



Sydney Ferries Corporation

Submission to the Independent Pricing and Regulatory Tribunal

Review of Ferry Fares 2006

August 2006

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Executive Summary

The role of the Independent Pricing & Regulatory Tribunal (IPART) as the New South Wales economic regulator is to set maximum prices where a service is a monopoly and in doing so to consider price levels which replicate the outcomes which would otherwise occur from a competitive market. Sydney Ferries Corporation (SFC) is pleased to present this Submission which outlines the case for a fare increase on a single year price path basis, commencing 1 January 2007.

The operating environment for SFC in 2005/06 was challenging, characterised by:

- significant growth in fixed operating costs, particularly associated with labour costs, including the resources required to implement a range of safety improvement initiatives;
- continued significant growth in diesel fuel prices;
- continued significant expenditure on service improvements and efficiency program; and
- a marginal fall in (IPART's measure of)¹ revenue after three years of continued growth.

SFC's total operating costs in 2005/06 (which accounted for around 82 per cent of total expenses²) increased by around 7 per cent. This increase was largely attributable to a 37 per cent increase in fuel cost and a 13 per cent increase in labour costs.

The growth in labour costs was accounted for by impacts including:

- extra resources required to implement the 12-hour rosters to improve safety and efficiency;
- extra resources required to cover shifts for crew which are undergoing Crew Resources Management (CRM) Training to improve safety and efficiency;
- a wage increase of 4 per cent for each of the operational Awards and associated restatement of labour on-costs to higher pay scales; and

¹ 'Relevant' revenue includes the revenues SFC collects from passengers (farebox plus free and concessional revenue), or is reimbursed by Government for carrying certain passengers at less than full fare, or earns from other business activities (such as advertising revenue). It does not include CSO funding or general subsidies from Government that simply fund a gap when costs exceed revenues.

² Operating expenses and total expenses exclude the cost of asset disposals and asset revaluation decrement.

- additional personnel required to fill a range of vacant positions within SFC to strengthen the structure to ensure delivery of organisational objectives.

In terms of fuel, the price of diesel was in the range of \$0.81-\$1.01/litre in 2004/05, rising to a maximum price of \$1.25 in 2005/06. This translates into a monthly (compound average) growth rate of 2 per cent during both 2004/05 and 2005/06. Consequently, the fuel cost per passenger has grown from \$0.31 per passenger journey in 2003/04 to \$0.59 per passenger journey in 2005/2006. Furthermore, the proportion of total expenditure accounted for by fuel increased from 4.5 per cent in 2004/05 to 7.8 per cent in 2005/06.

Total capital cost in 2005/06 was \$8.3 million. This total includes \$5.7 million in major vessel maintenance. The 2006/07 budgeted capital expenditure is around \$20 million (including major vessel maintenance).

In order to address rising costs, SFC has implemented, or is in the process of implementing, a range of cost efficiency initiatives. Some of these initiatives are summarised below in **Table ES 1**.

Table ES 1: Cost efficiency programs

Initiatives commenced in 2005/06	Initiatives planned for 2006/07-2008/09
<ul style="list-style-type: none"> • Balmain Shipyard Improvement Program aimed to increase vessel availability and maintenance efficiency • Strategies designed to increase workforce utilisation, improve workforce capability and improve absence control management • Re-engining of First Fleet and RiverCat vessels to generate fuel and maintenance cost savings and improve vessel reliability • Enhanced revenue protection measures, including more effective allocation of resources to high-risk revenue leakage routes • Wharf refurbishment to improve productivity at Balmain Shipyard 	<ul style="list-style-type: none"> • Development of a Total Asset Management Plan to determine future vessel requirements • Adjusting the timetable to provide services which better meet customer needs and obtain higher load factors • Divesting ownership and maintenance accountability for wharves • Full implementation of the Balmain Shipyard Improvement Program

Source: Sydney Ferries Corporation

SFC has closely monitored the recent IPART implementation of productivity (or X-factor) adjustments for some transport determinations (that is, taxis and buses). However, SFC has also observed that an X-factor adjustment was not applied to the June 2006 CityRail Determination. SFC argues that applying an X-factor given the current levels of SFC cost recovery may negatively impact on the pursuit of other Section 15 IPART Act Determination objectives such as safety.

Regardless of the merit or otherwise of forward-looking X-factor adjustments, SFC remains committed to pursuing strategies to reduce its existing cost base to reach efficient costs. However, SFC emphasises that the costs of the efficiency initiatives are being incurred now, while a large proportion of expected savings will not be realised until the medium to long term.

On the demand side, patronage in 2005/06 remained largely unchanged compared with 2004/05. In 2005/06, SFC carried 14 million passengers, compared with 14.1 million in 2004/05. The key outcome in 2005/06 was a significant increase in Travel Pass patronage (12 per cent) while patronage accounted for by Daily Singles and Sydney Pass was significantly lower (-5.2 per cent and -8.4 per cent, respectively). This clearly indicates a shift in patronage to products with lower average trip prices.

SFC patronage can be segmented into two markets. Forty-six per cent of SFC journeys are for leisure/tourism³ and are irregular/discretionary in nature. These trips are less price elastic than commuter travel⁴. While Daily ticket patronage accounted for almost 30 per cent of total patronage in 2005/06, the Ferry Ten and Travel Pass patrons provided SFC with a significant commuter patronage base at just over 40 per cent. Users of multi-trip tickets comprise approximately 25,000 – 30,000 regular users which undertake around 70 per cent of annual passenger journeys. Conversely, there is a large group of leisure or irregular travellers (0.6 – 0.8 million) which undertake between 2 and 8 journeys per year.

Total farebox revenue increased by 0.6 per cent in 2005/06 (including volume growth) while IPART's preferred measure of revenue⁵ fell by 2.2 per cent. This fall is due primarily to reductions in non-regulated fares and other income compared with that in 2004/05.

³ Sydney Ferries, *2006 Customer Satisfaction Index Validation and Survey*, May 2006, p. 12.

⁴ The most recent data on fare elasticities for ferries indicates a direct price elasticity for ferry singles of -0.183 and -0.042 for commuters and non-commuters, respectively. These data are reported in IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, 1996.

⁵ 'Relevant' revenue includes the revenues SFC collects from passengers (farebox plus free and concessional revenue), or is reimbursed by Government for carrying certain passengers at less than full fare, or earns from other business activities (such as advertising revenue). It does not include CSO funding or general subsidies from Government that simply fund a gap when costs exceed revenues.

The outcome of significant growth in costs and a stable revenue base resulted in a fall in IPART's measure of cost recovery to 52.9 per cent compared with 58.3 per cent in 2004/05. IPART measures cost recovery by dividing relevant revenue by relevant costs⁶.

In addition to the cost efficiency initiatives described above, SFC is pursuing improvements in revenue and hence, cost recovery through service improvements. SFC's overall reliability remains high, within 0.7 per cent of the relevant key performance indicators.

SFC also continues to pursue opportunities to better match services to existing and potential passenger demand. Accordingly, SFC has introduced a number of new and revised services in 2005/06. These include:

- additional peak hour services to Cabarita on the Parramatta River to better service the new Breakfast Point development;
- daily services to Garden Island; and
- additional services to Rose Bay and Watsons Bay on weekends, reducing waiting times and doubling service frequency.

More specifically, SFC also invested in a range of service improvement programs which are summarised in **Table ES 2**. Many of these programs are focussed on improving customer and employee safety.

Table ES 2: Service improvement programs

Initiatives commenced in 2005/06	Initiatives planned for 2006/07 – 2008/09
<ul style="list-style-type: none"> • Development of a comprehensive Safety Plan including a new safety management system • Introduction of crew shifts to a maximum of 12 hours to improve fatigue management • Organisational structure changes to increase focus on operations and engineering • Development and implementation of a plan to improve vessel availability in second half of 2005/06 • A range of training initiatives 	<ul style="list-style-type: none"> • A range of on-going training initiatives focusing on operational procedures • Installation of Vessel Data Recorders across the fleet to enable informed investigation and improve safety • Upgrade of the <i>Collaroy</i> control system to improve service safety and reliability • Upgrade and expansion of the CCTV network and associated infrastructure to improve passenger safety and information

⁶ 'Relevant costs' include the costs the service provider incurs in operating its passenger services – usually its cash operating costs plus depreciation and interest less the cost of asset disposals.

Initiatives commenced in 2005/06	Initiatives planned for 2006/07 – 2008/09
including roll-out of Crew Resource Management (CRM) training for crews to provide basis of standard operating procedures and a drills package.	<ul style="list-style-type: none"> • Implementation of an Integrated Management System to support core business functions and enhance decision-making capability

Source: Sydney Ferries Corporation

SFC wishes to highlight the following key bases for this year's fare claim.

On the supply side, in 2005/06, SFC experienced a 7.7 per cent increase in total expenditure (excluding asset revaluation decrements). This increase is significant when compared to the percentage change in the Consumer Price Index (CPI) for Sydney of 3.8 per cent between June quarter 2005 and June quarter 2006⁷. This growth is partly accounted for by:

- an increase in labour costs associated with recent service improvement strategies, particularly in relation to safety initiatives, such as the introduction of 12-hour rosters, CRM Training and wage and salary increases of 4 per cent resulting from recent EBA outcomes. These outcomes will have a significant impact on the SFC cost base given that labour accounts for over 50 per cent of total expenses in 2005/06; and
- SFC also incurred substantial rises in the cost of diesel fuel. Consequently, the fuel cost per passenger has grown from \$0.31 per passenger journey in 2003/04 to \$0.59 per passenger journey in 2005/2006. Furthermore, the proportion of total expenses accounted for by fuel increased from 4.5 per cent in 2004/05 to 7.8 per cent in 2005/06.
 - the impact of rising diesel fuel prices is particularly pronounced for the high speed JetCat service which has a relatively higher rate of fuel consumption (320 litres/hour) compared with the Freshwater class (250 litres per hour) and a relatively lower passenger capacity of 280 compared with 1,100 for the Freshwater class. The impact of rising fuel prices on cost recovery is exacerbated given that JetCat fares did not rise as part of the 2005 Determination.

⁷ Australian Bureau of Statistics 2006, *Consumer Price Index, Australia, Jun 2006*, Cat. No. 6401.0, Canberra.

Following consideration of the above issues, SFC seeks a fare claim (prior to rounding where applicable) which is comprised of:

- a 4.7 per cent increase for Daily Singles and Ferry Tens (except JetCat);
- a 6.3 per cent increase for the JetCat Daily Single;
- a 5.9 per cent increase for the JetCat Ferry Ten (this reflects no increase for JetCat fares since January 2005 and the rising fuel prices); and
- a 3.8 per cent increase for Travel Passes (this is consistent with the proposal from the Ministry of Transport for buses).

The outcome of these fare rises are summarised below in **Table ES 3**, **Table ES 4** and **Table ES 5**.

Table ES 3: Existing versus proposed fare structure – Daily Singles

Ferry Fares	Adult (\$)		
	Current Fare	Proposed Fare	Fare rise
Single			
Inner Harbour Zone 1	5.00	5.20	0.20
Inner Harbour Zone 2	5.30	5.50	0.20
Manly / Rydalmere	6.20	6.50	0.30
Parramatta	7.50	7.90	0.40
Manly JetCat	7.90	8.40	0.50

Table ES 4: Existing versus proposed fare structure – Ferry Tens

Ferry Fares	Adult (\$)		Fare rise
	Current Fare	Proposed Fare	
FerryTen			
Inner Harbour Zone 1	32.50	34.00	1.50
Inner Harbour Zone 2	34.50	36.10	1.60
Manly / Rydalmere	46.60	48.80	2.20
Parramatta	52.60	55.10	2.50
Manly JetCat	65.70	69.60	3.90

Table ES 5: Existing versus proposed fare structure – Bus/Ferry Travel Pass

TravelPass	Adult (\$)		
	Current Fare	Proposed Fare	Fare rise (\$)
Bus&Ferry			
Blue	30.00	31.00	1.00
Orange	37.00	38.00	1.00
Pittwater	51.00	53.00	2.00

DayTripper tickets and TravelPasses available for unlimited travel on the Sydney Ferries network as well as the CityRail and State Transit Services bus networks are subject to a separate Determination. The recent Determination for multi-modal tickets involving rail provided a Travel Pass increase of \$1.00 per week and \$0.40 for the (adult) DayTripper from 2 July 2006 for these ticket types⁸.

Adoption of the fare claim described above would yield the following (forecast) funding profile for 2006/07 compared with 2005/06 (**Table ES 6**). This profile assumes an average 1 per cent growth in patronage in 2006/07 for regulated fares.

⁸ Independent Pricing and Regulatory Tribunal 2006, *Review of Fares for CityRail in NSW 2006*, IPART, NSW.

Table ES 6: SFC baseline funding projections (2006/07^f)

Revenues	2005/06	2006/07 ^f \$000s (with fare rises)	% change
Regulated fares ⁹	40,812	42,759	4.8
Non-regulated fares	4,517	4,333 ¹⁰	(4.1)
SSTS	318	402	26.4
Concession	9,521	9,847	3.4
Other revenue	1,254	2,118	68.9
CSOs	33,082	34,021	2.8
Capital grants	4,830	-	(100)
Total	89,503	92,861	3.8

Source: Sydney Ferries Corporation

Note:

^{1/}The IPART measure of total revenue excludes capital grants.

Totals may not add due to rounding.

Interim unaudited results.

Excludes year end financial adjustments.

Table ES 7 combines the 'relevant' IPART cost and revenue forecasts by SFC to produce the baseline forecast cost recovery for 2006/07.

Table ES 7: SFC's baseline forecast cost recovery ratios

Financial year	2005/06	2006/07 ^f (with fare rises)
Cost recovery (%)	52.9	51.0

Source: Sydney Ferries Corporation

Table ES 7 shows that with the proposed fare claim, cost recovery is expected to fall by 1.9 percentage points to 51 per cent in 2006/07. Given that expenses for 2006/07 are forecast at \$115 million, the implied funding gap is around \$56 million.

⁹ This baseline scenario assumes 1 per cent patronage growth over the next year for regulated fares and government funding as per the funding agreement of March 2006. This estimate for regulated fares is based on forecast ticket sales and the proposed fare increases, and has been adjusted for the differences in revenue recognition for intermediate ticket sales through non-SFC outlets. The unadjusted estimate of regulated revenue for 2006/07 is \$42.6 million.

¹⁰ Reduction due to declining patronage and suspension of ferry cruises from 31st March 2007.

1 Introduction

1.1 Background to IPART's fare setting process

The determination of ferry fares for Sydney Ferries Corporation (SFC) is the responsibility of the Independent Pricing and Regulatory Tribunal (IPART). IPART acts in accordance with Section 11(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* (The IPART Act) and explicitly considers all relevant information under section 15 of this Act. The matters outlined in this section are:

- **consumer protection** – protecting consumers from abuses of monopoly power, standards of quality, reliability and safety of the services concerned, social impact of decisions and effect on inflation;
- **economic efficiency** – greater efficiency in the supply of services, the need to promote competition, and the effect of functions being carried out by other bodies;
- **financial viability** – rate of return on public sector assets including dividend requirements, and impact on pricing of borrowing, capital and dividend requirements of agencies; and
- **environmental protection** – promotion of ecologically sustainable development via appropriate pricing policies, and consideration of demand management and least-cost planning.

The Tribunal also considers the following issues:

1. making determinations based on multiple year price paths (where possible and appropriate);
2. providing fare increases that reflect the rise in the Consumer Price Index (CPI) where the agency involved has made efficiency gains; and
3. providing fare increases above the CPI if agencies can demonstrate improvements in service quality that were linked to specific initiatives.

1.2 Outcome of the 2005 Determination

In its 2005 Determination of Ferry Fares¹¹, IPART:

- applied no increase in JetCat fares;
- increased most tickets, with the average rise being broadly in line with the general rate of inflation;
- marginally reduced discounts on Inner Harbour FerryTens;
- rounded the fares for all adult single and FerryTen tickets to the nearest 10 cents and all TravelPass weekly adult tickets to the nearest dollar; and
- rounded all concession tickets so that they are not more than half the corresponding full adult fare.

The allowed increase in maximum fares charged by SFC was:

- between zero and 20 cents for adult single tickets;
- between zero and \$2.20 for Ferry Tens; and
- between zero and \$2.00 for TravelPasses.

No changes were made to the rail-bus-ferry TravelPass prices or DayTripper prices. IPART considered this decision to be an interim measure while it undertakes an investigation into a multi-year price path¹².

1.3 Background and Objectives of this Submission

SFC was established as a separate entity on the 1st July 2004. Previously under the control of the State Transit Authority (STA), SFC was corporatised to better focus the organisation on providing safe and reliable ferry services and improving customer service, accountability and financial performance.

SFC has since focussed on setting a strategic decision-making framework to ensure that it has the appropriate resources and practices in place to develop and deliver its business strategy over the next decade. Part of this strategy involves the roll-out of a range of service improvement and cost efficiency programs (see **Section 4.5** and **Section 5.4**, respectively).

This Submission focuses on compiling and analysing the necessary information that is required by IPART (under Section 15 of the IPART Act) to undertake the 2006 Determination. The availability and quality of this data

¹¹ Independent Pricing and Regulatory Tribunal 2005, *Report on the Determination of Fares for Sydney Ferries – From 18 December 2005*, IPART, NSW.

¹² IPART (2005, p.1).

continues to improve as information capture and reporting systems at SFC develop.

The 2005/06 financial year was characterised by:

- significant growth in largely fixed operating expenditures such as labour (particularly in terms of the extra costs imposed by the introduction of '12 hour rosters' to address fatigue issues and the 4 per cent increase in wages and salaries resulting from the recent Enterprise Bargaining Agreements (EBA));
- continued significant growth in diesel fuel prices faced by SFC – fuel prices grew by 2.0 per cent per month (average) between July 2005 and June 2006¹³; and
- continued significant expenditure on rolling out service improvement and efficiency programs, the benefits of which are expected in the medium to long-term.

SFC acknowledges that progress on key cost efficiency and service improvement programs has been affected by organisational and operating challenges in 2005/06. Moreover, the systems available to capture and report the outcomes of these programs continue to develop.

Therefore, the objective of this Submission is to outline a case for a fare increase on a single year price path basis, commencing January 2007.

1.4 Structure of this Submission

The remainder of this Submission is structured as follows:

- **Section 2** highlights SFC's strategic objectives;
- **Section 3** describes SFC's regulatory environment;
- **Section 4** presents SFC's cost of service;
- **Section 5** discusses SFC's service quality;
- **Section 6** identifies SFC's funding sources;
- **Section 7** presents the fare claim and its impact on SFC; and
- **Section 8** summarises the conclusions of this Submission.

¹³ Sydney Ferries Corporation.

2 Sydney Ferries' strategic objectives

2.1 SFC's 'priority areas of focus'

SFC was established as a State Owned Corporation (SOC) to better focus the organisation on providing safe and reliable ferry services and improving customer service, accountability and financial performance. In order to achieve its principal objective of *deliver[ing] safe and reliable Sydney ferry services in an efficient, effective and financially responsible manner*, SFC has highlighted four 'priority areas of focus':

- safety;
- vessel availability;
- service reliability and quality customer service; and
- viability and sustainability of the Corporation.

SFC's key outcomes to be achieved are summarised below in **Table 1**.

Table 1: SFC Strategic Outcomes

Area	Outcomes
Safety	<ul style="list-style-type: none"> • continual improvement in safety performance based on the Safety Management System; • compliance with minimum Commonwealth and State security requirements (or higher as assessed); and • continual improvement in environmental safety performance.
Vessel Availability and Reliability	<ul style="list-style-type: none"> • meet service requirements across all routes
Service Reliability and Customer Service	<ul style="list-style-type: none"> • continual improvement in service reliability and on-time running in line with timetables • continual improvement in customer service quality and satisfaction
SFC Viability and Sustainability	<ul style="list-style-type: none"> • align core business systems, processes and procedures with achievement of business outcomes • maintain ISO 9001:2000 Quality Management System accreditation • align organisation structure and staff competencies to business priorities • increase efficiency through controlling costs and improving

Area	Outcomes
	revenues to increase cost recovery
Environmental Sustainability	<ul style="list-style-type: none"> • a 3-month trial of bio-diesel fuel on a First Fleet vessel to assess the differential impact of this alternative non-fossil fuel and diesel on both fuel efficiency and gas particulate air emissions • installation of additional permanent under-wharf booms at Balmain Shipyard, to improve spill containment capability • upgrade of liquid handling facilities at Balmain Shipyard, including the replacement of fuel, sewerage and bilge water piping, hoses and lines, to mitigate the risk of water contamination from spills
Social Responsibility	SFC is committed to active stakeholder engagement in issues concerning the operation of its services. Sydney Ferries Services Working Group includes representatives from Action for Public Transport, local government, the Ministry of Transport, NSW Maritime, ITSRR (the Independent Transport Safety and Reliability Regulator) and the commuter population. The Group convenes quarterly to consider issues relating to ferry service provision.

Source: Sydney Ferries Corporation

2.2 SFC's performance indicators

Key Performance Indicators (KPIs) are specified in the Performance Agreement between SFC and the Minister of Transport. Historically, SFC has reported information and targets on seven KPIs, which relate to the four key result areas of: safety; reliability; effective use of assets and revenue growth. These KPIs were revised for the 2005/06 financial year. The revision was undertaken to more fully reflect SFC's developing business priorities. The new KPIs and SFC's performance against these KPIs in 2005/06 are presented below in **Table 2** below.

Table 2: SFC's performance indicators

Performance indicator	2004-05 Result	2005-06 Target	2005-06 Result
Safety			
Number of significant incidents ¹⁴	3	Nil	2
Number of passenger injuries ¹⁵	11	18	17
Number of reportable vessel incidents ¹⁶	89	70	69
Availability			
Fleet availability ¹⁷ (%)	74	80	71
Vessel reliability ¹⁸ (%)	-	-	91
Reliability			
Scheduled services that actually run ¹⁹ (%)	98.9	99.5	98.8
Services that run on time ²⁰ (%)	98.8	99.5	98.3
Number of customer complaints	832	820	1,243
Customer Satisfaction Index ²¹ (%)	-	-	76 ²²
¹Financial performance			
Earnings before interest, taxes & depreciation (\$m)	10.1	3.1	(34.3) ²³
Operating result before tax (\$m)	(6.3)	(16.7)	(52.9) ²⁴
Return on assets (%)	(1.7)	(9.1)	(39.0) ²⁵
Return on equity (%)	(7.7)	(22)	(87.6) ²⁶

Source: Sydney Ferries Corporation

Note:

¹'Financial performance' results for 2005/06 are interim. Financial performance indicators have been adjusted to reflect the impact of the adoption of the Australian Equivalent to International Financial Reporting Standards (AEIFRS), including the restatement of 2004-05 comparative figures. Safety performance indicators have been redefined in line with Section 94 of the Marine Safety Act 1998.

¹⁴ Incidents resulting in serious injury, and/or damage over \$100,000.

¹⁵ Passenger injury requiring medical attention.

¹⁶ Marine accidents reportable to NSW Maritime.

¹⁷ Percentage of fleet available for scheduled services.

¹⁸ Percentage of available vessels that remain in service without withdrawal due to mechanical failure.

¹⁹ Proportion of actual services relative to the number of scheduled services.

²⁰ Proportion of actual services departing on-time.

²¹ Measure of customer satisfaction relative to importance against a range of service aspects.

²² Sydney Ferries Corporation, 2006 Customer Satisfaction Index Validation and Survey, May 2006.

²³ Excludes capital grants. Includes asset revaluation decrement of \$35.8m in 2005/06.

²⁴ Excludes capital grants. Includes asset revaluation decrement of \$35.8m in 2005/06.

²⁵ Operating result before interest and tax and asset revaluation decrement of \$35.8 million in 2005/06; excludes capital grants.

²⁶ Operating result after interest and tax as a percentage of average total equity. Excludes capital grants.

The key performance highlights for 2005/06 are that:

- the number of reportable vessel incidents²⁷ has reduced by 22 per cent over the first two years of operations. Considerable effort has been placed on improving vessel operation procedures and training, particularly in response to control system failure. In the last three quarters of 2005-06, the reportable vessel incidents were lower than the same period in 2004-05;
- while the total number of passenger injuries²⁸ has increased in the past year, performance in the last six months (7) has been lower than the same period in 2005-06 (9), and lower than the previous half year (10);
- vessel availability²⁹ is a critical performance measure for SFC. 23 vessels are required for operational services, allowing the remaining vessels to undergo maintenance. The standard of vessel maintenance is the key factor in vessel availability. Early in 2006, in response to poor vessel availability, a plan was initiated to improve availability in the short term. Although it has not increased to the target of 80 per cent, there has been a gradual improvement in that time. In July 2006, availability increased to 74 per cent, bringing the average for the past three months to 73 per cent. Sydney Ferries has committed \$5.2 million over 3 years to re-engine all nine First Fleet vessels, and three of the RiverCats. This is expected to improve reliability and decrease maintenance costs, but will reduce average availability by 6.5 percentage points for the life of the project. The first vessel was withdrawn from service in February 2006 and the second vessel in May 2006 to enter the re-engining program.

Sydney Ferries has also developed a system of planned preventative maintenance to monitor and control critical vessel operating systems and components. A fleet audit has identified a priority list of vessel defects. Technical Maintenance Plans will be finished in 2006-07 for each vessel in the fleet, to guide planned maintenance routines.

- SFC has set a high target for service reliability³⁰ (99.5 per cent) aiming for no more than one service cancellation for every 200 services. Improvements in vessel availability are expected to continue to increase service reliability. Reliability of 99.2 per cent in July continues the improving trend. Reliability is heavily affected by

²⁷ Marine accidents reportable to NSW Maritime as defined under section 94 of the *Marine Safety Act 1998*. 50 incidents represents 99.99% of the over 500,000 annual berthings conducted without incident.

²⁸ Passenger injury that occurs as a result of ferry operations and requires medical attention.

²⁹ Percentage of fleet available for scheduled services (days available as a percentage of total working days).

³⁰ Proportion of actual services relative to the number of scheduled services.

vessel availability: as availability improves, so too does service reliability. Weather also impacts service reliability; for example, due to fog one morning in June, 129 peak services were cancelled;

- the target for on-time running³¹ is set at 99.5 per cent. Performance in 2005-06 was marginally lower than the previous year, resulting in an average of 3.4 of every 200 services delayed by five minutes or more; and
- the number of customer complaints increased sharply in 2005/06, reflecting concerns of ferry passengers. The temporary service changes during the refurbishment of Manly Wharf and changes to service schedules to accommodate greater overall peak hour capacity, have also generated some complaints. In addition, the level of public commentary on public transport has also increased the visibility of some of the challenges that Sydney Ferries has been addressing.

SFC's significant investment in a range of service improvement programs (see **Section 5.4**) reflects the opportunities for improvement in relation to safety, fleet availability and reliability.

³¹ Proportion of actual services departing on-time (within 5 minutes of its scheduled departure: measured at Circular Quay).

3 Sydney Ferries' regulatory environment

3.1 Background

SFC operates within a comprehensive regulatory environment. The relevant regulations provide a framework for the delivery of safe, effective and environmentally sustainable ferry services. Obviously, compliance with these regulations is mandatory and comprises a significant baseline cost for SFC. The key regulations governing SFC services are briefly described below.

3.2 Transport Administration Act 1988

SFC was established on July 1 2004, as a result of amendments to the *Transport Administration Act 1988 (NSW)*.

Section 35B of the Act states that the principal objective is to:

deliver safe and reliable Sydney ferry services in an efficient, effective and financially responsible manner.

The sub-objectives under the Act include:

- to operate at least as efficiently as other comparable businesses;
- maximise the net worth of the State's investment in SFC;
- exhibit a sense of social responsibility;
- conduct its operations in compliance with the principles of ecologically sustainable development; and
- exhibit a sense of responsibility towards regional development.

3.3 State Owned Corporations Act 1989

As discussed above, SFC was established on July 1 2004 as a result of amendments to the Transport Administration Act. SFC is a statutory State Owned Corporation under the *State Owned Corporations Act 1989 (NSW)*. Under the Act the NSW Government's is held by two shareholding Ministers.

3.4 Passenger Transport Act 1990

SFC services are governed by the *Passenger Transport Act 1990*, whereby service levels, routes and timetables are set in an instrument between SFC and the Ministry of Transport. SFC must operate its services in accordance with the regulations outlined by the *Passenger Transport Act 1990* which has, amongst others, the objective of encouraging public passenger services

that meet the reasonable expectations of the community for safe, reliable and efficient transport services.

Some of the recent requirements of the *Act* which have had an impact on SFC operating costs include:

- Section 53C and 53D relating to the requirements of drug and alcohol programs; and
- Section 53D requirement that ferry operators have approved safety management systems and established the authority of the NSW Maritime Authority.

3.5 Commercial Vessels Act 1979 (CVA)

The CVA incorporates the provisions of the Uniform Shipping Laws Code (USLC) and provides that:

- permits (certificates of survey) are required to operate commercial vessels within defined operating limits;
- commercial vessels are required to be surveyed;
- commercial vessels are to be crewed in accordance with minimum safety manning levels and designations;
- a certificate of competency is required by a person operating or working on a commercial vessel;
- emergency procedures, including specified crew emergency drills and exercises are to be conducted at specified periods; and
- certain safety equipment is to be carried by commercial vessels.

3.6 Marine Safety Act 1998

SFC must operate its service in accordance with the regulations outlined by the Maritime Safety Act 1998. SFC also anticipates the adoption of the Australian Maritime Safety Authority (AMSA) standards, which is currently used offshore, for all commercial vessels and ferries in Australia.

3.7 Protection of the Environment Operations Act 1997

SFC is required to conduct its operations in compliance with the principles of ecologically sustainable development (ESD). For example, in order to comply with environmental standards, SFC is currently refurbishing wharves at Balmain Shipyard and upgrading its liquid handling systems at an approximate total cost of \$2.7 million (with \$0.9 million to be expended in 2006/07).

3.8 Occupational Health and Safety Act 2000 (OHS Act)

The OHS Act establishes specific requirements to provide safe workplaces, safe work processes and safe employees. These must be supported by all necessary training to ensure that employees and managers have the capacity to implement their responsibilities. The provisions of the OHS Act are enforced by the WorkCover Authority.

As part of the compulsory OHS inspections under the OHS Act, SFC has recently undertaken maintenance works replacing piles as deemed necessary, as well as providing reports on asbestos levels at all wharves. The cost of this activity has been borne by SFC. OH&S inspections on several wharves also led to several minor repairs to wharves controlled by SFC.

4 Sydney Ferries' cost of service

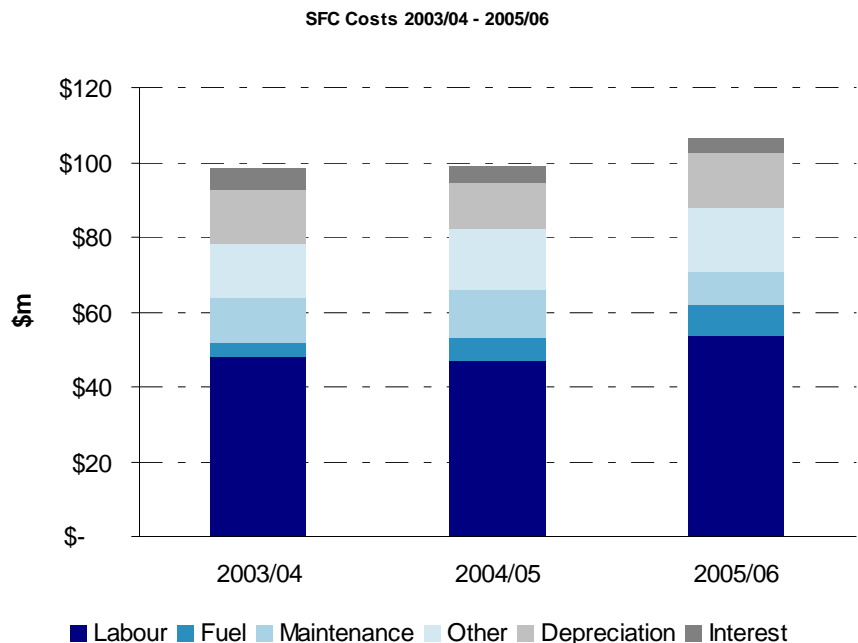
4.1 Historical cost summary

SFC has a relatively fixed cost structure.

Labour costs accounted for around 61 per cent of total operating costs in 2005/06. The implications for cost growth of this structure are highly relevant to the 2006 Determination given the extra labour resources involved in SFC's implementation of a range of safety and training initiatives (see discussion below).

Figure 1 presents SFC's cost of service over the period 2003/04 to 2005/06.

Figure 1: Historical cost structure (2003-2006)



Source: Sydney Ferries Corporation

Note:

Interim unaudited results.

Excludes year end financial adjustments.

SFC's operating costs have increased at a compound annual growth rate (CAGR) of 6 per cent per year between 2003/04 and 2005/06. Total expenditure also rose considerably over the 2006 financial year. Key areas where costs have increased are:

- fuel (37 per cent increase); and

- labour (13 per cent increase), this increase is partly attributable to the:
 - development of a safety plan including a new safety management system;
 - introduction of '12 hour rosters' to address safety and fatigue issues;
 - 4 per cent increase in wages and salaries resulting from the recent EBA outcomes and associated restatement of labour on-costs to higher pay scales; and
 - extra personnel for the coverage of shift for crew which are undergoing Crew Resource Management (CRM) Training.

These increases were somewhat offset by the reduced spending on interest and insurance costs. However, this offsetting effect is minimised given that SFC's cost structure is largely accounted for by operating costs.

Table 3 indicates that operating costs comprised over 82 per cent of total expenditure in 2005/06. In turn, labour costs accounted for over 50 per cent of total expenditure and over 61 per cent of operating costs. Overall, **Table 3** shows that total expenses in 2005/06 increased by 7.7 per cent from 2004/05.

Table 3: SFC costs 2003/04-2005/06

Costs	2003/04 \$'000	2004/05 \$'000	2005/06 ¹ \$'000	2005/06 (% of total expenditure)	% change from 2004/05- 2005/06
Labour	47,736	47,232	53,520	50.2	13.0
Fuel	4,321	6,037	8,300	7.8	37.0
Maintenance	11,797	12,485	9,102 ³²	8.5	(27.1)
Other	14,351	16,594	16,857	15.8	1.6
Operating costs³³	78,205	82,348	87,779	82.4	6.6
Depreciation	14,409	12,087	14,651	13.8	21.2
Interest	5,807	4,511	4,117	3.9	(8.7)
Total Expenses	98,421	98,947	106,547	100.0	7.7

Source: Sydney Ferries Corporation

Note:

Interim unaudited results.

Excludes asset revaluation decrement of \$35.8m and fixed assets sold or written off of \$18,245 in 2005/06.

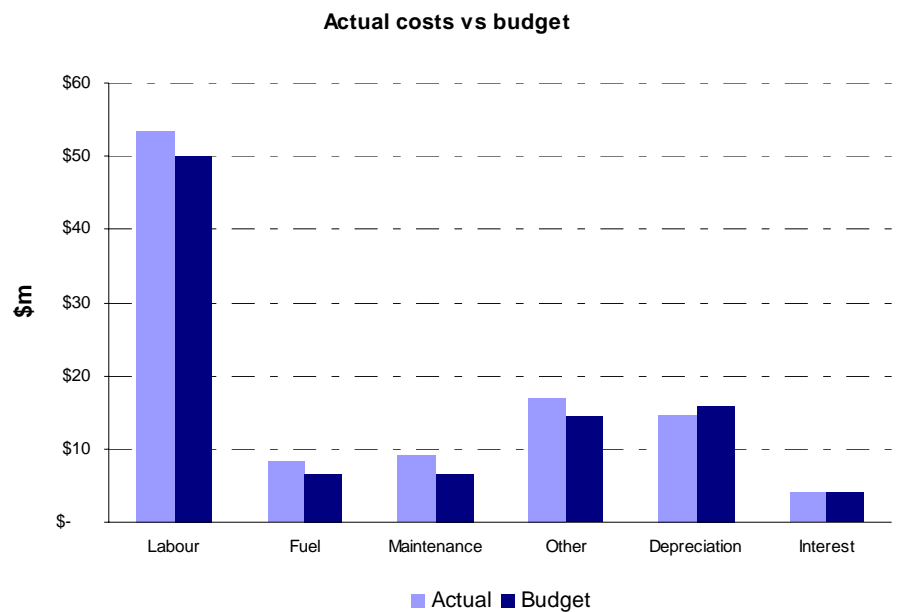
4.2 Historical cost summary – performance against budget

Figure 2 indicates that actual costs in 2005/06 were higher than budgeted figures for most items. In particular, fuel costs exceeded budget by over 15 per cent.

³² Reduction in maintenance costs is largely due to accounting (AEIFRS) changes and the absence of Freshwater dockings in 2005/06.

³³ Comprises labour, fuel, maintenance and other costs.

Figure 2: Actual costs versus budget, (2005/06)



Source: Sydney Ferries Corporation

Note:

Interim unaudited results.

Excludes year-end adjustment for asset revaluation decrement of \$35.8m.

This performance against budget was partly accounted for by:

- substantial increases in fuel prices;
- higher labour costs associated with:
 - the introduction of 12-hour rosters to improve safety and efficiency;
 - extra personnel for the coverage of shift for crew which are undergoing CRM Training; and
 - hiring of contractors to fill a range of vacant positions within SFC.

4.3 Historical cost summary – by item

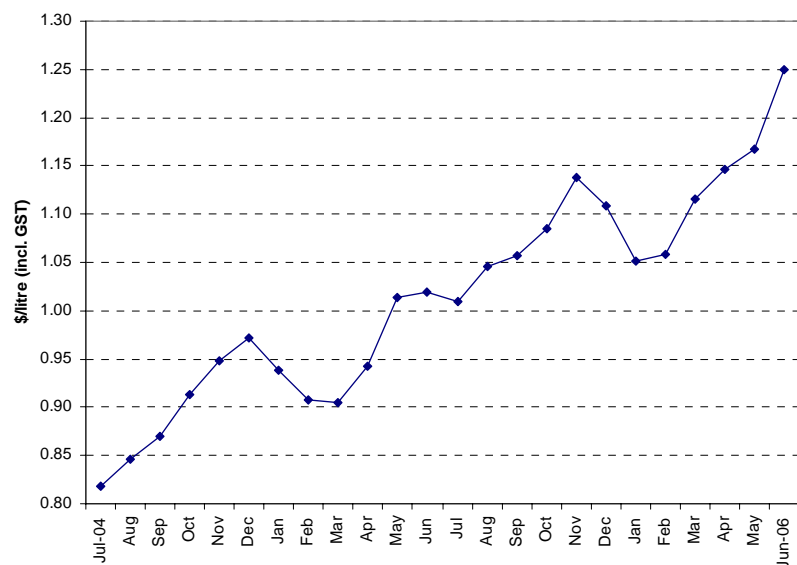
4.3.1 Variable operating costs

The increase in variable operating costs in 2005/06 can largely be explained by:

- the cost of temporary labour rising by over \$1.5m, more than doubling the 2004/05 costs, as contractors were hired to cover vacant positions or assist with high workloads;

- fuel costs rising by around \$2.3 million (37 per cent). SFC purchases fuel through the NSW State Government contract for fuel and associated products whereby the prices are obtained by the NSW Government through tender process. Despite participation in this scheme, fuel prices ranged from \$0.81-\$1.01 in 2004/05, this rose to a maximum price of \$1.25 in 2005/06. This translates into a monthly growth rate of 2 per cent and 1.5 per cent during 2004/05 and 2005/06 (to May 2006), respectively. The growth in the fuel prices faced by SFC is shown below in **Figure 3**.

Figure 3: Historical fuel prices



Source: Sydney Ferries Corporation

- consequently, the fuel cost per passenger has grown from \$0.31 per passenger journey in 2003/04 to \$0.59 per passenger journey in 2005/2006. Furthermore, the proportion of total expenditure accounted for by fuel increased from 4.5 per cent in 2004/05 to 7.8 per cent in 2005/06; and
- expenditure on the hire of private ferries and buses from STA rose by \$0.8 million (82 per cent), due primarily to a range of unplanned maintenance events which reduced fleet availability for the RiverCats, JetCats and Lady class vessels to an average 66 per cent compared to the targeted 80 per cent availability.

4.3.2 Fixed operating costs

The main increase in fixed operating costs is attributable to the cost of labour, which rose by \$6.3 million (13 per cent). This was primarily driven by:

- increases in ordinary and penalty wages, primarily driven by the shift to 12-hour rosters which were implemented to improve safety and efficiency outcomes; and
- wage increase of 4 per cent for each of the operational Awards and associated restatement of labour on-costs to higher pay scales.

Contract labour for fleet maintenance more than doubled, rising to over \$1.4 million in 2005/06. This was mainly driven by the large amount of maintenance work carried out as part of initiatives to improve vessel availability and reliability.

4.3.3 Capital costs

SFC spent a total of \$8.3 million as part of its 2005/06 capital expenditure program. This total includes \$5.7 million for major vessel maintenance.

Table 4 shows the key projects in the capital program.

Table 4: Key projects in SFC capital works & major periodic maintenance (MPM) program

Project	Total ³⁴ Project Cost \$'000	2006-07 Budget \$'000	Description
First Fleet & RiverCat Re-engining	5,200	3,510	Installation of new engines on 12 vessels to improve service reliability and reduce the cost of ongoing maintenance.
IT	6,521	2,105	Projects include: <ul style="list-style-type: none"> • IT systems and infrastructure development; • Integrated Information Management System • Document & Records Management Systems • automated rostering • upgrade of revenue processing systems • patronage capture systems • upgrade of hand-held ticket machines
Vessel Data Recorders	2,431	1,337	Installation of Vessel Data Recorders across the fleet to log vessel operation and movements.

³⁴ For period up to 2009/10.

Project	Total³⁴ Project Cost \$'000	2006-07 Budget \$'000	Description
Shipyards Wharf Refurbishment	2,200	800	Progressive replacement of piling and decking on the wharves at Balmain Shipyards, to enable the safe ongoing use of the wharves for vessel maintenance, bunkering, provisioning and overnight berthing.
CCTV Project	2,057	1,304	Upgrade and expansion of the CCTV network and associated infrastructure to improve passenger safety and information, the security of ferry infrastructure (Balmain Shipyards and wharves) and operational monitoring.
Accommodation Fitout	1,630	1,037	Move to new premises for Pitt St staff.
<i>Collaroy</i> Control System	1,000	60	Upgrade of the <i>Collaroy</i> control system to improve service safety and reliability.
Other Capital Projects	13,163	2,151	Other projects including: <ul style="list-style-type: none"> • Passenger Signage Upgrade • Fire Safety Systems • Liquid Handling Systems Upgrade • MIMS Ellipse Upgrade • Integrated Ticketing System Interfaces • Document & Records Management Systems
Total Capital Projects	34,202	12,304	
Total Vessel MPM	33,125	7,152	
Total Capital & MPM Costs	67,327	19,456	

Source: Sydney Ferries Corporation

Each item of the proposed capital works identified above will contribute to improvements in SFC service delivery and/or cost efficiency. Some of the expected outcomes from the capital expenditure program are discussed below in **Section 4.5** and **Section 5.4**.

4.4 Cost forecasts

4.4.1 Operating costs

Table 5 presents SFC's total expenditure budget for 2006/07. Total expenses are expected to increase by around 8 per cent in the next financial year, with continued strong growth in the cost of fuel and labour.

Table 5: SFC costs 2005/06 – 2006/07^f

Costs	2005/06 \$'000	2006/07 ^f \$'000	% change 2005/06 – 2006/07 ^f
Labour	53,520	59,944	12.0
Fuel	8,300	10,600	27.7
Maintenance	9,102	8,201	(9.9)
Other	16,857	17,367	3.0
Operating cost	87,779	96,112	9.5
Depreciation	14,651	14,208	(3.0)
Interest	4,117	4,681	13.7
Total expenses	106,547	115,001	7.9

Source: Sydney Ferries Corporation, interim unaudited results.

Note:

Interim unaudited results.

Excludes year end adjustment for asset revaluation decrement of \$35.8m.

4.4.2 Capital costs

The capital expenditure highlighted in **Table 6** has been estimated for the next three years. It should be noted however, that these projections are preliminary estimates only, and cannot be confirmed until the completion of the Total Asset Management Plan (TAMP) which is currently under development.

Table 6: Capital expenditure program 2006-2009

Capital expenditure	2006/07 Budget (nominal \$m)	2007/08 Projection (nominal \$m)	2008/09 Projection (nominal \$m)
Capital (excl. vessel maintenance)	12.3	9.9	4.8
Capital (major dockings)	7.2	10.8	7.7
Total	19.5	20.7	12.6

Source: Sydney Ferries Corporation

4.5 Efficiency cost savings

The cost growth in 2005/06 reflected items such as:

- award wage rises;
- labour costs for implementing a range of safety and vessel reliability initiatives; and
- a large spike in fuel costs.

The growth in these costs should also be viewed in the context of the outcomes sought from these expenditures. Accordingly, SFC expects to realise cost efficiency savings as a result of its current investment in a range of cost management strategies. The expected cost efficiency outcomes are summarised below in **Table 7**.

Table 7: SFC cost efficiency improvements

Program/Initiative/Strategy	Expected outcome
Balmain Shipyard Improvement Program	The program is expected to realise improvements in the availability and reliability of vessels. Sydney Ferries has identified the full implementation of the program as an area of focus for 2006-07, with an aim to increase vessel availability and maintenance efficiency.
Vessel Re-engining	At a broad level, re-engining of the First Fleet and Rivercat vessels is expected to improve the reliability and availability of these vessel classes. The expected improvement in reliability and availability would, in turn, generate fuel and maintenance cost savings.
New Enterprise Bargaining Agreements	These strategies were designed to increase workforce utilisation, improve workforce capability, and improve absence control management.
Vessel Data Recording Systems	Aimed to improve the effectiveness of preventative maintenance and contribute to the control of the costs of maintenance and repairs.
Revenue Protection	Enhanced revenue protection measures, including the more effective allocation of resources to high-risk revenue leakage routes and the upgrade of onboard ticket selling equipment.
Wharf refurbishment	Refurbishment of and repair of Jetty 3 at Balmain Shipyard which will contribute to the increased labour productivity and decreased maintenance costs at the Shipyard.

Source: Sydney Ferries Corporation

SFC has closely monitored the recent IPART implementation of productivity (or X-factor) adjustments for some transport determinations (that is, taxis and buses). However, SFC has also observed that an X-factor adjustment was not applied to the June 2006 CityRail Determination. SFC argues that applying an X-factor given the current level of cost recovery may negatively impact on the pursuit of other Section 15 IPART Act Determination objectives such as safety.

Moreover, the SFC cost base is largely constrained given that:

- fuel prices fluctuate with the global market; and
- strict regulatory requirements have to be maintained, particularly in relation to crewing.

Regardless of the merit or otherwise of forward-looking X-factor adjustments, SFC remains committed to pursuing strategies to reduce its existing cost base to reach efficient costs.

5 Sydney Ferries' service quality

5.1 Personnel and organisation structure

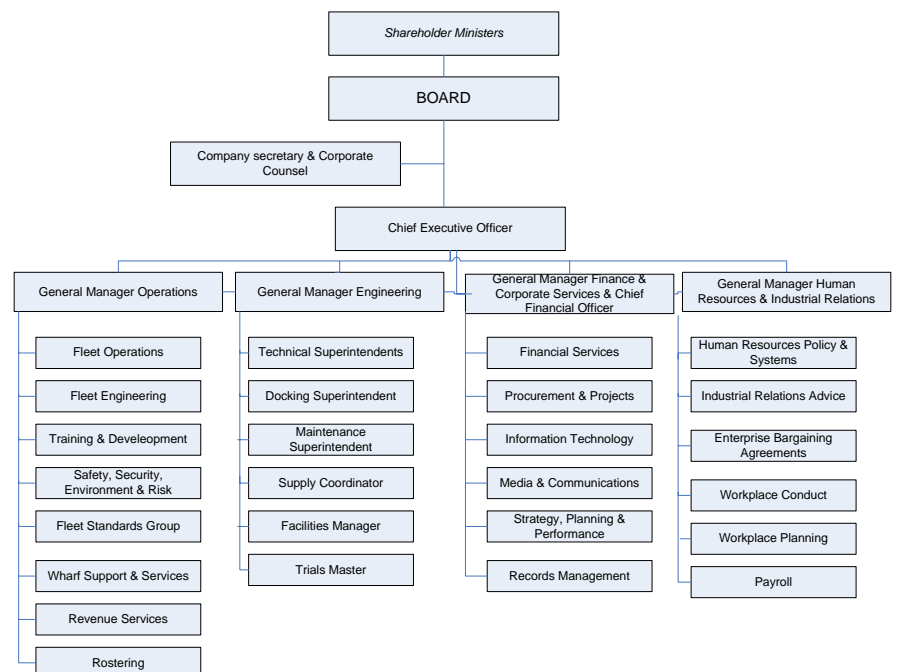
SFC staff totals approximately 617 as at 30th June 2006.

Significant organisational changes have occurred within the SFC personnel structure during the past 12 months. These changes have been adopted in order for SFC to operate more efficiently and effectively focus on its key responsibility of delivering a safe, reliable and high-quality ferry service. These organisational changes include:

- the restructuring of the Operations Division, resulting in Safety, Security, Environment & Risk and Training & Development functions being incorporated into the Operations Division; and
- simplifying of SFC's six divisions to four – Operations, Balmain Shipyard, Finance & Corporate Services and Human Resources & Industrial Relations.

Figure 4 presents the SFC organisational structure.

Figure 4: SFC organisational structure



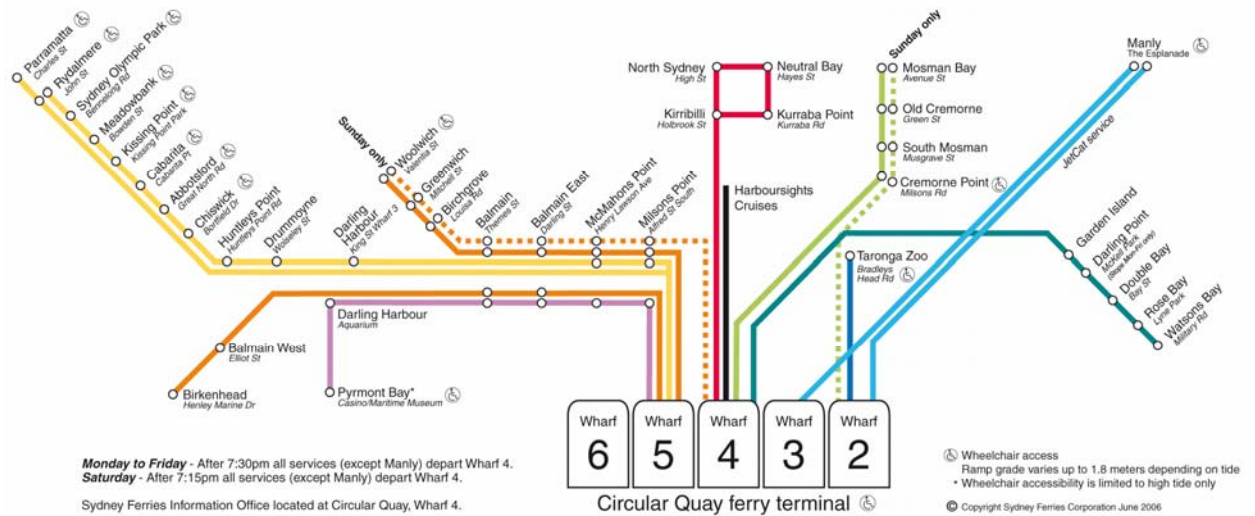
Source: Sydney Ferries Corporation

5.2 Ferry network and services

SFC operates a diverse fleet of 31 vessels. These vessels provide approximately 110,000 services, carrying more than 14 million people on Sydney Harbour and the Parramatta River each year.

The network stretches 37 kilometres from Parramatta in the West, to Manly in the North East and Watsons Bay in the East (see **Figure 5**).

Figure 5: Network Map



Source: Sydney Ferries Corporation

The number and diversity of network services are detailed in **Table 8**.

Table 8: Network routes and services

Ferry network routes	Stops	Services			
		M-F Return	Sat Return	Sun Return	PH Return
Circular Quay – Manly	Circular Quay Manly	35	28	27	28
Circular Quay – Darling Harbour	Circular Quay Milsons Point McMahon's Point Balmain Balmain East Darling Harbour Pyrmont Bay	23	21	21	21
Circular Quay - Mosman	Circular Quay Cremorne Point Taronga Zoo South Mosman Old Cremorne Mosman Bay	41	33	21	33

Ferry network routes	Stops	Services			
		M-F Return	Sat Return	Sun Return	PH Return
Circular Quay – Neutral Bay (loop service)	Circular Quay Kirribilli North Sydney Neutral Bay Kurraba Kirribilli	36	31	7	31
Circular Quay – Rydalmere (some services continuing to Parramatta)	Circular Quay Milsons Poin McMahons Point Darling Harbour Drummoyne Huntleys Point Chiswick Abbotsford Cabarita Kissing Point Meadowbank Sydney Olympic Park Rydalmere Parramatta	27	11	11	11
Circular Quay – Taronga Zoo	Circular Quay Taronga Zoo	24	21	25	29
Circular Quay – Rose Bay – Watsons Bay (loop service)	Circular Quay Garden Island Darling Point Double Bay Rose Bay Watsons Bay	28	13	13	13
Circular Quay – Woolwich - Balmain	Circular Quay Milsons Point McMahons Point Balmain East Balmain Birchgrove Balmain West Birkenhead Greenwich Woolwich Drummoyne	33	18	5	18

Source: <http://www.sydneyferries.info/timetables>

SFC continues to pursue opportunities to better match services to existing and potential passenger demand. Accordingly, SFC has introduced a number of new and revised services in 2005/06. These include:

- additional peak hour services to Cabarita on the Parramatta River to better service the new Breakfast Point development;
- daily services to Garden Island; and
- additional services to Rose Bay and Watsons Bay on weekends, reducing waiting times and doubling service frequency.

5.3 Patronage

5.3.1 Key market characteristics

SFC patronage can be segmented into two markets. Forty-six per cent of SFC journeys are for leisure/tourism³⁵ and are irregular/discretionary in nature. These trips are less price elastic than commuter travel³⁶. While Daily ticket patronage accounts for almost 30 per cent of total patronage in 2005/06 (see **Table 9** below), the Ferry Ten and Travel Pass patrons provide SFC with a significant commuter patronage base at just over 40 per cent.

Users of multi-trip tickets comprise approximately 25,000 – 30,000 regular users which undertake around 70 per cent of annual passenger journeys. Conversely, there is a large group of leisure or irregular travellers (0.6 – 0.8 million) which undertake between 2 and 8 journeys per year.

5.3.2 Long term trends

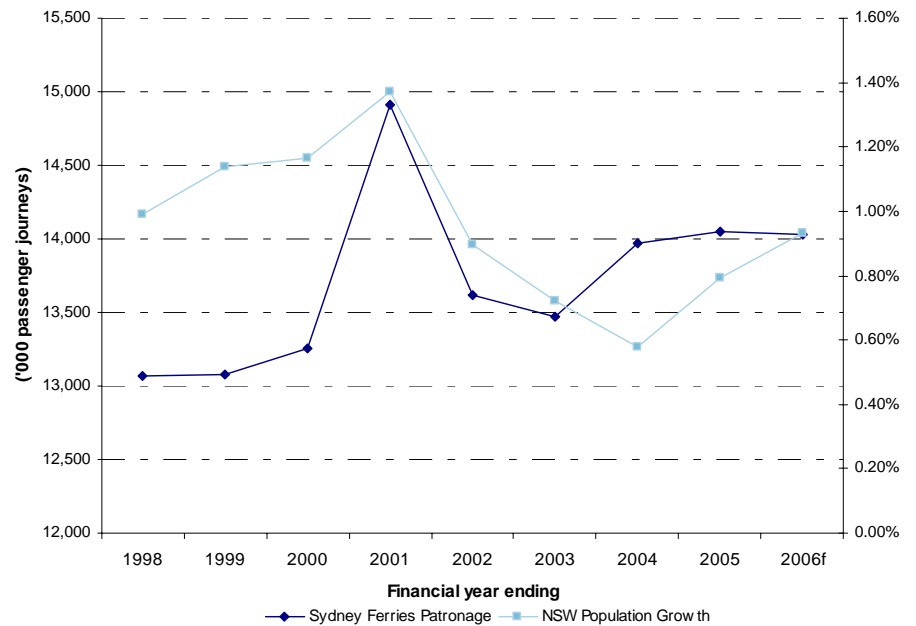
IPART's Determination in 2005³⁷ showed that total patronage for SFC (shown in **Figure 6**) has broadly kept pace with growth in the NSW population.

³⁵ Sydney Ferries, *2006 Customer Satisfaction Index Validation and Survey*, May 2006, p. 12.

³⁶ The most recent data on fare elasticities for ferries indicates a direct price elasticity for ferry singles of -0.183 and -0.042 for commuters and non-commuters, respectively. These data are reported in IPART, *Estimation of Public Transport Fare Elasticities in the Sydney Region*, 1996.

³⁷ IPART (2005, p.33)

Figure 6: Historical patronage



Sources: Sydney Ferries Corporation, ABS, 3105.0.65.001 - Australian Historical Population Statistics, 2006.

This remains the case with patronage in 2005/06.

5.3.3 Patronage by ticket type

Figure 6 indicates that patronage in 2005/06 remained largely unchanged compared with 2004/05. In 2005/06, SFC carried 14 million passengers, compared with 14.1 million in 2004/05. The historical change in patronage over the previous three financial years is shown below in **Table 9**.

Table 9: Historical change in patronage

Ticket Item	Financial Year			% CAGR per year (03/04 - 05/06)	% Growth (04/05 - 05/06)	Proportion of total patronage (% of total regulated and unregulated trips)		
	2003/04	2004/05	2005/06			2004	2005	2006
	Daily Tickets	4,243,908	4,254,692			4,031,666	(2.5)	(5.2)
FerryTen	2,916,228	3,007,804	2,920,323	0.1	(2.9)	20.9	21.4	20.8
TravelPass	2,699,831	2,589,149	2,910,025	3.8	12.4	19.3	18.4	20.7
Pensioner Excursion	1,820,359	1,797,605	1,796,418	(0.7)	(0.1)	13.0	12.8	12.8
Day Tripper	1,418,061	1,608,723	1,625,116	7.1	1.0	10.2	11.4	11.6
SSTS	30,309	29,838	25,291	(8.7)	(15.2)	0.2	0.2	0.2
¹ Total regulated	13,128,696	13,287,811	13,308,839	0.7	0.2	94.0	94.6	94.9
Sydney Pass	153,047	147,648	135,224	(6.0)	(8.4)	1.1	1.1	1.0
ZooPass	644,823	560,466	533,978	(9.0)	(4.7)	4.6	4.0	3.8
Cruises	40,214	54,717	47,867	9.1	(12.5)	0.3	0.4	0.3
Other	-	1,098	1,862	na	69.6	0.0	0.0	0.0
Total unregulated	838,084	763,929	718,931	(7.4)	(5.9)	6.0	5.4	5.1
Total	13,966,780	14,051,740	14,027,770	0.2	(0.2)	100.0	100.0	100.0

Source: Sydney Ferries Corporation

Notes:

¹Regulated trips include daily tickets, FerryTen, TravelPass, Pensioner Excursion and Day Tripper.

The key highlights of **Table 9** are that:

- growth in total patronage on regulated services in 2005/06 was only 0.2 per cent higher than for the same period last year;
- total patronage remained largely stable, exhibiting a negligible fall of 0.2 per cent;
- TravelPass patronage in 2005/06 grew significantly with respect to patronage in 2004/05 (12 per cent); and
- patronage accounted for by Daily Singles and Sydney Pass was lower in 2005/06 (-5.2 per cent and -8.4 per cent, respectively) indicating that patronage is shifting to products with lower average trip prices (for example Travel Pass). However, SFC expects that this shift to stabilise with regular users predominantly purchasing multi-trip tickets and leisure users purchasing daily singles.

5.3.4 Patronage by route

The data in **Table 10** indicate that the total number of patrons in 2005/06 on the Inner Harbour routes was 8 per cent higher than for 2004/05, while Manly ferry and Parramatta River patronage was lower (7.7 per cent and 3.4 per cent, respectively).

Table 10: Historical change in patronage by route

Route	Financial Year			% CAGR per year (03/04 – 05/06)	% Growth (04/05 – 05/06)
	2003/04	2004/05	2005/06		
Inner Harbour Service	6,046,627	6,093,745	6,574,715	4.3	7.9
Parramatta Service	1,501,247	1,419,646	1,370,844	(4.4)	(3.4)
Manly Ferry	5,535,807	5,585,167	5,157,124	(3.5)	(7.7)
JetCat Service	856,603	879,589	874,650	1.0	(0.6)
Other	26,496	73,593	50,437	38.0	(31.5)
Total	13,966,780	14,051,740	14,027,770	0.2	(0.2)

Source: Sydney Ferries Corporation

The underlying demand for services on the Manly and Parramatta routes are strong. However, the cancellation of some peak services has impacted on patronage. SFC is focussed on developing patronage on the Manly Ferry and Parramatta River services by implementing a range of service improvement strategies aimed at improving the reliability, availability and safety of the services on these routes. Some of these initiatives are discussed below.

5.4 Service improvements

SFC has or is in the process of implementing a range of service improvement projects over the next three years. A majority of the initiatives target improvements in safety, availability and reliability of services. Some of these include:

- commencement of the development of a safety plan including a new safety management system;
- a \$2.4 million initiative to install Vessel Data Recorders across the fleet to log vessel operation and movements and enable informed investigations into vessel incidents;
- upgrade of the *Collaroy* control system to improve service safety and reliability;
- upgrade and expansion of the CCTV network and associated infrastructure to improve passenger safety and information, the security of ferry infrastructure and operational monitoring at a total capital cost of \$2.1 million, and in addition approximately \$0.7 - \$1 million per annum on-going operating costs;
- implementation of an Integrated Management System supporting core business functions, to enhance decision-making capability from improved business processes and reporting; and
- vessel availability plan focussed on accelerating strategies to improve planning, scheduling, inventory management and technical maintenance.

Other projects designed to improve service as part of SFC's Capital Expenditure program for 2006/07 include:

- installation of new engines on all nine First Fleet and three of the RiverCat vessels to improve service reliability.

Other service-oriented projects which SFC has implemented include:

- introduction of crew shifts to a maximum of 12 hours to improve fatigue management;
- organisational structure changes to increase focus on operations and engineering. Six divisions have been simplified to four – Operations, Balmain Shipyard, Finance & Corporate Services and HR & Industrial Relations. These changes are expected to support SFC drive to improve safety, vessel availability and reliability;
- Operations Division restructure including the introduction of a Senior Manager Operations and Plans, establishment of a Fleet Standards

Group (five new positions) with a Fleet Standards Manager, and more support for Fleet Manager Engineering;

- a range of safety initiatives were developed in the SFC Safety Plan January 2006 – July 2007, including a project to develop Standard Operating Procedures and Safe Work Method Statements;
- major safety upgrade and completion of an extensive return-to-service plan for the Freshwater Class vessel *Collaroy*. This includes revision of the Vessel Operations Manual (VOM);
- development and implementation of a short-term plan to improve vessel availability in the second half of 2005/06;
- a range of training initiatives including:
 - roll-out of CRM training for crews on JetCats, RiverCats, SuperCats and HarbourCats. This course will eventually be delivered to all onboard crew across all vessel classes, and provides the basis for the development of standard operating procedures and a drills package for vessel crew in abnormal operational circumstances and conditions;
 - development of a new training program for Controlling Officers;
 - significant review of the drills program and the type rating system;
 - high-speed vessel training at the Australian Maritime College for eight Masters; and
 - GPS Toolbox sessions.

6 Sydney Ferries' funding

6.1 Historical funding outcomes

SFC's funding structure is comprised of:

- farebox revenue derived from regulated and unregulated services;
- concessions for SSTS and half fares;
- other revenue (for example, rental income and advertising);
- Community Service Obligation payments (CSO); and
- capital grants.

The actual revenue outcomes for 2005/06 are combined with the historical data presented in IPART's 2005 Determination to present a broad snapshot of the historical funding structure in **Table 11**.

Table 11: Historical funding outcomes

Revenues	2003/04 (\$'000)	2004/05 (\$'000)	2005/06 (\$'000)	% of total revenue (2005/06)	% CAGR per year (03/04 - 05/06)	% Growth (04/05 - 05/06)
Regulated fares	37,647	40,260	40,812	45.6	4.1	1.4
Non-regulated fares	4,364	4,813	4,517	5.0	1.7	(6.2)
Farebox revenue	42,011	45,073	45,329	50.6	3.9	0.6
SSTS	369	367	318	0.4	(7.2)	(13.4)
Concession	8,955	9,188	9,521	10.6	3.1	3.6
Other revenue	1,213	3,058	1,254	1.4	1.7	(59.0)
^{1/} Revenue (IPART)	52,548	57,686	56,421	63.0	3.6	(2.2)
CSOs	19,089	33,812	33,082	37.0	31.6	(2.2)
Capital grants	-	4,830	4,830	5.4	na	0.0
Total Revenue	71,637	91,498	89,503	100.0	11.8	(2.2)

Source: Sydney Ferries Corporation, IPART (2005)

Note:

^{1/}The IPART measure of total revenue excludes capital grants.

Totals may not add due to rounding.

Interim unaudited results.

Excludes year end financial adjustments.

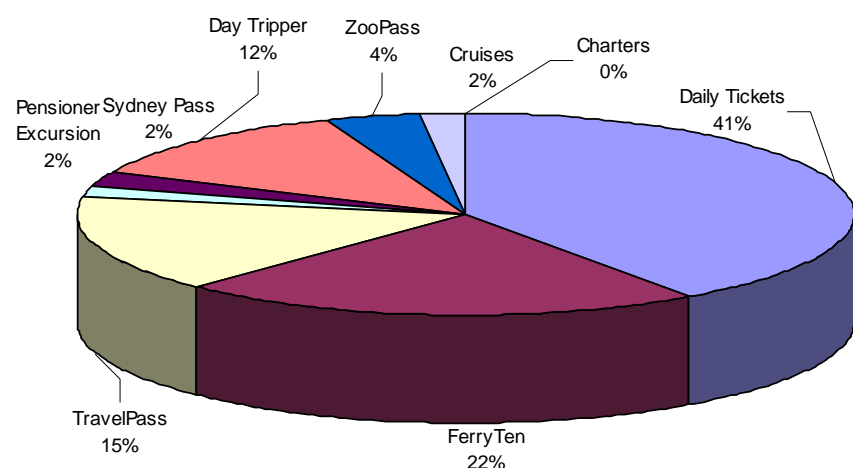
The data in **Table 11** indicate that:

- farebox revenue in 2005/06 comprised just over half of total revenue;
- regulated fares comprised over 90 per cent of farebox revenue;
- CSOs payments in 2005/06 comprised over one-third of total revenue;
- total farebox revenue in 2005/06 increased by 0.6 per cent while IPART's preferred measure of revenue fell by 2.2 per cent compared with that in 2004/05;
- total revenue in 2005/06 fell compared with 2004/05 due primarily to a reduction in 'other revenue'.

The key aspect of these data is that while total revenue (IPART measure) measure grew by 9.8 per cent in 2004/05, this revenue fell by 2.2 per cent in 2005/06. Similarly, while farebox revenue increased by 7.2 per cent in 2004/05, the commensurate growth rate in 2005/06 was only 0.6 per cent due to lower fare increases and reduced patronage growth. Consequently, the taxpayer contribution to SFC costs has increased while the customer contribution has decreased.

The composition of SFC farebox revenue is highly concentrated by ticket type. **Figure 7** below presents the proportion of total farebox revenue in 2005/06 accounted for by each ticket type.

Figure 7: Break down of SFC farebox revenue by ticket type (2005/06)



Source: Sydney Ferries Corporation

Figure 7 indicates that Daily Tickets accounted for over 40 per cent of farebox revenue followed by Ferry Tens at 22 per cent and Travel Passes at 15 per cent. The relatively high face value of the Daily Ticket is indicated by the fact that 40 per cent of revenue is recovered from only 29 per cent of the total patronage accounted for by the daily tickets (see **Table 9**).

7 Sydney Ferries' fare claim

7.1 Historical cost recovery ratios

A key aspect of IPART's fare determination is the impact on the level of SFC's cost recovery. As indicated in the previous Determination³⁸, IPART measures cost recovery by dividing relevant revenue by relevant costs.

Table 12 uses historical data provided by SFC to estimate the relevant measures of cost recovery.

The updated data indicate that cost recovery in 2005/06 fell to 52.9 per cent, lower than the level in 2004/05. The level of cost recovery was significantly lower than that estimated by IPART for 2005/06 (58.6 per cent)³⁹. This is largely attributable to the fact that the assumptions provided to IPART in the previous Determination did not account for the fact that total full-year expenses, particularly for uncontrollable items such as fuel and labour, substantially exceeded the budgeted outcomes⁴⁰.

Table 12: SFC's historical cost recovery ratios

Financial year	2001/02	2002/03	2003/04	2004/05	2005/06
Cost recovery (%)	54.1	50.1	53.4	58.3	52.9

Source: Sydney Ferries Corporation

The pressure on cost recovery in 2005/06 is highlighted further by analysing the annual changes in cost recovery components in **Table 13**. As shown in **Table 11**, regulated fare revenue increased by 1.4 per cent as indicated in the Previous Determination⁴¹. However, as shown in **Table 13**, IPART's measure of revenue in 2005/06 fell by 2.2 per cent while costs increased by around 8 per cent.

Table 13: Annual changes in cost recovery components

Financial year	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Revenues (% change on previous year)	9.5	8.3	(4.8)	0.2	11.6	9.8	(2.2)
Costs (% change on previous year)	8.6	1.5	19.1	8.2	4.8	0.5	7.7

Source: Sydney Ferries Corporation

³⁸ IPART (2005, p.9).

³⁹ *ibid* (2005, p.10).

⁴⁰ Sydney Ferries Corporation

⁴¹ IPART (2005, p. 10).

Nevertheless, it is expected that an improvement in the level of cost recovery going forward will be supported by a range of cost efficiency (see **Section 4.5**) and services quality programs (See **Section 5.4**) initiated by SFC to arrest the rate of growth in costs and promote revenue growth through attracting additional patronage through improved and increased services.

7.2 Fare claim by SFC

SFC incurred a significant increase in total expenditure of approximately 7.7 per cent in 2005/06. The recent safety initiatives employed in relation to the 12 hour rosters, CRM and wage and salary increases of 4 per cent resulting from recent EBA outcomes has, and will continue to have, a significant impact on the SFC cost base given that labour accounts for over 50 per cent of total expenditure in 2005/06. This increase is significant when compared to the to percentage change in the Consumer Price Index (CPI) for Sydney of 3.8 per cent between June quarter 2005 and June quarter 2006⁴².

SFC has also incurred substantial rises in the cost of diesel fuel. The price of fuel increased by 2 per cent per month during 2004/05 to \$1.02 cents/litre in June 2005 and 2005/06 to reach \$1.25 in June 2006. Consequently, the fuel cost per passenger has grown from \$0.31 per passenger journey in 2003/04 to \$0.59 per passenger journey in 2005/06.

The impact of rising diesel fuel prices was particularly pronounced for the high speed JetCat service which has a relatively higher rate of fuel consumption (320 litres/hour) compared with the Freshwater class (250 litres per hour) and a relatively lower passenger capacity of 280 compared with 1,100 for the Freshwater class. The impact of rising fuel prices on cost recovery is exacerbated by the fact that JetCat fares did not rise as part of the 2005 Determination.

The Corporation puts forward that, overall, its reliability record is high and performs well compared to the relevant target of 99.5 per cent.

SFC has a range of medium and long term strategies to manage and reduce its cost base. Some of the key initiatives outlined in this Submission include:

- strategies to obtain greater productivity from the SFC workforce;
- development of a Total Asset Management Plan to determine future vessel requirements;
- adjusting the timetable to provide services which better meet customer needs and obtain higher load factors;

⁴² Australian Bureau of Statistics 2006, *Consumer Price Index, Australia, Jun 2006*, Cat. No. 6401.0, Canberra.

- divesting ownership and maintenance accountability for wharves; and
- Full implementation of the Balmain Shipyard Improvement Program.

Following consideration of the above issues, SFC seeks a fare claim (prior to rounding where applicable) which is comprised of:

- a 4.7 per cent increase for Daily Singles and Ferry Tens (except JetCat);
- a 6.3 per cent increase for the JetCat Daily Single;
- a 5.9 per cent increase for the JetCat Ferry Ten (this reflects no increase for JetCat fares since January 2005 and the rising fuel prices); and
- a 3.8 per cent increase for Travel Passes (this is consistent with the proposal from the Ministry of Transport for buses).

The outcomes of the fare claim are summarised below in **Table 14**, **Table 15** and **Table 16**.

Table 14: Existing versus proposed fare structure – Daily Singles

Ferry Fares	Adult (\$)		
	Current Fare	Proposed Fare	Fare rise
<i>Single</i>			
Inner Harbour Zone 1	5.00	5.20	0.20
Inner Harbour Zone 2	5.30	5.50	0.20
Manly / Rydalmere	6.20	6.50	0.30
Parramatta	7.50	7.90	0.40
Manly JetCat	7.90	8.40	0.50

Table 15: Existing versus proposed fare structure – Ferry Tens

Ferry Fares	Adult (\$)		Fare rise
	Current Fare	Proposed Fare	
<i>FerryTen</i>			
Inner Harbour Zone 1	32.50	34.00	1.50
Inner Harbour Zone 2	34.50	36.10	1.60
Manly / Rydalmere	46.60	48.80	2.20
Parramatta	52.60	55.10	2.50
Manly JetCat	65.70	69.60	3.90

Table 16: Existing versus proposed fare structure – Bus/Ferry Travel Pass

TravelPass	Adult (\$)		
	Current Fare	Proposed Fare	Fare rise
<i>Bus&Ferry</i>			
Blue	30.00	31.00	1.00
Orange	37.00	38.00	1.00
Pittwater	51.00	53.00	2.00

DayTripper tickets and TravelPasses available for unlimited travel on the Sydney Ferries network as well as the CityRail and State Transit Services bus networks are subject to a separate Determination. The recent Determination for multi-modal tickets involving rail saw Travel Passes increase by \$1.00 per week and \$0.40 for the (adult) DayTripper from 2 July 2006 for these ticket types⁴³.

7.3 Expected impact on cost recovery

This section presents the forecast cost recovery ratio in 2006/07.

The cost recovery ratio is calculated by combining the cost forecasts presented in **Table 5**, SFC's baseline funding forecasts for 2006/07 (**Table 17**) for non-regulated fares and government funding and the estimate of regulated fares assuming the adoption of the fare claim above and average growth in patronage of 1 per cent in 2006/07.

⁴³ Independent Pricing and Regulatory Tribunal 2006, *Review of Fares for CityRail in NSW 2006*, IPART, NSW.

Table 17: SFC baseline funding projections (2006/07^f)

Revenues	2005/06	2006/07 ^f \$000s (with proposed fare rises)	% change
Regulated fares ⁴⁴	40,812	42,759	4.8
Non-regulated fares	4,517	4,333	(4.1)
SSTS	318	402	26.4
Concession	9,521	9,847	3.4
Other revenue	1,254	2,118	68.9
CSO	33,082	34,021	2.8
Capital grants	4,830	-	(100)
Total	89,503	92,861	3.8

Source: Sydney Ferries Corporation

Note:

^{1/}The IPART measure of total revenue excludes capital grants.

Totals may not add due to rounding.

Table 18 combines the 'relevant' IPART cost and revenue forecasts by SFC to produce the baseline forecast cost recovery for 2006/07.

Table 18: SFC's baseline forecast cost recovery ratios

Financial year	2005/06	2006/07 ^f (with proposed fare rises)
Cost recovery (%)	52.9	51.0

Source: Sydney Ferries Corporation

Table 18 shows that with the proposed fare claim, cost recovery is expected to fall by 1.9 percentage points to 51 per cent in 2006/07. Given that expenses for 2006/07 are forecast at \$115 million, the implied funding gap is around \$56.3 million.

⁴⁴This baseline scenario assumes 1 per cent patronage growth over the next year for regulated fares and government funding as per the funding agreement of March 2006. This estimate for regulated fares is based on forecast ticket sales and the proposed fare increases, and has been adjusted for the differences in revenue recognition for intermediate ticket sales through non-SFC outlets. The unadjusted estimate of regulated revenue for 2006/07 is \$42.6 million.

8 Conclusions

This Submission demonstrates a strong case for the fare claim outlined in **Chapter 7**. SFC's fare claim involves an average increase in ticket prices which marginally exceeds the growth in Sydney CPI of 3.8 per cent between June 2005 and June 2006. This claim recognises the:

- significant growth in operating cost in 2005/06 (7 per cent), particularly due to continued growth in diesel fuel prices and labour costs; and
- a marginal fall in revenue after three years of continued growth.

This Submission shows that growth in labour cost was primarily attributable to costs associated with programs aimed to improve service safety, such as:

- commencement of the development of a comprehensive safety plan including a new safety management system;
- extra resources required to implement the 12-hour rosters to improve safety and efficiency; and
- extra resources required to cover shifts for crew which are undergoing CRM Training.

SFC also incurred significant costs resulting from wage increases (4 per cent) for each of the operational Awards as part of the recent EBA negotiations and the associated restatement of labour on-costs to higher pay scales.

The other key cost impact is the rising price of diesel fuel. The fuel cost per passenger grew from \$0.31 per passenger journey in 2003/04 to \$0.59 per passenger journey in 2005/2006. Furthermore, the proportion of total expenditure accounted for by fuel increased from 4.5 per cent in 2004/05 to 7.8 per cent in 2005/06.

The impact of rising fuel prices is particularly pronounced for the high speed JetCat service which has a relatively higher rate of fuel consumption and a relatively low passenger capacity. This impact is exacerbated by the fact that JetCat fares did not rise as part of the 2005 Determination.

SFC recognises the importance of, and is pursuing, a range of initiatives to manage the level of controllable costs. Some of the initiatives include:

- strategies designed to increase workforce utilisation, improve workforce capability and improve absence control management;
- re-engining of First Fleet and RiverCat vessels to generate fuel and maintenance cost savings and improve vessel reliability; and

- Balmain Shipyard Improvement Program aimed to increase vessel availability and maintenance efficiency.

On the demand side, patronage in 2005/06 remained largely unchanged compared with 2004/05. However, this Submission shows that there was a shift in patronage to products with lower average trip prices. The net impact is that IPART's preferred measure of revenue fell by 2.2 per cent in 2005/06.

In response, SFC is pursuing improvements in revenue and, hence, cost recovery through service improvements. Some of these initiatives include:

- introduction of new and revised services to match demand; for example, additional peak hour services to Cabarita on the Parramatta River to better service the new Breakfast Point development;
- introduction of crew shifts to a maximum of 12 hours to improve fatigue management;
- a range of training initiatives including roll-out of Crew Resource Management (CRM) training for crews to provide basis of standard operating procedures and a drills package;
- installation of Vessel Data Recorders across the fleet to enable informed investigation and improve safety;
- upgrade of the *Collaroy* control system to improve service safety and reliability; and
- upgrade and expansion of the CCTV network and associated infrastructure to improve passenger safety and information.

The fare claim sought in this Determination is expected to result in the cost recovery in 2006/07 falling to 51 per cent compared with 52.9 per cent in 2005/06. Given that total expenditure in 2006/07 is forecast at \$115 million, the implied funding gap in 2006/07 is estimated at \$56.3 million.