (unless Sydney Ferries generates efficiency gains to reduce costs).<sup>34</sup> This compares to approximately \$20 per household or \$50 million of total government funding in 2005/06.

<sup>33</sup> Transport Data Centre *Ferry Users in Sydney* Issues Paper 2003/01, July 2003, p 2.

<sup>34</sup> Tribunal's estimates. These estimates assume that patronage levels are unaffected by rising fares.

Section 15(1)(d) requires the Tribunal to consider the general effect on price inflation over the medium term. There is no evidence that the Tribunal's decision will affect general price inflation. Indeed, the fare increase determined by the Tribunal is in line with the change in the CPI. Public transport comprises a small component of the CPI and the proposed fare rises combined with the relatively low level of patronage of public ferry services compared to other public transport modes make it unlikely that the Tribunal's decision on Sydney Ferries' maximum fares will have an impact on general price inflation.

## 6.4 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.

Most of the 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.

For its 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.<sup>35</sup> The study indicated that changes in public transport fares 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 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'.<sup>36</sup>

Given all of the above, the Tribunal does not expect this determination to have adverse environmental effects by encouraging a switch from public ferry transport services to cars or buses.

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<sup>35</sup> 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](http://www.ipart.nsw.gov.au).

<sup>36</sup> *ibid*, pp 38 and 43.



## 7 THE NEXT FARE REVIEW

To assist it in making its next determination, the Tribunal requests that Sydney Ferries provides it with the following information, in addition to the material provided for the 2006 fare review:

### 1. Efficient costs:

- Appropriate measures of its cost efficiency, including target outcomes.
- Information on progress towards target outcomes, including the efficiency savings achieved.

### 2. Cost recovery:

- An assessment of the cost of providing various services and the cost recovery across product types where appropriate.
- Steps taken to increase revenue through reducing costs or lifting patronage.

### 3. Fares

- An assessment of the scope to revise fares to a more cost reflective level and in particular the difference between FerryTens and TravelPasses.
- Assessment of the potential to differentiate fares between the commuter and leisure market segments.

In addition, the Tribunal intends to continue to work with Sydney Ferries, to gather the data required for it to consider setting a medium-term price path in the future.



## 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).



## **APPENDIX 2 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)  
Vaucluse Progress Association

### **Individuals**

Councillor Simon Menzies  
Mr David Barr MP, Member for Manly  
Mr Mike Baird  
Mr David Horton  
Mr Richard Gordon  
Mr Scott Williams  
Mr Paul O'Brian  
Mr Ian Abbottsmith  
Mr Bruce Cumming  
Mr Mitchell Geddes  
Ms Jozy Sutton  
CR and FB Olsen  
Mr Glen Butler  
Ms Lucy Tildesley  
Ms Kate Crews  
Mr Mark O'Sullivan  
Mr Neil Edwards  
Mr. Peter Hopper  
Mr Russel Harrison  
Ms Stephanie Hukins  
Ms Ann Vavasour  
Mr Greg Davis

The following organisations and individuals attended the public hearing held at the Tribunal's offices on 20 October 2006.

### **Representatives from IPART**

Dr Michael Keating AC, Chairman  
Mr James Cox, CEO and Full Time Member  
Ms Sibylle Krieger, Part Time Member  
Ms Fiona Towers (IPART)  
Mr Aaron Murray (IPART)  
Mr Alex Oeser (IPART)

### **Roundtable participants**

Action for Public Transport (Mr Allan Miles and Mr Graeme Taylor)  
Council for Social Services (Mr Warren Gardiner)  
Commercial Vessel Association of NSW (Mr David Cribb)  
Matilda-Captain Cook Cruises (Mr Anthony Haworth)  
Sydney Ferries (Mr Geoff Smith and Ms Wendy Hughes)  
Mr David Barr MP, member for Manly  
Mr Mike Baird, Liberal candidate for Manly

### **Other attendees**

Mr Paul Trevaskis, Blue Mountains Commuter and Transport Users Association  
Mr Andrew Nicholls (Ministry of Transport)  
Ms Elizabeth Reedy (ITSRR)

# **Determination No 10, 2006**

## **Sydney Ferries**

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**Independent Pricing and Regulatory Tribunal  
of New South Wales**

**Reference No: 06/480**



## 1. Background

- (1) Section 11 of the *Independent Pricing and Regulatory Tribunal Act 1992* provides the Tribunal with a standing reference to conduct investigations and make reports to the Minister on the determination of the pricing for a government monopoly service supplied by a government agency specified in schedule 1 of the IPART Act.
- (2) Sydney Ferries (**Sydney Ferries**) is listed as a government agency for the purposes of schedule 1 of the IPART Act. The services of Sydney Ferries declared as monopoly services (**Monopoly Services**) under the *Independent Pricing and Regulatory Tribunal (Passenger Transport Services) Order 1998 (Order)* are regular passenger services (within the meaning of the *Passenger Transport Act 1990*) excluding the services supplied in accordance with the ticket known as the "SydneyPass". Accordingly, the Tribunal may determine the prices for Sydney Ferries' Monopoly Services.

[Note: The Order applies to Sydney Ferries by operation of clause 135, Schedule 7 of the *Transport Administration Act 1988*]

- (3) In investigating and reporting on the pricing of Sydney Ferries' Monopoly Services, the Tribunal has had regard to a broad range of matters, including the criteria set out in section 15(1) of the IPART Act.
- (4) In accordance with section 13A of the IPART Act, the Tribunal has fixed a maximum price for Sydney Ferries' Monopoly Services.
- (5) Under section 18(2) of the IPART Act, Sydney Ferries may not fix a price below that determined by the Tribunal without the approval of the Treasurer.

## 2. Application of this determination

- (1) This determination fixes the maximum prices that Sydney Ferries may charge for the Monopoly Services.
- (2) This determination commences on the later of 2 January 2007 and the date that it is published in the NSW Government Gazette (**Commencement Date**).
- (3) This determination applies from the Commencement Date to the date that this determination is replaced.

## 3. Replacement of Determination No. 10 of 2005 and Determination No 7 of 2006

This determination replaces:

- (a) Determination No. 10 of 2005; and
- (b) so much of Determination No 7 of 2006 which relates to Sydney Ferries,

from the Commencement Date. The replacement does not affect anything done or omitted to be done, or rights or obligations accrued, under Determination No. 10 of 2005 or Determination No 7 of 2006 prior to its replacement.

## **4. Monitoring**

The Tribunal may monitor the performance of Sydney Ferries for the purposes of:

- (a) establishing and reporting on the level of compliance by Sydney Ferries with this determination; and
- (b) preparing a periodic review of pricing policies in respect of the Monopoly Services supplied by Sydney Ferries.

## **5. Schedule**

Schedule 1 and the Tables in that schedule set out the maximum prices that Sydney Ferries may charge for the Monopoly Services.

## **6. Definitions and Interpretation**

Definitions and interpretation provisions used in this determination are set out in Schedule 2.

## **Schedule 1**

### **Maximum prices**

#### **1. Application**

This schedule sets the maximum prices that Sydney Ferries may charge for Monopoly Services.

#### **2. Maximum prices**

The maximum prices that may be charged by Sydney Ferries for:

- (a) a ticket listed in column 1 of Table 1 are the corresponding prices shown in columns 2 and 3 of Table 1; and
- (b) a ticket listed in column 1 of Table 2 are the corresponding prices shown in columns 2 and 3 of Table 2.

## Tables 1 and 2

**Table 1 Maximum prices for Single and FerryTen tickets**

Tickets <sup>1</sup>	Maximum prices	
	Adult (\$)	Concession <sup>2</sup> (\$)
<b>Single</b>		
Inner Harbour Zone 1	5.20	2.60
Inner Harbour Zone 2	5.50	2.70
Manly / Rydalmere	6.40	3.20
Parramatta	7.70	3.80
Manly JetCat	8.20	
<b>FerryTen</b>		
Inner Harbour Zone 1	33.50	16.70
Inner Harbour Zone 2	35.60	17.80
Manly / Rydalmere	48.10	24.00
Parramatta	54.30	27.10
Manly JetCat	67.80	

[Note 1: The descriptions given to these tickets on [www.sydneyferries.nsw.gov.au/tickets/single.php](http://www.sydneyferries.nsw.gov.au/tickets/single.php) apply to this determination.

Note 2: All half fare concessions have been rounded down to the nearest 10 cents.]

**Table 2 Maximum prices for TravelPass and DayTripper tickets**

Tickets	Maximum prices	
	Adult (\$)	Concession <sup>5</sup> (\$)
<b>TravelPass<sup>3</sup></b>		
Weekly Blue	31.00	15.50
Weekly Green	41.00	20.50
Weekly Orange	38.00	19.00
Weekly Pink	48.00	24.00
Weekly Pittwater	53.00	26.50
Weekly Purple	55.00	27.50
Weekly Red	33.00	16.50
Weekly Yellow	45.00	22.50
<b>DayTripper<sup>4</sup></b>	15.40	7.70

[Note 3: The descriptions given to these tickets on [www.sydneyferries.nsw.gov.au/tickets/travelpass.php](http://www.sydneyferries.nsw.gov.au/tickets/travelpass.php) apply to this determination.

Note 4: The descriptions given to these tickets on [www.sydneyferries.nsw.gov.au/tickets/visitor.php](http://www.sydneyferries.nsw.gov.au/tickets/visitor.php) apply to this determination.

Note 5: All half fare concessions have been rounded down to the nearest 10 cents.]

## Schedule 2

### Definitions and Interpretation

#### 1. Definitions

##### 1.1 General definitions

In this determination:

**Commencement Date** means the Commencement Date as defined in clause 2(2) of section 1 (**Background**) of this determination.

**GST** means the Goods and Services Tax as defined in *A New Tax System (Goods and Services Tax) Act, 1999*.

**IPART Act** means the *Independent Pricing and Regulatory Tribunal Act 1992*.

**Monopoly Services** means the Monopoly Services defined in clause 1(2) of section 1 (**Background**) of this determination.

**Sydney Ferries** means Sydney Ferries defined in clause 1(2) of section 1 (**Background**) of this determination, constituted under the *Transport Administration Act 1988*.

**Tribunal** means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

#### 2. Interpretation

##### 2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, annexure, clause or table is a reference to a schedule, annexure, clause or table to this determination;
- (c) words importing the singular include the plural and vice versa;
- (d) a reference to a law or statute includes all amendments or replacements of that law or statute; and
- (e) a reference to a person includes any company, partnership, joint venture, association, corporation, other body corporate or government agency.

##### 2.2 Explanatory notes

Explanatory notes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.

##### 2.3 Prices inclusive of GST

Prices specified in this determination include GST.

