

Entered by Board Secretary

Ferry Services Update

Aronga / Purpose

1. To provide an update on the current state of Auckland ferry services and future service procurement within the Auckland ferry network.

Te tūhonga / Recommendation

That the Auckland Transport Board (board):

- a) Notes this report.
- b) Notes an update on this matter will be presented to the Transport and Infrastructure Committee at its 16 November 2023 meeting.

Te horopaki / Background

2. Over the last ten years there has been a gradual evolution of the passenger ferry industry in Auckland. Auckland Transport (AT) has:
 - a. assumed ownership and / or management of public transport ferry facilities;
 - b. taken on revenue risk by converting operating contracts from net to gross;
 - c. added new destinations to the network (Hobsonville Point);
 - d. extended weekend service provision (Hobsonville Point and Pine Harbour);
 - e. delivered the first stage of the development of the Downtown Ferry Terminal; and
 - f. more recently moved into vessel ownership with the purchase of four diesel vessels from Fullers 360 Limited (Fullers) and commencement of the decarbonisation of ferry public transport.
3. The industry coped well with the immediate impacts of COVID-19 pandemic restrictions, with core service levels maintained through-out on many routes; upon lifting of restrictions, patronage initially responded well. Since early 2022 when border restrictions were lifted, Fullers, and to a lesser extent the other ferry operators, have experienced difficulty in retaining and attracting enough qualified marine personnel to provide timetabled services.
4. In July 2022, AT signed a Ferry Services Agreement with Fullers for the provision of ferry services from the Downtown Ferry Terminal to; Devonport, Gulf Harbour, Half Moon Bay, and Hobsonville/Beach Haven until 2034 (2028 for Gulf Harbour). In return, AT was not only able to achieve a long-term objective of contracting the Devonport ferry service (including acquisition of berthing infrastructure at Devonport for public use) but was also able to build on Fullers experience and investment in the development of low emission technology.

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5. This was part of the wider Ferry Procurement Strategy (approved by the board and Waka Kotahi New Zealand Transport Agency (Waka Kotahi) Board during 2021) which envisaged the procurement of two packages of ferry routes: the Fullers negotiated unit, and a tendered unit (being the balance of the network). Fullers would also remain as the operator of the Bayswater and Birkenhead routes until July 2025, when the tendered unit was expected to commence.
6. Due to marine crew challenges, Fullers exercised a mutually agreed early termination provision on the Bayswater and Birkenhead contracts ferry routes in August 2023 to enable them to concentrate on other contracted services from 1 October 2023. AT was able to successfully direct appoint Explore Group to continue service provision on the route until 30 June 2025, when a new tendered unit is expected to commence.
7. Fullers also commercially operate (without public subsidy or under contract with AT) public transport and tourist ferry services to Waiheke Island and Rangitoto Island. In recent years, they have also operated services to Motutapu Island, Rotoroa Island, and the Coromandel Peninsula but these have recently been suspended due to marine crew shortages.
8. The balance of the ferry public transport network is operated by Explore Group (Bayswater and Birkenhead / Te Onewa Point); SeaLink (Pine Harbour); and Belaire Ferries (West Harbour and Rakino Island). Due to the size, type and nature of operations provided, the smaller ferry operators in Auckland have been able to minimise the impact of marine crew shortages and still maintain contracted service levels.
9. An overview of our current ferry network contract is below (future tendered unit highlighted in blue):

Contract	Route(s)	Operator	Current Contract Term	Rights of Renewal	Performance Regime
802	Devonport Half Moon Bay Hobsonville & Beach Haven Gulf Harbour*	Fullers360	18 Jul 2022 to 17 Jul 2034 18 Jul 2022 to 17 Jul 2028*	None, negotiation to vary	Cap & Collar deduction/incentive scheme
8-10-1	West Harbour	Belaire	01 Aug 2019 to 30 Jun 2026	None, negotiation to vary	Punctuality and Reliability deduction scheme
56-001	Rakino Island	Belaire	01 Jul 2021 to 30 Jun 2024	None, negotiation to vary	Punctuality and Reliability deduction scheme
8-08-1	Pine Harbour	SeaLink	01 Aug 2019 to 30 Jun 2027	None, negotiation to vary	Punctuality and Reliability deduction scheme
811	Bayswater	Explore Group	01 Oct 2023 to 30 Jun 2025	None, negotiation to vary	Punctuality and Reliability deduction scheme

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812	Birkenhead	Explore Group	01 Oct 2023 to 30 Jun 2025	None, negotiation to vary	Punctuality and Reliability deduction scheme
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10. The Auckland passenger ferry fleet consists of approximately 27 vessels (all of which apart from four vessels are owned by operators), delivers over 120,000 services a year (including Waiheke services) currently carrying over 4,000,000 passengers. The service operating cost to AT is in excess of \$50mper annum (gross).
11. Over the last 12 to 18 months there have been well documented issues with service performance on several ferry routes across the region. Whilst some routes, such as West Harbour and Pine Harbour have managed to be insulated from ongoing marine crew shortages, other routes such as Gulf Harbour and Devonport have been more severely impacted.
12. As a result, public and customer confidence in ferry services is at an all-time low and AT has been working with industry participants to address this.

Me mōhio koe / What you need to know

13. Over the last 18 months, the Public Transport team has been working closely with the industry, and Fullers in particular, to seek solutions to address ferry service performance.
14. During 2022, AT agreed to a reduction of ferry services with Fullers to provide service surety for customers in line with measures agreed with bus operators. This was agreed to be a temporary measure, supported by cost rebates to AT for those services not operated. All Fullers operated routes, except Hobsonville Point, were impacted by this support. Routes operated by SeaLink and Belaire Ferries have continued to be operated with no reduction.
15. In early 2023, an industry meeting was called by the then Minister of Transport, Hon Michael Wood, to discuss the marine crew challenge being experienced in Auckland. This involved representatives from across the industry including Auckland ferry operators, unions, Ministry of Business, Innovation and Employment (MBIE), Immigration New Zealand, Waka Kotahi and AT.
16. An immediate action plan was agreed at the meeting of the Working Group held in April 2023 (see Attachment One), by the various industry stakeholders that covered the following areas:
 - a. Expediate the certification of overseas marine staff to work on Auckland ferries.
 - b. Revisions to the immigration transport sector agreement, and greater flexibility in immigration settings.
 - c. Improved and enhanced rostering by ferry operators.
 - d. Improvements to maritime training and investment in long-term staff development.

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- e. Remuneration interventions to increase qualified crew wages to be competitive with overseas markets.
 - f. Rationalisation of service offering initially to free up staff and vessels to enable training, development and upskilling of existing staff.
 - g. Delivery of an accelerated training programme.
17. There has been no further meeting of the Working Group following agreement of the action plan at the meeting in April 2023.
18. To support the delivery of the above, AT agreed to optimise the network to align advertised services with available resources. The original service rationalisation proposal received included the full suspension of several routes across the network for up to 12 months. This was considered by AT to not be suitable for the continued sustainability of the Auckland ferry network, and thus an extended hybrid rationalisation approach was agreed with Fullers (see Attachment 2).
19. No rationalisation of service offering was identified as being required by SeaLink or Belaire Ferries.
20. Commercial terms are continuing to be finalised with Fullers, relative to the temporary rationalisation of service, and rebates will be received by AT on Annual Gross Payments (AGP) to sufficiently cover the cost of additional transport services being provided and to reflect cost savings incurred by Fullers.
21. Additional funding has also been secured by AT to contribute towards remuneration increases for qualified crew wages for staff employed on AT contracted services across all ferry operators. It should be noted that Fullers are separately contributing towards crew wages for their staff who operate commercial ferry services (i.e., those not contracted by, or subsidised by, AT).
22. Regular, weekly reporting is being received from Fullers as to progress against the baseline plan for the Accelerated Training Programme, and this will be regularly reported to the board and Auckland Council.
23. In addition to the above, contractual remedies are also being reviewed / explored under existing contracts to ensure that operator performance is improved going forward. A summary of the contractual remedies available within existing service contracts is included in Attachment 3.
24. On completion of the above actions, and once supply is stabilised, AT were advised by the Ministerial Working Group to consider marketing additional off-peak services targeting those routes that have the highest patronage opportunity.
25. Increasing service provision off-peak will enable better utilisation of resource, however, will require additional funding and need to be balanced with the overall economics of service provision, as the cost of providing ferry services is considered high in comparison to other modes.
26. Assessing current AGP levels (2023) against pre-COVID-19 pandemic patronage levels (2019), the cost per passenger is variable across services with the longer distant routes requiring a significantly higher level of funding per passenger.

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Service	2023 AGP (\$m – average)	2019 Patronage pre-COVID-19 pandemic	Cost per passenger (2023 AGP v 2019 PAX)	Adult AT HOP Fare
West Harbour	5.8	171,966	\$33.73	\$8.25
Hobsonville Point	6.7	160,334	\$41.79	\$8.25
Birkenhead / Te Onewa Point	3	170,136	\$17.63	\$5.80
Bayswater	2.5	218,052	\$11.47	\$5.80
Devonport	8.8	1,870,897	\$4.70	\$5.80
Gulf Harbour	7.5	182,204	\$41.16	\$11.60
Pine Harbour	8	195,537	\$40.91	\$11.60
Half Moon Bay	8.2	341,153	\$24.04	\$8.25

27. Whilst average fares are lower than the AT HOP Fare due to concessions and demographic usage, the above table shows that there is an increasing requirement for funding over the longer routes compared to the shorter routes. This will require to be addressed in the future through either increased funding or increasing fare cost to passengers.

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28. To address the cost-of-service delivery, it is proposed that the fare structure for ferry services is reviewed as part of future fare reviews and that AT works with the industry to reduce the cost of operations by undergoing a tender process for some of the non-Fullers contracted routes.
29. Subject to agreement of a revised procurement strategy, it is proposed that AT will commence a procurement process in early 2024 for some of those routes currently not contracted to Fullers ferry routes.
30. The current, agreed, Procurement Strategy has an objective of enabling AT to procure one, or two, service operating contracts in 2034 that covers the whole of the public transport ferry network. This would involve AT owning, or at least having control over, the vessel fleet required to delivered contracted services and making significant inroads into the decarbonisation of the ferry public transport network (see Attachment 4).

Ā muri ake nei / Next steps

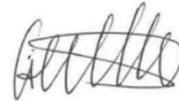
31. Payments to be finalised between AT and operators to ensure market relativity with regards to wages for qualified marine crew.
32. AT to agree commercial terms with Fullers regarding the Accelerated Training Programme.
33. AT to enhance service monitoring and contract management of Fullers.
34. Regular reporting on progress of the Fullers Accelerated Training Programme to be received and shared with the board and Auckland Council.
35. Planning will continue to recast ferry timetables on return of full employment levels by Fullers to maximise value for money and service coverage against demand.
36. The Transport and Infrastructure Committee will be updated of progress to date and next steps.
37. AT will progress with updating the procurement strategy for the tendered unit and prepare to go to the market in Q1 of 2024.

Ngā whakapiringa / Attachments

Attachment number	Description
1	Action Plan agreed by the Ministerial Working Group
2	Summary of Service Rationalisation to Support Fullers Accelerated Training Programme
3	Summary of Contract Terms from Fullers Contract
4	Ferry Procurement Status update

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Te pou whenua tuhinga / Document ownership

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