

I NDEPENDENT P R I C I N G A N D R E G U L A T O R Y T R I B U N A L

P U B L I C H E A R I N G I N T O F E R R Y F A R E S R E V I E W

T r i b u n a l M e m b e r s

Mr James Cox, Acting Chairman
Ms Cristina Cifuentes

Held at Meeting Room 2, Level 2
44 Market Street, Sydney NSW 2000

On Thursday, 30 September 2004, at 1.10pm

. 30/9/04

FERRY FARE REVIEW
Transcript produced by ComputerReporters

1 MR COX: Good afternoon, ladies and gentlemen. We will
2 now commence our hearing on ferry fares and review. This
3 will be done through a round table format and basically
4 what will happen is that there will be a number of
5 presentations made by members of the tribunal's
6 secretariat, they will be brief presentations, then there
7 will be some round table discussion on the issues raised at
8 those presentations.

9
10 There are going to be three sessions: The first one
11 is on Sydney Ferries fares; the second one is on equity and
12 efficiency issues, then a short break; then the final
13 session will be on private ferry fares. The format will be
14 we will ask the tribunal secretariat, Dennis Mahoney, to
15 make a brief presentation, we will then go round the table
16 for comments and discussion, then at the end of that
17 discussion will be an opportunity for people seated in the
18 back of the room to make comment or ask questions should
19 they so wish.

20
21 That will be the format, so I will ask Dennis to lead
22 off on the Sydney Ferries issues.

23
24 SYDNEY FERRIES FARES

25
26 MR MAHONEY: Thank you very much. Most of what I am going
27 to say today is in the notes for discussion that were
28 circulated to the round table participants earlier, and
29 members of the audience have hopefully got a copy as well.

30
31 The purpose of the first session is listed on page one
32 of the notes. There are four issues to talk about, cost
33 trends and cost recovery trends, patronage, affordability
34 and the appropriate degree of public subsidy. The starting
35 point under cost and cost recovery is the table on the
36 first page of the notes which was supplied in the
37 submission by Sydney Ferries showing that about 42 per cent
38 of their costs are covered by farebox revenue, and in the
39 back of the discussion notes we also have percentage
40 changes in some of those items shown for last year and the
41 forecasts for this year. The important thing for us is
42 just the idea of 42 per cent of the expenses currently
43 being incurred by Sydney Ferries being recovered from
44 farebox revenue.

45
46 In order to give a bit of an historical perspective on
47 it we have simply pulled some key indicators out of

1 previous annual reports from the STA. This is not in your
2 notes but in particular the two lines that I would like to
3 draw your attention to on the overhead are the cost per
4 passenger for the last three years and the cost per vessel
5 kilometre, in particular the cost per vessel kilometre.
6 Because these numbers are for 2002/03 prices it is
7 effectively an inflation adjusted cost. If you like to
8 think of it as inflation adjusted or real cost per vessel
9 kilometre you will see that at least for the last few
10 years, which is the data we have available, there has been
11 quite a strong upward trend in costs.

12
13 In the notes we have given you, table 1 compares the
14 total cost changes without any adjustment for vessel
15 kilometres compared with average fare rises, and in
16 particular the average for those last seven years has been
17 for cost changes to exceed the fare rises by a significant
18 margin.

19
20 If you turn over the page on the notes, we ask the
21 question: what factors are causing or have caused the
22 strong rise in costs and, Sydney Ferries in response to our
23 request, has listed there some of the causes of the rising
24 costs which the round table may wish to discuss when I
25 finish these brief remarks.

26
27 In terms of cost recovery, the table down the bottom
28 of the notes on page 2 indicates that about half of the
29 costs that are being incurred by Sydney Ferries are being
30 recovered through not just the farebox but also some of the
31 revenues that are paid as concessions, because you do put
32 people in seats, you do transport them and we think that
33 revenue ought to be counted for those people as well, so we
34 have added in the subsidies, not the pricing subsidy or
35 service subsidy, but actually for people you carry.

36
37 It turns out that the cost recovery ratio has
38 stabilised at about a half and one of the things the
39 tribunal is interested in is how that cost recovery might
40 be improved. There are three methods that Sydney Ferries
41 quite rightly mentioned to us. The first one was, of
42 course, through fare increases, and one of the
43 considerations about fare increases on the top of page 3 is
44 if the tribunal were to give fare increases what would that
45 do to patronage? As was pointed out last year, despite a
46 7 per cent rise in fares, there did not seem to be a
47 detrimental effect on patronage. This year, of course, as

1 in every year, it is a relative price that presumably
2 matters, not just the actual amount of the price rise, and
3 if there were to be a rise for buses then the relative
4 change would be smaller than whatever rise is given to
5 ferries in absolute terms.
6
7 The second way of improving cost recovery would be to
8 increase patronage and we tried to do a little bit of work
9 on this to be a little bit novel, and that was to look at
10 the association between some of the sales of different
11 Sydney Ferries tickets as in the chart on the middle of
12 page 3, comparing them with short-term visitor arrivals in
13 Australia. The chart that we have got on the overhead is
14 the same except we have been able to refine it in the time
15 since we did the notes. We have now specifically put in
16 the number of people arriving at Sydney Airport as opposed
17 to Australia generally and those that say they have come
18 here either for a holiday or to visit relatives or on
19 business.
20
21 It seems to us over the last few years there has been
22 quite a reasonable correlation between the number of
23 international visitors and some of the ticket sales from
24 either FerryTens or cash tickets for Sydney Ferries.
25 Obviously that could be refined a bit more but it does
26 indicate that one of the things that will influence
27 patronage is beyond Sydney Ferries' control and that is how
28 many international tourists actually come through Sydney
29 and so on. That just confirms what Sydney Ferries has been
30 saying all along about the non-resident demand for ferry
31 services. If we had more time we would have put in
32 domestic tourists as well, but we didn't have the time.
33
34 One of the ticket types that is not mentioned there is
35 TravelPasses and several individuals and organisations
36 pointed out to us that in these notes we have not talked
37 about TravelPasses. That was purely an oversight on my
38 part I think because we were considering TravelPasses
39 primarily with the bus review that is coming up and clearly
40 some of the members around the round table want to discuss
41 the issue of TravelPasses as well.
42
43 If we turn over the page on the notes to page 4, we
44 see there that we talk about a third way of improving cost
45 recovery, which would be through cost efficiency
46 improvements, and just in order to facilitate the sessions
47 we have put that into a second session. Most of the

1 discussion on cost recovery and cost efficiency should be
2 dealt with in the second session.
3
4 If we look at item 3, affordability, I don't think
5 there is any doubt that on average, as you can see from
6 table number 3, the residents who pay full fare on Sydney
7 Ferries have higher average personal incomes and higher
8 average household incomes than residents on other public
9 transport modes. As we know, if you put somebody's head in
10 the oven and their feet in a refrigerator you can say on
11 average they are about right in terms of temperature.
12 There is a spread, so the chart on the top of page 5
13 indicates the quite wide spread in household incomes of
14 people who travel on Sydney Ferries.
15
16 Having made the point that the average does seem to be
17 considerably higher, the tribunal also recognises there is
18 quite a spread and different members of the round table
19 will want to discuss the spread far more than the average.
20 Lastly, on subsidy size we had several submissions that
21 pointed out that perhaps trying to measure subsidy size in
22 the method we have used in the notes and the Parry report
23 used is a little unfair because some of the organisations,
24 of course, are subsidised because they don't have to pay
25 for the roads, hence the buses compared to the ferries and
26 compared to rail. Be that as it may, we have simply
27 established that the subsidy size per passenger kilometre
28 is about the same for Sydney Ferries as it is for CityRail
29 and whether that is high or low is a matter for discussion.
30
31 There are other issues that relate to the case for a
32 fare rise and we have mentioned some of those on the middle
33 of page 6. They may well be discussed but in closing let
34 me pose three questions to get the discussion underway:
35 what is the appropriate level of cost recovery through the
36 farebox of Sydney Ferries; what is driving the substantial
37 increase in those costs and what are the implications of a
38 large fare rise if that were to be the case for Sydney
39 Ferries' customers?
40
41 MR COX: Thank you very much. Before we proceed to
42 discussion I think we might just ask people sitting at the
43 table to introduce themselves. Dennis already has, so
44 Steve.
45
46 MR TROPOULOS: Steven Tropoulos, analyst, transport.
47

1 MR MILES: Alan Miles, Action for Public Transport, and
2 apologies for Graham Taylor, who could not get the time off
3 his work.
4
5 MR WELLSMORE: Jim Wellsmore from the Public Interest
Advocacy
6 Centre.
7
8 MR KING: Larry King, Matilda Cruises.
9
10 MR PEDERSEN: Gary Pedersen, from Sydney Ferries
11 Corporation.
12
13 MS SINCLAIR: Sue Sinclair, Sydney Ferries Corporation.
14
15 MR COX: Thank you very much. I wonder if Sydney Ferries
16 would like to start off in response.
17
18 MS SINCLAIR: I wonder if the chair would not mind if I
19 could first of all make a general approach and thank you
20 for the opportunity to talk to the tribunal today.
21
22 Certainly in terms of some of the issues relating to
23 cost recovery, from my position I am not going to argue
24 that those figures are not accurate. I believe they are.
25 Certainly the Government took the view when it passed
26 legislation last year that it was important to address some
27 of these issues, particularly financial issues, at Sydney
28 Ferries, and their response to that was to corporatise the
29 entity. If they hadn't corporatised the entity, ferry debt
30 would have grown to over \$400m in the next ten years if
31 nothing was done and if it proceeded in the same financial
32 path it was heading.
33
34 Sydney Ferries currently has a new structure. It has
35 a new board and a new management team has been appointed.
36 As you know in terms of corporatised entities within the
37 government, the board of management is publicly accountable
38 to the Government for delivering a safe and reliable
39 service and to act in a financially responsible manner. We
40 are also required to report quarterly to Treasury and the
41 whole of management, including myself, is now to be held
42 accountable for improvements in Sydney Ferries against very
43 stringent KPIs that will be set out in our business plan,
44 which is being substantially developed and will be approved
45 by the board very shortly.
46
47 The corporation is developing a 10-year financial

1 model for the business. We are developing our objectives
2 for service improvements, business growth and efficiency
3 improvements. We are developing the strategies and the
4 projects to deliver those outcomes. We certainly welcome
5 the opportunity to work through this with IPART once agreed
6 with the board and shareholders.
7
8 The purpose of that introduction was really just to
9 set the scene for Sydney Ferries. It is a new
10 organisation. It has only been in existence for two and a
11 half months and we obviously have some substantial
12 challenges before us.
13
14 MR COX: Thank you. Do you wish to comment on any of the
15 things that Dennis has said?
16
17 MS SINCLAIR: Gary might like to say a few words.
18
19 MR PEDERSEN: If now is the appropriate time to comment on
20 those and also to comment on the three questions Dennis
21 raised, firstly, everyone has seen the submission that we
22 put in. From our perspective it was not as complete a
23 submission as we would have liked to have made to the
24 tribunal and the reason for that is that we have been in
25 existence for three months only and, as Sue outlined, since
26 the creation of Sydney Ferries Corporation on 1 July we
27 have been working feverishly to develop a statement of
28 corporate intent, effectively a business plan, for the
29 corporation, which is required to be signed off by the
30 shareholders.
31
32 We would like to be here today supporting a five-year
33 price path for Sydney Ferries but we are not in a position
34 to do that because we do not have the work done to a stage
35 yet where we feel confident in tabling that. That will
36 come, but we are not in a position to do that this year.
37
38 As Sue said, there is no doubt that losses had been
39 increasing in Sydney Ferries as a division of State Transit
40 and that led to the corporatisation. One comment I would
41 make is Dennis raised in terms of the general subsidy per
42 passenger kilometre a comparison with CityRail and with
43 buses, I think.
44
45 MR MAHONEY: That was on page 6.
46
47 MR PEDERSEN: The point I make - and I have not seen the

1 workings but I will take that as given - is that they are
2 comparable to 2001/02, but it is important for the tribunal
3 to note that in 2004/05 the Government has allocated
4 significant additional funding as part of the budgetary
5 process. Last year, being 2003/04, the general support for
6 Sydney Ferries was \$18m to \$19m. This year, 2004/05, it is
7 \$33m, so quite a significant increase.

8
9 The losses have always been there. State Treasury is
10 now simply funding those losses to the corporation on an
11 ongoing basis. I know the tribunal probably does not have
12 that data for CityRail or the buses but it is important to
13 look at the current year where the level of funding is I
14 think substantially increased and would give a different
15 comparison on the relative subsidies between the modes. I
16 just comment that, if the tribunal has the ability, it
17 should look at that in its deliberations.

18
19 Dennis also raised in the submission a number of
20 questions about the reasons for the higher costs in Sydney
21 Ferries that we had put in. What I would make a note of is
22 that that was not drafted to explain the past seven years,
23 so it didn't set out to explain what has happened in the
24 last seven years, it simply was documenting where we are
25 today. I would not put that forward as an explanation of
26 what has happened previously, and I will talk a little
27 about that later.

28
29 The table showing the linkages between the various
30 categories of tourism and the daily tickets I think is a
31 very instructive one and I think it is very accurate. As
32 we have indicated in our submission, our best estimates are
33 that something around 25 per cent of our revenue from
34 ticket sales is generated by tourists, and clearly that is
35 very much impacted by inbound tourism into Sydney. You can
36 see that in the impact of post-September 11 and the
37 implications that had for our revenue, so that analysis is
38 particularly supportive of that.

39
40 I turn now specifically to the questions that the
41 tribunal has raised. The first one was what is the
42 appropriate level of cost recovery. I guess my answer to
43 that is I wish I knew the answer to that. There is not any
44 right answer, certainly not one that I can put forward or
45 Sydney Ferries can put forward. The easy conclusion to
46 come to is that the current level is not good enough for a
47 variety of reasons and the fact it has been declining is a

1 concern and a concern that forced the government to act and
2 to corporatise Sydney Ferries.

3
4 If we go back seven years, on the tribunal's data we
5 were at cost recovery levels of I think round the mid 65s,
6 about 63 per cent, and we are down to about 50 per cent
7 now. I would have thought that getting it back to that
8 level was a manageable gain. That is something we are
9 developing at the moment but we are not in a position, as I
10 say, to table that yet.

11
12 What is clear is that we can't allow that trend to
13 continue. It simply is not sustainable from the
14 government's perspective or from the customer's
15 perspective. We don't want to be coming here asking for
16 major fare increases to deal with declining cost recovery.

17
18 The issue for the corporation is that that is not a
19 problem that will be solved this year. It is not a quick
20 fix. It can't be solved in one year and that is why we are
21 developing a 10-year business plan, particularly for five
22 years but going out to ten years. The ultimate answer of
23 what the cost recovery target should be is a matter of
24 conjecture amongst multiple stakeholders, whether
25 government or Sydney Ferries or the tribunal, and our view
26 is that the balance is not right at the moment, that cost
27 recovery at less than 50 per cent is not sustainable.

28
29 The other thing we say, however - and I hope our
30 submission does not give this impression - is that we
31 certainly don't believe that fare increases is the only way
32 to address that issue of cost recovery. That is certainly
33 not the case. We believe it is part of the answer but the
34 other part of the answer is we need to grow the business,
35 we need to improve the top line, the revenue line, and
36 clearly Sydney Ferries Corporation has a major job to do
37 reforming its cost structure and efficiency levels, and we
38 are working on that. We will bring that forward in due
39 course.

40
41 Again, I apologise for not being able to do that today
42 but I can assure you that the business plan will not have
43 that trend continuing, it will have it being reversed.

44
45 To wrap up on that first question of the appropriate
46 level of cost recovery, something greater than where it is,
47 and what that is is not one that we can give you a

1 definitive answer to.

2
3 The second question about why the costs have increased
4 is perhaps one we can answer more clearly. It is clear the
5 trend has been there for pretty much the last seven years.
6 What we can say is that part of that has been about
7 improving services and improving the quality of our
8 services. There has been a range of things over that
9 period of time. There are increased services up the
10 Parramatta River that is now stopping at more locations,
11 increased frequency over that period of time in some of the
12 runs to the Eastern suburbs, we have opened up a new
13 service to King Street Wharf at Darling Harbour, so it is
14 not purely a like for like comparison. The services that
15 the corporation, or the STA, has been providing has changed
16 and has improved. I am not suggesting that is a major part
17 of it but it is part of it and we need to keep that in
18 mind.

19
20 The other issue that the tribunal may be aware of is
21 that there have been major reviews into Sydney Ferries over
22 recent years, including what is colloquially known as the
23 Taylor or Fellows Medlock report, which was a major review
24 which perhaps indirectly, or directly, led to its
25 corporatisation. It looked at a whole host of areas as a
26 result of safety incidents and there were a number of
27 recommendations that came out of that report about
28 improving systems, about improving safety, about changing
29 manning levels, quality systems and so on. Copies of that
30 report are available on the Sydney Ferries web site.

31
32 What I can say, and this went back to State Transit
33 days, is that State Transit went a long way towards
34 implementing a large number of those recommendations and
35 since we have been a corporation in the last three months
36 we have continued that and the great majority of those
37 recommendations have now been implemented. That has added
38 something in the range of \$3m to \$4m a year to the costs of
39 Sydney Ferries. Examples include we now are quality
40 certified, we now have a significant training function, we
41 now have a group that is maintaining quality systems, we
42 have enhanced the head office safety function, we have
43 enhanced training for our general purposes hands and so on,
44 and that has all come at a cost.

45
46 Unfortunately, while that cost has been increasing
47 there has not been the efficiencies in the balance of the

1 business to offset it which we would hope in future there
2 will be or intend. There has been increased spending on
3 safety and quality which the customers have the benefit of.

4
5 The other issue is that every business is unique but
6 there have been cost increases that the ferries have borne
7 which have been above CPI and fuel is the best example. We
8 are aware that currently, as most of the community is
9 aware, in the last month our fuel prices have gone up
10 something like 4 or 5 cents a litre in one month. That has
11 been a trend over time, so one of our issues is, and we
12 made the point in the submissions, that the CPI is a very
13 broad-based measure of consumer spending. What Sydney
14 Ferries spends its money on, and ferry services generally,
15 is fuel and labour and ferry parts and so on, and that is a
16 different basket of goods and that has been increasing at a
17 faster rate than the general CPI and not off-set by
18 efficiencies.

19
20 The other point to make is that the ferry business has
21 been a part of a much big State Transit organisation and
22 its principal business is about running buses, as we all
23 know, and the reality, it is not a criticism, is that
24 ferries has not had the focus it has deserved. The
25 government has recognised that in setting it up as a
26 corporation with its own board and CEO and management team
27 so I think the fact is we can now focus on ferries and it
28 will be out there for everyone to see, it is not part of
29 the State Transit accounts any more, it is a business in
30 its own right and will be accountable for performance, so
31 that is just a commentary on why those costs have been
32 increasing.

33
34 The last question, then I will finish, was the
35 implications of fare rises for customers. That is a
36 difficult question to answer. What I would say is that
37 clearly in our view there is no doubt there needs to be
38 some level of fare increase given the circumstances we find
39 ourselves in, the increasing costs and poor cost recovery.
40 We recognise the business has to improve its efficiency and
41 grow its business but that will not provide the whole
42 answer. No matter what increase we provide there will
43 always be someone who would prefer something less or no
44 increase. While we have sympathy for that, we are also
45 trying to structure this business in such a way that in the
46 long run it is sustainable and the Government and community
47 can retain a ferry service that (a) it can afford and (b)

1 meets its requirements.

2
3 We think some level of fare increase is warranted, and
4 this tribunal will determine the appropriate level, and we
5 have given a suggestion. It is inevitable. I know we were
6 criticised in the press for this, but the reality of the
7 numbers are that on average, like Dennis's analogy about
8 the fridge and the oven, on average ferry users do have a
9 relatively greater ability to pay. That is not the main
10 part of the argument but it is a fact to consider.

11
12 The last point I make in finishing is that from our
13 perspective we see this very much as an interim solution
14 for the fare strategy for Sydney Ferries for the very
15 reason that we are only three months old, we do want to
16 come back with a long-term strategy if that is the
17 tribunal's view and decision as part of the long-term price
18 path, and we can have a more I guess well reasoned and
19 justified argument for the fare increases but at the moment
20 I think some of the commentary on our submission is
21 probably fairly accurate.

22
23 Why 9 per cent? There is not a magic formula that
24 says 9 per cent is the right answer. It certainly needs to
25 be more than CPI in our view. There is a level at which it
26 is clearly unaffordable. How you strike that balance is a
27 difficult question that fortunately we can leave to the
28 tribunal. Our view is that it needs to be something
29 substantially more than CPI. They are my comments
30 generally.

31
32 MR COX: Thank you very much. We will now proceed to
33 other comments from people at the table, and I will start
34 off with Alan Miles.

35
36 MR MILES: Graham Taylor, our ferries expert, is unable to
37 be here today, so I am filling in. Gary has obviously read
38 our submission and picked up a few points there. I still
39 find it difficult to understand how all of a sudden between
40 30 June and 1 July all of State Transit's records were lost
41 and you had to start all over again. Surely State Transit
42 had some plans, costs and that sort of thing. What Gary
43 said was that everything started afresh, we have to get a
44 new plan, a new 10-year business plan, and it seems to me
45 that the ferries are still running to the same places with
46 the same people sitting in the same seats, so I can't
47 understand why the figures are not ready for this tribunal.

1 Anyway, that is by the by.

2
3 Why are the costs are increasing? Gary mentioned that
4 the costs of Sydney Ferries is a different basket than
5 perhaps the general CPI. He said that there is fuel,
6 labour and mechanical things. Surely that same mix applies
7 to all sorts of transport and delivery businesses. I still
8 can't see why Sydney Ferries' cost mix is unique and why it
9 should be so far above the CPI.

10
11 I will leave it there at the moment. Most of what I
12 want to say is in the submissions.

13
14 MR WELLSMORE: We do not have a view about what would be
15 the appropriate level of cost recovery. How long is a
16 piece of string, I suppose. I have to say it is pleasing
17 to hear from the corporation today to get a sense of how
18 they are looking at the next little while in terms of
19 planning and getting all their ducks in a row and so forth.
20 Really what comes across quite strongly to me, though, is
21 that there is a case for a modest price increase but
22 certainly not something in the order of 9 per cent in this
23 year. If 9 per cent be an interim number, then I am
24 starting to wonder what the real number will be in the year
25 after, and then we are looking at some significant whacks
26 in terms of what people are having to pay to use the
27 ferries for a variety of purposes.

28
29 From our perspective, what we would want to see prior
30 to a significant price increase is the details of the
31 business case, more details about the costs. Essentially
32 what PIAC would like to see is a price path, something that
33 will sort out the issues about cost and put the pressure
34 back on the costs that are rising.

35
36 Of the 12 costs that are spelt out here, some of them
37 it seems to me fall into the category of, or in the area
38 of, costs of doing business. Others just raise significant
39 questions that again will not be solved in the next 12
40 months and may well be solved over a longer period of time
41 but are significant, things like historic decisions about
42 fleet mixes and so forth. My question is whether commuters
43 ought to be over the next couple of years perhaps bearing a
44 significant cost because of historic decisions that were
45 made about the fleet mix and that we need to know really
46 how long it will take those decisions to be undone or
47 overcome or resolved or to be done better.

1
2 It is very pleasing from our perspective that the
3 corporation has put some effort into looking at the
4 question of affordability. Unfortunately from our
5 perspective, the issue about whether somebody can afford a
6 fare increase or not is not really the deciding factor on
7 whether a fare increase is warranted. If we start setting
8 prices on the basis of what each individual person can
9 afford or what a particular geographical area can afford it
10 will have some very interesting implications for the way
11 other industries and services are regulated and priced -
12 and buses is an obvious one, I would have thought, as are
13 some of the other services and industries that the tribunal
14 is responsible for.

15
16 Affordability; how long is a piece of string
17 basically. I suppose coming out of that is, look, we are
18 talking about an interim decision, 9 per cent this year,
19 something possibly next year, and what is that, 15, 20, so
20 at what point do we decide enough and that the limits of
21 affordability have been stretched. What happens down the
22 track is we have gone one fare increase too many and
23 everybody says "the patronage has collapsed, what do we now
24 do". From our perspective, as I say, the issue has to be
25 really around costs and identifying not only what needs to
26 be done with costs but actually setting out a better plan
27 than the corporation is able to give in its short life span
28 at this present time. For us, modest would be reasonable,
29 but that is something less than 9 per cent. Thank you.

30
31 MR COX: Thank you. Next we have Larry King from Matilda
32 Cruises.

33
34 MR KING: Our submission was made jointly with the
35 Chartered Vessels Association. Unfortunately Mr Cribb
36 could not make it today so it is probably not appropriate
37 for me to comment on the broader submission other than as
38 far as Matilda is concerned.

39
40 I agree with Gary on the cost recovery, that it is
41 insufficient. It is up to the tribunal to decide. In
42 terms of costs, I agree again that compliance has become
43 increasingly onerous with safety and OH&S issues,
44 environmental issues and compliance issues resulting in the
45 resultant training that has to go into those areas. As far
46 as the implication on the customers is concerned, I agree
47 again it has to be essentially more than CPI, that there is

1 no such thing as a free lunch.

2
3 MR COX: Thank you. Sydney Ferries, do you want to
4 respond to anything at this stage?

5
6 MS SINCLAIR: No.

7
8 MR PEDERSEN: Just one point in relation to Alan's point,
9 which was a valid one, that if I gave the impression that
10 we started with a clean sheet of paper on 1 July that is
11 certainly incorrect. We have received all of the
12 business-related information on Sydney Ferries - it has
13 come across. Reg Ryan is sitting over there. We have lots
14 of financial data and plans and strategies, so there is no
15 doubt that all that has come across, and the business has
16 kept running and thankfully we have not missed a beat.
17 There were plans and strategies but we have now got a new
18 board and a new CEO and like any new organisation you do
19 not simply take what is there and say "that is our plan for
20 the next ten years". We are really taking all that
21 information but just having a good strong look at it again
22 with a new board, walking them through the business, the
23 strategies and so on.

24
25 I didn't mean to indicate there was nothing. A lot
26 has come across but it is all being re-examined. It is a
27 little like starting afresh, but we do have a lot of good
28 information that has come across, so I just clarify that.

29
30 MS CIFUENTES: I appreciate the fact that the corporation
31 is only two and a half months old and I do appreciate that
32 you have a new board, new management, but my concern is
33 that we are being asked to consider a 9 per cent increase
34 while in return Sydney Ferries really is not proposing to
35 do very much at all on its costs issues.

36
37 Having sat on a number of these reviews over a number
38 of years it seems to me that there hasn't been an awful lot
39 of pressure on Sydney Ferries in its past on the costs
40 side. In fact, costs seem to continue to rise
41 notwithstanding the tribunal's recurrent requests to see
42 some progress on costs.

43
44 I have a number of questions. One is, what impact do
45 you think corporatisation will have on these cost drivers?
46 That will be a difficult question but clearly the tribunal
47 needs to see that something is going to be done on costs,

1 otherwise the impression that at least I get, if not my
2 colleague, is that we are in a sense fuelling these cost
3 increases by saying, yes, we will give you 7.5 per cent
4 this year, 9 per cent, that is affordable. I don't think
5 that is just the issue but in a sense what will Sydney
6 Ferries do to try to contain some of those costs, if you
7 would like to comment on that?

8
9 I was intrigued about the issue of affordability. I
10 have heard this quite a bit, that ferry users have
11 typically higher incomes, therefore they can afford it. At
12 what point does affordability become an issue? Do you have
13 a view on that or are we going to see these continuing
14 requests for 7 per cent, 9 per cent, 10 per cent, based
15 solely on affordability? At some point, and I think PIAC
16 mentioned this, affordability does become an issue, either
17 in terms of you start to lose customers or the tourism
18 component starts to fall away or people find alternatives,
19 so if we could have some idea on that?

20
21 Specifically on costs I am intrigued by the growth in
22 labour costs over the past few years, in particular the
23 number of employees or full time equivalent employees per
24 vessel. I appreciate that pressure has come from the
25 Taylor inquiry about safety requirements but it seems to me
26 that there does not appear to be any downward pressure on
27 that at all, rather it is a continuing trend upwards, so
28 some of those issues. And, finally, just on the cost
29 index, we hear that the CPI is fairly irrelevant when it
30 comes to your costs. Is there an index that can be
31 constructed that more accurately reflects those sort of
32 costs and should we be looking at developing something much
33 more specific and something that can be tested a little bit
34 more objectively than just "our fuel costs went up by 20
35 per cent" and that is that, even though petrol might not
36 have increased by as much; so just those few little
37 questions.

38
39 MS SINCLAIR: The first one was really about containing
40 costs. I have to indicate to you that I can't really
41 comment on what has happened in the past. The reasons as
42 to why the cost containment strategies perhaps were either
43 not in place or were not successful, unfortunately that is
44 before my time so I really can't comment about that. What
45 I can comment on I guess is what we are doing at the moment
46 in terms of taking a very forensic look at the business.
47 That is part of the development of our business plan.

1
2 Some of the areas that we are looking at are really
3 about optimising our maintenance planning, and this is what
4 we would call an internal perspective. The business plan
5 is balanced in the sense we have to look at our customers
6 and look at every area of our operation and we need to
7 develop projects and strategies to analyse and look at
8 strategies for costs savings. Certainly we are looking at
9 in some instances optimising our maintenance planning, we
10 have to optimise our maintenance delivery, we have to
11 improve the supply chain management, we need to build basic
12 marketing management capabilities within the organisation
13 so we understand our customer base and so we can understand
14 our market so we can increase patronage. We have to build
15 services and we obviously have to have effective and
16 responsible safety management.

17
18 Certainly our labour costs are high and clearly in
19 terms of the whole package of the business every one of
20 those areas needs to be examined, and indeed that is our
21 intention. We will have to give substantial commitments to
22 Treasury about how much money Sydney Ferries will be able
23 to improve on as far as the bottom line goes. As I said to
24 you, we will now be reviewed by Treasury on a quarterly
25 basis. There is no longer just the portfolio minister who
26 we have answer to. We have a board, Treasury is a
27 stakeholder, and there will be substantial I guess outward
28 review of Sydney Ferries' progress in achieving its
29 objectives. To that extent I think corporatisation will
30 have its own drivers that were not there before.

31
32 MS CIFUENTES: Just as a follow-up, what sort of time
33 frame do you think you will need before some of those
34 results start to come through, not to put any pressure on
35 you!

36
37 MS SINCLAIR: It is not just about are there some easy
38 fixes. When I say that, some of those are not even going
39 to be achieved in the first year. What we are really
40 looking at at Sydney Ferries is a large transformation
41 project. It is not just about the way we do our business,
42 it is about the culture of the organisation, and if we are
43 going to achieve all the objectives you have to tackle all
44 of those things. Over the next five years we will make a
45 commitment about sort of improving our efficiency and
46 effectiveness and that will be translated into dollar
47 terms. But it will be a five-year plan in my view.

1
2 MR PEDERSEN: If I can add to that, I can't table our
3 first draft of our business plan and statement of corporate
4 intent which we have discussed with Treasury, but it has
5 projected savings that we think are achievable. They are
6 the subject of rigorous debate between the board and
7 shareholders. I know it is saying to the tribunal and
8 others that you have to take us on our trust because I
9 cannot table it, but it is in discussion and it is typical
10 - I have been through two corporatisations before as chief
11 financial officer - and Treasury is applying a blowtorch to
12 savings and we will be able to share those savings figures
13 with the tribunal but probably by the time we sign off it
14 is probably still two months away.
15
16 MS SINCLAIR: Not until December.
17
18 MR PEDERSEN: It leaves you still in the promise of Never
19 Never Land, but that is just the reality of the timing at
20 the moment.
21
22 The issue of affordability is a ticklish one. I think
23 there was a comment picked up before when I talked about 9
24 per cent as an interim. I certainly didn't mean to imply
25 that was the sort of first cut and we could come back for
26 something greater. What I meant by that is that it was an
27 interim solution in that the next time we come back we want
28 to come back, whenever that is, as part of a longer term
29 price path, so probably next year, with a view over a
30 five-year period that would see increases not at that level
31 but would see that sort of three-pronged approach of
32 projections of business growth and projections of cost
33 efficiencies that will reduce the need for price increases.
34
35 If we did it today and assumed no price increases, we
36 would be coming back and saying, "give us 9 per cent every
37 year", but that is not acceptable to the public or our
38 shareholders. It is about coming back for lesser
39 increases.
40
41 We did comment in our submission that the 7.5 per cent
42 the tribunal granted last year didn't seem to have a big
43 impact, well, I can't say that, but certainly business
44 continued to grow notwithstanding that. Certainly you
45 can't take that and say therefore you can increase by 7.5
46 per cent or 9 per cent every year because there comes a
47 point when that will start to bite, but it was a piece of

1 information that said, clearly in terms of elasticity of
2 demand against price it didn't drop down as a result of
3 that 7.5 per cent, so that just gives us some comfort that
4 a little increase greater than CPI will not see patronage
5 drop off substantially. But again I don't have good data
6 on the elasticity of what is the level at which by
7 comparison with buses or rail or road transport that
8 ferries start to become too expensive.
9
10 The last point was on the index. Certainly my
11 colleague Larry King would welcome looking at a more
12 specific cost index. The nature of the marine industry - I
13 come out of rail, it has a particular cost structure - the
14 marine industry has a different cost structure and I think
15 we could do some work on labour costs as a percentage and
16 fuel costs and marine parts and so on. I think that would
17 be a good worthwhile area to look at. That needs to be
18 balanced by efficiencies we can make as well. I always
19 worry about CPI because it can go up or down because of
20 fruit and vegetable prices and that has no bearing on our
21 cost structure. Sometimes it might be good but sometimes
22 it might be bad.
23
24 MS CIFUENTES: In looking at your own projections for
25 costs in the coming year, and coming years, do you already
26 have an index of some sort? Do you have something that you
27 say "this is what we expect our costs will rise by on a
28 unit basis"?
29
30 MR PEDERSEN: We have done some estimates of that. We
31 have made different estimates on what we think will happen
32 to labour versus fuel but anybody trying to predict fuel is
33 a brave person at the moment. But we have done that on
34 parts and materials and so forth and we would be happy to
35 provide that to the tribunal at some point.
36
37 MR COX: Any further comments from people at the table?
38
39 MR MILES: Not on anything in particular but I came
40 prepared to make a presentation but that wasn't the way
41 that it turned out. My points are mainly in the
42 submissions, which is why I kept my talk fairly brief.
43 Anything I wanted to say is already in my submission or the
44 previous submissions.
45
46 MR COX: Do you want to speak to your notes perhaps?
47

1 MR MILES: That is okay. I will occasionally refer to
2 them, however.
3
4 MR COX: Anybody at the back of the room want to make a
5 question or comment at this stage, particularly on the
6 issues of cost recovery, fare increases and affordability?
7
8 MR DAVID CALDWELL: I made a couple of private submissions
9 to this inquiry and previous inquiries. Just some main
10 points: Firstly, I note you touched briefly upon the
11 concept of affordability and when you eventually reach a
12 limit of affordability it no longer being a reason for
13 justification. What we have here more importantly is not
14 affordability figures, they are incomes, and we are
15 concerned here with people who live near ferry wharves and
16 so forth. They also face much higher living costs, rents
17 and land values are much higher, so I don't think that
18 income necessarily has a linear proportional relationship
19 to affordability or ability to pay for transport costs.
20
21 The other thing or main point is we seem to be talking
22 generally about increases of 9 per cent or whatever. There
23 does not seem to be any targeting of increases at all. For
24 instance, the traditional base of patrons for Sydney
25 Ferries has been intermodal commuters, people who come to
26 the ferry by tram or bus, either at one or maybe both ends
27 of their ferry journey, so when you talk about comparative
28 costs it is not merely how much does it cost to go on a
29 ferry for two kilometres versus a bus for 2 kilometres but
30 a question of how much it costs to execute the entire
31 journey by ferry for a commuter. For example, a bus to
32 Milsons Point Wharf, then a ferry and then another bus,
33 versus getting a bus across the bridge, so I think that is
34 an important comparison.
35
36 In terms of targeting increases, it may be very true
37 that tourists have a great deal of disposable income.
38 There may be some areas of the market that can be targeted
39 and where increases of 9 per cent may well be justifiable,
40 but I think it is completely different in terms of
41 commuters and that to use the tourism justification or the
42 niche market justification for an across the board increase
43 I think is bizarre, it has no basis in fact, so thank you.
44
45 MR COX: Any other comments?
46
47 MR ROBERT CALDWELL: Robert Caldwell, David's father.

I

1 have been very involved with transport most of my life but
2 there are a few things I think the tribunal should try to
3 keep in perspective. One is that this busway out in
4 Western Sydney, Liverpool to Parramatta transitway, costs
5 \$330m. What is your capital investment at the moment?
6
7 MS SINCLAIR: \$100m.
8
9 MR ROBERT CALDWELL: It is three times as much and carries
10 a fraction of what Sydney Ferries carries in terms of
11 passengers and makes a very minimal contribution to
12 Sydney's transport effort, even in the west. That needs to
13 be kept in perspective with some of the other things we
14 talk about.
15
16 Ferries for the wealthy is something that is really
17 very humorous I think. It is quite funny that nobody seems
18 to know why, as David touched on, you have to take the fare
19 of a complete journey into account when comparing one mode
20 with another. The fare from Spit Junction to the Town Hall
21 by bus might be \$2.40, but if you are coming in by bus to
22 the Spit Ferry Wharf, take a ferry to the Quay and a bus up
23 to the Queen Victoria Building, the fare will four or five
24 times that amount. In fact, for many years when I was
25 involved in transport the cost of travelling from my home
26 bay to Martin Place was far greater than the cost of
27 travelling from Gosford to Central.
28
29 The total pricing seems to be completely out of
30 control and the concept of picking on something like the
31 wealthy, the reason why they, the wealthy, use it is
32 because the others can't afford it and that is obvious as
33 the nose on your face. Also interesting is that John Stott
34 is not here. He has presided over what I consider to be
35 all the problems we have today. Not only has he allowed
36 ferry fares, or encouraged them, to go up more than twice
37 as much as bus fares - and David is the full bottle on this
38 - but he has cut out ferry services, put in the brown
39 TravelPass to reduce bus fares from the catchment area of
40 the ferries which in the old days was very strong along the
41 Mosman corridor, those bus fares have been reduced and he
42 has reduced the total transport system to those key
43 wharves.
44
45 Somebody mentioned there have been improvements to
46 ferry services in the last few years. That is true. They
47 did not mention that the Neutral Bay and Mosman services

1 have been reduced in the last few years from half an hour
2 to three quarters of an hour at night. It is these facts
3 that are very important to keep in mind when considering
4 fare increases. The fare increases to my way of thinking
5 are miles out of court. The costs are the things that have
6 to be looked at carefully and increasing the revenue. And
7 increasing the revenue by definition means you must have
8 feeder services. The STA has gone about cutting out all
9 the feeder services, increasing fares, making it almost
10 impossible to use ferry services as part of a system, and
11 how you can possibly expect to run a business like Sydney
12 Ferries without the feeder connections is beyond me.
13
14 Even on the tourist services, the fare increases have
15 gone through the roof. I can't believe that they run out
16 this huge ferry past our place that has 30 people aboard.
17 The previous ferry that did the same run had to be a double
18 header because it could not carry the 600 people who wanted
19 to get on. In those days the fares were a fraction of what
20 they are today even in comparative terms, so there is
21 something basically very wrong with the attitude of the way
22 the ferries are being run and they are certainly not being
23 run as part of a system, which they should be. Thank you.
24
25 MR GEDDES. Mitch Geddes. With all due respect to
26 Mr Pedersen and Ms Sinclair, I feel this issue has been
27 made horrendously complicated where in fact it could be
28 made extremely simple. These two people representing
29 Sydney Ferries Corporation are effectively conflicted out
30 of this debate. They can put their case but they are
31 effectively conflicted out. One would have to ask, what is
32 their mission statement, what are they employed to do? If
33 it is to run Sydney Ferries Corporation in a commercial
34 manner, it is a hiding to nothing. They will never achieve
35 that, so their goal I imagine is more to deliver value to
36 the stakeholders.
37
38 As part of their submission Sydney Ferries Corporation
39 spoke about this subsidy and differential with the
40 different transport modes. If Sydney Ferries Corporation
41 was a good corporate citizen and was truly interested in
42 delivering value to the stakeholders, perhaps we would see
43 them here in two weeks time when we are discussing bus
44 fares claiming that the fares paid by bus travellers should
45 not exist because to reduce bus fares, as silly as the
46 concept might seem, would do more to address the imbalance
47 in the subsidy between the different transport modes than

1 to extract more fare revenue from ferry travellers. That
2 would make no good business sense at all because Sydney
3 Ferries would be arguing a case where someone could travel
4 for free on a bus or pay \$6 to travel on a ferry.
5
6 Going back to first principles, if they are trying to
7 run it on a commercial basis, that is not good at all, so
8 they are on a hiding to nothing and I think we need to
9 remember that. Whilst ever it is policy in New South Wales
10 to maintain a ferry system, we need to acknowledge that
11 there is a cost to the community, to the New South Wales
12 taxpayer.
13
14 At the outset I said we could make this very
15 complicated or very simple. Here is how I suggest it is
16 very simple. Because there is a cost to the New South
17 Wales taxpayer regardless of the fine work these people do
18 in their new charter, we need to decide will there be a
19 flow of new dollars to New South Wales Treasury as a result
20 of the changes Sydney Ferries makes or will we peg the flow
21 of tax dollars, whether they are in the form of fares paid
22 or grants from the state to the corporation, to an
23 appropriate index. Anything over and above an appropriate
24 index adjustment each year is a new tax by another name in
25 a different package and I am not sure that that is really
26 what this gathering should be approving.
27
28 Sure, let Sydney Ferries Corporation come back with a
29 detailed expose of why their costs cannot be controlled.
30 Let them convince the people of New South Wales that they
31 are managing their business so effectively that they have
32 hit the wall as far as cost control is concerned. Then let
33 them demonstrate that that cost recovery figure still
34 languishes at 50 per cent and with a bit more effort that
35 might reach 60 per cent without lifting fares above CPI at
36 all.
37
38 There is a very good question asked in IPART's
39 assessment that was handed out: if the labour manning
40 levels were restored to the pre-Olympic level, the annual
41 saving would be of the order of \$8.4m, something like that,
42 which is twice what you are spending on fuel, so to claim a
43 9 per cent increase because diesel is hurting, you are
44 talking about small potatoes there. The people of New
45 South Wales do not want to incur ever increasing costs of
46 living.
47

1 In closing, I do not use the ferry service regularly,
2 I travel on the train, but I like a working harbour and I
3 know that New South Wales needs Sydney to continue to have
4 a working harbour. We rely on tourism and if our tourists
5 can't get out there and if we can't promote an
6 environmentally sound mechanism for getting to and from the
7 CBD we are going backwards, and it should not be costing
8 more than CPI in this generation than it did a decade ago.
9 That is all.

10
11 MR COX: Thank you. Sydney Ferries, do you want to
12 respond at this stage? Dennis, any further comments?
13

14 MR MAHONEY: No, because I think we have certainly moved
15 on to costs, which of course was the next session, so I
16 would be happy, if there are no more questions, to move on
17 to costs.
18

19 MR COX: We have reached a view that the level of cost
20 recovery is probably too low. We have also discussed the
21 reasons why costs have increased, including compliance
22 issues, but there also seems to be a view that costs may
23 well be too high. I think we have established
24 affordability is an issue and there seems to be a case for
25 modest fare increases but there are different views about
26 what modest might be. That is what I have taken out of
27 that.
28

29 If that is broadly right, I suggest we move on to the
30 second session, and I invite Dennis to introduce that.
31

32 EFFICIENCY AND EQUITY ISSUES

33

34 MR MAHONEY: As Mr Geddes either said explicitly or hinted
35 at, one of the weaknesses of cost recovery measures is that
36 it assumes costs are where they should be and are not too
37 high and, as Cristina indicated, is it simply that fare
38 rises are chasing cost increases or fuelling them? This
39 session was meant to look at cost efficiency questions and
40 efficiency questions in general, then consider any other
41 issues that might be up for discussion.
42

43 If we look at the notes on page 7 we mention there a
44 confidential review of potential cost savings by Sinclair
45 Knight Mertz. The notes raise the possibilities we might
46 discuss if those were implemented but I think Mr Pedersen
47 has already alluded to the Taylor report and in fact, if we

1 look at the next overhead, this is not in the notes but,
2 just to summarise, there are five major areas that the
3 Taylor report, or should I say the review of it by Fellows
4 Medlock & Associates talked about, and it was quite an
5 extensive look at what the report had recommended and how
6 far Sydney Ferries had gotten in implementing those
7 changes.
8

9 My apologies to the tribunal because we only came
10 across the report on Sydney Ferries' web site quite late in
11 the piece, which is why it is not in the notes, so we have
12 not gone through this in detail, but it seems to me there
13 were some very significant things in that report and I just
14 want to apologise for not having more information on that
15 to discuss today because I think a lot of the cost
16 efficiencies that may or may not come from your program
17 over the next one to five years will be related to
18 implementing the recommendations of the Taylor report.
19

20 If I could, for example, pick out one table, in fact
21 the only table, that is in the report done by Fellows
22 Medlock, which was Sydney Ferries' vessel availability. If
23 you look there you can see that the reporting system has
24 been in place for about 12 months, so for the year 2003 you
25 can see that of the different classes of vessel some of
26 them have been available for much of the time but the
27 monthly lows are probably much more interesting from an
28 efficiency point of view. The Harbour Cats have only been
29 available 25 per cent of the time with the situation at its
30 worst. Vessel maintenance is one of the issues raised by
31 the report and it might be helpful for the round table to
32 discuss what these numbers actually mean, because vessel
33 availability might be one thing but utilisation would be
34 another thing. The vessel was available but was it used or
35 not used because it was not available, that sort of thing.
36

37 There are obviously a lot more issues we would like to
38 have teased out today if we had been a little bit more on
39 the ball as a secretariat and had the Taylor report or the
40 review of the Taylor report been much more in the public
41 domain. That is not a Sydney Ferries issue, it was on your
42 web site. Is there any reason why it was not, for
43 instance, introduced into your submission? I would like to
44 shift the blame somewhat!
45

46 MS SINCLAIR: You are doing well.
47

1 MR MAHONEY: I think I should take it squarely on the
2 chin. We tried a few measures of efficiency ourselves. I
3 return you to the notes. On page 8 we decided, without
4 having a unit cost measure, we would try and take out the
5 effect of vessels travelling different distances over
6 different years by simply looking at operating costs per
7 kilometre travelled. It turns out that between the year
8 just finished and the year before that, the total vessel
9 kilometres travelled was not any different so in that sense
10 the total costs change and the unit cost change, or unit
11 cost per kilometre change, are not that much different.
12 But the interesting thing for us is that there is that
13 rising trend, and that was going to be the lead in to say
14 how might the operating cost per kilometre travelled be
15 restrained, first of all, and then even the possibility of
16 it being reduced? We have put in there Sydney Buses for
17 comparison, and also the CPI, the much maligned CPI, for
18 comparison in that figure 3 on page 8.
19
20 Again, we asked Sydney Ferries for comment on what
21 might be pushing up operating costs, and a few of the
22 answers, well, the answers that were supplied are shown on
23 the dot points on page 8, including some of the major
24 strategies for containing those operating costs. The dot
25 points on page 8 will hopefully figure in the discussion
26 which follows.
27
28 As one of the observers commented, when we do look at
29 employees per vessel, in fact I think Ms Cifuentes pointed
30 that out as well, it has risen quite strongly - page 9 - in
31 the last few years. There was an attempt to get a little
32 bit behind the aggregate numbers to get a sense of costs
33 per unit where the unit might be kilometres or the unit
34 might be number of vessels, which we show in table 5. Then
35 we did what we call a hypothetical, which we call it
36 because we demonstrate that there is a lot more to
37 understand about the business than we were able to do in
38 these notes.
39
40 All of those issues are really talking about cost
41 efficiency issues, cost containment, cost restriction,
42 rearranging the ways business is done and so on. I know we
43 have touched on it already, I guess that was inevitable
44 because the third way to get cost recovery up is to get
45 costs down, and how that might be done is, of course, on
46 the table for discussion.
47

1 I think we have covered a lot of equity issues and so
2 the notes don't mention it a second time. Likewise there
3 are other issues as well that the tribunal has to bear in
4 mind according to its terms of reference and the Premier's
5 letter and they are listed on pages 11 and 12.
6
7 There is not a lot I want to add to that. Sydney
8 Ferries has given a response, as shown in table 6 on pages
9 11 and 12. The social impact we have touched on already
10 with affordability, then over the page there is this issue
11 of five-year price paths, the Premier's reference to a CPI
12 increase subject to a efficiency gains or fare increases
13 above subject to service improvements, and one of the
14 submissions from NCOSS actually made the point why should
15 there be a large fare rise until there is a five-year price
16 path in place that would have an undergirding of costs and
17 cost projections and over five years would make much more
18 sense than a large fare increase before that price path was
19 put in place.
20
21 Jim, I think that was NCOSS, it was not PIAC?
22
23 MR WELLSMORE: It was not us.
24
25 MR MAHONEY: All of those things are open for discussion.
26 I put three questions in the notes which will not
27 particularly relate to what we are talking about but we
28 wonder if there were some key performance indicators that
29 might assist in assessing performance, then questions of
30 implications of the Premier's letter on a multi-year price
31 path and CPI or not CPI as the case may be, then a general
32 discussion of any other issues.
33
34 We have only been fairly light on the question of how
35 might a fare rise be implemented. As one of the observers
36 has pointed out, we have not talked about the different
37 fare tickets and what might be done on the different ones,
38 David, I think, mentioned that. So I think that is about
39 it.
40
41 MR COX: Thank you. Sydney Ferries, do you want to
42 respond?
43
44 MR PEDERSEN: If I start with the issue of KPIs, certainly
45 as part of the business planning process we are required
46 and have been in discussions with both Treasury and the
47 Minister of Transport, who is represented here today - we

1 have been developing a range of KPIs, as we think it is
2 critical. Sydney Ferries has to be accountable for the
3 quality of the services that it delivers to its
4 shareholders and to the government and to the community,
5 and we have developed, it is still a work in progress, but
6 a range of indicators across some key areas. You will see
7 that intentionally safety always comes first in whatever we
8 put forward in our planning. It is absolutely not
9 negotiable that we aim to provide a safe ferry service for
10 the people of New South Wales, so we have a range of
11 indicators around vessel incidents, vessel safety,
12 passenger safety, environmental safety, and all of those
13 are being monitored and reported on now to the board
14 monthly and to Treasury quarterly.

15
16 We have a range of indicators around efficiency.
17 Obviously on time running is up there in lights.
18 Thankfully, having come out of the rail game, I am a little
19 more confident to talk about it, it is somewhat easier, I
20 must admit, not having those nasty rail tracks to keep to.
21 Clearly on time running is supreme for us, as is what we
22 call reliability, but it is really about service
23 cancellations.

24
25 If you look at our data we put in the submission, we
26 were running at 98.something per cent, which sounds really
27 good, and I have to say is good, but I think as our friends
28 from Action For Public Transport pointed out, that means
29 over 1,000 services were cancelled in a year. When you
30 think about it that way, it is not good. Certainly in the
31 draft business plan that is not public yet we have targets
32 to reduce that substantially, particularly cancellations
33 that can be avoided. Hopefully the community understands
34 when we cancel ferries because there is a huge swell coming
35 through the Heads we cannot run the Manly. That is
36 currently reported as a cancellation, so we are splitting
37 it into those two, those that are avoidable and under our
38 control, ferries that break down or we don't have staff,
39 and those that are beyond our control. It is still close
40 to 1,000 services a year and we certainly have targets and
41 KPIs to measure that and reduce it substantially.

42
43 As Dennis put up there - can I get that graph back on
44 vessel availability - that is a key one for us. Again,
45 coming out of the rail game, on that far right-hand side,
46 when you look at average annual availability, when you run
47 a rail fleet if that is less than 90 per cent you get

1 worried because you are not performing well. Part of our
2 issue here is the fact, you have seen it referred to in our
3 submissions, that when you look down there we only have 31
4 operational vessels but we have seven different classes.

5
6 That does create its own issues, it does create some
7 funny stats, if I can just explain. Take the Harbour Cats
8 there, third from the bottom. We only have two. When you
9 look at a monthly low of 25 per cent you think, God, that
10 is terrible, but if that was a month when one vessel was in
11 for docking, it was out for the whole month, immediately
12 you are down to 50 per cent straight away, so you have to
13 be careful with very small numbers that you can get that
14 thrown out.

15
16 The Freshwater class, there are only four, so at the
17 moment we have one out sitting at Balmain shipyards, so
18 there goes 25 per cent of our availability. The more
19 important figure is the annual average for the total fleet
20 and I have to say that at 77 per cent, it is probably
21 running a bit less than that at the moment, it is not as
22 good as it should be, there is no doubt about that.

23
24 What I can indicate as an example of our intention to
25 address these issues and cost efficiencies generally is, I
26 am not sure whether you are aware, but we have publicly
27 called for expressions of interest from organisations to
28 help us benchmark the operation of our Balmain shipyard.
29 We have 600 employees roughly at the moment and 100 of
30 those are in a shipyard maintaining 31 vessels, which is a
31 lot of our staff tied up in a maintenance facility. We are
32 not sure, to put it mildly, that that is necessarily best
33 practice. We are getting an independent firm to help us
34 benchmark that against best practice either in the
35 commercial industry Australia and overseas and obviously
36 that will set out a path for us as to the things we need to
37 do to make the shipyard more efficient and that is part of
38 the savings we will be committing to with the shareholders
39 and that is underway at the moment.

40
41 Going on down the indicators, we have a range of
42 financial indicators, the usual profitability ones, and I
43 will not bore you with the accounting definitions, but cost
44 recovery is a key one. One that I hope that addresses your
45 issues is that we have targeted operation cost savings and
46 will be reporting against those to the board and Treasury
47 on a monthly basis as to the dollar quantum we are

1 committing to achieve.
2
3 Dennis referred quite rightly to the SKM report which
4 was done last year which identified savings of about \$3.5m
5 which could be achieved. Some of that was achieved but
6 certainly not all of it, that is clear, for a variety of
7 reasons, partly because corporatisation was coming, changes
8 to management, et cetera. I would have to say I think that
9 \$3.5m is conservative. We should be looking at more than
10 that and we will be looking at more than that, albeit it is
11 not public yet, it is not signed off, but I think that was
12 a good piece of work. It gives you an idea of where we are
13 aiming. The challenge will be what time frame you get
14 that, and I would not like to hold out that that will
15 happen in the balance of this financial year, but it will
16 happen.

17
18 As you can imagine, changing the cost structure of a
19 business like Sydney Ferries, with enterprise agreements
20 that have to be renewed and renegotiated, whether to make
21 investments in the shipyard, to deal with some of the
22 vessels, having seven classes, does create costs. It is
23 great to have a fleet that is diverse but certain vessels
24 can only operate in certain parts and some vessels need to
25 go in for maintenance and others can't operate in that
26 service. In an ideal world you would not have seven
27 classes. That will only change with fleet enhancement and
28 replacement, but that is a longer term plan because the
29 vessels have a good life, they have been well maintained
30 and many of the vessels have a minimum of five, 10 or 15
31 years in them, so we will not run out and buy a new fleet
32 to save on maintenance costs. That is what the board and
33 shareholders is working through, the long-term capital
34 investment plan for the business.

35
36 Lastly on performance indicators, we have developed a
37 range around the customer and there are obvious things like
38 numbers of customer complaints and so on, slips and trips
39 and falls and all the things that happen in a transport
40 business, but we have also - I think there was a comment in
41 the paper - the STA to its credit did a very comprehensive
42 customer survey in 2003 which gave us some very good
43 information about what our customers think about our
44 services and rated the attributes as to what was important
45 to them, how they rated us, and I would have to say that
46 the service rated pretty well, we have given ourselves a
47 bit of a pat on the back. Most people think that the ferry

1 service, compared with rail I hate to say, but is a pretty
2 good service, that on time running is pretty good, it can
3 also be better for cancellations, but generally speaking I
4 don't see huge ground - it is not to say there can't be
5 improvements - but certainly our board has already signed
6 off on the fact we intend to do that survey regularly so we
7 can actually measure trends and target the areas that
8 people are saying to us they want to see improvements in.
9 We certainly had comments about things like improving the
10 wharves and waiting areas and the interface with buses and
11 so on at transition points.

12
13 MS SINCLAIR: It is also fair to indicate that it would be
14 our intention to put some of our key performance indicators
15 on the Internet so that it is available for people to see
16 how we are tracking.

17
18 MR PEDERSEN: The current web site is a little out of date
19 and we are building a new one that should be up in about
20 the next month, month and a half. We will be publishing
21 indicators and updating them on a monthly basis for the
22 community.

23
24 That is just a general commentary on the KPIs.

25
26 Just picking up on some of the points that Dennis
27 raised from the Taylor report, I think I can take some of
28 his blame here, I must say since I have been in the place
29 all of three or four months, but the Taylor report, and the
30 follow-up to it, the Fellows Medlock review of the
31 implementation, has been so encompassing that I presumed it
32 was widely known. It has been on the web site for months.
33 The reality is that the great bulk of those recommendations
34 have all been implemented, were implemented in STA's days.
35 There are some we are still working on but they are at the
36 margin, so many of the costs - and there were costs arising
37 out of that, increased safety positions and training and so
38 on - are already reflected in our cost structure and so I
39 don't expect to see any great cost impact in the future
40 from those, they have largely been implemented and
41 reflected.

42
43 MS SINCLAIR: I would say that whilst that is the case,
44 there will be I believe cost implications arising out of
45 inquiries that are currently on foot with the current
46 industry safety regulator. There were a number of safety
47 issues relating to Sydney Ferries, two or three incidents

1 in the last early part of this year and mid last year, and
2 it is my expectation that the recommendations that will
3 come to Sydney Ferries in relation to that will involve
4 some capital expenditure.

5
6 MR PEDERSEN: The other comment I make on the paper is the
7 operating costs per kilometre travelled I think is
8 absolutely appropriate and I really don't have much to say
9 about why it has headed the way it has in the last seven
10 years other than to say it is not the aim of the
11 corporation going forward and next year, if it is still
12 heading in that direction, clearly we will have failed.

13
14 Operating costs, cost recovery and maintenance costs
15 we are currently tracking also. If you look at that
16 availability figure up there, vessels are unavailable for
17 two reasons, one, planned maintenance, which is entirely
18 appropriate, you have got to pull a vessel out every so
19 often, it has a docking and survey and that is why ferries
20 are unavailable more times than trains but, having said
21 that, a large part of our unavailability is for reasons
22 that are not planned, that is, breakdowns and so on, and
23 that is clearly too high, so the sort of measures you are
24 talking about here are appropriate and should be monitored
25 and I endorse that and we are happy to work with the
26 tribunal on that.

27
28 The last point I comment on is the five-year price
29 path or the multi-year price path that the Premier raised.
30 As I said at the start, we fully support that. There is no
31 doubt it is the right way to go. It gives greater
32 certainty to the business. More importantly it gives
33 greater certainty to the community and to our customers.
34 The idea we come along every year and talk about the latest
35 changes and what increases there have been to what, it is a
36 lucky dip what you get and I don't think that is the best
37 way to be approaching the business. We would much prefer
38 as a business to commit to what we will achieve over the
39 five years and have price variations based on that and be
40 accountable for whether we deliver that or not. That is
41 entirely consistent with the whole concept of setting
42 Sydney Ferries up as a corporation.

43
44 We fully support the multi-year price path. I
45 understand why people might find it difficult but we are
46 simply not in a position to sign off on that for this year.
47 We simply don't have - we have a lot of data but we don't

1 have a five-year path that we can commit to. We are just
2 not there yet. I apologise for that but it is a fact of
3 life. We have to get a board and a set of shareholders and
4 Treasury and Ministry all aligned on that and that takes
5 time. It is quite a process. Certainly I can tell you,
6 having been through this with two previous corporations, it
7 is one where Treasury will push very hard for the cost
8 savings it thinks the community needs and it wants.

9
10 That is probably all I want to say.

11
12 MR COX: Thank you very much. Alan Miles, any comments?

13
14 MR MILES: What Gary said there about the efficiency
15 indexes, we would be happy to see all those, but I just
16 make the comment that we don't want to see what State
17 Transit has on its web site, huge blue bars just touching
18 the ceiling all the time which mean nothing to anybody.
19 Rather than have one bar saying 98 per cent this and 99.1
20 per cent that, if they could be made more meaningful. 99.1
21 per cent availability means that 1500 ferries were
22 cancelled. Again, it would be good if you could say that
23 these are cancelled because of a big swell or because of
24 fog and these were cancelled because of maintenance or the
25 ferry didn't work, so if they could be split up in some
26 manner so we could have a better indication of what the
27 situation is. That is all.

28
29 MR COX: Jim?

30
31 MR WELLSMORE: I do not have much to add to what I have
32 already said.

33
34 MR KING: Nothing to add.

35
36 MS CIFUENTES: Just one question, if I may: I think we
37 had some comments from the back earlier about the level of
38 services having been cut back recently in terms of one
39 ferry service cut back from a half hour to 45 minutes. The
40 two measures in the STA survey that were lowest in the
41 level of satisfaction were the frequency of service and
42 timetables meeting needs. My question is whether the
43 projected cost efficiencies that you are going to pursue
44 with vigor will impact on the customer satisfaction of
45 frequency of services, changes in timetables, or can we
46 expect that those cost efficiencies should be achieved
47 without sacrificing customer requirements?

1
2 MS SINCLAIR: I will answer that in the following way, and
3 that is that I think it is too early for me to make that
4 assessment. Obviously one of the key things we are looking
5 at is how we increase patronage and I indicated that we
6 have to look at some market surveys and at some data and
7 work out not only market share but also where those areas
8 of growth might be. I can't make an assessment in relation
9 to other services but what we would have to do is look at
10 the business holistically, particularly in terms of the
11 fact that you have a fixed number of vessels, we do have to
12 deal with staff and we have shifts that we have to
13 accommodate and we have to look at overall efficiency, so I
14 don't mean to be evasive, we just haven't got that far.
15 All the projects have to be identified as part of the
16 business plan process, so I can't be any more direct than
17 that, I am sorry.
18
19 MR PEDERSEN: Can I just add that, as we sit here, clearly
20 we are not saying that Sydney Ferries will recover 100 per
21 cent of its costs from its customers. It won't do that
22 because it runs a range of non-commercial services for the
23 benefit of the community and receives money from the
24 Government for that. The other consideration, of course,
25 and people from the ministry are here, is that the ministry
26 has the interest of providing services to the community and
27 purchasing them off Sydney Ferries so in many cases many
28 decisions about those service adjustments are a matter of
29 discussion with the ministry and representatives of the
30 government, so certainly the sort of savings we are
31 identifying at the moment are not based on any changes to
32 service levels but savings as if the current levels are
33 continuing.
34
35 MR COX: Any further comments from people at the table?
36 Anybody at the back who wants to ask a question at this
37 stage?
38
39 MR GEDDES: Mitch Geddes once again. There is talk about
40 the five-year price path. I am interested to know whether
41 IPART would give consideration when contemplating that idea
42 to a five-year cost path that management look to the future
43 not only on the revenue side but, in the interests of
44 delivering value to the stakeholders, to look at the costs
45 side. Personally, I am a little affronted to think that
46 SFC is only two and a half months old and IPART is the
47 first port of call looking for more revenue. I would hope

1 the skills we have employed in SFC are such that we can be
2 a bit more creative than that and, as Ms Sinclair alluded
3 to, the talk about some marketing strategies is a little
4 encouraging. I would hope that the new corporation can do
5 its research and spend its own funds wisely so as to
6 maximise patronage and not draw further on the purse of the
7 people of New South Wales. As far as the IPART assessment
8 is concerned, once again I commend that work.
9
10 The graph that Mr Pedersen has referred to, operating
11 costs per kilometre travelled, is a little bit of an
12 embarrassment to review but it is not seven years, it is
13 not seven years at all, in fact forget the first dot point
14 on that graph. There is something funny about that. If
15 you start at the second dot point and if you took CPI as
16 the base and gave that the X axis, what you find is the
17 next three dot points essentially sit on zero and then
18 there is a quantum leap in 2001/02 which is being
19 maintained and slightly increased. I think the people of
20 New South Wales want that quantum leap to be assessed and
21 addressed. Thank you.
22
23 MR COX: Thank you very much. As far as IPART is
24 concerned, if we were to sign off on a five-year price path
25 we would also want to sign off on what was an appropriate
26 level of costs consistent with that price path, but that is
27 next year's inquiry, not this year's.
28
29 MS SINCLAIR: Just one point, if I could, just to clarify
30 something I said, that I should confirm that I may have
31 given you the impression it was Sydney Ferries' call about
32 services and whether they continue or not. Gary indicated
33 that the Ministry of Transport has a role in that. There
34 are no current plans by Sydney Ferries to cut any services.
35 I just want to make that clear.
36
37 MR PEDERSEN: Just to confirm what you have said there and
38 what Mitch raised, certainly we weren't going to table cost
39 increases, if we were - cost efficiencies - I would be
40 sitting here saying "give us a five year price path now",
41 but the reason we are saying we don't support it this year
42 and can't is because we can't bring forward those cost
43 reductions yet. That is on the basis that next year's
44 process, if considered appropriate, certainly as part of
45 that we would be coming forward with five-year plans for
46 costs, revenues and so on and tabling them with you and it
47 would be in that context we would think there could be some

1 sensible decisions about price adjustments. I agree with
2 that.
3
4 MR COX: Any further comments from people in the room?
5
6 MR MILLS: Peter Mills. My main contributions to this
7 inquiry have been a bit off this issue, that basically we
8 have operator providers and we have multimodal customers
9 and the sort of bridge between the two is the fare and
10 ticketing system. At present the ticketing system is
11 really focused on the operator rather than the customer and
12 I would like some sort of public discussion, particularly
13 with the coming up of T card, of how we can meet customer
14 needs and operator needs and get good accountability and
15 equity. But that is not the issue, the question is that
16 With ferryTen tickets you share in the TravelPass. With a
17 bus, you can understand that a TravelTen ticket is a good
18 idea because it aids loading, and TravelPass also, but for
19 ferries are there any significant cost savings in multiple
20 use, multiple tickets like FerryTen and TravelPass, or is
21 it purely a patronage issue?
22
23 MR PEDERSEN: One of the issues for us, I hesitate to
24 mention it, you may recall the problems we had last year
25 prior to our time with the queues down at Circular Quay
26 over Christmas. There is benefit for us in rather than
27 selling single rides or return journeys of actually selling
28 multiples so a person is not fronting to a ticket booth
29 every time they want to travel to Manly, that they are
30 actually buying tickets and travelling ten times. T cards
31 is an ideal opportunity to make it easier for people to
32 purchase, they don't have to roll up to the wharf to buy
33 their journey, they can buy it elsewhere, either at a
34 newsagent or over the Internet or via a direct debit as you
35 do with your E card, so it makes it a whole lot easier for
36 the consumer but it also gives us benefits as well because
37 there is a cost in ticket distribution, we employ a lot of
38 people to sell tickets, but more important it is the
39 convenience for the commuter. The last thing you want to
40 do is stand in 35 degree heat waiting to buy a single
41 return. That is probably the major benefit for us.
42
43 MR ROBERT CALDWELL: Certainly a major benefit would be to
44 include the rail travel at the same time and get it at the
45 train station.
46
47 MR PEDERSEN: Yes, and that is the intention. We would

1 love people to use the Day Tripper and buy it when they are
2 coming out to go to the zoo or so on, to buy the Day
3 Tripper at their railway station and get a combined rail
4 and ferry travel ticket, and buy it at 300 locations
5 instead of just at Circular Quay. Certainly that is a
6 strategy of ours to do that. In fact, you will see some
7 initiatives about that over Christmas where we are working
8 jointly with Rail to try to emphasise that.
9
10 MR COX: Thank you. We will draw this session to a
11 conclusion now. I am left with a sense of there being very
12 strong support for publication of key performance
13 indicators. There is also strong support for the idea of a
14 medium-term price path underpinned by estimates of costs
15 for the next year rather than this year.
16
17 We will now take a short break and we will resume on
18 private ferry issues. Thank you very much for the
19 discussion and contributions so far.
20
21 SHORT ADJOURNMENT
22
23 PRIVATE FERRIES FARES
24
25 MR COX: We will now resume with our second session on
26 private ferry issues. Once again I will ask Dennis Mahoney
27 to introduce the topic and then we will proceed to round
28 table discussion.
29
30 MR MAHONEY: Just to turn it around by starting with some
31 issues that we think are worth discussing, we are just
32 wondering if the tribunal really has enough information for
33 it to make informed recommendations about private ferry
34 fares so in that context we would like to talk about the
35 cost index and some operator involvement in the IPART
36 process.
37
38 Also a question, as has become obvious to you a couple
39 of times, how can Sydney Ferries and private ferry
40 operators be compared? It would be useful to have a
41 discussion on whether we can make that comparison, either
42 in principle or in practice; and then the third question,
43 with a little bit of a sting in it possibly, is despite
44 seven out of the ten ferry routes with private ferries
45 going up about 20 per cent or more last year when we get to
46 the evidence we see that revenues have fallen and return on
47 assets have fallen for the majority of the private ferry

1 operators, and that is causing some head scratching amongst
2 the secretariat at least. They are three of the issues
3 that we would like to discuss.

4
5 To get underway, I go back to the cost index, the next
6 slide, and this is not in the notes because I would like to
7 summarise what is in the notes. Initially when the Charter
8 Vessels Association put in the cost index, which is a
9 series of percentage changes, the rise was 11.3 per cent
10 using the weights that are provided that are not shown in
11 the index, but they are weights which are based on 2003
12 total costs. The rise, weighted average rise, was 11.3 per
13 cent. We then received some updated data from Matildas
14 with some major changes to depreciation and interest, I
15 think it was, that the overall rise was 21.4 per cent - and
16 that is on the table at the bottom of page 13.

17
18 The tribunal then went and looked at the individual
19 variations, looked at some outside data on fuel prices, got
20 some more information on what was driving some of the big
21 increases, and concluded that for reasons we will not go
22 into here, but we can make a fairly clear case when the
23 report comes out, it will be plain that that increase is
24 much more reasonably thought of as 10.1 per cent, not the
25 21.4.

26
27 That, however, is biased as well because when
28 constructing index numbers you don't use revenue weights,
29 as has been done with the CVA index, and if you do you use
30 the previous year's weights there is a double bias, the
31 items that go up a lot, they are always most inflated when
32 you use the weighting system, so we have used the previous
33 year's weights. When we do that, the overall rise in the
34 CVA cost index is just under 9 per cent and that is the
35 figure that we think is a fair indication on the basis of
36 the information given to us.

37
38 The information given to us is all percentage changes,
39 so we went back to the CVA and asked for some of the
40 absolute dollar figures behind those percentage changes,
41 because it is hard to have a handle on what is going on
42 without them, especially when you are dealing with some
43 very big percentage rises and you are not sure what the
44 base is that you are dealing with. We got more information
45 from several of the private ferry operators. Matilda,
46 because it is probably one of the biggest, is that a fair
47 statement?

1
2 MR KING: Yes.

3
4 MR MAHONEY: Matildas gave us a lot more data,
5 depreciation schedules and things from previous years, but
6 it is all very well to have one participant giving you a
7 fair degree of information when the rest of the
8 participants are providing very minimal information. An
9 issue related to that is that there are seven private ferry
10 operators but only five provided us with even percentage
11 changes in costs. That makes it awkward. On top of all
12 that, and I meant to raise this in the Sydney Ferries
13 discussion as well, although it is much less a concern
14 there, is the issue of ringfencing off costs and revenues
15 that don't relate to the regulated passenger runs.

16
17 In the case of Sydney Ferries that is probably a very
18 small percentage, but you do have trips to the zoo and so
19 on, part of the regulated passenger services, and we are
20 not aware of how big the ringfencing issue is in private
21 ferries and how much of that cost in revenue is actually
22 ringfenced. For those reasons, without going into the
23 detail in the notes, we wonder if in fact there is
24 sufficient reliable information for the tribunal to be
25 placing confidence in recommendations to the Minister on
26 private ferry fare rises relating to the cost index.

27
28 Fares were so out of line in the past, especially at
29 the lower end of the scale, that the tribunal felt they
30 were able to make some sensible decisions last year but
31 didn't rely heavily on the cost index either last year.
32 Now that those lower fares have been brought up to
33 something like parity with Sydney Ferries the cost index
34 approach requires more weight to be placed on the veracity
35 or otherwise of those costs, so that is a matter for
36 discussion.

37
38 The other item that we wanted to discuss was a
39 comparison with Sydney Ferries but before I do that, if we
40 could have the next slide, David Cribb, who is the Chief
41 Executive Officer for the CVA, can't be here today but he
42 asked that some remarks be read into the record. His
43 remarks are going to cover the issue of in fact should
44 private ferry fares be regulated at all; secondly, he will
45 raise the suggestion that the ferries perhaps should look
46 at the bus funding approach and could that be applied to
47 ferries; then make a comparison with Sydney Ferries

1 Corporation on fares and cost recovery; then I think the
2 fourth point refers to safety and personal responsibility.
3 The Chairman agreed we would read into the record his
4 remarks, so here they are.

5
6 My apologies for being unable to be present
7 today to speak on behalf of the application
8 of private ferries for a fare increase this
9 year. But thank you for the opportunity to
10 have these words read to the meeting.

11
12 Under the conditions of their contracts,
13 private ferry operators are entitled to
14 have increases in their operating costs
15 reimbursed through fare increases. As a
16 consequence, operators anticipate that this
17 year they will receive an increase equal to
18 the amount justified in their joint
19 submission of 11.3 per cent or an amount
20 close to this percentage as determined by
21 IPART on the basis of its comprehensive
22 analysis of what was submitted.

23
24 However, operators would like to put
25 forward some other ideas for fare setting
26 in the future. The first is deregulation
27 of private ferry fares altogether. This
28 has been mentioned in the operators'
29 submission this year and in the last few
30 years and, we understand, put forward to
31 the ministry by IPART. The rationale for
32 this approach is that all operators have
33 competition from other transport operators,
34 be they local buses, water taxis or
35 privately owned boats. Operators are well
36 aware of the prices they can charge in
37 these market conditions and in fact do not
38 now all charge the fares recommended by
39 IPART and awarded by the ministry last year
40 because of this competition.

41
42 The second is the recognition that fares
43 cannot continue to rise in response to cost
44 increases if these cost increases put fares
45 beyond the ability of customers to continue
46 patronage of the services in the light of
47 their alternatives. This is really the

1 same point as the last one.

2
3 As a consequence, the operators are closely
4 examining the private bus model being
5 worked up by the Bus & Coach Association
6 and the ministry which, as we understand
7 it, divorces revenue from costs by handing
8 all revenue back to the ministry in
9 exchange for providing the service and
10 receiving appropriate reimbursement from
11 the ministry for costs, capital investment
12 and a profit margin.

13
14 Perhaps one of these two alternatives can
15 be adopted next year and beyond, possibly
16 the second one, but it is early days yet in
17 its development.

18
19 May I make two further points. The first
20 is that Sydney Ferries charged the same
21 fares as those of private operators for
22 similar services, \$4.50 for an adult
23 one-way journey. Sydney Ferries' operating
24 costs are approximately twice that
25 recovered from the farebox and from
26 concession reimbursements from government,
27 about \$42m of revenue and about \$90m of
28 costs. Private operators are expected to
29 recover all their costs and a profit margin
30 from this same revenue stream - they are
31 expected to be over 100 per cent more
32 efficient. Given that crewing numbers are
33 determined by Waterways, now New South
34 Wales Maritime, that wages are determined
35 by the Industrial Relations Commission and
36 that fuel and other supplies are determined
37 by the market place, it is not possible
38 that private operators can be this
39 efficient.

40
41 As a consequence, the writing is on the
42 wall for the continued operation of these
43 businesses unless another way forward can
44 be found.

45
46 The second is that if these businesses
47 cease to operate for lack of viability, the

1 residents of the remote communities they
2 serve will be forced into small open boats
3 which account for 54 per cent of boating
4 fatalities. These boats will be operating
5 in the dark on many occasions, which will
6 make this situation worse.

7
8 The ministry and the minister have been
9 made aware of this situation, as has New
10 South Wales Maritime and the National
11 Marine Safety Committee which drafts
12 national boating law.

13
14 In conclusion, the operators request that
15 this year IPART recommend a fare rise
16 commensurate with the operators' submission
17 and their own analysis and that it
18 encourage the development of a different
19 approach from next year on based on the
20 information presented here.

21
22 Thank you for the opportunity to make this
23 response to the meeting. We look forward
24 in a few weeks to learning of IPART's
25 recommendations for our sector.

26
27 I think there are quite a few issues raised there, and
28 I have summarised them on the overhead, to take up in
29 discussion. Let me turn, if I may, to revenue and rate of
30 return. Tables 4 and 5 on page 16 of the notes give an
31 indication of the fact that revenue fell substantially for
32 three of the five operators, despite the 20 per cent fare
33 rise or thereabouts. In fact, I think two of the ten
34 routes Matilda had less than a 20 per cent fare rise, and
35 the return on assets, which we have compared in fiscal year
36 2003 and fiscal year 2004, the surprise from our point of
37 view is that the rate of return on assets, despite those
38 fare rises, went down as much as they did. I could link
39 that back to revenue but in fact that might be the answer.

40
41 Lastly, there are other issues that the tribunal is
42 required to consider which we have summarised in the table
43 at the back. The most interesting one is possibly the
44 rejection by the CVA of each of the points in the Premier's
45 letter which is on page 19. The CVA is saying that the
46 five-year price path would not adequately address the fare
47 setting criteria in section 19 of the Passenger Transport

1 Act nor the obligations of the Director-General in operator
2 contracts. Likewise, efficiency gains in the form of lower
3 operating costs are unreasonable as operating costs are
4 largely outside control of the operator and to expect
5 service improvements, it will cost you, I guess would be a
6 colloquial way of summarising that.

7
8 So, the three questions, to what extent does the
9 current cost generate the type of information on which the
10 tribunal can confidently make an informed recommendation;
11 to what extent can the operations and financials of Sydney
12 Ferries be comparable to private ferry operators, either in
13 principle or in practice: And how can we reconcile what
14 has been happening after such a large rise in private ferry
15 fares last year to see the return on assets being
16 deteriorating even more.

17
18 MR COX: Thank you very much. I might ask Larry King of
19 Matilda Cruises whether he would like to comment.

20
21 MR KING: As I mentioned before, I am not really in a
22 position to comment for the CVA.

23
24 MR COX: Do you wish to comment in relation to your own
25 operations?

26
27 MR KING: I would like to introduce Kate Morresey, our
28 financial controller. She was instrumental in the
29 compilation of our figures and she will make any comment.

30
31 MS MORRESEY: A lot of the changes that have been seen at
32 Matilda have been a change in fleet which has affected the
33 return on assets, but the return on assets has been
34 affected by the drop in revenue, in answer to that.

35
36 MR KING: What Kate is saying is that there is a negative
37 staffing increase, percentage wise, which is more averaged
38 into the whole cost factor. It is really a result of
39 reduced revenue rather than a reduced payroll cost.

40
41 MR COX: Do you have any feeling for what the reasons were
42 for the reduction in revenue?

43
44 MR KING: A lot of it is to do with water taxi activity on
45 Sydney Harbour, which is unregulated.

46
47 MS CIFUENTES: Say no more!

1
2 MR COX: Thank you. Sydney Ferries, do you want to
3 comment?
4
5 MS SINCLAIR: No, thank you.
6
7 MR MAHONEY: Perhaps on your own patronage last year?
8
9 MR PEDERSEN: It grew last year. I don't have the
10 figures. I think we provided them.
11
12 MR MAHONEY: Yes.
13
14 MR PEDERSEN: Our patronage grew reasonably strongly and
15 that has continued in the first part of this year albeit at
16 a lesser rate. In our submission we did note that despite
17 our fare increase the patronage continued to grow.
18
19 MR MAHONEY: I don't have the numbers because they are not
20 here for last year.
21
22 MR PEDERSEN: Certainly in 03/04 they were above 14
23 million journeys and it is there on the overhead at 13.3.
24
25 MR MAHONEY: That indicates that the number of FerryTen
26 tickets grew strongly last year, as did the number of cash
27 tickets?
28
29 MR PEDERSEN: Yes.
30
31 MR MAHONEY: Sorry, the number of cash tickets grew
32 weakly. The water taxis have made the difference, I guess
33 that is what Mr King is saying?
34
35 MR PEDERSEN: I am not in a position to comment. We are
36 noticing growth on the Parramatta service, not from there
37 so much but up towards Rydalmere with all the growth there.
38 That has been growing fairly strongly. The Manly service
39 grew, not as strongly, and the Inner Harbour was probably
40 the weakest of the three services but it still grew
41 slightly.
42
43 MR COX: Alan, any comments?
44
45 MR MILES: No comment. I have no expertise in private
46 ferries.
47

1 MR COX: Jim?
2
3 MR WELLSMORE: PIAC does not have any expertise in private
4 ferries either. I suppose it is hard even to claim that we
5 represent the customers of some of these services. It is
6 difficult because some of these services are small and are
7 serving quite small and defined communities or markets so
8 it is a lot more complicated.
9
10 Perhaps what I will say is that, to your great relief,
11 I don't think this is an issue that the tribunal is in a
12 position to fix. I don't think from our point of view we
13 would ever feel that, given the nature of the market we are
14 talking about, or the nature of the communities and their
15 reliance on these services, in some cases anyway, I don't
16 think PIAC would ever be happy to give a big tick to the
17 idea of deregulation of fares.
18
19 It is complicated because we are talking about small
20 but quite complex and diverse areas, a small industry but
21 obviously lots of different things happening all at the
22 same time. From what I can gather the operators are
23 undercharging now so I am not sure how deregulation will
24 assist their position. In some cases they are charging
25 less than the maximum they are permitted to charge so I
26 don't see how deregulation will help that if somehow there
27 is an expectation it will produce lower costs and higher
28 patronage. I don't see that as being a common sense
29 conclusion from the evidence as I understand it.
30
31 Fare increases have actually resulted in less revenue
32 and lower return on capital. The example has been raised
33 from the CVA about the bus funding model. Perhaps that is
34 the right way to go. That may well help the tribunal in
35 the future but at the end of the day the big question
36 sitting over all of that is whether or not in fact some of
37 these services are viable in their current form being
38 provided by small private operators.
39
40 In the bus model, that may in fact be the way that the
41 Government is best placed to pick up the issue of ensuring
42 important services for small communities and doing it in a
43 way that has some sort of viability, because the fare
44 increases being talked about by the association certainly
45 are not sustainable and it is pretty clear that their
46 current performance on revenue and return on assets is not
47 sustainable either. That is a terrible doom and gloom

1 suggestion, we do not like to be that bleak about things,
2 but 20 per cent type price increases surely will not be
3 worn.

4
5 MR COX: What do you think would be the implications for
6 your business if we were to decide that whatever fare
7 increase for Sydney Ferries should be applied to you -
8 which might be substantially less than 20 per cent?
9

10 MR KING: We would have to accept it.

11
12 MR COX: You are not saying it will be something that will
13 cause you huge difficulties?
14

15 MR KING: No.
16

17 MS CIFUENTES: Just as a matter of interest, how much
18 parity is there between Matilda's business and the business
19 of Sydney Ferries? Are they similar in size, in nature and
20 structure? The reason I am asking is that clearly the
21 situation with the information that is being provided to
22 the tribunal is less than satisfactory, both from the
23 tribunal's perspective and I am sure from the operators'
24 perspective, so it leaves the tribunal wondering whether
25 there might be a better approach in setting prices, and
26 that is clearly behind Jim's questions of awarding a
27 similar price increase to the private ferries as that which
28 will be given to Sydney Ferries.
29

30 Now, I guess my difficulty is if you look at some of
31 the smaller operators, there is not a great deal of
32 similarity between their operations and Sydney Ferries'
33 other than the fact they both run ferries and both operate
34 on water. But what about you, being the largest of the
35 operators, do you have a feeling for whether your
36 operations are sufficiently similar to Sydney Ferries that
37 we can draw some sort of conclusion from Sydney Ferries'
38 cost structures, their operating indicators, whatever, that
39 might translate to the private ferries?
40

41 MS MORRESEY: I would say to a certain extent yes. We all
42 have fuel expenses, payroll expenses, repairs and
43 maintenance expenses on boats, so there is a degree of
44 parity.
45

46 MS CIFUENTES: If that is the case, one thing that has
47 always intrigued me is that quite often we get information

1 from Sydney Ferries that indicates a particular element of
2 their cost structure is going up but for the private
3 ferries it is going down, and I personally find that
4 impossible to reconcile. I don't know whether you can
5 comment?
6

7 MS MORRESEY: If you look at the percentages that are
8 provided by the CVA you have to remember that that is a
9 direct cost, an increase on the dollar amount. So if the
10 revenue has gone down, those dollars would have gone down
11 as well but as a percentage of the revenue they may have
12 gone up. For example, on the Darling Harbour Circular Quay
13 run that we do, our payroll dollar figure has gone down,
14 therefore the percentage figure has gone down, but actually
15 as a percentage of revenue it has gone up. You can't
16 really directly compare a percentage provided by one
17 operator on one run to a percentage provided by another
18 operator on another run. If you looked at the percentages
19 as a percentage of revenue you should see that fuel as a
20 percentage of revenue would be going in the same direction.
21 You would expect that.
22

23 MR MAHONEY: That is one reason why we tried to do
24 operating costs per kilometre, to try to get a unit
25 measure. When all you have is percentage changes on total
26 dollars there is no unit measure and I suspect that would
27 be a place to start as well. We don't know if the private
28 ferries have travelled further or less distance this last
29 12 months. There is nothing supplied on that.
30

31 MR PEDERSEN: The other thing to bear in mind, it is an
32 issue even with our business with a big fleet and
33 significant turnover, that some of the expenditure on the
34 maintenance side can be very lumpy. That is what Mr King
35 is referring to, and also with smaller operators with a
36 much smaller number of vessels, if that vessel happens to
37 go in for some work in a year then you will see some very
38 significant increases in the actual level of costs. Over
39 time that would be smoothed out, but you will get that.
40 The smaller the operator, the more lumpy some of that
41 expenditure is.
42

43 MR KING: Out of interest, the prices are regulated for
44 State ferries because the assets are owned by the
45 Government, which is the people. When we own our own
46 assets, why should they be regulated?
47

1 MS CIFUENTES: You are not the first person to ask that
2 question.
3
4 MR COX: I guess the concern is in the absence of
5 regulation some people may feel that the prices may be too
6 high for customers to pay in some circumstances. I realise
7 there is a great diversity in private ferries. In some
8 situations you have a lot of competition from water taxis,
9 as you mentioned, but for the Cronulla to Bundeena ferry,
10 that could be seen as being part of Sydney's transport
11 system overall. In that context some people might believe
12 the fares should be regulated because they are part of the
13 overall transport network. I think your situation is
14 obviously a different one.
15
16 I know the CVA would raise the issue, we have raised
17 this in the past, whether private ferry fares should be
18 regulated. Their view is that on the whole they probably
19 think it should be, at least that was the view in the past,
20 because of things like the carriage of school children and
21 so on which is part of the Government's contribution to the
22 ferry industry. Certainly in the past the private ferries
23 have taken the view on balance that they would prefer fares
24 to continue to be set by us, which is all very nice, but it
25 gives us something of a problem because, as we pointed out,
26 the information that we get from the private ferries is
27 probably not of sufficient quality to make us confident to
28 make a fare determination and so we are grasping around for
29 something else to grab hold of.
30
31 The only thing I can think of is whatever we decide
32 for Sydney Ferries we will apply to you guys. I would be
33 interested in any views as to why that would be
34 inappropriate, but it seems to me that is the only thing we
35 have got that we can base a decision on.
36
37 MR KING: It is acceptable to us on the basis that there
38 is consumer acceptance. It is probably getting up there.
39
40 MS CIFUENTES: If I could just add that several years ago
41 that might not have been an attractive option because of
42 the disparity between your fare structure and that of
43 Sydney Ferries but the fact is that last year we tried to
44 align some of the fares, particularly in the shorter
45 distances, and it is impossible to do it altogether because
46 you don't have the same distance structure. To some extent
47 some of those anomalies have been removed so it does make

1 it slightly more attractive to the tribunal to look at
2 tying the fare increases for private ferries with that of
3 Sydney Ferries, particularly as Sydney Ferries will become
4 the efficient benchmarked business that has been promised.
5
6 MR KING: On this occasion it is acceptable to us.
7
8 MS MORRESEY: Matilda Cruises, not the CVA.
9
10 MS CIFUENTES: Do you have any view on the proposal for a
11 five-year price path going further out?
12
13 MS MORRESEY: I don't know enough about it.
14
15 MR KING: No, not up on it.
16
17 MR MILES: Mr King and the other gentleman asked why should
18 they be regulated. As I understand it, they have a
19 monopoly on particular routes and that is one reason why
20 they should be. If another ferry company was allowed to
21 operate on the same routes as you, then you could fight it
22 out as to who had the lowest fares, but if the government
23 gives you, or State Transit or CityRail, a monopoly to run
24 from A to B then you must expect some sort of regulation as
25 well.
26
27 MR KING: We have only got a monopoly because we have the
28 runs that Sydney Ferries don't want.
29
30 MR PEDERSEN: No comment.
31
32 MR MILES: You have a monopoly from X to Y, is that
33 correct?
34
35 MR PEDERSEN: Yes.
36
37 MR COX: But they have to compete with water taxis and
38 other forms of transport so it may have not be much of a
39 monopoly in reality.
40
41 MR MAHONEY: In that way Matilda is different to most of
42 the others, you are competing head on head with Sydney
43 Ferries whereas two or three of the others, the one the
44 Chairman mentioned, that clearly has an advantage, a very
45 short trip, compared to a car ride which is quite long, so
46 there is that.
47

1 MR COX: Any other comments on private ferries? Anyone
2 going to solve the problem for us?

3
4 MS SINCLAIR: You are on your own.

5
6 MR COX: I think we will conclude at that point. Thank
7 you for your participation this afternoon and your
8 constructive comments, they have been of great assistance
9 in assisting us find our way forward.

10
11 AT 3.45PM THE HEARING CONCLUDED

12
13
14
15
16
17
18
19
20
21
22
23
24
25

26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47

.30/9/04 50 FERRY FARE REVIEW
Transcript produced by ComputerReporters
