IPART Independent Pricing and Regulatory Tribunal | NSW

Review of maximum fares for private ferry services for 2022 to 2025

Final Report

December 2021

Transport »

Tribunal Members

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The Independent Pricing and Regulatory Tribunal (IPART)

Further information on IPART can be obtained from IPART's website.

Acknowledgment of Country

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders, past, present and emerging.

We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Contents

1 Final decisions and recommendations

Seven private ferry operators in Sydney, the Central Coast, and far northern NSW provide regular passenger ferry services under contract with Transport for NSW (TfNSW). TfNSW sets the maximum fares for routes offered by the private operators based on an IPART determination under the *Passenger Transport Act 2014*. Operators may charge less than the maximum fare.

The private ferries are not part of the Opal public transport network. The operators are typically small to medium sized businesses, with some being family-operated. Some operators offer charter and tour services as well as regular passenger services. Fares and prices for charter and tour services are not regulated.

A large proportion of passengers using private ferries travel on concession fares or school student passes. The NSW Government pays 5 out of the 7 operators subsidies for their concession and student passengers and some operators get additional "viability payments". The other 2 operators are on net cost contracts where they receive payments from the government which are not directly related to the types of passengers they carry. The total subsidy from the government to operators is about $4 million per year, while total fare revenue is just over $4 million per year.

In September 2021 we released a Draft Report with draft decisions and recommendations on fares and viability payments. We received written submissions on the Draft Report and held a public hearing. We considered all the views expressed in submissions and at the public hearing. We also updated some of the inputs to our fare model, including actual inflation to September 2021 (instead of a forecast). This Final Report sets out our final decisions and recommendations and explains how we made them.

1.1 Maximum fares for 7 private ferry operators

Table 1.1 Final decisions for maximum fares 2022 to 2025 ($nominal, inc GST)

Operator	2022	2023	2024	2025
Brooklyn Ferry Service	9.30	Increase in line with ΔCPI_t		
Captain Cook Cruises	8.70	9.60	10.70	11.90
Central Coast Ferries	8.50	Increase in line with ΔCPI_t		
Church Point Ferry Service	10.00	Increase in line with ΔCPI_t		
Clarence River Ferries	9.80	Increase in line with ΔCPI_t		
Cronulla and National Park Ferry Service	7.60	Increase in line with ΔCPI_t		
Palm Beach Ferries – Mackerel Beach and the Basin	9.10	9.30	9.50	9.70

Note: All fares are rounded to 10c.

Our final decision on 2022 fares is higher than the draft decision for Brooklyn, Church Point, Clarence River Ferries, and Cronulla and National Park Ferries. This is due to a higher CPI to September 2021 than forecast at the time of the Draft Report, and some changes in response to submissions from Cronulla and National Park Ferry Service.

We have also decided to switch from setting fares for 2023-2025 in nominal terms based on forecast CPI of 2.5% p.a., to setting fares in real terms and calculating the increase due to inflation each year. This is due to increased uncertainty around inflation forecasts. It also is the same as the approach we took for the current determination period.

We explain how we reached our final decisions and why these differ from the Draft Report in more detail in Chapter 9.

In making our final decisions on fares we considered the impact on passengers, operators and taxpayers

1.2 Final recommendations for viability payments

The Government pays 3 of the operators (Central Coast Ferries, Church Point Ferry Service and Cronulla and National Park Ferry Service) an annual "viability payment" subsidy based on an assessment in 2010 that those operators would not be viable without it. The 2 operators on net cost contracts (Brooklyn, Captain Cook) also receive "implied" viability payments, as their contract payments exceed what they would have been paid for concession, pensioner and student travel had the contracts not been net cost contracts. Palm Beach and Clarence receive no additional viability payments.

IPART usually sets private ferry fares taking the viability payments as a given. However, this year our terms of reference asked us to consider the viability payments as well. Our final recommendations for these are below, and we discuss them in more detail in Chapter 9, and the chapters for the relevant operators (Chapters 4, 5 and 7).

These recommendations are the same as the recommendations in our Draft Report.

1.3 Additional recommendation on contracting arrangements

We identified some issues during the review that cannot be addressed through fares alone, including:

- transition of the ferry fleet to zero or lower emissions technology
- viability of some operators
- inclusion of private ferries in the Opal network.

In our view, competitive tendering would ensure that the most efficient operators operate private ferry services – and in areas where there is not sufficient population density to support competition in the market, TfNSW should encourage operators to compete for the government subsidy to provide ferry services. Competitive tendering would ensure ferry operators can recover their efficient costs, ferry fleets are renewed in a timely fashion with efficient low emissions vessels, and there is value for money for local communities and the NSW taxpayer.

We discuss these issues and our recommendation further in section 9.7.3

1.4 Final decision on a fuel cost adjustment mechanism

Our fare determinations in the past have included a "fuel cost adjustment mechanism" to adjust fares if the price of fuel for operators goes up or down by a significant amount during a year. This mechanism helps operators manage the risk of a large change in price of one of their major input costs. However, the fuel adjustment mechanism was not triggered during the current 4-year determination period.

For this determination, we have modified the adjustment mechanism. We decided to reduce the threshold for the fuel cost adjustment mechanism to a percentage change in the diesel price exceeding ±10% in a single year; and to apply the whole percentage change in the diesel price to the adjustment (rather than to the percentage change exceeding the threshold as currently). That is, if the threshold 10% price change is triggered, the maximum fare would increase or decrease by multiplying the percentage change in the diesel price by the proportion of an operator's total costs that fuel accounts for. See section 9.5 for more detail.

This decision is the same as in our Draft Report.

Decisions

1. That the maximum adult fares for private ferry services be set as in Table 1.1

2. If the average fuel price changes by more than 10% in absolute terms in a year, the maximum fare for the following year would be adjusted by the amount calculated as follows:

$$\Delta Max\ Fare_{t+1,i} = \%\ of\ fuel\ cost_i * \Delta Fuel\ price_t + 1$$

Where:

- $\Delta Max\ Fare_{t+1,i}$ is the percentage change to be applied to the maximum fare for a ferry operator *i* in year t
- $\%\ of\ fuel\ cost_i$ is the proportion of fuel in the total operating cost for a ferry operator *i*
- $\Delta Fuel\ price_t$ is the percentage change between the average fuel price in year t and the average fuel price in year t-1

Recommendations

1. That the viability payments for Central Coast Ferries and Church Point Ferry Service continue at their current levels in real terms.

2. That the viability payment for Cronulla and National Park Ferry Service be phased out over the 4 years to 2025.

3. That, on completion of existing contracts or through negotiation with operators who have exclusive rights of renewal, Transport for NSW procure private ferry contracts through a competitive tender process.

2 Brooklyn Ferry Service

Brooklyn Ferry Service has operated the route between Brooklyn and Dangar Island under a net cost contract with TfNSW since August 2020. Under this contract, the operator retains the fare revenue and receives the balance of the gross contract payment (i.e. the net cost) from TfNSW.

Brooklyn Ferry Service no longer receives payments from TfNSW for concession, Pensioner Excursion Ticket (PET) and School Student Transport Scheme (SSTS) passengers, although passengers are still able to use these passes on the ferry.

Previously Brooklyn Ferry Service operated under a contract like the other private ferry services covered by our review, and received payments for concession, PET and SSTS tickets. They also received a viability payment.

Over 55% of passengers travelling on the Brooklyn Ferry Service do so on concession, pensioner or school student passes

We asked TfNSW to propose a fare for Brooklyn Ferry Service as TfNSW bears the fare revenue risk under the net cost contract. TfNSW advised that they prefer the fares for these services to be set in line with efficient costs.

We engaged Indec Pty Ltd to estimate the efficient costs of providing private ferry services. Indec found that Brooklyn Ferry Service's labour costs were well below the benchmark, but that all its other operating costs were above the benchmark. In total, Indec considered the operating costs for Brooklyn Ferry Service to be efficient.

We modelled the payments Brooklyn Ferry Service would have received for concession, PET and SSTS tickets if it was still on the older-style contract with TfNSW. We estimate that Brooklyn Ferry Service receives an additional implied viability payment of around $125,000 above the payments it would have received for concession, PET and SSTS tickets.

We have decided to set the adult single maximum fare for Brooklyn Ferry Service at $9.30 for 2022 (based on the current fare plus an increase for inflation to September 2021), and increase the fare in line with inflation as measured each year from 2023 to 2025, subject to the fuel cost adjustment mechanism.

Table 2.1 Final decision on fares - Brooklyn Ferry Service ($nominal, inc GST)

Current maximum fare	2022	2023	2024	2025	Annual increase
9.00	9.30	Increase in line with ΔCPI_t			CPI

Our final decision for Brooklyn's 2022 fare is 10 cents higher than the draft decision, due to a higher actual CPI incorporated in the final calculation compared to the forecast CPI in the draft decision. We have also decided to use actual CPI for each of the 2023, 2024 and 2025 fares, rather than setting future fares now in nominal terms, by using CPI forecasts.

3 Captain Cook Cruises – Lane Cove Route

Captain Cook Cruises has operated the route between Circular Quay and Lane Cove under a net cost contract with TfNSW since July 2019. The operator retains the fare revenue and receives the balance of the gross contract payment (i.e. the net cost) from TfNSW. The route has recently been opened for tender for future operation.

Captain Cook Cruises no longer receives payments from TfNSW for concession or SSTS passengers, although passengers are still able to use these passes on the ferry.

Previously the route was operated under a contract like the other private ferry services covered by our review, and the operator received payments for concession and SSTS tickets. Captain Cook Cruises did not receive a viability payment.

Over 68% of passengers travelling on the Lane Cove ferry do so on school student passes[a]

We asked TfNSW to propose a fare for the Lane Cove route as they bear the fare revenue risk under the net cost contract. TfNSW advised that they prefer the fares for these services to be set in line with efficient costs.

We requested, but did not receive, patronage and cost forecasts from the operator. In the absence of this information, Indec Pty Ltd extrapolated benchmarks to estimate efficient costs for the operator.

Our modelling found that with the estimate of efficient costs and current fares, the operator receives a very large implied subsidy, far in excess of what they would have received as reimbursement for concession and school student passengers on an older-style contract.

To balance the cost of the service more appropriately between taxpayers and passengers, we recommend increasing fares for Captain Cook Cruises Lane Cove route by 11.1% per annum from 2023 to 2025 (subject to the fuel cost adjustment mechanism).

Table 3.1 Final decision for fares – Captain Cook Cruises – Lane Cove Route ($nominal, inc GST)

Current maximum fare	2022	2023	2024	2025	Average annual increase
7.80	8.70	9.60	10.70	11.90	11.1%

This is the same as our draft decision for Captain Cook cruises.

[a] The proportion of passengers travelling on school student passes increased to 81% in 2020.

4 Central Coast Ferries

Central Coast Ferries operate a route between Woy Woy and Empire Bay, with stops at Davistown and Saratoga.

Over 81% of passengers travelling on the Central Coast Ferries do so on concession tickets

Central Coast Ferries proposed an annual fare increase of 10%. We consider this too large an increase for passengers and taxpayers (in the form of concession and school student payments) to pay.

As we did not receive cost information from Central Coast Ferries, Indec extrapolated benchmarks to estimate efficient costs for the operator. Using these estimates, our modelling found that a very large increase in fares and/or the viability payment from TfNSW would be required to meet estimated efficient costs. For this reason, we have not recommended removing the current viability payment.

However, we found no evidence that a larger subsidy is required, as there are other public transport options available in the area. For example, TfNSW buses operate between the same destinations (Empire Bay and Woy Woy) with similar frequency and journey time as the ferry, making it hard to justify an increase in viability payments or a large increase in fares.

We recommend increasing fares for Central Coast Ferries annually in line with inflation and that fares be subject to the fuel cost adjustment mechanism in 2023 to 2025. We recommend maintaining the current viability payment (in $2021).

Table 4.1 Final decision on fares and recommendation on viability payment - Central Coast Ferries

	Current	2022	2023	2024	2025	Average annual increase
Recommended fare ($nominal, inc GST)	8.30	8.50	Increase in line with ΔCPI_t			CPI
Viability payment ($2021, ex GST)	70,437	70,437	70,437	70,437	70,437	

These are the same as our draft decisions for Central Coast Ferries, except we will use actual CPI for each of the 2023, 2024 and 2025 fares, rather than setting future fares now in nominal terms, by using CPI forecasts.

5 Church Point Ferry Service

Church Point Ferry Service runs between Scotland Island and the western foreshore of Pittwater.

Around two-thirds of passengers travelling on the Church Point Ferry Service do so on concession, pensioner, or school student passes

Church Point Ferry Service proposed fares in line with CPI. We accepted their fare proposal.

We engaged Indec to estimate the efficient costs of providing private ferry services over the period 2022-2025. Indec found that Church Point Ferry Service was operating efficiently at the aggregate level. Church Point Ferry Service operates 2 ferries (one exclusively for the morning and afternoon school runs) and has a third back up vessel.

Our modelling found that the proposed fare increases and the current viability payment are sufficient to recover efficient costs.

In recommending fares for Church Point Ferry Service, we have considered:

- The operator's costs were found to be efficient
- There is no alternative public transport for passengers
- The existing moderate subsidy from government in the form of a viability payment provides an appropriate balance of costs between taxpayers and passengers.

We recommend increasing fares for Church Point Ferry Service annually in line with inflation and that fares be subject to the fuel cost adjustment mechanism in 2023 to 2025. We recommend maintaining the current viability payment ($2021).

Table 5.1 Final decision for fares and viability payment – Church Point Ferry Service

	Current	2022	2023	2024	2025	Average annual increase
Recommended fare (nominal $, inc GST)	9.70	10.00	Increase in line with ΔCPI_t			CPI
Viability payment ($2021, ex GST)	95,359	95,359	95,359	95,359	95,359	

Our final decision for Church Point's 2022 fare is 10 cents higher than the draft decision, due to a higher actual CPI incorporated in the final calculation compared to the forecast CPI in the draft decision. We have also decided to use actual CPI for each of the 2023, 2024 and 2025 fares, rather than setting future fares now in nominal terms, by using CPI forecasts.

6 Clarence River Ferries

Clarence River Ferries run between Yamba and Iluka on the Clarence River in Northern NSW.

Just over 50% of passengers travelling on Clarence River Ferries pay the concession fare

Clarence River Ferries did not submit a fare proposal or respond to our information request. In the absence of the operator's cost forecasts, Indec extrapolated benchmarks to estimate the efficient costs for the operator.

Based on Indec's efficient cost estimates, our modelling found that fares would need to increase by more than 20% per annum to ensure there was no shortfall between revenue and efficient costs. This is not an appropriate increase for passengers to pay. We also do not know how the estimate of efficient costs compares to the operator's actual costs. Indec's estimates of efficient costs may not be a good benchmark for Clarence River Ferries which also operates weekly scenic river and live music cruises and private charters.

In recommending fares for Clarence River Ferries, we have considered what increase in fares is reasonable for passengers to pay in the absence of a fare proposal or the operator's cost forecasts

We are setting fare increases for Clarence River Ferries in line with inflation and subject to the fuel cost adjustment mechanism in 2023 to 2025. Clarence River Ferries does not currently receive a viability payment, and we are not recommending one.

Table 6.1 Final decision for fares – Clarence River Ferries ($nominal, inc GST)

Current maximum fare	2022	2023	2024	2025	Average annual increase
9.50	9.80	Increase in line with ΔCPI_t			CPI

Our final decision for Clarence River Ferries 2022 fare is 10 cents higher than the draft decision, due to a higher actual CPI incorporated in the final calculation compared to the forecast CPI in the draft decision. We have also decided to use actual CPI for each of the 2023, 2024 and 2025 fares, rather than setting future fares now in nominal terms, by using CPI forecasts.

7 Cronulla and National Park Ferry Service

Cronulla and National Park Ferry Service runs between Cronulla and Bundeena.

Cronulla Ferry Service proposed an annual fare increase of around 5% per annum over the 4-year determination.

Indec's efficient cost review and our modelling found that Cronulla Ferry Service's proposed fare was much higher than the efficient cost-reflective fare.

Cronulla Ferry Service made a submission challenging some of Indec's efficient cost estimates. We asked Indec to review Cronulla's submission and Indec made two adjustments:

- A higher operating cost allowance as a result of longer service hours
- An additional cost allowance for providing replacement bus services when the ferry cannot run due to bad weather (Cronulla Ferry Service is the only service required to do this).

We also reviewed our pricing model and adjusted Cronulla Ferry Service's capital allowance to include 100% of a second vessel (as we allowed for Cronulla Ferry Service in our last review in 2017, based on its requirement to run two vessels at once in peak hour). We also modelled a scenario that used Cronulla Ferry Service's own cost information (not Indec's efficient benchmarks).

Even with these adjustments, Cronulla Ferry Service's proposed fare exceeds the efficient cost-reflective fare, and, if operating efficiently, should not need an additional viability payment.

Our final decision is to set fare increases in line with inflation and subject to the fuel cost adjustment mechanism in 2023 to 2025.

To allow the operator time to achieve greater operating efficiency, we recommend that the current viability payment be reduced incrementally over the 4-year determination and be reduced to zero by 2026. We note that there may be impediments to achieving greater efficiency in the short term, including the impacts of COVID on business, timeframes for vessel procurement. Cronulla Ferry Service stated at the public hearing[1] that they had difficulty obtaining a loan based on the contract terms. TfNSW may take these circumstances into account when negotiating the phase-out of the viability payment.

Table 7.1 Final decision on fares and recommendation on viability payment – Cronulla and National Park Ferry Service

	Current	2022	2023	2024	2025	Average annual increase
Recommended fare (nominal $, inc GST)	7.40	7.60	Increase in line with ΔCPI_t			0.0%
Viability payment ($2021, ex GST)	74,501	74,501	55,876	37,251	18,625	

This is different from our draft decision, where we recommended that Cronulla Ferry Service's fares be frozen in nominal terms for the 4 years of the determination.

8 Palm Beach Ferries

Palm Beach Ferries operates 2 routes: Palm Beach to Ettalong via Wagstaffe and Palm Beach to Mackerel Beach with stops at Bennets, Bonnie Doon, the Basin and Currawong Beach. IPART can only determine the fares for the Palm Beach to Mackerel Beach route, as the Palm Beach to Ettalong service is not provided under a contract with TfNSW. In determining fares for the Mackerel Beach route, we have considered the fares for Palm Beach to Ettalong. Both routes are relevant to our consideration of the efficient costs of providing the Mackerel Beach route.

55% of passengers travelling on the Palm Beach to Mackerel route pay the adult fare

Palm Beach Ferries proposed annual fare increases of 2.8% and 3.1% for the Mackerel Beach and Ettalong routes respectively.

We engaged Indec Pty Ltd to estimate the efficient costs of providing private ferry services over the period 2022-2025. Indec considered that the operating costs for both routes were reasonably efficient, and our modelling found that taken together, the proposed fare for each route would recover the efficient costs of operating each service. Palm Beach Ferries do not receive a viability payment, and at the proposed fares, do not require one.

In determining fares for Palm Beach Ferries, we have considered:

- The operator's costs were found to be efficient
- The proposed fares should provide enough revenue to cover efficient costs
- The proposed fares do not have an excessive impact on passengers

Our final determination is to increase maximum fares for Palm Beach Ferries Mackerel Beach route annually by 2.8%, subject to the fuel cost adjustment mechanism in 2023 to 2025. If fares for the Palm Beach to Ettalong route increase annually by 3.1% and are also subject to the fuel cost adjustment mechanism in 2023 to 2025, the operator will be able to meet the efficient costs of both services. We consider these increases are reasonable.

Table 8.1 Final decision for fares – Palm Beach Ferries – Mackerel Beach ($nominal, inc GST)

Current maximum fare	2022	2023	2024	2025	Average annual increase
8.70	9.10	9.30	9.50	9.70	2.8%

These are the same fares as in our draft decision.

9 How we made our final decisions

Private ferry operators receive revenue for passenger services from fares and from government subsidies, including viability payments to 3 of the operators. Our fare decisions and viability payment recommendations considered the balance between passengers and taxpayers.

We developed our final decisions and recommendations by:

- inviting each ferry operator to submit their proposed fares and forecast costs and patronage for the 4-year period of the determination
- modelling each operator's "efficient revenue requirement" for the next 4 years based on estimated efficient operating and capital costs
- modelling revenue based on the operators' proposed fares, our forecast patronage, and forecast Government payments for concession, Pensioner Excursion Ticket (PET)[b] and School Student Transport Scheme (SSTS) passengers
- comparing the scenario modelled using proposed fares with other scenarios that match the efficient revenue requirement with estimated revenue, either by changing fares, including a "viability payment" subsidy from the Government, or both
- considering submissions to our Issues Paper, which discussed costs, service levels, external benefits of private ferry services and impacts on passengers
- making draft decisions and recommendations on which combination of fares and viability payments (if required) is an appropriate sharing of costs between passengers and taxpayers, considering impacts on passengers of changes to fares, any external benefits or other rationale for viability payments
- considering submissions on our Draft Report, issues raised at a public hearing, and updating inputs to our modelling
- finalising our decisions and recommendations.

We have also considered:

- a risk adjustment mechanism for fares if fuel costs change significantly during the determination period
- the potential impact of COVID-19 on future patronage and therefore revenue, outside the fare-setting calculation.

The sections below explain each of these steps in more detail.

[b] The $2.50 PET was replaced by the Gold Opal for pensioners and seniors. As Opal is not available on the private ferries, operators are no longer able to offer PET tickets. However, TfNSW has identified certain geographical areas where the contracted private ferry service is the only public transport mode available. For these areas, local pensioners can travel for free and TfNSW reimburses the operator the full fare.

9.1 Operators proposed fares and forecast their costs and patronage

In March 2021 we invited each ferry operator to propose fares for each year of the review period. We also asked the operators for their forecast operating and capital costs and forecast patronage to support their proposals. We received fare proposals from 4 operators, as shown in Table 9.1.

Brooklyn Ferry Service and Captain Cook Cruises (Lane Cove route) operate under a net contract with Transport for NSW (TfNSW), which means they receive a monthly contract payment net of fare revenue. We therefore requested fare proposals from TfNSW (which bears the fare revenue risk for these 2 services). TfNSW advised that they prefer the fares for these services to be set in line with efficient costs. Clarence River Ferries did not submit a fare proposal.

Table 9.1 Ferry operators' fare proposals for 2022 to 2025 ($nominal, inc GST)

Operator	Current maximum fare	2022	2023	2024	2025	Average annual increase
Brooklyn Ferry Service	9.00				Did not propose fares	
Captain Cook Cruises	7.80				Did not propose fares	
Central Coast Ferries	8.30	9.10	10.00	11.00	12.10	10%
Church Point Ferry Service	9.70	9.90	10.10	10.30	10.50	2%
Clarence River Ferries	9.50				Did not propose fares	
Cronulla and National Park Ferry Service	7.40	7.80	8.20	8.60	9.00	5%
Palm Beach Ferries – Ettalong and Wagstaffe[a]	12.50	13.20	13.50	13.80	14.10	3%
Palm Beach Ferries – Mackerel Beach and the Basin	8.70	9.10	9.30	9.50	9.70	3%

a. IPART can't determine the fares for the Ettalong route, but Palm Beach Ferries proposed fares for that route
Note; we requested the proposed fares in $2021, but operators proposed fares in nominal terms.

Source: Current private ferry fares and fare proposals from operators.

We received cost forecasts from Church Point Ferry Service, Cronulla and National Park Ferry Service and Palm Beach Ferries, and current year costs from Brooklyn Ferry Service. Only Church Point Ferry Service and Palm Beach Ferries provided patronage forecasts. We have not published this information as it is commercial-in-confidence.

9.2 We estimated the efficient costs of ferry services

We engaged Indec Pty Ltd to estimate the efficient costs of providing private ferry services over the period 2022-2025. We published their draft report at the same time as our Draft Report. They considered submissions and public hearing comments, and updated some sections of the report in response. Their final report is on our website.

9.2.1 Indec estimated efficient operating costs for each operator

Indec assessed operators' forecast costs (where provided), across operators and against benchmarks from previous reviews of efficient costs undertaken by Indec for IPART's fare reviews from 2014 to 2017 and by The Centre for International Economics (The CIE) for the 2018-21 fare review. Indec also used a bottom-up cost build-up for both crewing labour and fuel consumption. Further details of their approach are outlined in Indec's final report.

Of the operators that provided operating cost information, Indec assessed all to be reasonably efficient except Cronulla Ferry Service.

Due to the commercially sensitive nature of the cost information provided by operators, this detail is not published.. We provided information papers to each operator with Indec's analysis and comparison of actual costs (where provided) to benchmark efficient costs, and further details on the inputs used in our modelling.

9.2.2 We calculated an efficient capital cost annuity for each operator

For this review we have treated capital expenditure as an annuity, akin to operators leasing their ferries, as Brooklyn Ferry Service does currently. Efficient capital expenditure is estimated as the whole-of-life cost, including maintenance costs, of an 'equivalent' service provider delivering the contracted services. The cost is converted to an annuity payment for each year of the review period. Box 9.1 shows the assumptions we have used to calculate the annuity for each operator.

As all vessel purchase and renewal maintenance costs are captured within the annuity payment, this approach will also address past issues associated with major capital expenditures not always falling within the review cycle. The adoption of an annuity payment will provide greater certainty by smoothing current and future fare determinations.

We acknowledge that most operators own their own vessels and will not actually be leasing a ferry. In these cases, the annuity provides a capital allocation that could be used to service a loan to acquire a new vessel, as well as maintain the vessel.

Cronulla and National Park Ferry Service stated at the public hearing[2] that they had difficulty obtaining a loan based on the contract terms. They also submitted that "the capital allowance does not support the custom build required for the operating conditions" and that the NSW government's support for electrification of transport systems and emissions targets means that "purchasing a new diesel vessel could be considered obsolete prior to the efficient life cycle. Consideration of an electric ferry comes with additional large capital outlays in infrastructure costs."[3] We asked Indec to further investigate the efficient costs of electric ferries and we discuss this issue further in section 9.7.2.

However, in the absence of existing regulatory or contract requirements to purchase an electric vessel, we have continued to use a capital allowance based on a Modern Equivalent Function vessel as proposed by Indec.

Box 9.1 Assumptions used in calculating the capital annuity

Capital allowances for vessel replacement will generally be considered appropriate when the existing vessel/s reached or exceed a pre-defined life expectancy.

Life expectancy assumptions used in the review are:

- fast ferry – 15 years (only applies to the Palm Beach – Ettalong route)
- slow ferry – 25 years.

The useful economic life for other asset classes has been assessed as:

- engine rebuilds occur at 10,000 hours
- engine replacements occur at 20,000 hours
- general refurbishments occur every 3 years

Source: Indec, *IPART Review of Private Ferries – Draft Report*, September 2021, p 21.

For the Draft Report, we estimated the annual annuity to lease a new ferry and 50% of the cost leasing of a backup ferry for all operators. For our Final Report, we estimated the annuity for Cronulla Ferry Service based on two new ferries, to maintain consistency with our 2017 review approach.

9.3 We modelled fare and subsidy options

The model we developed uses information about costs, forecast inflation, and the Weighted Average Cost of Capital (WACC) to calculate the "required revenue" for each ferry operator. The model uses information about Government subsidies and forecast patronage to divide the required revenue (less any Government subsidies) between the number of passengers forecast to use the service. This calculates the fare each passenger should pay. The model also calculates how much revenue each operator's proposed fare would generate.

We can change the inputs to model different assumptions (e.g. what patronage levels might look like given the impacts of COVID-19), or to compare the effect of different levels of subsidy on fares.

We modelled different scenarios to compare combinations of fares and subsidy payments that allowed operators to recover the efficient costs of their services.

Where our modelling showed that fares proposed by the operators would not achieve the required revenue, we considered the appropriate balance between passengers and taxpayers to meet any difference.

The sections below set out the process in more detail.

9.3.1 Model inputs, scenarios, and outputs

Model inputs

For all operators we used

- Indec's estimate of **efficient operating costs**, Of the operators that provided operating cost data, all were found to be reasonably efficient except Cronulla Ferries.
- The **capital annuity** associated with operating a new ferry, as this equates to efficient capital expenditure. Continuing to use ferries well past their economic life is not efficient as costs of maintenance increase and quality of the service for passengers decreases. For each operator (except Cronulla) we have included an annual annuity equivalent to leasing a new ferry and 50% of the cost of leasing a backup ferry. Cronulla's annual annuity includes two new ferries, consistent with our approach in 2018-2021.
- **Inflation** to September 2021 of 3%. (This is higher than the Draft Report forecast of 2.5%).
- A pre-tax **WACC** of 4.7% to calculate the annuity, and as the discount rate for present value. (This is lower than the Draft Report WACC of 4.9%). For more information on IPART's WACC methodology and calculations see our Market Update for October 2021.
- Forecast **patronage** based on pre COVID-19 patronage levels.

Patronage forecasts are important in our fare-setting process. In general, higher patronage forecasts means lower growth in fares as the total revenue required to be met by fares is divided among more passengers. Higher patronage by concession passengers and more students eligible for SSTS passes also mean higher government payments.

In our previous annual private ferry reviews, we forecast patronage using an average of the past 3 years, updating it each year. In 2017 we again took an average of the previous 3 years and held it constant for the determination period 2018 to 2021. We have used a similar approach this time, however using patronage data for the 3 years prior the COVID-19 pandemic (2017 to 2019).

As noted in our Information Paper, in 2020 the impact of COVID-19 presented new challenges for each operator, affecting both levels of patronage for their ferry services and the profitability of charter and tour services. In addition to a reduction in tourists and overall passenger numbers, social distancing requirements have impacted the maximum capacity of ferries. Increased cleaning practices in line with government recommendations have also added costs. In 2021, the pandemic continues to add a level of unpredictability for all operators.

COVID-19 has made the task of forecasting patronage extremely uncertain. We sought patronage forecasts as part of our information request to operators – however only Church Point Ferry Service and Palm Beach Ferries provided their estimates. These operators both forecast that passenger numbers would not return to pre COVID-19 levels until at least 2023 or 2024.

To ensure stable fares and minimise the impact on passengers, we decided to use a consistent forecast based on pre COVID-19 patronage levels and consider the extent of the risk of lower patronage outside the fare-setting process. We discuss this in further detail at Section 9.6.

Model scenarios

We used the inputs set out above and modelled the following scenarios:

1. Starting with the proposed fare for each operator (or current fare adjusted for inflation when none has been proposed), we calculated the fare revenue and any funding gap between that fare revenue and the efficient revenue requirement. We compared the viability payment required to close this gap with the current viability payment (if relevant).
2. We calculated the fare required to ensure there is no funding gap with the current viability payment (or no viability payment as applicable).
3. If neither of these scenarios produced a combination of fares and subsidies that we considered reasonable while also allowing the operators' efficient costs to be met, we considered the circumstances of that operator in deciding the level of fares and subsidies to recommend.

We also modelled a scenario using 2020 patronage and holding all other inputs the same, to estimate the impact on revenue of lower patronage during 2022-2025 due to COVID-19.

Model outputs – fares

For our Draft Report, we modelled fares in nominal terms for the relevant years by incorporating forecast CPI of 2.5% per annum. We decided to present the fares in nominal terms (rather than a formula to be updated annually) to provide greater certainty to operators and passengers.

However, the impact of COVID-19 on inflation and the uncertainty of forecasting led us to reconsider this approach and revert to our previous approach, where we calculated inflation annually and applied it to fares.

Fares are rounded to the nearest 10c.

9.4 Factors we considered in comparing fare and subsidy options

In our 2017 and previous reviews we accepted the viability payment that several operators receive as a given and included it in our modelling of cost reflective (i.e. efficient) fares as a fixed revenue input. As our terms of reference for this review require us to consider viability payments, we have taken a slightly different approach.

As discussed in the sections below, we considered:

- the subsidies private ferry services currently receive and the impact on taxpayers
- external benefits generated by private ferries
- the impact on passengers of different levels of fares
- feedback from submissions
- the impact on operators.

9.4.1 Current subsidies for private ferries

Public transport is heavily subsidised – cost recovery for Sydney Ferries in 2017-18 was 34.8% compared to overall Opal network cost recovery of 24.6%.[4] COVID-19 impacts on public transport patronage have driven that level even lower.

Private ferries are not part of the public transport network. However, in some regards they are treated like public transport rather than purely commercial operators. They receive subsidies for concession passengers and, where applicable, SSTS and PET passengers, and currently 5 of the 7 operators receive viability payments or net cost payments from TfNSW. Box 9.2 explains in more detail the subsidies paid by TfNSW to private ferry operators.

Box 9.2 The ferry operators receive revenue from fares, and from payments from the NSW Government

- Five of the operators (Central Coast Ferries, Church Point Ferry Service, Clarence River Ferries, Palm Beach Ferries, and Cronulla and National Park Ferry Service) receive payments from the NSW Government based on the concession and local pensioner passengers they carry and the school students they may carry:
  - Concession passengers generally pay half the full fare and the Government pays the rest of the fare to the operators, based on the operators' reported concession patronage.
  - For 3 of the operators, local pensioners travel for free and the Government pays the operator the equivalent of a full fare for them, based on the operators' reported patronage.
  - For 4 of the operators, the Government pays the operators the equivalent of a return child fare for daily travel during the school year for eligible school students who live in the routes' catchment area and may catch the ferry to and from school under the School Student Travel Scheme (SSTS), whether they catch the ferry or not.
- The Government also pays 3 of these operators a "viability payment" based on an assessment in 2010 that those operators would not be viable without it.
- The other 2 operators (Captain Cook Cruises and Brooklyn Ferry Service) have moved to "net cost contracts" which means that the total revenue to the operator each month is guaranteed by the Government. The ferry operator keeps the fare revenue, and the Government pays the difference between the fare revenue and the contracted monthly payment.

  These operators no longer receive payment from TfNSW for passengers travelling on concession tickets, pensioner, or school student passes, nor do they receive explicit viability payments.

Box 9.2 The ferry operators receive revenue from fares, and from payments from the NSW Government

However, their contract payments exceed what they would have received from TfNSW for concessions, pensioners, and school students, so they receive both implied concession subsidies and implied viability payments.

Particularly in cases where fares cannot rise to full cost recovery levels because of the impact on passengers or the impact on patronage, subsidy payments imply a level of Government support for the private ferry services' continued availability.

9.4.2 External benefits generated by private ferries

Passenger transport imposes direct costs (fares) on the people who decide to use those services and provides direct benefits (getting from A to B) to those people. However, passenger transport also imposes costs (government subsidies) on people who are not users of those services and provides benefits (e.g. lower road congestion) to non-users. These community-wide costs and benefits are known as external costs and benefits because they are external to the people making the decision to use passenger transport.

For private ferries, the external benefits and costs can be assessed by looking at what a private ferry passenger would do if they did not catch the ferry.

For the private ferries that service islands, a passenger could instead use a private boat or water taxi. The possible external benefits of using the private ferry are therefore reduced congestion on the waterways and at moorings (much as using a bus reduces congestion from private cars on the roads and from parking), reduced pollution and reduced boating accidents.

For the private ferries that service destinations that are land-connected, a passenger could instead use a private car or land-based public transport. The possible external benefits of using the private ferry are reduced road congestion, accidents, pollution and parking.

Another possibility is that the private ferry passenger would not or could not make the trip at all if the private ferry was not available – in which case the external benefit of the private ferry trip is the social inclusion benefit to society of all people being able to access school, employment, services, social activities and entertainment, regardless of their age or mobility constraints.

In previous private ferry reviews we have referred to the existence of external benefits as the rationale for viability payments, on the basis that it is appropriate for government on behalf of taxpayers to pay for the benefits that all of the community experiences.

The value of these external benefits can be estimated if we have enough data. In some cases, the net benefit may not be large – for example, while using a private ferry to an island avoids the pollution, congestion and accident cost of using private vessels, the ferries themselves create pollution, congestion and accident risk.

In our 2017 review, we did not consider there were significant external benefits associated with ferry services provided by Brooklyn Ferry Service, Church Point Ferry Service or Clarence River Ferries, as these ferries provide a service to islands and/or are in areas where there are unlikely to be external benefits associated with avoided road congestion.

In our 2017 review, we estimated the external benefits associated with the Cronulla Ferry Service and Palm Beach Ferries (Ettalong route) using $0.94 per passenger trip as the upper estimate, the figure used for Sydney Ferries as part of the 2016 public transport review. Even using this upper estimate, we found that any external benefits were smaller than the viability payments the private ferry operators were already receiving from the NSW Government, and that further subsidisation was not justified. We also considered whether private ferries generated external benefits by reducing boating accidents but did not quantify this benefit. We did not consider the social inclusion benefit at all.

More recently, we have taken a broader view of what constitutes external benefits and how we consider them in our fare-setting. In the 2020 rural and regional bus review for example, we considered but did not quantify the social inclusion benefits of rural and regional bus services.[5]

The Church Point Ferry Service submitted that as the only form of public transport for the residents of Scotland Island and the Western Foreshores of Pittwater, they provide an invaluable service to this community, particularly for those less financially and physically capable. They also argued that the external benefits generated by the service are of benefit to all NSW residents, citing the avoided water and air pollution.[6]

For this review, we did not re-estimate the value of external benefits for each private ferry service but took their existence and likely level into account when considering the balance between fares and subsidies for each service.

9.4.3 Impacts on passengers

When considering the appropriate share of costs between passengers and taxpayers, we have also considered the impact on passengers if fares rise by the amount required to cover efficient costs. Prices that reflect the efficient costs of providing private ferry services enable ferry operators to sustain their business over the long term by allowing them to recover the efficient costs.

We have also considered the nature of the patronage of each service – for example, where patronage is skewed towards concession, PET and/or SSTS passengers, raising fares effectively increases the Government subsidy as well.

9.4.4 Submitters' views on subsidies for private ferry services

Our Issues Paper sought feedback on how much of any gap between proposed fares and the cost reflective fare should be met by taxpayers (via a government subsidy – the viability payment) and how much by passengers (via higher fares).

Multiple submissions from the Cronulla-Bundeena area argued that the price of the Cronulla Ferry was extremely expensive for daily commuters, arguing for lower fares to be covered by a government subsidy. One reported that if the fare proposal is accepted, a return journey to the CBD would be well over $30 (including a train) by the end of the review cycle.[7] Some also argued that it was much easier and cheaper to drive.[8] Submissions also asked for the service to be included under Opal caps.[9]

Church Point Ferry Service's submission also considered that any shortfall in the costs of operating a ferry service should be made by the taxpayer, rather than an increase in fares due to the external benefits generated.[10]

The survey of private ferry usage we undertook earlier in the review found that more than 88% of residents surveyed across all routes said that their local route was at least *quite useful* to the community. For the Brooklyn, Church Point, Cronulla and Palm Beach routes, at least half of the surveyed residents described the service as *essential* to the community.[11]

The survey also showed a range of opinions around the impact of fare changes to local ferry use. For all except the Brooklyn route, 61%-89% of users considered the value for money *good* or *very good*, and 79%-100% considered it at least adequate. However, when presented with a list of possible changes that would impact their ferry use, cheaper fares and more stops were the most likely to have *at least* a small effect in increasing ferry use. Cheaper fares would have the biggest impact on usage for the Palm Beach and Captain Cook Cruises Lane Cove routes, however there was only a very small sample of respondents for the Lane Cove route.[12]

9.4.5 Impacts on operators

We modelled fares based on operators' efficient costs rather than their actual costs. If operators have higher than efficient costs, they may not receive enough revenue to cover all those costs. They can reduce costs by becoming more efficient, but this may take time. We took this into account when we decided whether to remove or reduce a subsidy to operators or set fares at lower than the level proposed by the operators.

9.5 We decided to modify the fuel cost adjustment mechanism

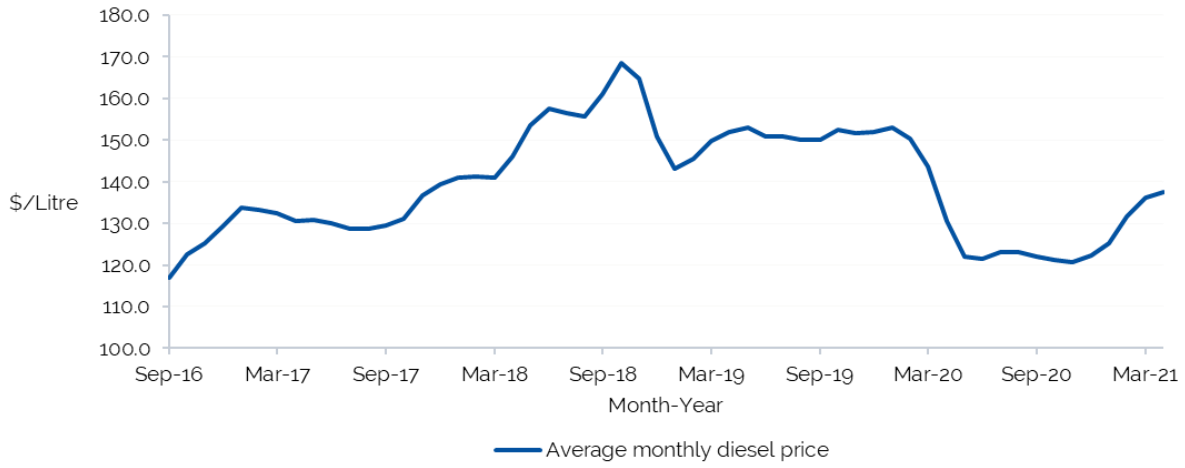
In our Issues Paper we sought comment on the fuel cost adjustment mechanism, to which the Church Point Ferry Service responded that the fuel adjustment mechanism should be retained, but dropped to a 10 or 15% change.[13]

The current fuel price adjustment mechanism is only triggered if fuel prices change by more than 20% (up or down) in the year to September. This threshold has not been reached over the current determination period despite large fluctuations in fuel prices in 2018 (13%) and 2020 (-10%).

Given this, we decided that the threshold for the fuel cost adjustment mechanism should be reduced to 10% in absolute terms. We also decided that the whole percentage change in fuel costs be applied in calculating the change in the maximum fare. Currently only the percentage change above the threshold would apply.

Figure 9.1 shows the volatility in the price of diesel in Sydney over the current determination period. Large changes in fuel costs represent a risk, especially to smaller services, with fuel costs accounting for between 4-18% of operating costs for private ferry operators (Table 9.2).

Figure 9.1 Average monthly diesel price



Source: Fueltrac monthly data

Table 9.2 Proportion of fuel cost as a share of total operator expenditure

Operator	Share of cost
Brooklyn Ferry Service	8.9%
Captain Cook Cruises	6.1%
Central Coast Ferries	6.9%
Church Point Ferry Service	7.9%
Clarence River Ferries	4.0%
Cronulla and National Park Ferry Service	4.0%
Palm Beach Ferries – Mackerel Beach and the Basin	5.8%

Source: Indec Pty Ltd, IPART Review of Private Ferries, Draft Report, September 2021.

We have decided to:

1. reduce the fuel price adjustment threshold to ±10%
2. apply the percentage annual change in fuel price to the calculation of the new maximum fare (rather than just the portion above the threshold).

The new calculation for the fuel adjustment mechanism will therefore be:

$$\Delta Max\ Fare_{t+1,i} = \%\ of\ fuel\ cost_{t,i} * \Delta Fuel\ price_t + 1$$

and apply if the change in fuel price exceeds ±10%.

The fuel cost adjustment mechanism will be applied to fares from 2023 to 2025.

Box 9.3 provides an example of what would occur under the new calculation.

Box 9.3 Fuel adjustment mechanism example

The fuel cost adjustment for 2023 would be calculated as follows:

$$(Fuel\ Cost\ Proportion \times \Delta Average\ Fuel\ Price_{2021-2022}) + 1$$

For an operator with fuel costs representing 7.4% of total operating costs - shown as fuel cost proportion, if:

- the determined maximum adult fare in 2023 was $6.50
- the average fuel price over the year to September 2022 - shown as $\Delta Average\ Fuel\ Price_{2021-2022}$ - increased by 15%

The maximum fare for 2023 would be increased by 6.6c, and the new fare for 2023 would be $6.60 (rounded to 10c).

While IPART cannot determine fares for the Palm Beach to Ettalong route, we suggest that TfNSW use the same fuel cost adjustment mechanism that we have proposed for the other operators to determine maximum fares for the Ettalong route. Indec found that the proportion of fuel cost as a share of Palm Beach Ferries total expenditure for the Ettalong route is 20.9%.

In response to our question about whether any other major volatile costs need to be managed, Church Point Ferry Service raised concerns that as they transition from an enterprise agreement onto the award in 2022, they expect their labour costs to increase. Arguing that labour is one of the largest costs, they asked us to consider a separate adjustment mechanism or the increased cost as an input into the fare determination.[14]

Any increase in labour costs has a large impact of operating expenses, with labour accounting from between 51-77% of total operating costs across the operators.

In estimating efficient labour costs, Indec used a benchmark of $80,000 (including on costs). As such, we estimate that the wage rate incorporated into our fare determination already exceeds the industry award. It also includes an annual increase of 2.5%. We are not proposing a separate risk adjustment mechanism for labour costs.

9.6 We considered the risk of COVID-19 impacts on patronage

Using the lower passenger numbers from 2020, or the operators' forecasts, to set fares would mean the revenue required to run each ferry service would need be recovered from fewer passengers through higher fares. This in turn could potentially lead to a further decline in patronage, exacerbating the situation and if not addressed, would lead to a downward spiral of increasing fares and declining patronage. Therefore, as mentioned above, we have made our final determination for fares using the average patronage of the 3 years prior to the pandemic (2017-2019).

While there is a high degree of uncertainty about patronage levels over the determination period, there is certainly a risk that it will continue to be lower due to the impact of COVID-19 than it was for the period 2017-2019 on which fares are being set.

We have estimated the difference in fare revenue using 2020 patronage data, but holding all other factors constant, at around $900,000 per annum across all the services.

For the operators on net cost contracts, Brooklyn Ferry Service and Captain Cook Cruises, the impact of lower fare revenue would be borne by TfNSW, as under their net cost contracts, they receive the same total revenue every month regardless of fare revenue. If their patronage and hence fare revenue is lower, the net payment from TfNSW will be higher.

There would however be a shortfall in revenue for the remaining 5 operators which we estimate at just under $700,000.

It would not be appropriate to include changes in patronage in the risk management mechanism (discussed at section 9.5) as this mechanism, if triggered, affects the level of fares. The mechanism can move fares up or down, but in the case of lower patronage than forecast would likely lead to higher fares. We do not consider it appropriate that the potential revenue shortfall be passed onto passengers. As discussed above, this could drive patronage further downward.

How any shortfall is shared between taxpayers and/or operators needs to be considered in the context of other Government assistance provided to deal with the impact of COVID-19.

9.7 We considered feedback on our Draft Report

9.7.1 We made efficient cost adjustments for Cronulla and National Park Ferry Service

Cronulla Ferry Service made a submission challenging some of Indec's efficient cost estimates. We asked Indec to review Cronulla's submission and Indec has made two adjustments:

- A higher operating cost allowance as a result of longer service hours
- An additional cost allowance for providing replacement bus services when the ferry cannot run due to bad weather (Cronulla Ferry Service is the only service required to do this).

As noted above, we also reviewed our pricing model and adjusted Cronulla Ferry Service's capital allowance to include 100% of a second vessel (as we allowed for Cronulla Ferry Service in our last review in 2017, based on its requirement to run two vessels at once in peak hour).

9.7.2 We considered how to deal with vessel replacement in our fare modelling

The revenue requirement for each operator includes a capital annuity, set at a level sufficient to allow purchase or lease of a replacement vessel as required. Indec set the vessel replacement capital component based on the Modern Equivalent Function replacement cost for each operator's fleet (that is, based on the current size and type of ferries in each fleet).

Cronulla Ferry Service and other operators have raised the issue that the next tranche of vessel purchases is likely to be electric no-emissions vessels, which are much more expensive than efficient conventional diesel vessels (which are allowed for in our fare modelling).

We asked our cost consultant, Indec, for advice on the lifetime cost of electric vessels. Indec advises that reliable information on the initial capital costs and long-term operating and maintenance costs of electric vessels is not readily available. However, the bus sector is more developed in terms of transition towards electric vehicles, so Indec developed a comparative cost profile for electric ferries drawing on data from the bus sector.

The results indicate that, although higher initial costs for electric vessels are offset by lower maintenance and operating costs, at this stage whole of life cost parity between diesel and electric vessels is not expected to be reached until shortly before 2040.

This implies that the revenue envelope for private ferry fares is likely to be insufficient to support procurement of an electric vessel at this stage, and the efficient choice for a ferry operator, absent any regulatory or contract requirement to procure an electric vessel is to procure a diesel vessel.

However, we do not consider that this issue is best addressed via fare increases.

9.7.3 We considered how to deal with issues that fares alone cannot address

We identified some issues during the review that cannot be addressed through fares alone, including:

- transition of the ferry fleet to zero or lower emissions technology
- viability of some operators
- inclusion of private ferries in the Opal network.

We consider that these issues are best dealt with by Transport for NSW reviewing its contracting arrangements. We discuss each of these issues in more detail in the sections below.

Transition to zero emissions technology

In section 9.7.2, we noted that the higher lifetime cost of electric vessels is an impediment to transitioning to lower emissions technology, but that higher fares are not the best response to this issue.

There are different options for transition to sustainable renewal of the private ferry fleet, including conditions on contracts, regulatory requirements to procure low or no emissions technology, capital grants to operators, or government procurement of vessels and tendering out of operations.

We note that the Lane Cove Route is currently open for tender, with one of the tender conditions being that operators will be required to transition to zero or low emissions technology during the course of the contract. To encourage suitable proposals TfNSW is offering a contract of up to 15 years, dependent on continued satisfactory performance.

We consider that Transport for NSW should review their contracting arrangements more generally, to support the transition of the fleet to zero or low emissions technology at the appropriate time.

Viability of some operators

A second issue that we observed during our review of the viability payments is that, even when operating efficiently, two of the operators require additional subsidies to be viable. Fare revenue alone is insufficient, and fares cannot rise to a level that would provide sufficient revenue without an excessive impact on passengers, and a likely reduction in patronage.

Cronulla and National Park Ferry Service further submitted that they are unable to get a loan for a new vessel because banks regard their contract as too short to lend against. Their contract is effectively perpetual – it is renewed at intervals but there is a right of renewal as long as the operator has fulfilled the terms of the contract. However, Cronulla Ferry Service say banks do not recognise this. Financeability issues such as these cannot be remedied by fare revenue.

We recognise that transport services are undergoing significant change. Technology is central to transport services being delivered by a broader range of providers, giving customers more choice, service quality and convenience. The NSW Government, in its *Future Transport Strategy 2056*, has noted that the government's role is changing from default transport provider, to ensuring the right policy and regulatory frameworks are in place to support new service operators. The government is investigating more innovative procurement practices to better respond to customer needs and deliver better value for money, including:

- focussing on market and service outcomes rather than prescribing fixed service levels
- open market tenders to introduce competition in markets with low contestability
- arrangements to reward innovation and patronage growth in service contracts, and
- creating a culture where TfNSW is equipped to achieve best value for money from private sector providers.[15]

We recommend that TfNSW competitively tender/procure ferry services in each region, tailored to provide an appropriate service outcome given the population of the region (and likely change in population). This could be undertaken at the completion of existing contracts. TfNSW might need to negotiate with ferry operators where their contracts provide them exclusive rights of renewal.

A competitive tender process would help to ensure operators remain financially viable and local communities and NSW taxpayers get good value for money. A market-based approach would also create competition for the availability of any government subsidy, ensuring that the subsidy is set at an optimal level.

Market-driven solutions can deliver innovative operating models that provide a better quality of service for passengers in a cost-effective manner. For instance, ferry operators could propose to remove or reduce some services that have low utilisation and replace these with a number of on-demand services which improves the overall efficiency of transport services.

Inclusion of private ferries in the Opal network

Passengers and operators often call for inclusion of the private ferry routes in the Opal network.[16] The decision to include private ferry services under the Opal system is a matter for the NSW Government. Including private ferry services under the Opal system would require changes to the current contracting arrangements between TfNSW and private ferry operators. In addition, the inclusion of private ferry services under the Opal system would not necessarily mean that maximum fares would be set at Opal fares. Private ferry operators are heterogeneous in nature with different service routes and patronage characteristics, and hence the efficient costs of providing private ferry services are different across operators.

We note that other forms of transport, and some ferry operators including Palm Beach and Central Coast Ferries, already provide discounts for reduced trips. All existing private ferry operators also provide discounted fares for regular commuters.

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