

# TTF TRANSPORT POSITION PAPER

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## Revitalising Sydney Ferries



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### KEY CONTACTS:

CAROLINE WILKIE  
NATIONAL MANAGER  
AVIATION & TRANSPORT  
TOURISM & TRANSPORT FORUM  
T +61 2 9240 2016  
E [cwilkie@tff.org.au](mailto:cwilkie@tff.org.au)

KARY PETERSEN  
MANAGER  
TRANSPORT  
TOURISM & TRANSPORT FORUM  
T +61 2 9240 2016  
E [kpetersen@tff.org.au](mailto:kpetersen@tff.org.au)

## In Short

1. The Walker Inquiry clearly states that if a private operator can deliver better service outcomes than the Government then Sydney Ferries must be franchised.
2. TTF supports a franchised Sydney Ferries operation to revitalise the iconic ferry service.
3. A franchise arrangement will deliver a better service for commuters and taxpayers - with an increased customer focus, innovation, and reduced need for Government subsidy.
4. Sydney Ferries needs a long term solution for fleet management.

## Overview

In April 2008, the Tourism and Transport Forum (TTF) released a position paper, Fixing Sydney Ferries, recommending policy measures to improve the performance, reliability and infrastructure of Sydney's ferry network. In October 2008, the NSW government announced a market testing process for operation of the Sydney Ferries fleet in response to the report of the Special Commission of Inquiry into Sydney Ferries, carried out by Bret Walker SC (the Walker Inquiry). Expressions of interest were requested from the private sector, leading into a second stage EOI process where if a private sector bid is found to represent better value for money and judged able to deliver better service outcomes than public operation, then the successful bidder will operate the service under a franchise arrangement.

This paper updates TTF's position regarding Sydney Ferries, taking into account both the overall political, policy and economic environment and the progress of the market testing process.

## Sydney Ferries - a brief history

Established as a state-owned corporation on 1 July 2004 (having previously been a part of the State Transit Authority), Sydney Ferries is an integral part of the city's transport system, mainly for commuters but also for tourists. Its stated mission is to provide safe and reliable transportation; affordable and sustainable service; excellent customer service; and a rewarding and safe working environment.<sup>1</sup>

Deficiencies in a number of these areas led the government to establish the Special Commission of Inquiry into Sydney Ferries in 2007 (The Walker Inquiry). The final report was provided to the government on 31 October 2007, finding Sydney Ferries Corporation's (SFC) performance had been *"less than satisfactory"*, and recommending that ferry operations be franchised to the private sector under a service contract, so long as *"bids from the market compare favourably with the financial and quality performance of SFC."* It recommended that this process *"be started as soon possible."*<sup>2</sup>

Walker stressed the importance of adopting a service contract model, similar to those currently in place on the Melbourne tram and train networks or on Brisbane's ferry system, where the government retains ownership of the system's physical assets and responsibility for their procurement. This is also the framework advocated by TTF.

There was a considerable delay in the NSW Government's response to the Walker Inquiry. On 21 October 2008, a formal Expression of Interest (EOI) process was launched. Ten transport organisations submitted their proposals during Stage 1. In February 2009, Stage 2 expressions of interest were sought, attracting five bidders. Two shortlisted bidders were invited to respond to a request for tenders: Veolia Transport Australasia and Transdev TSL. The deadline for tender responses was 21 August 2009.

Parallel to the Sydney Ferries market testing process, in December 2008 the NSW government carried out an accelerated tender for private operators to run a fast ferry service between Circular Quay and Manly. Bass & Flinders was announced as the successful bidder in January 2009 without any government subsidy. In addition, the Government undertook an EOI process for the Parramatta River ferry service. Despite five private sector bidders submitting proposals, the Government decided in May 2009 that it would continue to run a public ferry operation.

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<sup>1</sup> Sydney Ferries Annual Report 2006-07 p4.

<sup>2</sup> Bret Walker SC, *Report of the Special Commission of Inquiry into Sydney Ferries Corporation*, 31 October 2007, p1.

# Sydney Ferries performance

A number of recommendations of the Walker report have been adopted by Sydney Ferries, resulting in an improvement in service standards. Nevertheless, service standards were coming from a very low base, given that the previous level of performance sparked the inquiry. While recent improvements in service performance are welcome, the long term performance of the ferry system is the key issue. TTF believes the private sector will deliver better performance in the long term and remains critical of promises made by Sydney Ferries to drive further improvements.

In 2008-09, Sydney Ferries carried just 1.5 per cent more passengers than it did in 2004-05 - its first year of operation. This modest growth occurred against the background of strong patronage increases on all other public transport operations across Sydney and other major capital cities - including Sydney Ferries' obvious Australian counterpart, Brisbane Ferries. A similar rise in passenger complaints was also recorded during this period, while IPART reported on financial inefficiencies in the running of the service driven by unusually high increases in labour costs. Of even greater concern is Sydney Ferries' safety record which continues to be a major issue.

According to the 2007-08 Sydney Ferries Annual Report, the Government provided \$68.9 million to the organisation, excluding reimbursements for school travel and concession payments.<sup>3</sup> This amounts to 53 per cent of Sydney Ferries total revenue at a cost of \$1.35 million per week to the taxpayer.

## Safety

Sydney Ferries' safety record has been one of the key ongoing concerns with the operation. In 2008-09 Sydney Ferries experienced 61 reportable safety incidents as defined under section 94 of the *Marine Safety Act 1998*. In addition, there were 12 incidents resulting in passenger injuries requiring medical attention, and five incidents resulting in environmental damage under Sections 10 and 20 of the *Marine Pollution Act 1987* and Part 5.7 of the *Protection of the Environment Operations Act 1997*.<sup>4</sup>

Extraordinarily, a number of these safety performance figures were actually within Sydney Ferries' target thresholds. The Sydney Ferries target for the number of collisions and groundings for 2009-10, is 15 whereas best practice organisations target and achieve zero harm delivery of major infrastructure projects. In just two months since the beginning of the 2009-10 financial year, Sydney Ferries has already sustained two collisions and groundings, nine vessel safety incidents, and two passenger injuries requiring medical attention.<sup>5</sup>

<sup>3</sup> Sydney Ferries Annual Report 2007-08, p51.

<sup>4</sup> Sydney Ferries Safety and Environment Performance Statistics August 2009, found at: <http://www.sydneyferries.info/uploads/Web%20Safety%20and%20Environment%20Statistics%20Aug%2009.pdf>.

<sup>5</sup> Ibid.

Another compelling statistic is the Lost Time Injury (LTI) indicator - any employee injury resulting in one shift or more lost from work. In 2007-08 the LTI incidence rate was 7.4 per 100 employees, with 49 injuries per million working hours.<sup>6</sup> This equates to approximately 25-30 incidents per month. Brisbane Ferries sustained just one incident in the past 18 months.

This ongoing safety record was a key reason behind the commencement of an audit in May this year of Sydney Ferries safety, being undertaken by the NSW Independent Transport Safety and Reliability Regulator.

## Patronage

The table below shows the year on year patronage figures for the entire Sydney Ferries operation:<sup>7</sup>

	2004/05	2005/06	2006/07	2007/08	2008/09	TOTAL CHANGE 2004/05 -2008/09
Patronage (,000)	14,100	14,072	14,133	13,962	14,311	211
Percentage change	0.6	-0.2	0.8	-1.2	2.5	1.5

Removing the Manly Jetcat service from the 2007/08 and 2008/09 figures, a greater patronage increase of 5.8 per cent has occurred across the remaining Sydney Ferries operation over the last year.<sup>8</sup> This recent improvement runs parallel to recent reliability improvements. However, focusing only on this recent year on year improvement ignores the patronage declines in previous years. The total patronage gain over a five year period is just 211,000 passengers or 1.5 per cent.

The following chart is a comparison of the recorded patronage growth of Sydney Ferries and Brisbane Ferries. In each of the years shown, Brisbane Ferries patronage growth has far exceeded that of Sydney Ferries. Since the Walker Report was delivered in October 2007, the franchised Brisbane Ferries operation has increased its patronage six times faster than Sydney Ferries, with passenger numbers up 7.8 per cent over the period compared with 1.3 per cent for Sydney Ferries.<sup>9</sup> Despite Brisbane Ferries starting from a lower patronage base, it nevertheless shows the potential for the private sector to renew and revitalise ferry service operations so as to encourage greater patronage use.

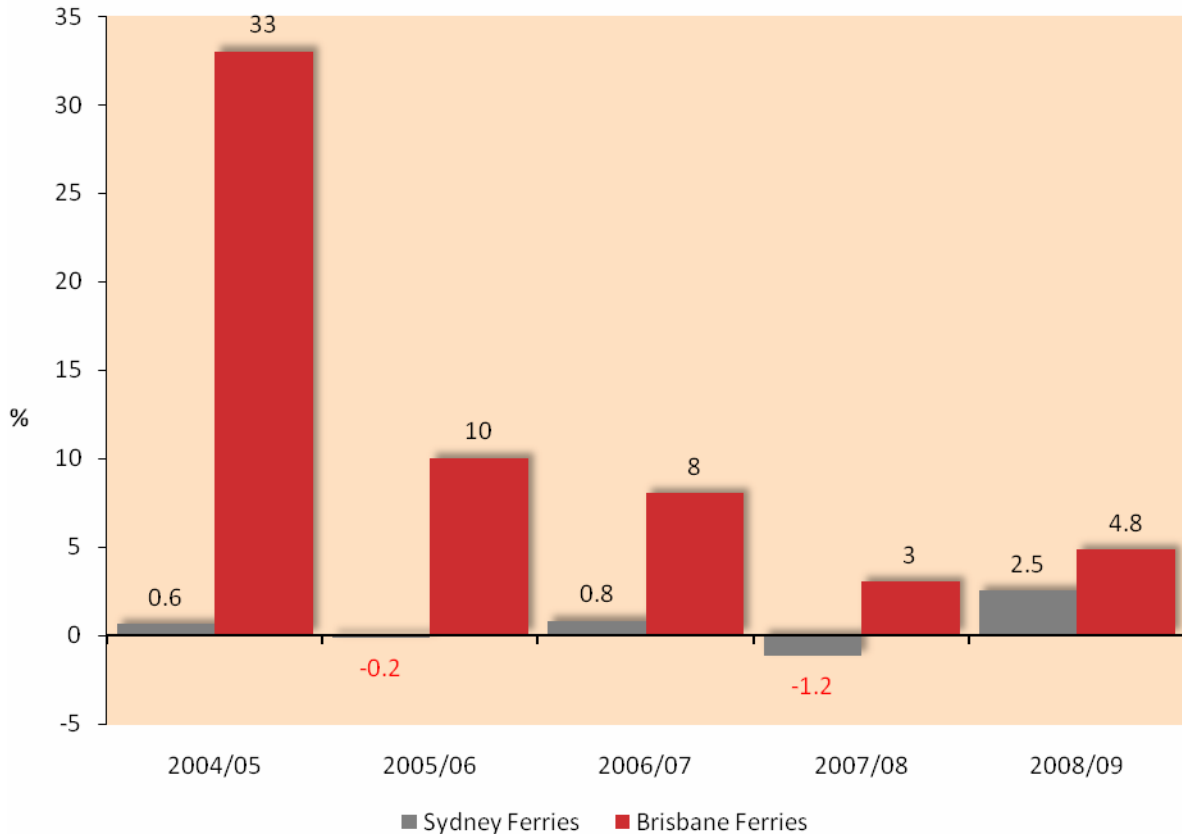
<sup>6</sup> Sydney Ferries Annual Report 2007-08, p51.

<sup>7</sup> Table constructed using Sydney Ferries Annual Reports for each financial year and Sydney Ferries data available at <http://www.sydneyferries.info/about-us/how-we-are-charting.htm>

<sup>8</sup> Percentage calculated having removed Manly Jetcat patronage from 2008-09 and 2007-08 using Sydney Ferries data available at <http://www.sydneyferries.info/about-us/how-we-are-charting.htm>

<sup>9</sup> Calculated using information provided by Brisbane Ferries and Sydney Ferries data available at <http://www.sydneyferries.info/about-us/how-we-are-charting.htm>.

### Comparitive Patronage Growth - Sydney Ferries vs Brisbane Ferries



Looking beyond ferry services to other private sector operations in Australia, patronage on Melbourne trains grew over 50 per cent in the past four years - more than 80 per cent since the system was franchised in 1999. Reliability consistently met targets with Melbourne’s trains over the last decade delivering 99.1% of services with a punctuality rate of 94.5% at the same time as managing 100 million extra yearly trips.<sup>10</sup>

### Customer satisfaction

There were 889 customer complaints about Sydney Ferries in 2008-09, lower than the numbers for 2006-07 (1808) and 2007-08 (1220). However, this is still in excess of Sydney Ferries’ target for the 2008-09 financial year of restricting complaints to 800 or below.<sup>11</sup>

<sup>10</sup> Calculated using Victoria Department of Transport, *Track Record*, vol 1, 1999- vol 39, 2009.

<sup>11</sup> Sydney Ferries Annual Report 2007-08, p11 and *Sydney Ferries data available at <http://www.sydneyferries.info/about-us/how-we-are-charting.htm>.*

## Service reliability

In 2008-09 Sydney Ferries recorded 80.8 per cent of fleet availability. With 28 vessels (excluding the Jetcats), this means at least five vessels were out of service every day. In addition, five per cent of vessels over the year were withdrawn from service due to mechanical failure. Both indicators met or exceeded Sydney Ferries' targets.<sup>12</sup>

Moreover, a closer analysis of Sydney Ferries performance data casts doubt over the benefits of some of the information provided. Despite the performance indicator that shows 98.1 per cent of services met on time running targets in 2008-09 (which is below the overall target of 99.5 per cent), the definition of "on-time" according to Sydney Ferries is the *"proportion of actual services departing on-time (within 5 minutes of scheduled departure time from first wharf on service)."*<sup>13</sup>

Measuring the departure time from the first wharf on service provides little real information to commuters about whether services are actually on time at any of the subsequent wharves on the route, most importantly the final destination. Even more surprising is the fact that Sydney Ferries provides this rudimentary data despite having the capability to monitor the exact location of every vessel at any given time - through global positioning tracking.

## Innovation

Sydney Ferries operations have remained relatively constant since commencement as a State Owned Corporation in 2004. With the exception of the introduction of additional services in 2007, innovation in customer delivery has been left wanting. Moreover, these additional services have not translated to increases in patronage. Commuters are not provided with up to date real time information on services, tickets are still monitored by deck-hands and there is little incentive to travel in the off-peak. It costs the same to travel between Circular Quay and Milsons Point (just across the harbour) as it does to travel from Circular Quay to Cabarita wharf in Sydney's inner west.

A major disincentive to ferry use has been the lack of integration between routes. With independently operating routes, Sydney Ferries commuters are forced to travel to Circular Quay even if their journey is only across the harbour. A passenger travelling from Drummoyne to Woolwich is provided with just two services a day, spaced 10 hours apart, to make the seven minute journey across the harbour. This lack of route integration has contributed to the under-use of the ferry network.

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<sup>12</sup> Sydney Ferries data available at <http://www.sydneyferries.info/about-us/how-we-are-charting.htm>.

<sup>13</sup> Ibid.



# A franchised ferry system - dispelling the myths

## **1. Fact - Sydney Ferries will not be privatised**

Contrary to claims by anti-franchise groups, Sydney Ferries is not being sold to an overseas company. The Government will remain the owner.

## **2. Fact - Performance standards at Sydney Ferries will improve.**

Under any franchise agreement, the Government will set what standard the private operator must adhere to. There will be substantial financial penalties for the private operator if these are not met and financial incentive to significantly improve service performance.

## **3. Fact - Sydney Ferries services will not be cut.**

The Government will set what routes the private operator must undertake and how many services must occur. The Government will also still have final say on all timetables.

## **4. Fact - The Government will still set all Sydney Ferries fares.**

A private operator will not be able to increase fares. The fare structure will continue to be set by IPART.

## **5. Fact - Profit will not be pillaged from Sydney Ferries.**

Sydney Ferries needs over \$400 million spent on fleet replacement and is already costing the Government and taxpayers over \$1 million per week. There is no profit to pillage from the people of NSW. Private operation is about increased service standards and innovation for commuters, while reducing the reliance on Government subsidies.

Under a franchise model, the franchisee is the operator and maintainer of the operation, responsible for:

- Day-to-day operations;
- Customer service;
- Staff management;
- Developing timetables;
- Maintaining vehicles, wharves, and infrastructure; and
- Marketing services.

The Government is responsible for:

- Funding upgrades;
- Long term planning and major capital projects;
- Approving timetable changes;

- Regulating and setting fares; and
- Monitoring performance.

If adopted, this arrangement will ensure the government remains a key stakeholder in the operation of ferry services without physically operating them. Fares will still be set by IPART, including the power to reduce fares if the operator has reduced operational costs, and the government will retain the power to approve timetable changes. The Government will continue to monitor performance, which will be tied to incentive based payments and penalties, providing further impetus for the franchisee to drive better customer outcomes. In addition, the government retains ownership of the vessels. A Government bond will ensure the franchisee cannot withdraw from the operation throughout the term of the contract.

In addition, all current Enterprise Bargaining Agreements will need to be maintained by the new operator, ensuring service innovation will be the key focus of the franchisee, not job cuts. The move to further private sector involvement in Melbourne transport has shown employees have transitioned to the new operator with minimal dispute or disruption to services.

A franchised service will harness the skills and international experience of the private operator, facilitating innovation and providing customers with better outcomes. The franchise model also ensures that after the term of the contract ends the Government will have the option of finding a new operator. This will further incentivise the existing franchise operator to achieve the best possible outcomes for commuters.

## Financial Savings

Importantly, the involvement of a private sector operator will significantly reduce the reliance on Government subsidies for operational revenue - the franchisee takes on all cost risks.

Sydney Ferries revenue from the Government in 2007-08 amounted to more than 53 per cent of their entire revenue base (excluding reimbursements for student and concessional travel). Farebox revenue accounts for just 37 per cent of total revenue with the remaining 10 per cent from other government reimbursements, interest and other revenue.

Franchise operations interstate have shown the ability of the model to grow patronage and therefore farebox revenue. A typical franchise agreement sees efficiency savings of 25-30 per cent. Thus, with a decrease in costs and an increase in patronage (and farebox revenue) the franchise operator is able to both invest further in service improvements and reduce the level of subsidy required from the Government.

If this type of model was applied to Sydney Ferries a franchised operation could equate to a cost saving of up to \$40 million per year.<sup>14</sup> This has the potential to significantly reduce the government subsidy. At a time when pressure on the NSW Budget is high, a reduction in the subsidy will enable Government to direct critical funding to other essential services.

## Manly Fast Ferry Service

Owing to continued reliability issues with the Sydney Ferries JetCat fleet operating the Manly fast ferry service, in December 2008 the NSW government carried out an accelerated tender for a fully private operation of the service. Bass and Flinders successfully obtained the tender and began operation in February 2009.

Notwithstanding a targeted union campaign against the private operation in its early weeks, the fully private service has gained acclaim and support from commuters, largely due to improved reliability and innovative service changes - including different vessels (with drink and snack bars on board), the introduction of smartcard ticketing, discounted against the flow tickets, and an SMS service notification system. The operation had zero breakdowns and 100 per cent reliability in its first six months of operation.<sup>15</sup>

The fact that the private sector was able to turn around an inefficient part of the Sydney Ferries operation into an innovative, reliable service in just a few short months highlights the advantages of the introduction of private involvement in ferry operations. The success of the service was recognised by the NSW government which has now commenced a new tender process for the service spanning five years, with a potential extension for an additional three years.

## The fleet replacement challenge

Optimising the current fleet and driving better customer outcomes should be the number one priority for the operator of the ferry system. That being said, a key long term cost of maintaining the status quo in the Sydney Ferries operation is not just the \$1.35 million a week revenue loss to the taxpayer, but the \$400-plus million required for the replacement and growth of the entire ferry fleet.<sup>16</sup> This will place a significant strain on the NSW budget, already stretched to meet competing demands, of more than \$1 billion over the next 10 years.

The current fleet of 28 vessels consists of six different classes (following removal of the Jetcats) each requiring different crews, ferry masters and maintenance regimes. This

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<sup>14</sup> Calculated by reducing Sydney Ferries 2007-08 total costs by 30 per cent and increasing the Sydney Ferries 2007-08 Farebox revenue by the percentage average of Brisbane Ferries', Melbourne trams 'and Melbourne trains' annual percentage patronage increases over the past three years.

<sup>15</sup> Mike Baird MP, Media Release, *Fast Ferry Should Be For Commuters - Not Money-Spinner for Government*, 18 August 2009.

<sup>16</sup> Linton Besser, *Privatise Sydney Ferries, department tells cabinet*, Sydney Morning Herald, 14 April 2008.

has created inefficiencies in operations, particularly with regard to labour allocation, with operational staff required to undergo unique training for each type of vessel.

In addition, in 2008 Sydney Ferries vessels had an average age of 17 years, requiring a strong focus on vessel maintenance and upgrades to ensure service reliability. As part of the long-term maintenance program for the fleet, all vessels require a major refit every 2 years (excluding Freshwater class vessels which undergo a major refit every 5 years).<sup>17</sup> In 2007-08 the cost of major vessel upgrades was \$7.6 million up from \$5 million the previous year - on top of the \$17.6 million required in 2007-08 for regular fleet running expenses, including spare parts and consumables.<sup>18</sup>

This maintenance regime has required Sydney Ferries to hold at least five vessels from service every day. This is to ensure the five per cent of vessels that are withdrawn from service due to mechanical failure over the course of the year does not increase.

Fleet replacement will provide an opportunity to reduce the number of classes of vessels and streamline operations. It is an essential project regardless of who operates the system. At a cost of \$400-plus million, and with pressure on the NSW budget, TTF believes private sector investment will be critical for this project to come to fruition.

## Conclusion

Achieving a better public transport framework for Sydney will require the city's ferry service to be efficiently-run, reliable and capable of playing its part in the broader network, particularly at public transport and tourism hubs such as Circular Quay. To this end, it is imperative that the right operator be chosen to deliver world-class services and is able to work with the government on broader policy and infrastructure upgrades, including potential decisions on fleet replacement and wharf upgrades.

The publicly run Sydney Ferries operation has a history of under-performance. Notwithstanding the recent improvement, which is arguably the result of the market testing process, the longer term trend shows an inability to innovate, substantially increase patronage and drive reform to improve the quality of services. Noting this trend, TTF questions the promises made by Sydney Ferries to drive reform and innovation into the future. TTF strongly supports a franchised ferry operation to revitalise the iconic ferry service.

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<sup>17</sup> Sydney Ferries Annual Report 2007-08 p48.

<sup>18</sup> Ibid pp52 & 90 and Sydney Ferries Annual Report 2006-07 p78.



**A U S T R A L I A**

**Tourism & Transport Forum**

**8<sup>th</sup> FLOOR**  
**8-10 LOFTUS STREET**  
**SYDNEY NSW 2000**  
**T +61 2 9240 2000**  
**F +61 2 9240 2020**  
**[www.ttf.org.au](http://www.ttf.org.au)**