



SYDNEY FERRIES

**(A DIVISION OF THE
STATE TRANSIT AUTHORITY OF
NEW SOUTH WALES)**

2003 SUBMISSION

TO THE

**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL**

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Executive Summary

This is a submission to the Independent Pricing and Regulatory Tribunal for its review of fares in 2003/4 for Sydney Ferries, one of three divisions in the State Transit Authority of New South Wales. Separate submissions have been provided to the Tribunal for the other divisions of State Transit, i.e Sydney Buses and Newcastle Services.

Sydney Ferries carries approximately 40,000 passenger trips per week day. It achieves a 99.5% reliability rate and 99% on-time running rate.

8,000 trips per day are provided free of charge (to school children) or subsidised for the elderly and other concession card holders.

In the last four years the ferry fleet has been upgraded through significant refurbishment of the Freshwater Class Ferries and the JetCats. Four new SuperCats have also been added to the fleet.

In previous years, the Tribunal has stated that a necessary component of the fare-setting regime is a guarantee of service. Sydney Ferries has responded to this by obtaining accreditation to ISO9002 and to the International Safety Management code. It will soon publish its Key Performance Indicators on the internet and has conducted a series of customer surveys. Later this year, it will publish a passenger service charter which will provide a framework for Sydney Ferries' "Guarantee of Service" in areas such as on-time running, vessel presentation, and customer safety and security.

As IPART is aware, a Ministerial Inquiry is being conducted into public transport funding and investment. Given this, State Transit seeks fare increases in line with CPI and asks that service improvements also be taken into account whilst longer term pricing paths are considered by the inquiry.

Apart from the introduction of a new upper Parramatta River ticket, there is no intention to introduce major change to the structure of fares for ferry services.

1 Introduction

Sydney Ferries is an important part of Sydney's public transport network. Ferry services provide public transport access for people living within reach of Sydney Harbour and Parramatta River, and are an important tourist attraction. Sydney Ferries makes a significant contribution to the Government's service delivery and urban planning objectives.

With costs increasing at a greater rate than revenue, the funding shortfall for Sydney Ferries has accumulated to very significant levels. To satisfy the requirements of an independent review commissioned by the Minister for Transport, Sydney Ferries redesigned its work practices and obtained accreditation to ISO 9002 Quality Management System and the International Safety Management (ISM) code. This resulted in a new cost structure for Sydney Ferries at a significantly higher level than in previous years.

Clearly, a balance is required between a reasonable increase in fares and an increase in the financial support from Government. Sydney Ferries relies upon the Tribunal to determine what that balance should be on the basis of affordability. The Tribunal's decision will determine how much of the cash needs of Sydney Ferries should be funded from passenger fares and how much from Government support.

It is considered that the modest increases proposed will not affect affordability and, thus, patronage.

2 Financial position

Costs

Sydney Ferries is a high cost operation, due not only to the unique characteristics of the harbour itself and the marine environment generally, but also the safety and other regulations that govern its operations.

The diverse environments in which ferries operate serving over 42 wharves on Sydney Harbour and on the Parramatta River predetermine a high cost structure by requiring an equally diverse vessel fleet. The fleet must address significant wave heights that come through the Heads; the sensitivities of the Parramatta river foreshores; the restriction in the height of bow waves to protect the harbour foreshores; speed to deliver fast services, and the manoeuvrability to cope with the restricted areas around Circular Quay, Manly Wharf and other wharves in the harbour and on the Parramatta River. The range of service conditions requires seven types (or "classes") of vessel in a total fleet of 32.

Using different classes of vessel for different areas means a higher level of spare craft than would be needed for a homogeneous fleet.

Costs that need to be incurred to ensure the safety of ferry operations include staffing levels imposed by regulation, regular docking programs required to keep vessels "in class", extensive staff training, regular maintenance regimes and major periodic maintenance.

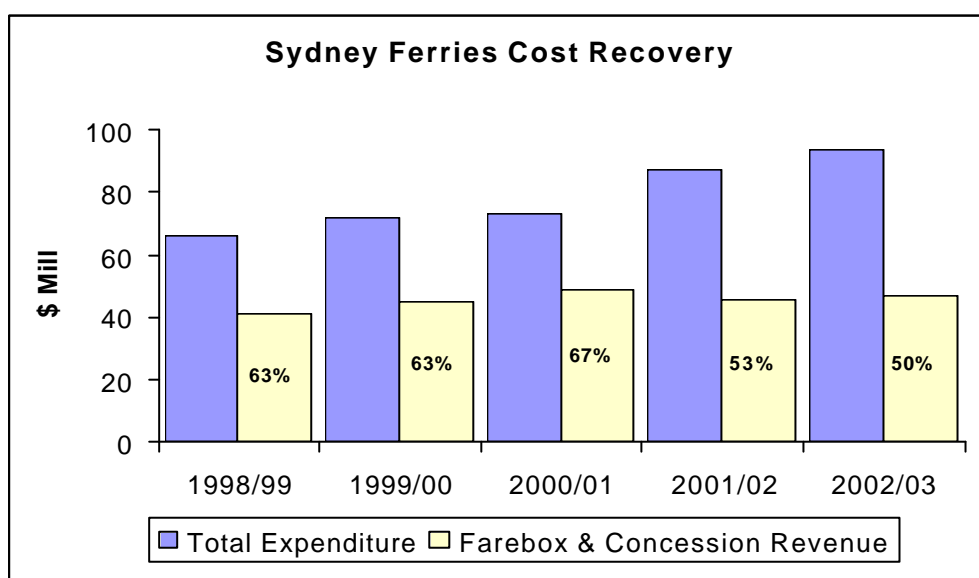
The operation of the Balmain Shipyard, a maintenance facility that incorporates a dry-dock,

and the maintenance costs associated with 9 of the 42 wharves used by the ferries, also contributes significantly to the costs of operations as does the cost of access to the private-sector operated Manly Wharf.

The review of operations that preceded the ISM and ISO 9002 accreditations highlighted the longer term consequences of sustained cost minimisation, a strategy that had been adopted partly because of the lack of an appropriate funding package for Sydney Ferries.

Revenue and rate of cost recovery

Over the last 5 years, Sydney Ferries patronage has increased from 13.1 million to 13.6 million, an average rate of approximately 1% per year. However, revenue growth has not kept pace with the increase in costs, and as a result cost recovery from farebox and concessional revenue has decreased from 63% in 1998/99 to 50% in 2002/03 (see graph below).



Note :

The improvement in cost recovery which occurred in 2000/01 was largely due to the once-off increase in revenue generated by the Olympic Games.

Sydney Ferries continues to pursue efficiencies in all aspects of its business, and to this end, a service review is to be undertaken in the second half of 2003 to better align resources with services that will maximise patronage and minimise losses. Implementation of the results of the review is planned for February 2004.

3 Fare setting framework

Acceptance of Sydney Ferries costs

It is difficult to determine best practice "efficient" costs for Sydney Ferries by traditional means because there are no comparable businesses for establishing benchmarks.

However, the review of Sydney Ferries work practices that preceded the safety management accreditations identified that more resources, not less, were required to achieve appropriate standards of safety and service quality and has, essentially, dictated the cost structure. Cost reductions are unlikely in the medium term.

Benefits not captured by Sydney Ferries

The financial performance of Sydney Ferries over the last decade demonstrates that it is a non-commercial operation. However, standard financial measures do not account for the many benefits that accrue to the community from the ferry services but cannot be captured by State Transit. From a triple bottom line perspective, Sydney Ferries provides several environmental and social benefits.

For example, ferry services contribute to a reduction in road traffic and improvement in air quality and urban amenity. Ferry services make a key contribution to the high quality of life in Sydney with associated health and social benefits.

Ferry services also improve amenity by providing access to leisure attractions such as Manly, Taronga Zoo, Darling Harbour, Rose Bay, Watsons Bay, and Parramatta for both Sydney residents and visitors. Catching a ferry is an integral component of a Sydney visitor's experience. Ferries provide a major tourist attraction for Sydney, the gateway to NSW. Benefits of a more material nature accrue to the NSW tourism industry, and harbourside land owners and businesses.

If the value of these benefits could be quantified and captured as income for Sydney Ferries, ferry services might well be viable. This is not possible, but is clearly substantial (overseas and domestic tourism is worth \$12.4 billion pa to Sydney) and for this reason a degree of financial support is justifiable.

4 The fares proposal - what we are seeking

State Transit notes that the Minister for Transport Services has commissioned an independent inquiry into public transport funding. The inquiry is considered to be the appropriate forum for an examination of the best balance between Government funding and farebox and on that basis, Sydney Ferries recommends an interim adjustment of CPI plus any increment that IPART considers appropriate to recognise the widening gap between cost and revenue.

For the information of the Tribunal, a 1% increase in fares will yield \$0.31 million pa in passenger revenue.

New Ticket

The proposed introduction of on-board ticketing on ferries (as recommended by the Tribunal) has required a new ticket, which allows for travel between Parramatta and Drummoyne. The price of the new ticket, called the 'Upper Parramatta River' ticket, is proposed to be tied to the Inner Harbour ticket. Costs of the on board ticketing project are estimated at \$0.5 million, revenue improvement is yet to be determined.

5 The fares proposal - impact on customers

The proposed fare increases should not adversely affect patronage due to the characteristics of the key customer markets. Ferry customer groups have been identified from surveys of 16,000 ferry users in May 2000 conducted for an internal Ferries Business Development Study. Also, the Transport Data Centre at Transport NSW is currently preparing a *Ferry Users in Sydney* paper, similar to the *Bus Users in Sydney* paper which will present ferry user characteristics from the Household Travel Survey and other sources such as Journey to Work data from the 2001 Census.

Key ferry customer markets include:

Commuters

Approximately 58% of weekday ferry trips are for work or education. As 60% of commuters walk to the ferry wharf, many ferry commuters live in high-value locations close to the water front. Planning NSW's *Sydney Harbour Discussion Paper* (1999 p. 8) shows the high value of properties in both the harbour foreshore postcodes and the total harbour catchment. This segment of the commuter market should be able to afford higher ferry fares, noting the generous discounts for FerryTen and TravelPass and the availability of concessions for seniors, pensioners and students. Commuters not wishing to pay higher fares generally have access to alternative public transport through the extensive bus network that exists between most points serviced by the ferries. Most wharves have access to bus services which provide connections to the rest of the public transport network.

Sydney leisure users

Approximately 25% of ferry trips are taken by Sydney residents for non-work purposes (including shopping, personal business and leisure/recreation). Non-work trips are infrequent, with only 28% made once a week or more often. The cost of non-work ferry trips by Sydney residents, whether they are high or low income earners, is likely to be a relatively small proportion of annual income and transport costs, as such trips are made infrequently and should be affordable. Leisure trips on charter and cruise services are considerably higher than those provided by Sydney Ferries.

Concession users

The application of the free and concessionary fares policy for students, pensioners, unemployed people and others ensures affordable access to ferry services for these groups. For instance, over a quarter of non-work trips (27%) are made using Pensioner Excursion Tickets. For most ferry routes there are bus services that provide access to the same destinations. Low income earners who may otherwise be disadvantaged by higher ferry fares have the option to travel at lower fares on bus and rail services.

Tourists and visitors

Approximately 25% of ferry users are non-Sydney residents half of whom are international visitors (13% of all ferry users). The ferry provides a very low cost tourist experience, and represents a very small percentage of the total cost of a holiday. Compared to the cost of harbour cruises provided by commercial operators, fares for Sydney Ferries' regular services offer extremely good value.

6 Performance measures

Key Performance Indicators (KPIs)

The table below shows Sydney Ferries customer-related KPIs and performance against these targets over the past four years. The table shows that Sydney Ferries has achieved :

- a consistently high level of reliability and on-time running.
- consistently high levels of passenger safety.
- Security incidents which increased during the Olympics period, with increased staff awareness and reporting, are returning to targeted levels.
- Personal injury incidents which increased in 2000/01 with significant Olympic passenger loadings, have again decreased but with room for significant improvements to meet targets set for this area.

Sydney Ferries Customer-related KPIs

KPI/ 2002-03 Target	1998/99	1999/00	2000/01	2001/02
Reliability				
On-time running (>99%)	99.4%	99.5%	99.4%	99.4%
Service reliability(>99%)	99.2%	99.3%	99.3%	99.3%
Mechanical reliability (>99.9%)	99.6%	99.6%	99.7%	99.8%
Safety (per million passenger trips) *				
Security Incidents (<0.4)	0.00	0.23	0.67	0.07
Personal Injury (<0.8)	0.46	1.28	2.15	1.82
Convenience				
Passenger revenue kilometers ('000)	1,298	1,333	1,338	1,378
Customer Service				
Complaints per 40,000 trips (<2)	1.52	1.78	2.04	1.68

* Sydney Ferries has a vessel incident rate of one incident per 6,898 ferry trips (0.014%) and a passenger incident rate (while on a ferry or a wharf) of one incident for every 191,303 passengers carried (0.0005%).

The majority of vessel incidents are minor impacts occurring when vessels are berthing or when they are operating in confined waters such as Circular Quay. The majority of passenger incidents are of a minor nature and require little or no first aid treatment.

Passenger incidents also include those outside Sydney Ferries' control such as when a passenger takes ill and it is estimated that one third of passenger incidents fall into this category.

Sydney Ferries has a cancellation rate (reliability) of less than 1.0% and a punctuality (on time running) rate exceeding 99% in each of the last four years. Apart from past problems with JetCat engines, all of which have now been replaced, most service cancellations occur due to adverse weather conditions rather than fleet or staff availability issues.

Customer satisfaction surveys are an important measure of service quality. New customer satisfaction surveys have been initiated to determine the most recent trends.

The Transport Data Centre is trialing customer satisfaction questions about all public transport modes in the Household Travel Survey. This will provide long-term data on customer satisfaction with key attributes of reliability, convenience and comfort.

Safety

Amongst many other reforms recommended by the independent operations review, Sydney Ferries improved its safety management regime to the point where it obtained in November 2002 accreditation to the standards required both by ISO 9001:2000 and the International Maritime Organisation's International Safety Management (ISM) code. This has required a significant commitment to additional safety management staff positions as well as an upgrade in the amount of safety training to all staff, including those engaged in operations, maintenance and administration.

In conjunction with its extensive emergency response procedures, Sydney Ferries has enhanced the safety of its passengers through CCTV cameras installed at all wharves, on-board monitoring of passenger safety, and through its participation with NSW Police in coordinated safety and security operations.

In addition to security measures Sydney Ferries has undergone a spring cleaning program of its fleet to ensure the highest standards of cleanliness. This combined with regular vessel maintenance, engine upgrades, and improved emissions control have made for a more comfortable trip for its passengers whilst on Sydney's majestic harbour.

7 Passenger charter and service quality

A passenger service charter is to be published for Sydney Ferries in the second half of 2003. It will provide a framework for Sydney Ferries' "guarantee of service" in areas such as on-time running, vessel presentation, and customer safety and security.

The strength of Sydney Ferries' processes for managing the delivery of customer service has now been recognised by independent auditors through certification of Sydney Ferries as a "quality endorsed" organisation in accordance with the requirements of the international standard, ISO 9001:2000 (incorporating the International Safety Management (ISM) Code). The certification is for three years from 2002, subject to verification of continuous improvement through six-monthly audits.

The need to demonstrate ongoing ISO 9001:2000 compliance will ensure a high level of customer service, for both internal and external customers, is delivered in a reliable and consistent manner. Additionally, the inclusion of the ISM code as part of the Sydney Ferries' Integrated Quality, Safety and Environmental System ensures the special risks of operating a public transport service in a marine environment are recognised.

IMPLEMENTATION OF 2002/03 FARES DETERMINATION

Under section 18(4) of the Independent Pricing and Regulatory Tribunal Act, State Transit is required, where there has been a determination by the Independent Pricing and Regulatory Tribunal, to include in its Annual Report particulars of how any such determination has been implemented.

A change in State Transit's fare scale, in accordance with the determination of the Independent Pricing & Regulatory Tribunal made on 24 June 2002, was made by order published in Government Gazette No 106 of 26 June 2002 effective 1 July 2002.

The following table summarises the determination made by the Independent Pricing and Regulatory Tribunal and the fare changes implemented by State Transit.

TICKET	The Tribunal Determination	Implementation
Single ride bus and ferry tickets	Adult single journey bus fares will increase by up to 3.03%. Adult single journey ferry fares will increase by 10 cents per journey.	The adult bus fares for 6-9, 10-15 and 16+ sections increased by 10 cents per journey. The adult bus fares for 1-2 and 3-5 sections remained unchanged. All adult single ferry fares increased by 10 cents per journey. All changes to the single journey bus & ferry fares were within the Tribunal's guidelines.
TravelTens and FerryTens	The price of the adult TravelTen tickets will increase by between 30cents and 80 cents. The price of the JetCat Ferryten will increase by \$1.10 per ticket. The price of other FerryTen tickets will increase by between 20 cents and 50 cents.	All changes to TravelTen and FerryTen fares were within the Tribunal's guidelines.
TravelPasses	The price of the Purple TravelPass will decrease by \$6 to \$52. The price of other TravelPasses will increase by \$1 per ticket.	All changes to TravelPass fares were within the Tribunal's guidelines.
BusTripper	The price of the adult BusTripper ticket will increase to \$9.70.	The price of the adult BusTripper ticket increased to \$9.70.
DayTripper	The price of the adult DayTripper will increase to \$13.40.	The price of the DayTripper increased to \$13.40.
Time-based tickets - Newcastle	The prices of the adult Four hour and Daily tickets will increase by 10 cents and 20 cents respectively. The price of the adult TimeTen ticket will increase by 40 cents. The prices of the adult one hour bus and the Stockton ferry single ride tickets will remain unchanged.	All changes to bus and ferry fares in Newcastle were within the Tribunal's guidelines.
School Term Pass	The price of the School Term Pass will increase by \$1 to \$38.	The price of the School Term Pass increased to \$38.