

**2017 Review of Private Ferry Fares**  
**Independent Pricing and Regulatory Tribunal**  
**PO Box Q290**  
**QVB Post Office NSW 1230**

**2 November 2017**

**Re: IPART review of Private Ferry Fares 2017.**

**Dear Sir/Madam**

In response to the Draft Report on the Review of Fares for Private Ferry Services – September 2017 provided by IPART and information sourced from the “The CIE” report on Private Ferry Services dated September 2017, (we) “Brooklyn Ferry Service” provide the following opinions, commentary and corrections.

We do not believe that simply accepting scheduled fare increases (or lack of in some cases), is a sufficient response, and that more detailed appraisal of the public Ferry sector is warranted, to hopefully establish funding mechanisms which are fair and equitable to all involved parties; Operators, Patrons and TfNSW with respect to increasing patronage of public transport and achieving the TfNSW mission statement

**“Transport for NSW is the lead agency of the NSW Transport cluster. Our role is to lead the development of a safe, efficient, integrated transport system that keeps people and goods moving, connects communities and shapes the future of our cities, centres and regions.**

**We are responsible for strategy, planning, policy, regulation, funding allocation and other non-service delivery functions for all modes of transport in NSW including road, rail, ferry, light rail, point to point, regional air, cycling and walking.**

**We focus on improving the customer experience and contract public and private operators to deliver customer-focused transport services on our behalf.”**

**<https://www.transport.nsw.gov.au/about-us/who-we-are/our-organisation>**

We continue maintain the view stated in the introduction of our previous submission. “We believe that IPART and their Consultants, should read and revise all prior comments made by operators each year, there seems to be a rather monotonous cycle of the same questions being asked, the same comments being made and results are either not addressed, ignored or only partially implemented within what appears to be a pre-determined range of pricing flexibility – which is based on a historic master fare calculation which does not appear to have been calculated on a broad scale, but at some point on a case by case basis”, and

would draw IPART’s attention to a section of our November 2014 Submission, included at the end of this document.

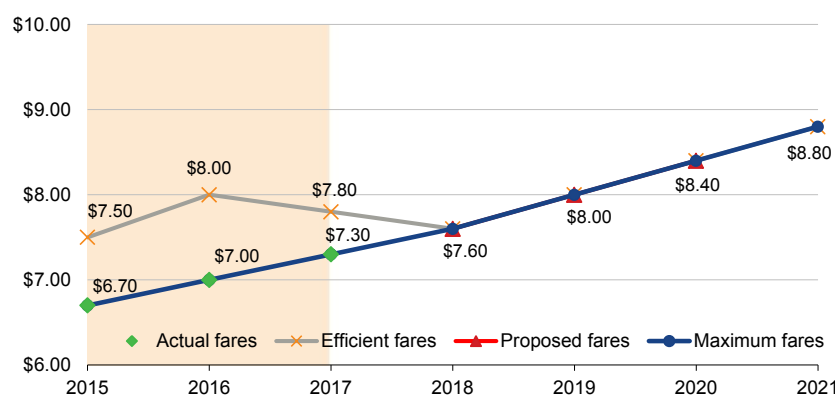
**With respect to the content of the Draft Report on the “Review of Fares for Private Ferry Services – September 2017”**

Firstly, we appreciate the schedule of increases to maximum fares recommended for Brooklyn Ferry Service, as, after 6 years of operations the service will finally reach the situation where the maximum fare allowable to be charged to the public meets the revenue requirements of the “economic fare” as calculated by IPART, thus allowing the business to operate in a more equitable manner. Whilst this was not our original plan (as discussed verbally in teleconference, prior to our submission), it does provide a path forward towards an equitable solution to maintain the viability of the service.

IPART’s own graphical illustration, (figure 1 – As released to Brooklyn Ferry service) shows a considerable lag between real and calculated economic fares, with a shortfall approaching \$1.00 at times during the period 2015 through 2017, re-modelled data for the proceeding years may well illustrate further inconsistencies in pricing which would (under any economic model), possibly provide reason as to the failure of the previous contract holders to avoid closure and liquidation and further show that the business efficiencies achieved by private operators in the environment under which we operate result in an effective public transport solution for government which may otherwise be un-achievable.

The assumption that “Economic Fares” match the scheduled fare increases moving forward for the period 2018 to 2021, is probably too coincidental to be believable, and reflects the business modelling being undertaken and further justifies our introductory comments regarding fare changes being implemented within what appears to be a pre-determined range of pricing flexibility.

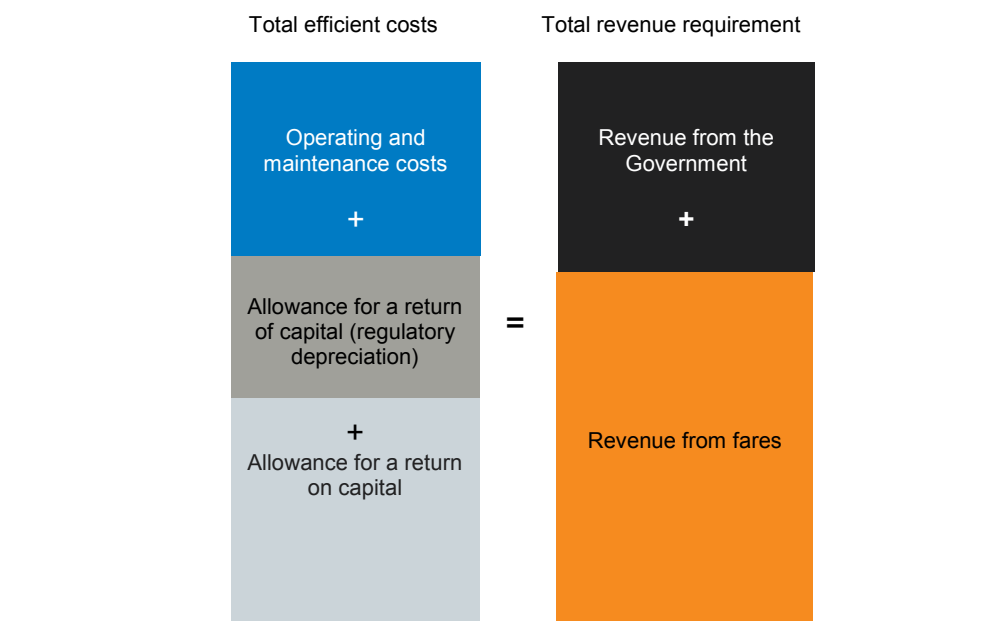
**Figure 1 Actual fares, efficient fares, proposed fares and draft determination fares (\$ including GST and inflation)**



Source: IPART analysis.

A repeated theme in the recent public hearing was the issue of Price Shock to Patrons Vs Full Implementation of Efficient Fares (specifically in the case historically of Brooklyn Ferry Service) – this further illustrated that the building block model either is not functional or is not being considered and applied in all funding portions fully , how does IPART substantiate that operators have been forced to operate services at times for multiple years at fares which are substantially lower than that which IPART calculate as the “economic fare”, without making a recommendation to TfNSW to provide a fare subsidy to PATRONS by co funding the economic fare.

**Figure C.1 Revenue requirement under the building block approach**



**Note:** Our building block model also includes allowances for regulatory taxation and working capital. These are not shown in the figure because they represent a small proportion of the total revenue requirements for private ferries. The figure is not to scale.

We are finding it increasingly difficult to understand the utility of the whole IPART process, yes, some operators receive fare increases (including ourselves), however we always believed that one of the concepts behind public transport was to increase patronage! We believe the only way to do this is by reducing the fare payable to the customer, and the only real way of achieving this, whilst maintaining viable operations, is by the government co funding fares, or subsidising the cost to the passenger (as opposed to subsidising the operator), to the contrary IPART has stated in a number of reports that the external benefits of some private ferry services amount to nothing, thereby eliminating the possibility of encouraging TfNSW to address the benefit to the public or the concept of underwriting a portion of the fare paid by the passenger, which seems completely contrary to the mode of operation of all the government and opal based services, which benefit from fare subsidies, discounts across service modes and weekly travel cost caps.

To date we have only every experienced that one side of the “building block model” is addressed in reviews, that being the “Total Efficient Costs” side, I have not encountered that

the second half of the model has been taken into consideration the “Total Revenue Requirement”, which is more than clear in the case of Brooklyn Ferry Service, as with the knowledge of both IPART and TfNSW, the service has operated at a fare well below that deemed as economic by IPART in their year on year reviews. The missing factor would seem not to be the revenue from fares but, the revenue from Government as is the case in most other forms of Public Transport examples of which include weekly fare caps and transfer bonuses in the Opal System.

The commonly published figure for the “Building Block model – Revenue Side”, is graphically misleading, as a casual reader may interpret that slightly more than 33% of revenue earned by the operator comes from Government Subsidy, the bar graph should be modelled to reflect actual data and there should be a clear distinction made between Fares and Government Subsidy paid on behalf of fare paying passengers (concession, pensioner, STSS), concession or STSS entitlements are in reality a form of direct subsidy to the customer through a co-payment by TfNSW (Government) to the operator, similar to a pro rata social security payment paid directly to the business rather than to the passenger or entitlement holder, in essence the government is paying a portion of an individual’s fare based on their income, age, employment or school (etc.) status, and this is not a direct operator subsidy, as the beneficiary is the passenger.

**IPART, in section 2.3 of the draft report contains insinuated that operators should use spare ferries to earn supplementary income.**

In further response with respect to the second ferry allowance / charter fees etc., both ferries operated by Brooklyn Ferry Service are named in the Scope of Works Compliance table submitted to TfNSW, as a proof of ability to provide a service including vessel redundancy and as standby / backup operational plans for the Ferry Service (Sections 9, 12 and 13 of Attachment D of the RFP Reference Number: **TfNSW 2012/028**) and nominated in the Business Contingency Plan submitted during the formal tender submission, resulting in the award of contract **FSC002**. If IPART are to continue to disallow ongoing costs associated with maintenance of a standby vessel, based upon previous modelling inputs for Capital “**allowances or grants**”, or discount these costs, we would strongly suggest that IPART instruct the Director General of Transport remove any reference to the need for standby vessels or minimum service standards from the awarded contract, or as a minimum change these contract terms to reflect IPART’s determination that a standby replacement ferry should only be available 50% of the time. IPART introduced a capital allowance for Ferries to the Brooklyn Ferry Service “model”, does IPART believe that the two vessels we operate were donated or had a zero value at the commencement of our contract, these vessels are assets which were introduced to the service through a family partnership, at personal expense.

A promotional paragraph on a company website is not proof of financial gain from charter business, nor does it in any way indicate actual charter activity, addressing the levels of

activity and charter income would be properly undertaken through a request for information on earnings from the operator.

For the sake of clarity, Brooklyn Ferry Service does not actively promote charter work, as we are a small operation geared up primarily to satisfy the delivery of service as stated in our TfNSW contract, where we do provide additional services the instances usually involve nothing more than private transport between Brooklyn and Dangar Island for wedding transfers or seniors walking parties as a group with reserved seating, and for this we charge standard ferry fares (unless outside of normal timetable period) as an extension to our usual carrying capacity on the regulated service.

Non-regulated charter services amount to nothing more than a very occasional transfer of private groups to Broken Bay Sport and Recreational Camp or Patonga. Active charter operations and non-regulated services would otherwise entail an increase in staffing, which we do not consider economical at this stage, due to the fact, that we operate from the same wharf as an exceptionally successful and long standing cruise operation running multiple daily departures, nor is our standby ferry particularly suited to this style of operation as we have noted in comments thus far ignored by IPART on several occasions.

[REDACTED]

We would request that IPART clarify as to whether they or TfNSW expect Private Ferry Service operators to subsidise the ferry routes serviced and the ability to maintain minimum service standards under contract to TfNSW through private charter work. If in IPARTS view, the viability of regulated ferry services relies on operators earning additional income from Charters, then IPART will need to recommend to TfNSW that obligations to maintain minimum service standards are reviewed in contracts to account for the fact that standby vessels will need to be operating charters, and therefore not available for standby work in peak periods or during breakdown or maintenance periods.

**IPART, in section C.2.1 Efficient Operating Expenditure of the draft report continues the theme which perpetuates through previous reports, that Private Ferry Operators, should replace older vessels with “NewBuild Ferries”. Pages 42, 43 of the draft report Appendix C**

“..... In our previous reviews, we recommended all ferry services replace old vessels and made an allowance for the associated costs in our building block model, and this was reflected in the efficient repairs and maintenance costs. To date only Palm Beach Ferries has replaced its vessels, and other operators are operating with vessels well beyond their useful economic life. In this case, The CIE considered it not appropriate to compare operators reported repairs and maintenance costs (reflecting their existing old vessels) against the efficient repairs and maintenance

costs in isolation. Therefore, The CIE also assessed the efficiency of the reported repairs and maintenance costs, accounting for capital ownership costs. If vessels were not replaced, reported repairs and maintenance costs would be higher with lower ownership costs than otherwise. This was then compared to the lower efficient repairs and maintenance costs with higher ownership costs resulting from vessel replacement. Two operators reported repairs and maintenance costs were above the efficient costs even when ownership costs were accounted for ....”.

For the avoidance of doubt, Brooklyn Ferry service will continue to operate and maintain our small fleet of Heritage Ferries until further notice. We object to IPART’s continuing references throughout their reports to replacement of Heritage ferries with “NewBuild Ferries”, whilst IPART clearly has knowledge of the contextual (finance, contractual and Economic Fare lag) limitations on operators’ abilities to purchase replacement vessels with start prices exceeding \$1.2 million, whilst fares are below economic fare recommendations.

For the sake of providing reference information for IPART’s knowledge base, there is a strong following amongst passengers for “Old Heritage Ferries”, and many families include in their entertainment planning for children, a trip on an old ferry as do many seniors groups, this is very much the case for the heritage steam locomotive events, which have massive followings.

Recent letters in the popular magazine “AFLOAT” and a recent letter to the editor of the Sydney morning herald regarding Rosman Cruises, clearly demonstrate that Heritage Ferries, are dearly loved and work as an attraction – drawing passengers to the private services.

- <http://www.smh.com.au/comment/smh-letters/raid-on-awu-despite-cuts-to-afp-smacks-of-police-state-20171024-gz7njd.html> (Letter by Terry Darlington, regarding Rosman Ferries).
- <http://magazine.afloat.com.au/?iid=156052#folio=6> (November 2017 Edition, Letters Section – pages 6 and 7, two letters regarding the saving of Heritage Ferries).

We believe that Heritage Ferries are a cultural asset, and that IPART’s reluctance to accept ongoing maintenance costs is unfounded and borders upon negligence with respect to maintaining safety and security of passengers.

IPART may find useful information can be gathered by having a representative travel on our service, on the heritage ferries, and interview our customers as to whether they enjoy the reliability of the most iconic vessel still operating on the Hawkesbury River, one upon which sometimes multiple generations of family have relied and travelled.

**IPART, in Table 4.1 and Section 4.2 of the Draft Report make the following Statement with respect to competition.**

“.... In its submission to the Issues Paper, Brooklyn Ferries did not agree with our assessment on the level of competition on its ferry route and listed a number of different modes of transport competing with its service, such as free ride sharing in private boats, pirate operators, and water taxis. Notwithstanding the competitive threats posed by alternatives, Brooklyn Ferries has been charging the maximum fare.<sup>19</sup> .... ”

In reply to this statement Brooklyn Ferry Service makes the simple comment. **“Yes, if our fares were reduced to a couple of dollars, we would capture this entire sector of users, however the viability of the service would be jeopardised severely!”**, however if IPART were to make recommendations as to the balance of revenue requirements to achieve the economic fare with respect to all funding sources, we may be able to achieve a reduction in cost to passengers and capture a further part of the clientele who use other transport forms, and in the longer term achieve a more constant and larger patronage number, which would in turn lower the need for revenue from sources other than ticket sales.

**Finally, and as a general commentary on the report, there are several assumptions and statements contained in both the IPART and CIE reports, which we strongly object to, find misleading to the public, and are obviously based on spreadsheet models and theoretical assumptions which in turn are applied to actual businesses operating under real conditions. There are also obvious “Language Usage” irregularities in the reports which lead to ambiguous interpretations, as noted by multiple parties during the recent public hearing.**

**Kind Regards,**

**(via email)**

**Richard Stockley**

**Brooklyn Ferry Service Pty Ltd**

**[REDACTED]**

## **Brooklyn Ferry Service IPART Submission November 2014**

**Knowing that Private Ferry Services provide public transport under contract to TfNSW, with substantial external benefits to the communities in which they operate and under conditions that government run equivalent services would not be considered possible, (note cost and fare differentials with the Stockton service), IPART and TfNSW should take the initiative to ensure that fares / funding / support payments and profitability provide a solution to the financial viability of these services, in reality a mechanism should be put in place to assure that the Regulated Ferry Services can run sustainably as stand-alone businesses.**

With respect to the concept of fleet renewal or refit and repowering of existing vessels where the operators of these services wish to undertake these projects (fleet renewal or major refit of aged (often heritage) vessels, or replacement and repower current assets), the costs factors encountered mean that profit margins and cash flow projections are severely affected or depleted for a considerable number of years after the fact. This does not equate to an immediate or reasonable return on capital investments and improvements or repayment of capital costs expended in the purchase of any new vessel, unless over a long term contract period. In our case, the limited nature of our particular contract, essentially means that these options are either taken as a conscious decision to run the business at an economic loss for the contract period with the view towards increasing the asset value of the business, or would only be undertaken at the expense of FTE paid staff positions or by accepting the impacts on the long term profitability of the business venture, which would in turn reflect on the external benefits of the service in the community. We feel that this view has been corroborated by comments made by **MR D GOTZE (INDEC Consulting)**, in comments contained within the transcript of the public forum **“Another issue that was raised was to do with the contract period and we do agree. We have put this in as a government policy constraint. We have said that five years is not enough, let alone one or two. I think that making capital decisions would need a more continuous government contract of some sort to have the confidence to invest \$1 million in something like a new ferry, so that is a really valid point”**.

It is further important to note that these ferry services operate in areas where base patronage is set by local demographics and long term patronage trends of residents and commuters, which whilst effectively static or slow to change can be affected by ticket pricing and service availability, it would generally be accepted that to influence these trends a reduction in real ticket prices to customers would be needed, and therefore, there is difficulty in increasing customer levels on regular services, without a negative financial outcome to the business, unless a change to the revenue sources which make up ticket price (economic fare) is addressed through the adoption of a building block approach to this side of the equation as is practiced in the bus ticket modal.



An interesting point to consider is the nature of the communities which are served by most of the private ferry operators, in which our customer base is small, restricted and somewhat a “captive market”, under these circumstances, fare increases by nature inflict a negative impact on regular users (hence operators usually offer a discount “Ferry 10” or similar to reward regular patrons), and incur a backlash effect, (loss of patronage for a period or altogether as a result of increase in pricing). Larger markets (i.e. Sydney Harbour) source customers from a more fluid populous with differing ratios of every day commuters to tourism, which allows for loss of patronage to be absorbed from influx of new customers in a normal price / market situation, and also is reflected in a self-regulation of fares determined by usual supply and demand market forces. Unfortunately where a business operates in a restricted market as do most of the private ferry services these forces do not operate in a classic sense and impacts from fare variations may not be as clear cut as expected.

Recognition of the fact that current master fares are inadequate to sustain businesses by **MR A WING (Transport for NSW)** in the transcript from the public forum **“I would note that private ferry operators do rely on fares to keep their businesses viable, so we certainly support the work that IPART is doing to have another look at the master fares. The current ones are not enough to properly cover costs and they need to be re-examined and we support that”**, certainly brings into play the need to review the revenue sourcing model for private ferry fares in any ongoing review into the industry.

With respect to the above point we very much welcome the statement made by **MR A WING (Transport for NSW)** during the public forum **“With respect to the question about the long-term viability of ferries, yes, we are quite happy to discuss, I guess, out of session or separately, questions about models for private ferry operators. I think IPART already has quite a lot of data which would be useful for that discussion, so we might have that discussion particularly once the report has been made public”**, and would encourage that information from both IPART and INDEC Consulting, as set out in this years review, are seriously considered in relation to the idiosyncrasies of the particular business environment under which the Private Ferries operate.

We believe that IPART together with TfNSW should determine that a mechanism be put in place whereby operator’s cashbox revenue increases whilst addressing a fare reduction to passengers, possibly through TfNSW funding a portion of the full fare, as is done under the bus contracts regime, this would however have to be done in a manner which does not disrupt cash flow on a monthly basis, as the current payment system for HFC and STSS payments from TfNSW on the 1, 3 or 6 monthly cycles already mean that operators encounter periods where cash at hand after wages and fuel is quite negligible .