

Review of fares for private ferry services and the Stockton ferry service for 2012

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

Transport — Report and Recommendation
December 2011

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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 for 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 Change in maximum fares

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

- ▼ fares for slow private ferry services should increase by 4.9% before rounding
- ▼ fares for fast private ferry services should increase by 6.3% before rounding
- ▼ the fare for the Stockton ferry service should increase by 4.9% before rounding.

The change in fares applies to the master fare schedule set during the 2010 annual fare review. We then round recommended fares to the nearest 10 cents. Our mid-year review of fuel costs for fast ferries saw recommended maximum fares increase. For these reasons, increases in the recommended maximum fares compared to the *current* maximum fares range from 4.0% to 6.1% under our recommendations this year. Table 1.1 summarises the change in maximum fares.

We understand that Transport for NSW's decision on fares for private ferry services will take effect in December 2011.

¹ By arrangement with Transport for 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 2012. If the mid-year review indicates that fuel costs have increased or decreased by more than 10%, we will recommend an adjustment to the maximum fares for these services.

1.2 Overview of recommendations and determination

In relation to private ferries, we recommend that Transport for NSW change maximum private ferry fares to the amount shown in the 'Recommended max fare from Dec 2011 (rounded)' column in Table 1.1 below.

In relation to the Newcastle (Stockton) ferry service, the maximum fare will increase by 10 cents (4.3%) from 1 January 2012 (see Table 1.2 below).

1.3 How this report is structured

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.

Table 1.1 Recommended maximum fares for private ferry services from December 2011

Route	Dec 2010 max master fare (unrounded)	Current max fare ^a (rounded)	Dec 2011 max master fare (unrounded)	Adjustment wharf access costs	Recommended max fare from Dec 2011 (rounded)	Difference between current max fare and recommended max fare from Dec 2011	
	\$	\$	\$	\$	\$	\$	%
Woy Woy – Empire Bay	6.75	6.80	7.08	-	7.10	0.30	4.4
Scotland Island and western foreshore of Pittwater	6.87	6.90	7.21	0.03	7.20	0.30	4.3
Iluka – Yamba	6.63	6.60	6.96	-	7.00	0.40	6.1
Cronulla – Bundeena	5.82	5.80	6.11	-	6.10	0.30	5.2
Brooklyn – Dangar Island	5.82	5.80	6.11	-	6.10	0.30	5.2
Circular Quay – Darling Harbour (ff)	6.57	6.70	6.98	-	7.00	0.30	4.5
Circular Quay – Lane Cove (ff)	6.57	6.70	6.98	-	7.00	0.30	4.5
Palm Beach – Mackerel and the Basin	6.87	6.90	7.21	0.03	7.20	0.30	4.3
Palm Beach – Ettalong Wagstaff (ff)	9.79	10.00	10.41	0.03	10.40	0.40	4.0

a For slow ferries, the current maximum fare is the fare recommended and implemented as part of the 2010 annual fare review. For fast ferries, the current maximum fare was recommended and implemented as part of the 2011 mid-year review of fuel costs.

Table 1.2 Fare determined for Newcastle (Stockton) ferry service from January 2012

Route	January 2011 max master fare (unrounded)	Current max fare (rounded) ^a	January 2012 max master fare (unrounded)	2012 max fare (rounded)	Difference between current max fare and 2012 max fare	
	\$	\$	\$	\$	\$	%
Queens Wharf Newcastle – Stockton Wharf	2.33	2.30	2.45	2.40	0.10	4.3

a The current maximum fare is the fare determined as part of the 2010 annual fare review and implemented from January 2011.

2 | IPART's role and approach

Our role in regulating private ferry services is to recommend to Transport for 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 August 2011 (see Appendix A). The terms of reference require us to provide our recommendations to Transport for NSW by 1 December 2011. Our role is limited to providing recommendations; the Director-General of Transport for 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 What was our 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 September 2011, 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 published in the Sydney Morning Herald, the Daily Telegraph, and the Newcastle Herald. We received 3 submissions in total, in relation to private ferries and the Stockton Ferry.
- ▼ Independently analysed cost data and inflators for the ferry cost indices (see section 2.2).
- ▼ Held a public hearing on 2 November 2011, to which we invited stakeholders, including the Commercial Vessels Association (CVA), Action for Public Transport (APT) and Transport for 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 What approach did we use to calculate fare changes?

As in last year's review of fares, we have used the Fast Ferry Cost Index (FFCI) and the 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 insurance cost item is inflated by the Consumer Price Index (CPI) for insurance, published by the Australian Bureau of Statistics (ABS). 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%. Labour costs increased by 8.3% in the previous 12 months, so IPART multiplied 60% by 8.3%. The result – 5% – represents the contribution labour costs made to the operator's total increase in costs. This is repeated 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

3 Change in maximum fares

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 any cost increases that might fall outside of the cost indices.

In terms of non-cost issues, we 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 Our recommendations in relation to fares for private ferry services

We calculated the required fare change for each private 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 service²
- ▼ rounding the resulting fare to the nearest 10 cents.

² The master fare is the unrounded fare as calculated in our December 2010 review (see Table 1.1).

In relation to private ferries, we recommend that Transport for NSW change maximum private ferry fares to the amount shown in the 'Recommended max fare from Dec 2011 (rounded)' column in Table 3.1 below.

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

3.1.2 Our determination for the Stockton ferry fare

We determined that the maximum fare for the Stockton ferry service should increase by 10 cents (4.3%). We applied the increase in the SFCI to the Stockton ferry master fare as determined in December 2010 and then rounded to the nearest 10 cents.

Table 3.2 sets out the resulting maximum fare for the Stockton ferry service from 1 January 2012. The legal document setting out our determination of Stockton ferry fares is available on our website.

Table 3.1 Recommended maximum fares for private ferry services from December 2011

Route	Dec 2010 max master fare (unrounded)	Current max fare ^a (rounded)	Dec 2011 max master fare (unrounded)	Adjustment wharf access costs	Recommended max fare from Dec 2011 (rounded)	Difference between current max fare and recommended max fare from Dec 2011	
	\$	\$	\$	\$	\$	\$	%
Woy Woy – Empire Bay	6.75	6.80	7.08	-	7.10	0.30	4.4
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Cronulla – Bundeena	5.82	5.80	6.11	-	6.10	0.30	5.2
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Circular Quay – Darling Harbour (ff)	6.57	6.70	6.98	-	7.00	0.30	4.5
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Palm Beach – Mackerel and the Basin	6.87	6.90	7.21	0.03	7.20	0.30	4.3
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a For slow ferries, the current maximum fare is the fare recommended and implemented as part of the 2010 annual fare review. For fast ferries, the current maximum fare was recommended and implemented as part of the 2011 mid-year review of fuel costs.

Table 3.2 Fare determined for Newcastle (Stockton) ferry service from January 2012

Route	January 2011 max master fare (unrounded)	Current max fare (rounded) ^a	January 2012 max master fare (unrounded)	2012 max fare (rounded)	Difference between current max fare and 2012 max fare	
	\$	\$	\$	\$	\$	%
Queens Wharf Newcastle – Stockton Wharf	2.33	2.30	2.45	2.40	0.10	4.3

a The current maximum fare is the fare determined as part of the 2010 annual fare review and implemented from January 2011.

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 4.9%, while those of operating fast ferries increased by 6.3%. The main drivers of these changes were increases in fuel and labour costs.

3.2.1 Adjusting the labour cost item for expected productivity gains

Productivity measures the rate at which outputs (eg, goods and services) are produced per unit of input (eg, labour, capital, raw materials). When an industry's productivity increases, it means it is producing more outputs for a given level of inputs than it did previously. For example, it may have reduced its costs, or increased the quantity or value of its output (eg, by improving the performance of its goods or the quality of its services).

Productivity improvements will reduce the need for ferry operators to be compensated for rising costs. For those cost items inflated by the change in the Consumer Price Index (CPI), this adjustment occurs automatically, because the CPI includes a measure of economy-wide productivity gains. However, for others – particularly the labour cost item, which is adjusted by the Wage Price Index (WPI) – we need to consider whether we should make this adjustment ourselves.

For the previous 3 reviews, we decided to inflate the labour cost item by the change in the WPI without adjusting for productivity gains. Last year, this decision was based on:

- ▼ a lack of evidence to suggest that the productivity of the Australian economy or the transport sector improved over the past year
- ▼ the fact that many of the private ferry operators are small businesses
- ▼ the fact that that on-board staffing levels are governed by safety obligations
- ▼ the fact that that in the short-term productivity is closely linked to patronage (which is reported as having declined in 2010 and 2011).

In addition, we have no specific indicators that can be used to assess productivity of private ferry services.

However, applying the cost indices without adjusting for labour productivity will tend to overcompensate ferry operators over time. As we have not made an adjustment for labour productivity in the last 3 years, we have decided to make a small adjustment this year so that passengers can benefit from potential productivity improvements.

ABS data on productivity

Measures of productivity trends released by the ABS suggest that labour productivity in the general economy has grown on average over the past 5 years, but that multi-factor productivity has fallen (Table 3.3).

Table 3.3 Productivity measures – 2010/11 National System of Accounts

	2006/07	2007/08	2008/09	2009/10	2010/11	5-year (geometric) average
	% change	% change	% change	% change	% change	% change
Gross value added per hour worked:						
Transport, postal & warehousing	3.5	-1.7	-6.5	6.2	1.6	0.5
All industries	0.9	0.9	0.5	2.4	-0.8	0.8
Market sector measures (based on hours worked)^a						
Labour productivity	1.0	1.3	0.6	2.7	-0.3	1.0
Multi-factor productivity	-0.3	-0.6	-1.9	0.4	-1.3	-0.7

a The market sector comprises industries for which there are satisfactory estimates of growth in the volume of output.

Source: ABS Australian System of National Accounts, 5204.0, 2010/11 – Tables 13 and 15.

However, the longer term decline in multi-factor productivity across the Australian economy has been largely linked to developments in 3 sectors – mining, electricity, gas and water, and agriculture.³ This suggests that broad productivity estimates may understate the productivity possible in private ferries.

We considered this data from 2005/06 to 2009/10 in our review of taxi fares this year and concluded that a productivity adjustment of 0.3% was consistent with a conservative estimate of productivity improvements that are achievable across the economy as a whole.⁴

No stakeholders commented on an appropriate productivity adjustment for labour costs in the private ferry industry. We have decided to make a productivity adjustment of 0.3% to the labour cost item of the ferry cost indices this year. In our view, this is consistent with a conservative estimate of productivity improvements that are achievable across the economy as a whole.

³ Productivity Commission, *Australia's Productivity Performance*, Submission to the House of Representatives Standing Committee on Economics, September 2009.

⁴ See IPART, *2011 Review of Taxi Fares in NSW – Final Report*, June 2011, p 14.

3.3 Cost increases falling outside the indices

We have also considered:

- ▼ retaining the mid-year fuel review for fast ferries
- ▼ increased wharf access fees for some private ferry operators and
- ▼ the impact of carbon pricing from 1 July 2012.

3.3.1 Reviewing the fuel costs for fast ferries during the year

In response to industry concerns about fuel price volatility, in 2008 we introduced a mid-year review of fuel costs for fast ferry operators.⁵ The mid-year review is a mechanical process and we recommend a fare change if costs have increased or decreased by more than 10% over the 6 months from our annual fare review.

After the mid-year fuel cost review in 2009, we recommended a decrease in fast ferry fares of 4.8% (40 to 50 cents after rounding),⁶ which was accepted by Transport for NSW. In 2010, we did not recommend any change to fares after the mid-year review, as the change in fuel price was a decrease of 5.8%.⁷

This year the mid-year fuel cost review found an increase in diesel costs of 11.4% and we recommended an increase in fast ferry fares of 1.9% (10 to 20 cents after rounding).⁸ This recommendation was accepted by Transport for NSW.

Stakeholders did not express any views regarding the mid-year fuel cost review. Given the volatility of fuel prices over the last few years, and the introduction of carbon pricing (see section 3.3.3), we have decided to retain it in its current form.

3.3.2 Increased wharf access costs

We understand that wharf access charges have been introduced for some private ferry operators in the past year. The full extent of this increase in costs will not be reflected in the cost indices. Wharf access costs are a small component of ferry operators' total costs.

No stakeholders commented on what might be an appropriate adjustment to the form of regulation to account for this increased cost and its differential impact on ferry operators. However, given this is a legitimate cost increase that will not be captured by the cost indices, we have decided that the master fares for Church Point Ferry Service and Palm Beach Ferry Service should be adjusted once to reflect

⁵ But not slow ferry operators as fuel costs are a smaller proportion of their total costs.

⁶ IPART, *Mid year review of fuel costs for private ferries in NSW to March 2009*, May 2009.

⁷ IPART, *Mid year review of fuel costs for private ferries in NSW to March 2010*, May 2010.

⁸ IPART, *Mid-year review of fuel costs for fast private ferries in NSW to March 2011*, May 2011.

additional and ongoing wharf access costs.⁹ Based on the anticipated cost for 2011/12 and patronage reported for 2010/11, we are increasing the master fares for these services by \$0.03. If operators do not pay increased wharf access fees, we will remove this adjustment at the next fare review.

3.3.3 Accounting for the impact of a carbon price

Marine transport effectively pays no excise on fuel used, as the excise is offset under the fuel tax credits scheme. The Australian Government's carbon pricing mechanism will impose an effective carbon price on marine transport from 1 July 2012 through reduced fuel tax credit entitlements.

Given the timing of the proposed change, we have decided to consider the potential impacts on fuel costs for fast ferries during the 2012 mid-year fuel cost review. The impact on fuel costs for slow ferries (and on other costs more generally) is expected to be small, and will be considered in the 2012 annual review. No submissions raised the issue of carbon pricing. At the public hearing, Transport for NSW supported our proposed approach.¹⁰

3.4 Patronage and service standards

We collect and publish data on patronage and service standards for information only – it does not affect fare outcomes. Reported patronage on private ferries was approximately 1,065,000 passenger trips in the year to June 2011.¹¹ This is down from the 1,090,000 passenger trips reported for the corresponding period to June 2010,¹² a 2.3% decrease.

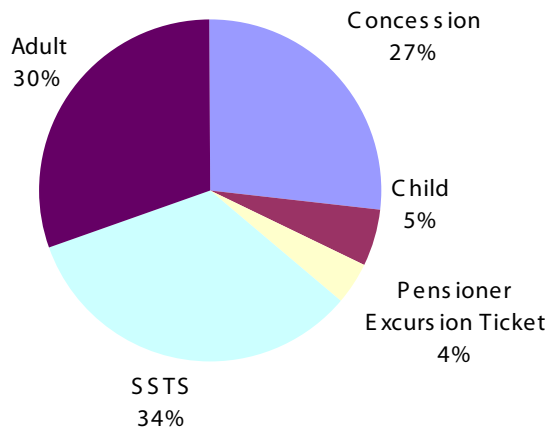
Patronage data is manually collected and subject to some inconsistencies in the reporting of some categories of passengers between years. Figure 3.1 below shows the breakdown of patronage on private ferries for 2010/11 according to passenger type. It illustrates the relativities between adult full fare-paying passenger trips, and subsidised trips (ie passengers paying concession/half-fares or using Pensioner Excursion Tickets and patronage counted under the School Student Transport Scheme (SSTS)).

⁹ We have previously agreed to an additional one-off fare increase above the general cost increase measured by the Bus Industry Cost Index (used to set rural and regional bus fares), reflecting additional costs associated with the introduction of the new bus contract regime (ie increases in bus drivers' costs).

¹⁰ See <http://www.ipart.nsw.gov.au/files/Transcript%20-%20Rural%20and%20Regional%20buses%20-%20private%20Ferries%20and%20Stockton%20ferry%20-%20202%20November%202011.PDF>

¹¹ Data provided by Transport for NSW, 2 November 2011.

¹² Data provided by Transport for NSW, 19 October 2010.

Figure 3.1 Reported patronage on private ferries (%) 2010/11

Data source: Transport for NSW.

Private ferry operators provide Transport for NSW with information on late and cancelled services and the number of safety incidents experienced. This information is summarised in Table 3.4 for the 12 months to June 2011. The information for the 12 months to June 2010 and June 2009, which we received as part of the last 2 reviews, is summarised in Tables 3.5 and 3.6.

The numbers of late or cancelled services in the year to June 2011 is significantly higher than the numbers reported for previous years. However, this result is dominated by the experience of Matilda Cruises with the retrofitting of wet exhaust systems on its vessels. In addition, given the limited data available, we are reluctant to draw conclusions about changes in service standards between the 3 periods. We expect this data to become more useful once an extended time series is accumulated.

Table 3.4 Summary of KPI data received for 12 months to June 2011

Route	Late	Cancelled	Safety incidents
Woy Woy – Empire Bay	0	0	0
Scotland Island and western foreshore of Pittwater	5	0	0
Iluka - Yamba	0	0	0
Cronulla - Bundeena	1	4	0
Brooklyn – Dangar Island	2	4	1
Circular Quay – Darling Harbour (ff)			
Circular Quay – Lane Cove (ff)	37 ^a	0	0
Palm Beach – Mackerel and the Basin	0	0	0
Palm Beach – Ettalong Wagstaff (ff)	0	0	0
Stockton Ferry	2	0	0

a All vessels retrofitted with wet exhaust systems.

Source: Transport for NSW, 6 and 11 October 2011.

Table 3.5 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 for NSW, 19 October 2010.

Table 3.6 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.

3.5 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 2011 is \$7.00 (the fare currently charged by Matilda Cruises is \$6.00). 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 Ferries' fares had their first change 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 costs \$5.30 under MyZone.¹³

The recommended maximum fares for private ferry operators have continued to change in line with the changes in their costs over the same period.

¹³ See <http://www.131500.com.au/tickets/fares/sydney-ferries>

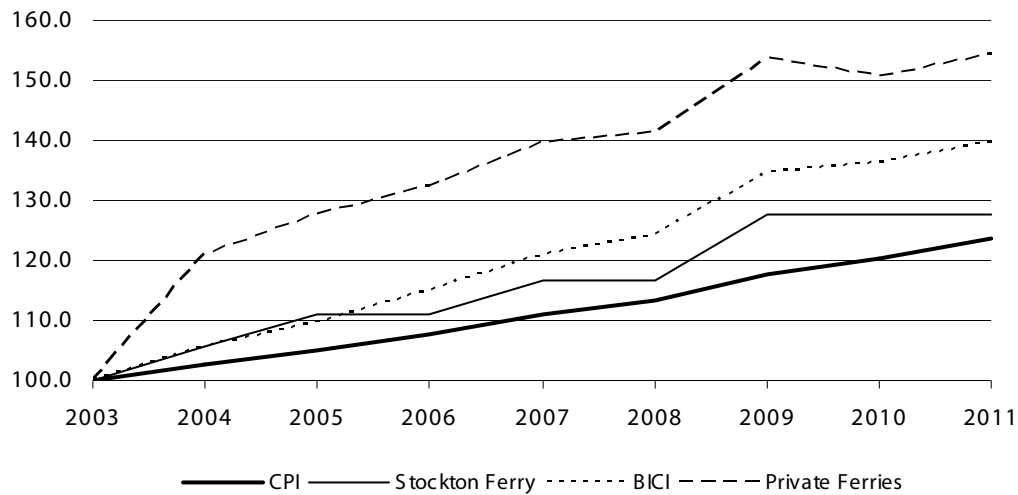
4 Impacts on stakeholders

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 decrease 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.

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

Figure 4.1 Transport fares in NSW from 2003-2011

Note: Private ferry increase represents the average increase between slow and fast ferries. CPI is calculated by the same method used in the SFCl and FFCl.

Data source: IPART Reviews, ABS Cat 6401.0.

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.

Submissions argued that an 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, light 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.

The Government made a 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, Barry O'Farrell, 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 the Department of Transport from 4 August 2011 to 4 August 2012 to provide services to the Department of Transport 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 the Department of Transport by 1 December 2011.


The Hon Barry O'Farrell MP
Premier

Dated at Sydney.....28.7.....2011



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 3.5
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	Section 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 3.4
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	NA
i) need to promote competition	Sections 2.2 and 3.5
j) considerations of demand management	NA
k) the social impact on customers	Section 4.2
l) standards of quality, reliability and safety of the services	Section 3.4

C List of submissions

The following tables provide details of the submissions received for the review and participants in the public hearing held 2 November 2011.

Table C.1 List of submissions/proposals received

Submitter	Date received
Individual (Mr Rick Banyard)	19 September 2011
Commercial Vessel Association	13 October 2011
Action for Public Transport	16 October 2011

Table C.2 Participants at the public hearing

Speaker	Organisation
Mr Warwick Fairweather	Commercial Vessel Association
Mr Tim Reardon	Transport for NSW
Mr Graeme Taylor	Action for Public Transport

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 Consumer Price Index (CPI) 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.¹⁴ These cost items were inflated by the CPI as an interim measure until sufficient consultation was undertaken in the 2009 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 2010 to 30 September 2011). 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 2011.

These calculations indicated that the costs of operating slow ferry services have increased by 4.9%, while those of operating fast ferries increased by 6.3%. The main driver of these changes were increases in labour and fuel costs.

¹⁴ 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	52.8	3.4 ^a	1.8
Fuel	7.1	18.8	1.3
Insurance	3.9	3.3	0.1
Interest	9.6	8.1	0.8
Repair and Maintenance	7.0	3.2	0.2
Ferry depreciation/amortisation	4.1	3.2	0.1
Berthing/mooring fees	0.5	3.2	0.0
All Other	15.2	3.2	0.5
Total	100.0		4.9

Note: Totals may not add due to rounding.

a Inflator equals WPI of 3.7% less labour productivity adjustment of 0.3%.

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	33.8	3.4 ^a	1.2
Fuel	16.4	18.8	3.1
Insurance	6.3	3.3	0.2
Interest	8.4	8.1	0.7
Repair and Maintenance	8.3	3.2	0.3
Ferry depreciation/amortisation	11.9	3.2	0.4
Berthing/mooring fees	6.8	3.2	0.2
All Other	8.2	3.2	0.3
Total	100.0		6.3

Note: Totals may not add due to rounding.

a Inflator equals WPI of 3.7% less labour productivity adjustment of 0.3%.

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.3.¹⁵

Table D.3 Our decisions on inflators and their value over period 1 October 2010 to 30 September 2011

Cost item	Inflator	Value (%)
Labour costs	Change in the Wage Price Index for the 12 months to September 2011 less productivity adjustment	3.4
Fuel costs	Daily diesel price from FUELtrac (less excise and GST) for the 12 months to September 2011, compared to the same period of 2010	18.8
Insurance and registration	Change in the insurance services component of the CPI for the 12 months to September 2011	3.3
Interest	Change in weighted average interest rate for National Australia Bank base rate business loan for the 12 months to September 2011 compared to the same period of 2010	8.1
Repair and maintenance	Change in the CPI for the 12 months to September 2011	3.2
Depreciation and amortisation	Change in the CPI for the 12 months to September 2011	3.2
Berthing and mooring	Change in the CPI for the 12 months to September 2011	3.2
Other costs	Change in the CPI for the 12 months to September 2011	3.2

D.2.1 Labour costs

Labour costs in the indices are inflated by the WPI, adjusted for improvements in labour productivity. As set out in section 3.2.1, we decided to make a productivity adjustment of 0.3% this year.

¹⁵ Inflator values in this chapter are rounded to 1 decimal place for presentation purposes.

We calculated the change in the WPI¹⁶ using averaged data from the 4 quarters to September 2011, 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 WPI for this review period is 3.7%.

D.2.2 Fuel costs

We have inflated the fuel cost item by 18.8%, based on FUELtrac¹⁷ data on the average daily diesel Sydney pump price, net of GST and fuel excise.¹⁸

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 2010 with the average diesel pump price for Sydney over the 12 months to 30 September 2011. Based on this data, the price of diesel fuel has increased by 18.8% since the 2010 review.

D.2.3 Insurance and registration costs

We have inflated the insurance and registration costs item by 3.3%, 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 2011 divided by the average index value for the 4 quarters to September 2010).¹⁹

D.2.4 Interest costs

As was the case last year, we have decided to use the change in the National Australia Bank base rate²⁰ for business loans to inflate the interest cost item. This resulted in an increase in this cost item of 8.1%.

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 2010 and the year ending 30 September 2011.

¹⁶ Total hourly rates of pay excluding bonuses, New South Wales, All industries, Private and Public, All occupations. ABS Catalogue 6345.0, Table 2b.

¹⁷ FUELtrac is an independent organisation which provides a fuel price monitoring service.

¹⁸ Fuel excise is not paid on fuel used for marine transport.

¹⁹ Sydney, All Groups, ABS Catalogue no. 6401.0, Table 11.

²⁰ 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.²¹ The value of this inflator for the year to 30 September 2011 is 3.2%. 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.²²

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 2011 is 3.2%. 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.²³

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 2011 is 3.2%. 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.²⁴

D.2.8 All other costs

All other costs are also inflated by the Sydney all groups CPI (3.2%). CPI is calculated using the same formula as WPI, outlined in section D.2.1.

²¹ Sydney, All Groups. ABS Catalogue no. 6401.0, Table 5.

²² The others were depreciation and amortisation and berthing and mooring.

²³ The others were repair and maintenance and berthing and mooring.

²⁴ The others were repair and maintenance and depreciation and amortisation.

D.3 Weightings for next year's review

The weightings for the 2012 review will be equal to the 2011 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 2012 review.

Table D.4 2012 weightings for the SFCI and FFCI

Cost Item	SFCI (%)	FFCI (%)
Labour	52.0	32.9
Fuel	8.0	18.4
Insurance	3.8	6.2
Interest	9.8	8.5
Repairs and maintenance	6.9	8.0
Depreciation/amortisation	4.0	11.6
Berthing/mooring	0.5	6.6
All other	15.0	7.9
Total	100.0	100.0

Note: Totals may not add due to rounding.

