Independent Pricing and Regulatory Tribunal

Review of fares for private ferry services and the Stockton ferry service for 2011

Regulated passenger ferry services run by private operators and the Newcastle (Stockton) ferry service run by Newcastle Buses and Ferries

Transport — Report and Recommendation
December 2010

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The Tribunal members for this review are:

Mr Rod Sims, Chairman

Mr James Cox, Full Time Member and Chief Executive Officer

Ms Sibylle Krieger, Part Time Member

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1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) is responsible for setting fares for:

- private ferry services (under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*)[1]
- the Newcastle (Stockton) ferry service (under section 11 of this Act).

We have now completed these reviews. We have made recommendations to Transport NSW on maximum fares for private ferry services. These services are provided by 7 operators, most of which are small operators. Each serves distinct routes in the Sydney, Central Coast and North Coast areas of NSW, so do not compete with each other. We have also made a determination on the maximum fare for the Stockton ferry service. This service is provided by the state-owned operator, Newcastle Buses and Ferries.

1.1 Overview of our decisions

Based on the findings of our review, we have decided that:

- fares for slow private ferry services should increase by 2.6% before rounding
- fares for fast private ferry services should increase by 2.1% before rounding
- the fare for the Stockton ferry service should not change.

The change in fares applies to the master fare schedule. Because we recommended some fare decreases last year which were not implemented by Transport NSW, some current maximum fares operators charge are higher than the maximum fares in the master fare schedule recommended by IPART last year. We also round recommended fares to the nearest 10 cents. For these reasons, increases in the recommended maximum fares compared to the current maximum fares range from 1.5% to 3.1% under our recommendations this year. Table 1.1 summarises the change in maximum fares.

We understand that Transport NSW's decision on fares for private ferry services will take effect in December 2010.

1 By arrangement with Transport NSW, and with the approval of the Premier of NSW.

We have also decided to retain the limited mid-year review of fuel costs for fast private ferry services in 2011. If the mid-year review indicates that fuel costs have increased or decreased by more than 10%, we will recommend an adjustment to the fares for these services.

We note that all three submissions to the review argued that the most important issue for private ferry passengers is the inclusion of private ferries in the NSW Government's plans to integrate ticketing across public and private buses, rail and public ferries. This issue is, however, outside the terms of reference for our fare review.

1.2 Overview of recommendations and determination

In relation to private ferries, we recommend:

1 That Transport NSW change maximum private ferry fares to the amount shown in the 'December 2010 fare' column in the table below.

Table 1.1 Recommended maximum fares for private ferry services from December 2010

Route	Fast or slow ferry	Last year's recommended fares (master fare schedule)[a]	Current maximum fare (rounded)[a]	December 2010 maximum fare (rounded)	Difference between current maximum fare and December 2010 maximum fare	
		$	$	$	$	%
Woy Woy – Empire Bay	Slow	6.58	6.70	6.80	0.10	1.5
Scotland Island and western foreshore of Pittwater	Slow	6.69	6.80	6.90	0.10	1.5
Iluka – Yamba	Slow	6.46	6.60	6.60	0.00	0.0
Cronulla – Bundeena	Slow	5.67	5.70	5.80	0.10	1.8
Brooklyn – Dangar Island	Slow	5.67	5.70	5.80	0.10	1.8
Circular Quay – Darling Harbour	Fast	6.43	6.40	6.60	0.20	3.1
Circular Quay – Lane Cove	Fast	6.43	6.40	6.60	0.20	3.1
Palm Beach – Mackerel and the Basin	Slow	6.69	6.80	6.90	0.10	1.5
Palm Beach – Ettalong Wagstaff	Fast	9.59	9.60	9.80	0.20	2.1

a: For slow ferries, the current maximum fare is the fare recommended and implemented as part of the 2008 fare review. For fast ferries, the current maximum fare was recommended and implemented as part of the 2009 mid year review of fuel costs. Our recommended maximum fares in the 2009 annual review were not implemented.

In relation to the Newcastle (Stockton) ferry service, fares will not change. We have applied the 2.6% increase to the master fare schedule, then rounded the fare and determined that it will not change.

Table 1.2 Fare determined for Newcastle (Stockton) ferry service from January 2011

Route	Jan 2010 master maximum fare (unrounded)	Current fare (rounded)[a]	January 2011 fare (rounded)	Difference between current fare and January 2011 fare	
	$	$	$	$	%
Queens Wharf Newcastle – Stockton Wharf	2.27	2.30	2.30	0.00	0.0

a The current fare is the fare determined as part of the 2009 fare review and implemented from January 2010.

1.3 Structure of the report

This report explains our recommendations for private ferry fares and our determination of the Stockton ferry fare in detail:

- Chapter 2 explains our role in regulating private ferry and Stockton ferry fares and our approach to this year's review.
- Chapter 3 sets out our recommendations on private ferry services and our determination of the Stockton ferry fare.
- Chapter 4 examines the impact of our decisions on stakeholders.

2 IPART's role and approach

Our role in regulating private ferry services is to recommend to Transport NSW maximum fares for regular private ferry services (as defined by the *Passenger Transport Act 1990),* under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* (IPART Act). We received terms of reference for the private ferry fares review in September 2010 (see Appendix A). The terms of reference require us to provide our recommendations to Transport NSW by 1 December 2010. Our role is limited to providing recommendations; the Director-General of Transport NSW will decide the date on which these changes, if accepted, will take effect.

We are also responsible for determining the maximum fare Newcastle Buses and Ferries can charge for its Stockton ferry service under section 11 of the IPART Act.

As was the case in last year's review, we decided to combine the Stockton ferry and private ferry reviews in a single review process.

The ferry services covered by this review are listed in Table 2.1.

Table 2.1 Ferry services covered by this review

Operator	Routes
Central Coast Ferries	Woy Woy to Empire Bay
Church Point Ferry Service	Scotland Island and western foreshore of Pittwater
Clarence River Ferries	Iluka to Yamba
Cronulla and National Park Ferry Service	Cronulla to Bundeena
Dangar Island Ferries	Brooklyn to Dangar Island
Matilda Cruises	Circular Quay to Darling Harbour **(fast ferry)**
	Circular Quay to Lane Cove **(fast ferry)**
Palm Beach Ferry Service	Palm Beach to Mackerel Beach and the Basin
	Palm Beach to Ettalong and Wagstaff **(fast ferry)**
Newcastle Buses and Ferries (owned by the State Transit Authority)	Newcastle to Stockton

Section 2.1 below outlines our approach to the review and our decision-making process. Section 2.2 explains the method used to calculate recommended fare changes, particularly the ferry cost indices, which are a key part of this approach.

2.1 IPART's review process

In conducting this review, we undertook public consultation and completed our own research and analysis. In particular, we:

- Released an information paper in October 2010, which summarised our review process and provided indicative fare outcomes to assist interested parties to provide submissions on the review.
- Sought submissions from interested stakeholders, both through the information paper and through advertisements placed on our website and published in the Sydney Morning Herald, the Daily Telegraph, and the Newcastle Herald. We received 3 submissions in total, all in relation to private ferries.
- Independently analysed cost data and inflators for the ferry cost indices (see section 2.2).
- Held a public hearing on 25 October 2010, to which we invited stakeholders, including the CVA, Action for Public Transport (APT) and Transport NSW, to discuss relevant issues.

In making our decisions, we considered all submissions to the review and the comments made at the public hearing. Appendix C provides a list of submissions and hearing participants. In addition, we considered all matters included in the terms of reference and section 15 of the IPART Act (see Appendix B).

2.2 IPART's approach to calculating fare changes

As in last year's review of fares, we have used the Fast Ferry Cost Index (FFCI) and Slow Ferry Cost Index (SFCI) to calculate our recommended fare changes. The FFCI and SFCI are ferry industry-specific cost indices that include a basket of ferry operators' cost items – labour, fuel, insurance, interest, repair and maintenance, depreciation and amortisation, berthing and mooring and other costs.

The FFCI is used to measure changes in costs for the Palm Beach – Ettalong service and the 2 Sydney Harbour services operated by Matilda Cruises. The SFCI is used for the other services. The use of separate indices reflects the different cost structures of 'fast' and 'slow' ferry services.

Each item in the basket has a weighting based on the proportion of an average operator's total costs that it represents. Each year, the individual cost items are inflated to reflect changes in the cost of that item in the past year. Each cost item is inflated by a relevant data series or index. For example, the labour cost item is inflated by the Wage Price Index (WPI) published by the Australian Bureau of Statistics. Through the combination of cost weightings and inflators, the cost indices aim to measure the change in costs experienced by the industry as a whole, from year to year. (See Box 2.1 for an example of how cost indices work.)

Box 2.1 How the cost index works – a simplified example

To calculate the annual change in a cost index, we take the current weighting of each cost item and multiply it by the relevant cost inflator (expressed as percentage). This gives the contribution of each cost item to the cost index. IPART then sums the contributions for each of the cost items to give the percentage change in the cost index.

The table below shows a very simple example where a cost index indicates that an average operator's total costs have increased by 10%. In this example, labour costs represent 60% of an average operator's costs, and so have a weighting of 60%. In this example, labour costs increased by 8.3% in the previous 12 months, so IPART multiplied 60% by 8.3%. The answer – 5% – represents the contribution of labour costs made to the operator's total increase in costs. This is done for each cost item and then the contributions are summed to arrive at the total increase in operator costs.

Cost Item	Weighting (%)	Change (%)	Contribution to index (%)
Labour costs	60	8.3	5
Interest costs	30	5.0	2
Fuel costs	10	30.0	3
Total	100		10

Note: Totals may not add due to rounding.

3 Fare changes

We decided on the required change in the maximum fare for each regulated private ferry service and the Stockton ferry service after considering the changes in the cost of providing the ferry service over the review period, as measured by the SFCI or the FFCI (whichever is relevant).

We also considered:

- the available information on changes in service standards and patronage
- the relativities between private ferry services and government-owned ferry services
- the expected impact of our recommendations on operators, passengers, the environment and the Government.

We formed recommendations on changes to maximum fares for private ferry services and determined the maximum fare for the Stockton ferry service.

The sections below provide an overview of our recommendations and determination. The subsequent sections explain how we considered the change of costs, service standards and the relativities of private and government-owned ferry services. Chapter 4 examines the impact on stakeholders of our fare recommendations.

3.1 Overview of fare changes and recommendations

3.1.1 Recommendations in relation to private ferry services

We calculated the required fare change for each private ferry service and the Stockton ferry service by:

- calculating the percentage change in the cost of providing the service over the review period using either the SFCI or the FFCI (See Appendix D)
- applying this percentage change to the current 'master fare' for this service[2]
- rounding the resulting fare to the nearest 10 cents.

2 The master fare is the unrounded fare as calculated in our December 2009 review (see Appendix E).

In relation to private ferries, we recommend:

1 That Transport NSW change maximum private ferry fares to the amount shown in the 'December 2010 fare' column in the table below.

Table 3.1 Recommended maximum fares for private ferry services from December 2010

Route	Dec 2009 master maximum fare (unrounded)	Current maximum fare (rounded)[a]	Recommended December 2010 maximum fare (rounded)	Difference between current maximum fare and recommended December 2010 maximum fare	
	$	$	$	$	%
Woy Woy – Empire Bay	6.58	6.70	6.80	0.10	1.5
Scotland Island and western foreshore of Pittwater	6.69	6.80	6.90	0.10	1.5
Iluka – Yamba	6.46	6.60	6.60	0.00	0.0
Cronulla – Bundeena	5.67	5.70	5.80	0.10	1.8
Brooklyn – Dangar Island	5.67	5.70	5.80	0.10	1.8
Circular Quay – Darling Harbour (fast ferry)	6.43	6.40	6.60	0.20	3.1
Circular Quay – Lane Cove (fast ferry)	6.43	6.40	6.60	0.20	3.1
Palm Beach – Mackerel and the Basin	6.69	6.80	6.90	0.10	1.5
Palm Beach – Ettalong Wagstaff (fast ferry)	9.59	9.60	9.80	0.20	2.1

a: For slow ferries, the current maximum fare is the fare recommended and implemented as part of the 2008 fare review. For fast ferries, the current maximum fare was recommended and implemented as part of the 2009 mid year review of fuel costs. Our recommended maximum fares in the 2009 annual review were not implemented.

We have made these recommendations according to the terms of reference received from the Premier (see Appendix A).

3.1.2 Stockton ferry fare determination

We determined that the maximum fare for the Stockton ferry service should remain unchanged. We applied the increase in the SFCI to the Stockton ferry master fare as determined in December 2009 and then rounded to the nearest 10 cents. The result is the fare remains unchanged.

Table 3.2 sets out the resulting maximum fare for the Stockton ferry service from 2 January 2011. Our determination of Stockton ferry fares is at the end of this report.

Table 3.2 Fare determined for Newcastle (Stockton) ferry service from January 2011

Route	Jan 2010 master maximum fare (unrounded)	Current fare (rounded)[a]	January 2011 fare (rounded)	Difference between current fare and January 2011 fare	
	$	$	$	$	%
Queens Wharf Newcastle – Stockton Wharf	2.27	2.30	2.30	0.00	0.0

a The current fare is the fare determined as part of the 2009 fare review and implemented from January 2010.

Appendix E shows the master fares and the recommended/determined fares for each ferry service in full.

3.2 Changes in operators' costs over the past 12 months

We have separately calculated the annual change in the costs of operating slow and fast private ferry services, using the ferry cost indices and the inflators and values discussed in Appendix D. These calculations indicated that the costs of operating slow ferry services have increased by 2.6%, while those of operating fast ferries increased by 2.1%. The main driver of these changes was an increase in labour costs.

3.3 Labour costs

Labour costs constitute approximately half of the SFCI and 30% of the FFCI. We use the WPI to inflate the labour cost component of the indices. As an economy-wide measure of changes in wage levels, the WPI does not necessarily reflect actual changes to wages in the private ferry industry each year, but over time it should be a reasonably close approximation.

Nevertheless, last year we noted that "where there are significant step changes in costs, we agree that basing fares on a historical cost index may not be appropriate. There are a number of ways in which one-off or significant mid-year cost changes can be incorporated into the cost index framework.[3] Whether it is necessary to make changes to accommodate step changes in cost, and the best method for doing this, depends on the circumstances."

In 2009 and again this year, the CVA submitted that the Australian Industrial Relations Commission's award modernisation process facilitated a substantial increase in wages. The modernisation process brought private ferry workers under a new Ports, Harbours and Enclosed Water Vessels Award 2010 from 1 January 2010.

3 For example, we include mid-year reviews of fuel prices for taxis and fast ferry services. We also incorporated one-off costs associated with new contracting arrangements for rural and regional buses (IPART, *Final report - Rural and Regional Buses*, December 2008).

We note that the new award includes transitional arrangements to minimise impacts on employers. It is not clear from the publicly available information what impact the new award will have on private ferry operators. While the CVA submits that the wage increases have been substantial, they provided no evidence to quantify this. As a result, we have not been able to consider alternative approaches for dealing with this matter as part of this review. If the CVA or operators are able to provide information on the actual impact of the award on labour costs, we will consider the implications for fares in our next review.

3.4 Financial viability issues

As in previous years, the CVA has submitted that the private ferry industry continues to struggle with financial viability.

As we stated last year in our final report, we are sympathetic to the industry's concerns, but in our view, financial viability is not best addressed through changing the level of fares.

The CVA has submitted that it has been pursuing contract reforms with the NSW Government to address financial viability issues. In response, the Government has provided 10 monthly supplementary payments to those slow ferry operators who receive School Student Transport Scheme payments.

Action for Public Transport also submitted that government support should be provided to the private ferry industry to help it acquire new capital equipment and adopt new technologies.

We have received further information from Transport NSW about the supplementary payments. We have decided not to take these payments into account when considering fare levels, on the basis that they are designed to address financial viability issues.

We have also previously noted that past experience suggests that raising ferry fares steeply could adversely impact passengers who rely on these services without improving the industry's viability. For example, in the 2003 review of private ferry fares, the CVA also submitted that the private ferry industry was not financially viable. In response, we recommended fare increases by between 8.0% and 36.4%, with 7 of the 10 regulated fares increasing by 20% or more. However, in the review undertaken the following year, we noted that patronage had reduced and consequently revenue actually fell for private ferry operators, despite these significant fare increases.

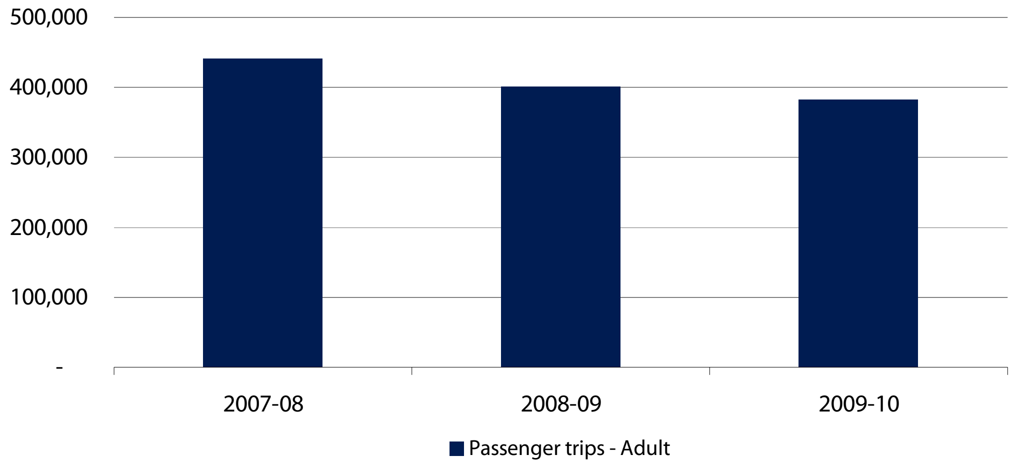
This is also borne out by the fact that some operators currently do not charge the maximum fare for their services due to the need to retain passengers, particularly in light of other competing modes of transport.

3.5 Service standards and patronage

Total patronage on private ferries was approximately 937,000 passenger trips in the year to June 2010.[4] This is down from 961,000 passenger trips for the corresponding period to June 2009, a 2.5% decrease.

We now have patronage data for the last 3 years. There are some inconsistencies in reporting some categories of passengers between years, so we compared adult full fare-paying trips only over the past 3 years in Figure 3.1 below. Over the period, total adult full fare-paying passenger trips have reduced by 13.2%. Six of the 9 private ferry routes had declining numbers of full fare-paying adult passengers for the period.

Figure 3.1 Adult full fare-paying passenger trips on private ferries 2007/8 to 2009/10



Note: Patronage is for adult full fare paying passengers only. Information for other passenger types is not consistent for all three years.

Data source: Transport NSW.

Private ferry operators provide Transport NSW with information on late and cancelled services and the number of safety incidents experienced. This information is summarised in Table 3.3 for the 12 months to June 2010. The information for the 12 months to June 2009, which we received as part of last year's review, is summarised in Table 3.4. The numbers of late or cancelled services in the year to June 2010 is generally lower than the numbers reported for the year to June 2009. However, given the limited data available, we are reluctant to draw conclusions about changes in service standards between the two periods. We expect this data to become more useful once an extended time series is accumulated.

4 Data provided by NSW Transport, 19 October 2010.

As the number of ferry trips for each operator has not been provided to us we are unable to draw conclusions about differences between operators from this information.

Table 3.3 Summary of KPI data received for 12 months to June 2010

Route	Late	Cancelled	Safety incidents
Woy Woy – Empire Bay	Unsure	1	0
Scotland Island and western foreshore of Pittwater	4	0	0
Iluka - Yamba	0	0	0
Cronulla - Bundeena	0	4	0
Brooklyn – Dangar Island	1	1	0
Circular Quay – Darling Harbour (ff)	0	0	0
Circular Quay – Lane Cove (ff)	0	0	0
Palm Beach – Mackerel and the Basin	0	0	1
Palm Beach – Ettalong Wagstaff (ff)	0	3	0

Note: Information for the Stockton ferry was not available for this review.

Source: Transport NSW, 19 October 2010.

Table 3.4 Summary of KPI data received for 12 months to June 2009

Route	Late	Cancelled	Safety incidents
Woy Woy – Empire Bay	1	0	0
Scotland Island and western foreshore of Pittwater	6	1	0
Iluka - Yamba	0	2	0
Cronulla - Bundeena	0	9	0
Brooklyn – Dangar Island	8	1	1
Circular Quay – Darling Harbour	0	0	0
Circular Quay – Lane Cove	0	0	0
Palm Beach – Mackerel and the Basin	0	2	0
Palm Beach – Ettalong Wagstaff	4	7	0

Note: Information for the Stockton ferry was not available for this review.

Source: Ministry of Transport, 12 November 2009.

3.6 Relativities with government-owned ferry services

Most private ferry operators do not provide services on Sydney Harbour, and so do not offer comparable services to those provided by Sydney Ferries. However, both Sydney Ferries and Matilda Cruises run services between Circular Quay and Darling Harbour. The Sydney Ferry single fare is $5.30 and the recommended maximum Matilda fare from December 2010 is $6.60. The differences between these services are:

- The Sydney Ferries trip to Darling Harbour is via Milsons Point, McMahons Point and Balmain East and is scheduled to take approximately 25 minutes. The Matilda service is via Luna Park and takes 15 minutes.
- The Matilda service uses fast ferries whereas the Sydney Ferries trip uses slow ferries, and we accept that the cost structure of these ferries is different.

Sydney Ferry fares had their first increase since January 2007 when the NSW Government introduced MyZone in April 2010. The "Inner harbour 1" fare that applies to the Circular Quay to Darling Harbour route became the MyFerry1 fare and rose by 10 cents under MyZone.

We note that private ferry operators' fares have continued to change in line with the changes in their costs over the same period.

4 Impacts on stakeholders

Before finalising our recommendations and determination, we considered a range of matters related to the effect of our pricing recommendations and decisions on stakeholders, as required by our terms of reference and section 15 of the IPART Act. Our views on the likely implications of changing ferry fares in line with the increase in the SFCI or the FFCI for 4 key stakeholder groups – private ferry operators, passengers, the environment and government – are outlined below.

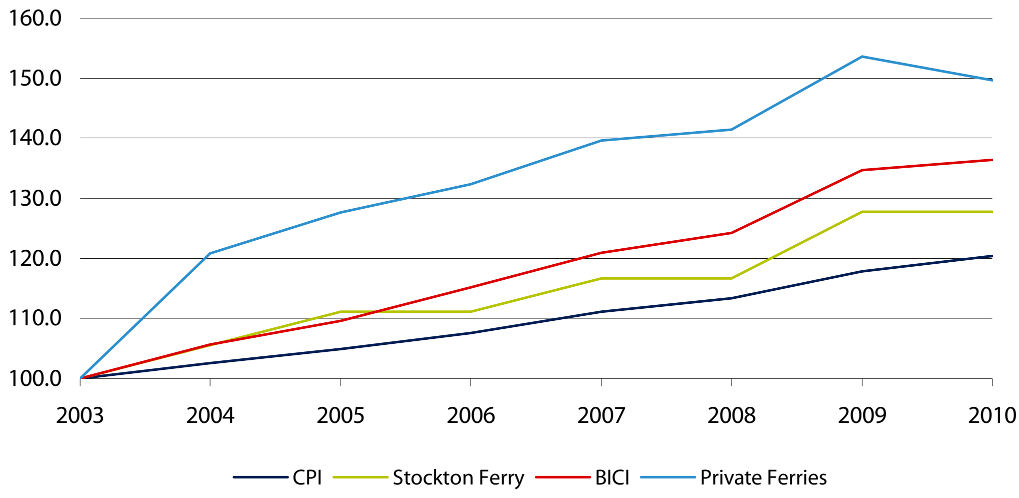
4.1 Implications for private ferry operators

We consider that our recommendations are based on the change in costs experienced by private ferry operators over the past year and as a result, will not reduce the financial viability of the operators.

Section 3.4 above discusses our views on the concerns of private ferry operators with regard to the financial viability of operators.

In reviews from 2003 to 2008, we recommended that private ferry fares increase by more than CPI and other transport fares that we regulate, such as the Stockton ferry and rural and regional buses (as measured by the Bus Industry Cost Index). In 2009, we recommended small decreases in fares, but Transport NSW decided to leave fares unchanged. (Some had already decreased slightly following our 2009 mid-year fuel review.) Figure 4.1 below compares changes in private ferry fares to fares for other modes of transport and CPI over time.

Figure 4.1 Transport fares in NSW from 2003-2010



Note: Private ferry increase represents the average increase over the time period. CPI is calculated by the same method used in the SFCI and FFCI.

Data source: IPART Reviews, ABS Cat 6024.0.

4.2 Implications for passengers

In our view, the recommended maximum fares are not likely to have a negative impact on passengers as fares will increase only by small amounts.

All three submissions argued that the most important issue for private ferry passengers is the inclusion of private ferries in the NSW Government's plans to integrate ticketing across public and private buses, rail and public ferries. This issue is outside the terms of reference for our fare review.

4.3 Implications for the environment

The impact of the recommended fares on the environment in terms of pollution and congestion is likely to be minimal, given that ferry travel accounts for a small proportion of passenger trips.

4.4 Implications for the Government

The recommended fare changes will affect the Government through payments for subsidised/free school student travel and half-fare concessions. Generally, the Government provides operators with a payment equal to the predetermined 'fare' for a school student or a top-up equal to half the adult fare for concession passengers (so the operator effectively receives the full fare amount for transporting these passengers).

As these payments are related to the level of fares charged by ferry operators, our recommendation will marginally increase the amount of funding required per student or concession passenger trip.

We note that the Government made the decision to provide supplementary payments outside the fares framework and our fare recommendations should make no difference to the supplementary payments.

Appendices

A Terms of reference for private ferries

INDEPENDENT PRICING AND REGULATORY TRIBUNAL ACT 1992
PRIVATE FERRY INDUSTRY FARE REVIEW

I, Kristina Keneally, Premier, pursuant to Section 9(2) of the *Independent Pricing and Regulatory Tribunal Act* 1992, approve the Independent Pricing and Regulatory Tribunal entering into an arrangement with Transport NSW from 04/08/10 to 04/08/11 to provide services to Transport NSW that are within its area of expertise. The services to be provided by the Tribunal are the conduct of an investigation into, and the preparation of a report concerning, fares for regular private ferry services under the *Passenger Transport Act 1990*.

In providing these services, the Tribunal should consider:

i) the cost of providing the services concerned;
ii) relativities with the Government owned ferry services, including in terms of service, efficiency, cost and ticketing products;
iii) the protection of consumers from abuses of monopoly power in terms of prices, pricing policies, and standards of service;
iv) the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers;
v) the impact of pricing policies on borrowing and capital requirements and, in particular, the impact of any need to renew or increase relevant assets;
vi) the need to maintain ecologically sustainable development;
vii) the social impact of the recommendations;
viii) standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise and any suggested or actual changes to those standards); and
ix) the effect of any pricing recommendation on the level of Government funding provided to private operators under commercial contracts.

The services to be provided by the Tribunal will include a public consultation process through which the Tribunal will invite submissions from the private ferry operators, the relevant unions and other stakeholder groups including user groups.

The services are to be provided through the provision of a final report to Transport NSW by 1 December 2010.

The Hon Kristina Keneally MP
Premier

Dated at Sydney 2 SEP 2010

Table A.1 indicates where the relevant requirements of the terms of reference are addressed within this report.

Table A.1 IPART's considerations of terms of reference matters

Terms of reference	
a) cost of providing the service	Sections 3.2 – 3.3 & Appendix D
b) relativities with Government-owned ferry services	Section 3.6
c) protection of consumers from abuse of monopoly power	Section 4.2
d) improved efficiency in supply of services	Appendix D
e) impact on borrowing, capital and dividend requirements	Sections 3.4 and 4.1
f) ecologically sustainable development	Section 4.3
g) the social impact on customers	Section 4.2
h) standards of quality, reliability and safety of the services	Section 3.5
i) effect on level of Government funding	Section 4.4

B Requirements of the IPART Act for the Stockton ferry determination

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).

Table B.2 indicates where the relevant section 15 requirements are addressed within this report.

Table B.1 IPART's considerations of section 15 matters

Section 15	
a) cost of providing the service	Sections 3.2 – 3.3 & Appendix D
b) protection of consumers from abuse of monopoly power	Section 4.2
c) appropriate rate of return and dividends	Section 2.2
d) effect on general price inflation	Sections 2.2 & 3.1
e) improved efficiency in supply of services	Appendix D
f) ecologically sustainable development	Section 4.3
g) impact on borrowing, capital and dividend requirements	Appendix D
h) additional pricing policies	Considered NA
i) need to promote competition	Section 2.2
j) considerations of demand management	Considered NA
k) the social impact on customers	Section 4.2
l) standards of quality, reliability and safety of the services	Section 3.5

C List of submissions

The following tables provide details of the submissions received for the review and participants in the public hearing held 25 October 2010.

Table C.1 List of submissions/proposals received

Submitter	Date received
Action for Public Transport	27 October 2010
Commercial Vessel Association	28 October 2010
Individual (Allan Miles)	27 October 2010

Table C.2 Participants at the public hearing

Speaker	Organisation
Warwick Fairweather	Commercial Vessel Association
Graeme Taylor	Action for Public Transport
Joanna Quilty	Transport NSW

D Calculation of the FFCI and SFCI

As Chapter 2 explained, each year the individual cost items in the cost indices are inflated to reflect the changes in the cost of those items over the past year. Each cost item is inflated by a relevant data series or index, such as the Wage Price Index (WPI) published by the Australian Bureau of Statistics. The results are then added together to calculate the annual change in the cost index.

As part of the 2007 review of private ferry fares, we reviewed and revised the inflators used in the ferry cost indices. In general, we aimed to ensure that these inflators are:

- based on independent and verifiable data that is publicly available
- a reasonable estimate of cost changes for operators
- consistent with inflators used for other transport industries where relevant.

In 2008, we reweighted the ferry cost index. As a result of this work, 3 new cost items were identified and separated from the "other costs" cost item.[5] These cost items were inflated by the Consumer Price Index (CPI) as an interim measure until sufficient consultation was undertaken in 2009's review. In 2009, we confirmed the CPI as the relevant inflator for these items.

The section below provides an overview of the inflators for each cost item and the value of these inflators over the review period (1 October 2009 to 30 September 2010). The subsequent sections discuss each cost item's inflator and its value in more detail.

D.1 Annual increase in costs measured by the FFCI and SFCI

We separately calculated the changes in the costs of operating slow and fast private ferry services, using the ferry cost indices and the inflators and values discussed in the following sections. Table D.1 and Table D.2 summarise the slow and fast ferry cost indices for 2010.

These calculations indicated that the costs of operating slow ferry services have increased by 2.6%, while those of operating fast ferries increased by 2.1%. The main driver of these changes was an increase in labour costs.

5 Repair and maintenance, depreciation and amortisation, berthing and mooring.

Table D.1 Change in costs of operating slow ferry services over the past 12 months

Cost Item	Index weight	Inflator value	Contribution to 2011 change
	%	%	%
Labour	52.5	3.1	1.6
Fuel	7.4	-2.7	-0.2
Insurance	3.8	6.1	0.2
Interest	9.5	2.8	0.3
Repair and Maintenance	7.0	2.7	0.2
Ferry depreciation/amortisation	4.1	2.7	0.1
Berthing/mooring fees	0.5	2.7	0.0
All Other	15.2	2.7	0.4
Total	100.0		2.6

Table D.2 Change in costs of operating fast ferry services over the past 12 months

Cost Item	Index weight	Inflator value	Contribution to 2011 change
	%	%	%
Labour	33.4	3.1	1.0
Fuel	17.2	-2.7	-0.5
Insurance	6.1	6.1	0.4
Interest	8.3	2.8	0.2
Repair and Maintenance	8.2	2.7	0.2
Ferry depreciation/amortisation	11.8	2.7	0.3
Berthing/mooring fees	6.7	2.7	0.2
All Other	8.1	2.7	0.2
Total	100.0		2.1

D.2 Overview of decisions on inflators and their value

Our decisions on the inflator for each cost item and its value over the review period are shown on Table D.3.[6]

Table D.3 Our decisions on inflators and their value over period 1 October 2009 to 30 September 2010

Cost item	Inflator	Value (%)
Labour costs	Change in the Wage Price Index for the 12 months to September 2010	3.1
Fuel costs	Daily diesel price from FUELtrac (less excise and GST) for the 12 months to September 2010, compared to the same period of 2009	-2.7
Insurance and registration	Change in the insurance services component of the CPI for the 12 months to September 2010	6.1
Interest	Change in weighted average interest rate for National Australia Bank base rate business loan for the 12 months to September 2010 compared to the same period of 2009	2.8
Repair and maintenance	Change in the CPI for the 12 months to September 2010	2.7
Depreciation and amortisation	Change in the CPI for the 12 months to September 2010	2.7
Berthing and mooring	Change in the CPI for the 12 months to September 2010	2.7
Other costs	Change in the CPI for the 12 months to September 2010	2.7

6 Inflator values in this chapter are rounded to 1 decimal place for presentation purposes.

D.2.1 Labour costs

Labour costs in the indices are inflated by the WPI, adjusted for improvements in labour productivity. We decided not to make a productivity adjustment this year.

We calculated the change in the WPI[7] using averaged data from the 4 quarters to September 2010, based on the following formula:

$$WPI_t = \left(\frac{WPI_{Dec(t-1)} + WPI_{Mar(t-1)} + WPI_{Jun(t-1)} + WPI_{Sep(t)}}{WPI_{Dec(t-2)} + WPI_{Mar(t-2)} + WPI_{Jun(t-2)} + WPI_{Sep(t-1)}} - 1 \right) \times 100\%$$

This calculation indicates that the increase in the labour cost item for this review period is 3.1%.

Adjusting for productivity gains

Consistent with our decision in the past two years, we have made no adjustment to the labour cost inflator for expected gains in productivity over the coming year. Unlike the CPI (which is used to inflate many other cost items in the cost indices), the WPI does not already include a measure of economy-wide productivity gains.

Productivity is a measure of the rate at which outputs of goods and services are produced per unit of input (for example, labour, capital, raw materials). Growth in productivity reflects the achievement of greater outputs for a given level of input. This can be achieved through reduced costs, but also through increased levels of value-adding, such as increased performance or improved service quality.

IPART has made no adjustment for productivity for the previous two reviews and we have not made an adjustment for this review. In large part, our decision for this review reflects the lack of productivity growth across the Australian economy and transport-related sectors.

Productivity is commonly measured in terms of labour productivity or multifactor productivity (MFP). The ABS states that 'measuring improvements in underlying technical efficiency is the normal aim of productivity analysis. This is better achieved using multifactor productivity, which takes into account both labour and capital'. MFP statistics use industry gross value added (in volume terms) to measure economic output and total hours worked to measure labour input. The capital input is a measure of different capital assets such as dwellings, other buildings and structures, and machinery and equipment, along with livestock, intangibles and non-agricultural land.

7 Total hourly rates of pay excluding bonuses, New South Wales, All industries, Private and Public, All occupations. ABS Catalogue 6345.0, Table 2b.

Over the last four decades, annual MFP growth in the 'market sector' of Australia's economy has averaged 1.1%. However, ABS estimates of MFP growth have been declining since 2004/05 for general market sector industries. Productivity Commission analysis suggests that this is largely due to specific developments in the mining, utilities and agricultural sectors. Average annual MFP growth in the Transport, Postal and Warehousing industry sector outpaced MFP growth for the general market sector between 1985/86 and 2005/06, but has fallen 1.2% per year since 2005/06.

Also taking into account the fact that many of the private ferry operators are small businesses, that on-board staffing levels are governed by safety obligations, and that in the short-term productivity is closely linked to patronage (which declined in 2010), we have decided not to make a productivity adjustment this year.

D.2.2 Fuel costs

We have inflated the fuel cost item by -2.7%, based on FUELtrac[8] data on the average daily diesel Sydney pump price, net of GST and fuel excise.[9]

To calculate the inflator, we compared the average diesel pump price (less fuel excise and GST) for Sydney over the 12 months to 30 September 2009 with the average diesel pump price for Sydney over the 12 months to 30 September 2010. Based on this data, the price of diesel fuel has decreased by 2.7% since the 2009 review.

D.2.3 Insurance and registration costs

We have inflated the insurance and registration costs item by 6.1%, based on the change in the 'insurance services' subgroup of the CPI (as measured by the average index value for the 4 quarters to September 20010 divided by the average index value for the 4 quarters to September 2009).[10]

D.2.4 Interest costs

As was the case last year, we have decided to use the change in the National Australia Bank base rate[11] for business loans to inflate the interest cost item. This resulted in an increase in this cost item of 2.8%.

We calculated the change in interest costs by calculating the percentage change in the weighted average of the business lending base rate between the year ending 30 September 2009 and the year ending 30 September 2010.

8 FUELtrac is an independent organisation which provides a fuel price monitoring service.
9 Fuel excise is not paid on fuel used for marine transport.
10 Sydney, All Groups, ABS Catalogue no. 6401.0, Table 13.
11 National Australia Bank base rate for business lending (Rate code B).

D.2.5 Repair and maintenance costs

We have decided to use changes in the Sydney all groups CPI to inflate the costs of repair and maintenance.[12] The value of this inflator for the year to 30 September 2010 is 2.7%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Repair and maintenance costs were 1 of 3 cost items which, prior to 2008, were captured as part of the "other costs" cost item.[13]

D.2.6 Depreciation and amortisation

We have decided to use changes in the Sydney all groups CPI to inflate the costs of depreciation and amortisation. The value of this inflator for the year to 30 September 2010 is 2.7%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Depreciation and amortisation was the second of 3 cost items which, prior to 2008, were captured as part of the 'other costs' cost item.[14]

D.2.7 Berthing and mooring costs

We have decided to use changes in the Sydney all groups CPI to inflate the costs of berthing and mooring fees. The value of this inflator for the year to 30 September 2010 is 2.7%. CPI is calculated using the same formula as WPI, outlined in section D.2.1.

Berthing and mooring fees is the last of the 3 cost items which, prior to 2008, were captured as part of the "other costs" cost item.[15]

D.2.8 All other costs

All other costs are also inflated by the Sydney all groups CPI (2.7%). CPI is calculated using the same formula as WPI, outlined in section D.2.1.

12 Sydney, All Groups. ABS Catalogue no. 6401.0, Table 13.
13 The others were depreciation and amortisation and berthing and mooring.
14 The others were repair and maintenance and berthing and mooring.
15 The others were repair and maintenance and depreciation and amortisation.

D.3 Weightings for next year's review

The weightings for the 2011 review will be equal to the 2010 weightings adjusted according to changes in the relativities in costs that result from the inflators applied this year to the current weightings. Table D.4 shows the weightings for the 2011 review.

Table D.4 2011 weightings for the SFCI and FFCI

Cost Item	SFCI (%)	FFCI (%)
Labour	52.8	33.8
Fuel	7.1	16.4
Insurance	3.9	6.3
Interest	9.6	8.4
Repairs and maintenance	7.0	8.3
Depreciation/amortisation	4.1	11.9
Berthing/mooring	0.5	6.8
All other	15.2	8.2
Total	100.0	100.0

Note: Totals may not add due to rounding.

E Recommended maximum fares for private ferries from December 2010 and determined fare for the Stockton ferry from January 2011

The following tables show the recommended master and rounded fares for private ferries and the determined fare for the Stockton ferry.

Table E.1 Recommended maximum fares for private ferry services from December 2010 compared with maximum fares recommended in December 2009 – master fares and rounded fares

Route	December 2009 fare (master)	December 2009 fare (rounded)	New fare (master)	New fare (rounded)
Woy Woy – Empire Bay	6.58	6.60	6.75	6.80
Scotland Island and western foreshore of Pittwater	6.69	6.70	6.87	6.90
Iluka – Yamba	6.46	6.50	6.63	6.60
Cronulla – Bundeena	5.67	5.70	5.82	5.80
Brooklyn – Dangar Island	5.67	5.70	5.82	5.80
Circular Quay – Darling Harbour (ff)	6.43	6.40	6.57	6.60
Circular Quay – Lane Cove (ff)	6.43	6.40	6.57	6.60
Palm Beach – Mackerel and the Basin	6.69	6.70	6.87	6.90
Palm Beach – Ettalong Wagstaff (ff)	9.59	9.60	9.79	9.80

Note: The December 2009 fares are those which were recommended in our 2009 review. These may differ from the current maximum fares as the decrease in private ferry fares recommended last year was not accepted.

Table E.2 Maximum fares for Newcastle (Stockton) ferry service from January 2011 compared with current fares – master fare and rounded fare

Route	Current fare (master)	Current fare (rounded)	New fare (master)	New fare (rounded)
Queens Wharf Newcastle – Stockton Wharf	2.27	2.30	2.33	2.30