



Independent Pricing and Regulatory Tribunal

Improving CityRail's accountability and incentives through an effective service contract

Transport — Final Report
December 2008



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1 Introduction and executive summary

The Independent Pricing and Regulatory Tribunal of NSW (IPART) is responsible for regulating the fares charged by CityRail. In response to IPART's concerns that the current framework for setting fares is not providing strong enough incentives for RailCorp to rein in CityRail's costs and increase its efficiency, the NSW Government asked IPART to recommend changes to this framework. The new framework must create effective incentives for CityRail to provide its services at efficient cost levels while maintaining or improving service standards (see Appendix A for the terms of reference). As discussed in this report, IPART considers that an effective service contract has the potential to strengthen the economic regulatory framework for CityRail, and provide effective incentives to improve CityRail's financial performance without decreasing its service performance.

One of the key elements of the current economic regulatory framework is the approach IPART uses to set CityRail fares. As part of its review of CityRail fares from 2009, IPART revised this approach so it is more rigorous and robust, and provides scope to create the right incentives for CityRail.¹ But as IPART identified in its draft report, to be more effective, the new fare setting approach must be supported by complementary changes to RailCorp's governance arrangements.²

IPART's draft report noted that the current arrangements are not specific, detailed or transparent enough. As a result, the Government has not effectively set CityRail's strategic direction, set the performance standards it requires CityRail to meet, evaluate and hold CityRail accountable for its performance, or create effective incentives for it to improve this performance. The lack of transparency and accountability has undermined IPART's ability to create effective incentives through its fare determinations.

¹ See IPART, *Review of CityRail fares 2009 – 2012 - Final Report*, December 2008.

² IPART, *Improving CityRail's accountability and incentives through stronger governance arrangements - Draft Report*, October 2008, p 1.

IPART's draft recommendations included that the Government:

- ▼ clearly explain the objectives and financial performance targets CityRail is required to meet
- ▼ establish an effective service agreement between the Minister for Transport and RailCorp that details both the quantity and quality of service CityRail is required to provide and provides RailCorp management with sufficient autonomy to achieve these performance objectives
- ▼ establish an effective funding arrangement that is consistent with the service agreement and IPART's fare determination, and clearly establishes how much funding CityRail will receive, and who will bear the cost or benefit if CityRail's costs or revenues are higher or lower than expected
- ▼ improve transparency and public reporting of CityRail's targets and agreements and performance against these requirements.

After the release of IPART's draft report, the Minister for Transport introduced to Parliament amendments to the *Transport Administration Act 1998* as well as other legislation to reform the governance arrangements for RailCorp (and for Sydney Ferries).³ The amendments which were passed on 25 November 2008, de-corporatise RailCorp so it has a management structure and accountabilities similar to those of the State Transit Authority.

The Premier announced that the changes are expected to increase RailCorp's accountability, enable greater Ministerial control of the direction of transport services, and ultimately improve service levels.⁴ The objectives identified by the Premier are consistent with the key objectives identified by IPART in its draft report. While the means of implementing these objectives chosen by Government (ie, de-corporatisation) differs from the suggested structure outlined in IPART's draft report, there is no reason why the purchaser-provider model recommended by IPART cannot be applied to a de-corporatised RailCorp.

As noted in its draft report, IPART considers it important for the Minister to exercise strategic control over the direction of passenger rail services in greater Sydney. However, central to IPART's draft recommendations was a clear delineation of control between Government and RailCorp to provide for greater CityRail accountability and to avoid Government being held responsible for issues which are beyond its control such as some of the day to day operations of CityRail. It will continue to be important that the Government does not try to take over responsibility for the day-to-day operations of RailCorp from management. Accordingly IPART considers that the service contract should define the relationship between Government and RailCorp management.

³ The Transport Administration Amendment (Rail and Ferry Transport) Amendment Bill introduced amendments to the *Transport Administration Act 1988*, the *Passenger Transport Act 1990* and the *State Owned Corporations Act 1989*. The Bill was introduced to Parliament on October 23, 2008 and passed on 25 November 2008.

⁴ News Release, Premier of NSW, *Rees makes major changes to RailCorp to improve trains*, 8 October 2008.

As part of the Government's package of governance reforms the amendments also require RailCorp to enter into a service contract with the Government (via the Director General of the Ministry of Transport) for the provision of passenger rail services.⁵ IPART considers that the service contract model has the potential to strengthen the economic regulatory framework for CityRail, and provide effective incentives to improve CityRail's financial performance without decreasing its service performance. IPART notes the Minister's comments that its decision to introduce the service contracting model for RailCorp is consistent with IPART's draft recommendations.⁶ In addition, the Government's submission in response to the draft report noted that the changes introduced to Parliament "will allow Government to move towards a governance arrangement along the lines of the ... model proposed by IPART".⁷

Given the above, IPART focused its final recommendations on assisting the Government to develop and implement a service contract model for RailCorp that has the greatest possible chance of achieving the Government's stated objectives for this model – that is, to enable it to exercise more effective control over CityRail's service performance and create strong incentives for RailCorp to improve CityRail's economic efficiency for the benefit of RailCorp, the Government, passengers and taxpayers. IPART recognises that under RailCorp's new governance arrangement it is required to prepare a corporate plan for the Minister. While the corporate plan will be of value in delineating responsibilities and setting broad objectives, IPART does not expect a corporate plan to drive improvements in CityRail's service and financial performance. Therefore, IPART considers the service contract to be the most effective instrument in driving service and financial performance improvements. IPART's recommendations focus on the broad principles for an effective service contract, and the key information related to service performance, financial performance and funding the service contract should contain.

1.1 Principles for an effective service agreement

IPART analysed the experience with service contracts in other jurisdictions and industries to understand how the Government can best use RailCorp's economic regulatory framework – particularly the service contract – to give it greater strategic control over CityRail's service and financial performance, and create effective incentives for CityRail to improve this performance. It also considered how the service contract could complement IPART's revised approach to fare setting and the incentives created through the fare determination.

⁵ *Transport Administration Amendment (Rail and Ferry Transport) Amendment Act, 2008*, Schedules 1.1 and 2.1 [4].

⁶ Minister for Transport, Mr David Campbell, First reading speech, *Transport Administration Amendment (Rail and Ferry Transport Authorities) Bill 2008*, 23 October 2008.

⁷ See NSW Government submission, 10 November 2008, p 2. IPART also notes that the changes are also consistent with the conclusions of the Walker Inquiry, and with the approach the Government has taken to improve efficiency levels in the NSW bus industry, NSW TAFE and NSW Health.

IPART identified a set of key principles that should be followed in developing and implementing the service contract to ensure its effectiveness. These principles are as follows:

- ▼ The Government should drive the development of the service contract.
- ▼ The service contract should have a multi-year term and be signed before it is scheduled to come into effect.
- ▼ The service contract should be aligned with IPART's fare determination.
- ▼ The service contract should set out the Government's strategic objectives, targets and funding for CityRail specifically, not just those for RailCorp as a whole.
- ▼ The service contract should set out the quality and quantity of services to be provided as well as CityRail's financial performance. This will enable the Government to consider these two important issues in the same context rather than in isolation.
- ▼ As much as possible, the service contract should focus on outputs rather than inputs – that is, it should specify the strategic objectives, service performance targets and financial performance targets the Government expects CityRail to meet, rather than how it should do so. This ensures that Government control is exercised in a way that provides RailCorp with sufficient managerial autonomy and flexibility to achieve its performance targets.
- ▼ The Government should monitor and evaluate CityRail's performance against the service and financial performance targets and hold RailCorp management accountable by specifying the consequences for RailCorp's management of non-performance including agreeing a detailed plan for management to return performance to levels specified in the contract.
- ▼ The service contract and CityRail's performance against the targets in the contract should be publicly available and reported on.

1.2 Key information related to service performance

In line with the principles listed above, the contract should set out:

- ▼ measurable performance targets and indicators that clearly specify the quantity and quality of service CityRail is to provide
- ▼ any specific policies or practices the Government requires RailCorp to adhere to in providing CityRail services.

This will ensure the Government's expectations for CityRail's service performance are transparent. It will also enable this performance to be monitored and evaluated so RailCorp can be held accountable, and provide incentives for performance improvement. In addition, it will enable IPART to more accurately estimate CityRail's efficient costs, as these costs depend heavily on the quantity and quality of services provided.

IPART considered a range of information, including the key performance indicators for RailCorp recommended by an independent study undertaken in consultation with RailCorp, MoT and the Independent Transport Safety and Reliability Regulator (ITSRR)⁸ and the surveys by RailCorp and ITSRR to identify the aspects of service quality most important to CityRail passengers. Based on this analysis, IPART considers the service contract should specify the quantity of service CityRail is to provide in terms of the minimum frequency of services:

- ▼ by line
- ▼ in various time bands (am/pm peak, shoulder, off-peak)
- ▼ by direction (to/from CBD)
- ▼ on weekdays and weekends/public holidays, and
- ▼ the times of first and last services each day.

The service contract should also set out target levels for train service kilometres and carriage service kilometres (which provide information about service capacity) and total patronage (or passenger journeys). These targets should be broken down into peak and off peak targets, as the costs and complexity of increasing services in peak periods are greater than in off peak periods.

The service contract should specify the quality of service CityRail is to provide by setting measurable targets for the following indicators:

- ▼ reliability
- ▼ journey time and delays
- ▼ crowding on trains
- ▼ passenger safety and security
- ▼ provision of information to passengers
- ▼ cleanliness of trains
- ▼ passenger comfort.

Further, the Government should consider improving the initial indicators for some of these aspects of quality for future service contracts, and should regularly review the indicators and targets included in the service contract to ensure they remain consistent with the Government's objectives and passengers' priorities.

1.3 Key information related to financial performance and funding

To create effective incentives for cost efficiency, the service contract must include measurable, detailed financial performance targets for the CityRail business, including efficiency savings targets. High-level financial targets for RailCorp as a

⁸ The study was commissioned by IPART and undertaken by LEK Consulting in 2004.

whole will not be sufficient, as they will not allow the Government to monitor and evaluate CityRail's financial performance, hold RailCorp's management accountable for this performance, or create incentives for RailCorp to improve this performance. The financial performance targets in the service contract should include:

- ▼ targets that are consistent with the Government's objectives for public transport such as patronage growth or increases in commercial revenue through better property management and advertising income
- ▼ efficiency targets, that are measurable, specific to CityRail and consistent with the service performance targets included in the contract and IPART's fare determination

The service contract should also include more detailed information about the funding arrangements for CityRail. This is important to ensure transparency and accountability, and to create effective, consistent incentives for RailCorp to improve its financial performance. Specifically, the service contract should:

- ▼ Clearly allocate unforeseen changes in CityRail's costs and farebox revenues between the Government and RailCorp in a way that is consistent with the incentives IPART aims to create through its fare determination. To do this:
 - the level of funding the Government provides towards the costs of providing CityRail services should match IPART's fare determination and any additional costs as a result of Government policy requirements imposed upon RailCorp
 - the parameters for compensation (for example, if CityRail's farebox revenue is less than forecast) should be established *ex ante*.
- ▼ Clearly and transparently set out the level of funding the Government will provide for the provision of CityRail services, and break this funding down into its component parts. In particular, the service contract should separately show:
 - funding to cover the Government's share of CityRail's revenue requirement, consistent with IPART's fare determination
 - funding to provide for capital expenditure
 - funding to allow RailCorp to transition towards the efficient operating benchmarks for CityRail determined by IPART
 - funding associated with meeting NSW Government policy requirements, including when the Government's policy requirements result in costs which exceed the efficient operating benchmarks determined by IPART
 - any funding to compensate RailCorp for lower than forecast farebox revenue.
- ▼ Establish a monitoring regime that clearly assesses whether RailCorp operated within its funding agreement and establishes consequences for non-performance, including a detailed plan (such as a timeframe and process) that will be followed prior to detailed intervention by the Government.

It is important that both the financial performance targets and funding levels are consistent with the service performance targets and IPART's fare determination, to ensure all elements of the economic regulatory framework are aligned.

1.4 List of final recommendations

- 1 That the Minister for Transport and Ministry of Transport (as purchaser of passenger rail services) and NSW Treasury (as the owner's representative) drive the development of the service contract. 12
- 2 That the service contract have a multi-year term. 13
- 3 That the service contract be signed before it is scheduled to come into effect, and be expressly updated if the agreement between Government and RailCorp is varied. 13
- 4 That the content and term of the service contract be aligned with IPART's fare determination. 15
- 5 That the service contract specify the role of IPART in determining the efficient cost of providing CityRail services and CityRail fares. 15
- 6 That the service contract clearly articulate the Government's strategic objectives, performance targets and funding for CityRail (as distinct from those for RailCorp as a whole). 15
- 7 That the service contract clearly articulate the Government's service and financial performance targets for CityRail. 15
- 8 That the service contract focus on outputs rather than inputs, by specifying the objectives and performance targets CityRail is to meet. 16
- 9 That the Government regularly monitor and evaluate CityRail's performance against the service performance targets in the service contract, and take account of CityRail's historical performance in developing future service contracts. 17
- 10 That the service contract include a requirement for RailCorp to report regularly to the Minister for Transport on CityRail's performance against all indicators and targets included in the service contract. 17
- 11 That as part of monitoring CityRail performance against the service targets, the Government monitor and evaluate CityRail's performance against the financial objectives and targets in the service contract, and take account of its actual performance in developing future service contracts. 18
- 12 That the Government specify in the service contract consequences for non-performance including a detailed plan that will be followed prior to intervention by the Government. 18
- 13 That the service contract be made publicly available at the time it is signed and whenever it is updated. 19
- 14 That RailCorp publish up to date information on its website regarding CityRail's performance against all targets in the contract, and produce an annual overview report for the public with commentary on performance against the targets. 20

15	That annual CityRail passenger surveys continue to be undertaken and the results publicly reported.	20
16	That IPART publish an annual report on CityRail’s fares and actual services levels.	20
17	That the service contract clearly specify the quantity of service CityRail is to provide by setting measurable performance targets for the indicators set out in Box 1.1 below.	23
18	In the first instance, that the service contract clearly specify the quality of service to be provided by CityRail by setting measurable performance targets for the indicators set out in Box 1.2 below.	29
19	For future service contracts, that the Ministry of Transport, in consultation with the ITSRR and RailCorp, consider improving the service quality performance targets by taking the steps set out in Box 1.3 below.	29
20	That the Ministry of Transport regularly review the indicators and targets for service quality included in the service contract to ensure they continue to reflect its public transport strategy and passengers’ priorities.	30
21	That the Government specify (and fund) in the service contract all government policies and requirements of CityRail which are over and above what would be implemented by an operator aiming to deliver cost efficient services that simply comply with the various government-specified benchmarks.	32
22	That the Government, as owner, clearly specify in the service contract the financial performance outcomes it expects from CityRail (as distinct from RailCorp’s other business operations). This should include: <ul style="list-style-type: none"> – financial performance goals that are measurable and consistent with the Government’s objectives for public transport – measurable efficiency targets that are set to reflect the efficient operating costs benchmarks and the allowance for transitioning to these benchmarks IPART determined as part of the fare setting process – any costs above the level of efficient costs determined by IPART as a result of government policy requirements. 	35
23	That the service contract clearly specify which parties bear the costs and benefits if CityRail’s actual costs are higher than assumed in setting fares, consistent with the incentives IPART is aiming to create through its fare determination.	40
24	That the service contract establish <i>ex ante</i> the extent to which RailCorp will be compensated if farebox revenue is lower than assumed in setting fares, due to lower than forecast patronage.	40
25	That the service contract clearly differentiate between the funding being provided for CityRail, CountryLink and other non-passenger services	41

- 26 That the service contract clearly show the different components of funding for CityRail services, including the funding:
- associated with the efficient costs of providing the services specified in the service contract
 - temporarily being provided to allow RailCorp to transition towards the efficient operating benchmarks determined by IPART
 - associated with meeting government policy requirements
 - provided as part of cost or fare revenue variations
 - provided for efficient capital investment.

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Box 1.1 Recommended indicators for service quantity

- ▼ minimum frequency of services by line, in various time bands (am/pm peak, shoulder, off-peak), by direction (to/from CBD), on weekdays and weekends/public holidays, and the times of first and last services
 - ▼ peak and off peak train service kilometres and carriage service kilometres
 - ▼ peak and off peak total patronage (passenger journeys).
-

Box 1.2 Recommended indicators for service quality in the first instance

- ▼ on-time running, skipped stops, and cancelled services
 - in peak and off peak periods
 - for each line of the CityRail network
 - ▼ total delay minutes in peak and off peak periods for each line of the CityRail network
 - ▼ average timetabled train speed, as a proxy for journey time
 - ▼ peak period crowding for each line of the CityRail network
 - ▼ offences against persons, derived from the Bureau of Crime Statistics and Research quarterly reports for each line of the CityRail network
 - ▼ an index of customer perception of safety, based on the results of the ITSRR's annual passenger surveys
 - ▼ an index of customer satisfaction with information provision, based on the results of ITSRR's annual surveys
 - ▼ an index of customer satisfaction with cleanliness of trains, based on the results of the ITSRR's annual surveys
 - ▼ percentage of fleet less than 10 years old, as a proxy for passenger comfort.
-

Box 1.3 Recommended steps for improving service quality targets in future service contracts

IPART recommends that the Ministry of Transport in consultation with the ITSRR and RailCorp:

- ▼ consider the feasibility of measuring on-time running at major centres as well as the CBD
 - ▼ consider developing a more sophisticated indicator for journey delays that takes into account the number of passengers affected for inclusion in future service contracts
 - ▼ consider developing an improved indicator for journey time for inclusion in future service contracts
 - ▼ review the definition of the morning and afternoon peak periods included in the service contract with a view to aligning this definition with the periods of peak use of the system and IPART's fare determination.
-

1.5 Structure of this report

The following chapters explain IPART's recommendations to assist the Government in implementing an effective service contracting model for RailCorp that will create strong incentives for CityRail to improve its cost efficiency in more detail:

- ▼ Chapter 2 discusses the principles for an effective service contracting model for CityRail
- ▼ Chapter 3 explains the key service performance information the service contract needs to contain
- ▼ Chapter 4 explains the key financial performance and funding information the service contract needs to contain.

Please note that IPART's revised approach to fare setting is not discussed in detail in this report. IPART is required to make decisions on this approach, and these decisions are discussed and explained in its report on its final determination for CityRail fares from 2009, which is due to be released by 16 December 2008.

Also note that IPART has not reviewed rail safety regulation. This is the responsibility of ITSRR, which has its own reporting and performance framework for safety regulation. RailCorp is legally obliged to meet safety requirements under the *Rail Safety Act 2002*, and changes to the economic regulatory framework will not affect these obligations.

2 Principles for an effective service contract

IPART analysed the experience in other jurisdictions and industries to identify how the Government can effectively use RailCorp's economic regulatory framework – particularly the service contract – to give it greater strategic control over CityRail's service and financial performance, and allow it to create effective incentives for CityRail to improve this performance. IPART identified a set of key principles it considers should be followed in developing and implementing the service contract to ensure its effectiveness. These principles are as follows:

- ▼ The Government should drive the development of the service contract.
- ▼ The service contract should have a multi-year term and be signed before it is scheduled to come into effect.
- ▼ The service contract should be aligned with IPART's fare determination.
- ▼ The service contract should set out the Government's strategic objectives, service and financial targets and funding for CityRail specifically, not just those for RailCorp as a whole
- ▼ As much as possible, the service contract should focus on outputs rather than inputs – that is, it should specify the strategic objectives, service performance targets and financial performance targets the Government expects CityRail to meet, rather than how it should do so. This ensures that Government control is exercised in a way that provides RailCorp with sufficient managerial autonomy and flexibility to achieve its performance targets.
- ▼ The Government should monitor and evaluate CityRail's performance against the service and financial performance targets and hold RailCorp management accountable by specifying the consequences for RailCorp's management of non-performance including providing a requirement for management to agree to a detailed plan with the Government on how it will return performance to levels specified in the contract.
- ▼ The service contract and CityRail's performance against the targets in the contract should be publicly available and reported on.

The sections below explain each of these principles in more detail and set out IPART's final recommendations to assist the Government in developing and implementing an effective service contract for CityRail.

2.1 Government should drive the development of the service contract

The service contracting model is intended to provide the Government with greater control over what matters to it, CityRail passengers and NSW taxpayers – an improved level of service and financial performance from CityRail.

To ensure the service contract provides clear and unambiguous guidance about the Government's objectives and priorities for CityRail, the Government (not RailCorp) should drive the development of the contract. This process should be led by:

- ▼ the Minister for Transport and Ministry of Transport (MoT), as the purchaser of rail services, and
- ▼ NSW Treasury, as the owner's representative.

For example, at the beginning of negotiations with RailCorp on the content of the service contract, MoT should provide explicit guidance about the quantity and quality of service the Government expects CityRail to provide (consistent with its State Plan targets). This guidance should be similar to the information provided in a request for tender. It should also indicate the Government policies RailCorp should adhere to. IPART notes that to perform this role effectively, MoT will need to build and retain appropriate expertise in passenger rail services. IPART also notes that in its submission to the review, ITSRR commented that in the other jurisdictions it surveyed, the government/transport authority takes the lead role in developing and negotiating service contracts with rail service providers.⁹

In addition, NSW Treasury, together with the Minister for Transport and MoT should identify a set of financial performance targets that are consistent with the funding to be provided, including measurable efficiency savings which refer to the targets determined by IPART as part of its approach to determining fares.

By taking a lead role in developing the content of the service contract, then negotiating this with RailCorp, the Government will ensure the contract reflects the levels of performance that Government, CityRail commuters and NSW taxpayers expect and require from CityRail, rather than the levels of performance RailCorp considers it can meet.

Recommendation

- 1 That the Minister for Transport and Ministry of Transport (as purchaser of passenger rail services) and NSW Treasury (as the owner's representative) drive the development of the service contract.

⁹ ITSRR submission, 7 November 2008, p 7. The ITSRR commented that in other jurisdictions service contracts have been more effective when there is a collaborative relationship between the purchaser and provider, not only in contract implementation but also in contract development.

2.2 The service contract should have a multi-year term and be signed before it comes into effect

IPART considers that the service contract should have a multi-year term. This is important to:

- ▼ provide RailCorp with clear guidance on the levels of service and financial performance it is expected to meet over the medium term
- ▼ allow CityRail's service and financial performance to be monitored and evaluated over a period in which improvements can reasonably be expected to be made
- ▼ allow RailCorp sufficient time to respond to the financial incentives created by the contract by developing and implementing plans for efficiency savings
- ▼ provide greater revenue certainty for RailCorp, which will assist it in better integrating operating and capital expenditure and promote the provision of services at least cost
- ▼ provide NSW Treasury and MoT with a better indication of how levels of funding for CityRail are likely to alter over time.

IPART also considers that the service contract should be signed before it is scheduled to come into effect. This is necessary to ensure that RailCorp has time to determine and plan how best it can meet the targets set out in its contract, and respond to the incentives created by the regulatory framework. The contract should also be expressly updated when any aspect of the contract – particularly the targets and the funding to be provided – is altered, to ensure full transparency.

Recommendation

- 2 That the service contract have a multi-year term.
- 3 That the service contract be signed before it is scheduled to come into effect, and be expressly updated if the agreement between Government and RailCorp is varied.

2.3 The service contract should be aligned with IPART's fare determination

As noted in Chapter 1, a key aspect of CityRail's economic regulatory framework is IPART's approach to fare setting. IPART's new approach to fare setting provides considerable scope for it to create financial incentives for CityRail to make realistic efficiency gains over the fare determination period. However, these incentives cannot be effective unless the service contract – particularly the financial performance targets and the funding arrangements it contains – are consistent with them.

For example, under the new fare setting approach, IPART:

- ▼ uses a robust methodology to calculate CityRail's revenue requirements over the determination period, taking into account its forecast efficient operating, maintenance and capital costs
- ▼ determines the proportions of these costs to be recovered from passengers through fares and from taxpayers through government funding, based on a rigorous estimate of the value of the external benefits provided by CityRail services
- ▼ calculates the amount of farebox revenue CityRail needs to generate to recover the passenger-funded portion of these costs.

Using these calculations, together with independent information about the scope for CityRail to reduce its costs by increasing its efficiency, IPART can then set fares to create a financial incentive for CityRail to make realistic efficiency gains over the determination period.¹⁰ But for this incentive to be most effective, the funding provided by the Government through the service contract must be consistent with IPART's determination.¹¹ For it to be most effective, the financial performance targets in the service contract should also be consistent with IPART's determination.

As the independent regulator, IPART considers it is best placed to determine CityRail's total efficient costs and efficiency targets. IPART undertakes this role in many other industries that it regulates (eg, water, electricity and gas). Its independence, consultative approach, and professional expertise, analysis and decision-making ensure that the efficiency targets incorporated into the fare determination are appropriately ambitious yet also realistic.

For the above reasons, IPART considers the content of RailCorp's service contract should align with IPART's fare determinations and the incentives created by these determinations. In addition, to facilitate this consistency, the term of the service contract should be aligned with the fare determination period. This will assist IPART in determining the efficient operating and capital expenditure required to provide CityRail services as specified in the contract, and ultimately assist in setting fares for CityRail services.

IPART considers that the service contract should refer to the role of IPART in determining the efficient costs of providing CityRail services and CityRail's fares.

¹⁰ That is, IPART can determine the amount by which CityRail can realistically reduce its costs by improving its efficiency over the determination period in line with other comparable operators, and set fares in line with these efficient costs (taking into account IPART's final decision that passengers should fund around 30 per cent of the costs of providing CityRail services).

¹¹ That is, the funding provided by the Government through the service contract should be consistent with the revenue requirement determined by IPART minus the farebox revenue forecast by IPART as part of its fare determination.

By the same token, IPART's fare determinations must be consistent the Government's objectives, priorities and service performance targets for CityRail as set out in the service contract.

Recommendation

- 4 That the content and term of the service contract be aligned with IPART's fare determination.
- 5 That the service contract specify the role of IPART in determining the efficient cost of providing CityRail services and CityRail fares.

2.4 The service contract should set out the Government's strategic objectives, service and financial targets and funding for CityRail specifically, not just those for RailCorp as a whole

Although the service contract will cover RailCorp as a whole, it should clearly articulate the Government's strategic objectives, service and financial performance targets and funding for CityRail specifically (as opposed to those for CountryLink, or for RailCorp as a whole). This is important to encourage CityRail to improve its performance, as it will create greater transparency and accountability, and will ensure that any inefficiencies in the CityRail business cannot be transferred to the CountryLink business.

IPART considers it important that the service contract set out the quality and quantity of services to be provided as well as CityRail's financial performance. This will enable the Government to consider these two important issues in the same context rather than in isolation.

Chapters 3 and 4 discuss the type of service and financial performance targets and indicators for CityRail that should be included the service contract to ensure it is effective in driving performance improvements.

Recommendation

- 6 That the service contract clearly articulate the Government's strategic objectives, performance targets and funding for CityRail (as distinct from those for RailCorp as a whole).
- 7 That the service contract clearly articulate the Government's service and financial performance targets for CityRail.

2.5 The service contract should be output focused

Under a service contract model, the Government's ability to make key strategic decisions related to CityRail services is enhanced – for example, on the quantity, quality and location of services, the purchase of rolling stock, capital investments and any specific Government policies or practices CityRail must adhere to (such as offering concession fares etc). Thus, the service contract provides the Government with enhanced control over what matters to it and the travelling public – an improved level of service performance from CityRail.

However, for the service contract to be most effective, this control should be exercised in a way that provides RailCorp with sufficient managerial autonomy and flexibility to achieve its financial performance targets. This means that as much as possible, the service contract should focus on the 'outputs' the Government requires from CityRail. For example, it should set out objectives and measurable performance targets that clearly indicate the quantity and quality of service CityRail is to provide, and the quantum of cost efficiency gains it is to make (and against which its performance will be evaluated). But it should leave RailCorp's management to decide what 'inputs' are required to achieve these 'outputs'.

IPART considers that an outputs-focused service contract will improve accountability and encourage RailCorp to develop and implement plans to improve its economic efficiency while maintaining or improving its service performance.

IPART recognises that the Government may want to make some key decisions related to CityRail's day-to-day operations – for example, on the role of guards on trains, staffing of low patronage stations, and outsourcing the maintenance of rolling stock – and that these policies may preclude CityRail from achieving IPART's efficiency targets. In these circumstances, it is important that the Government decide the policies or practices it requires RailCorp to adhere to in operating the CityRail business ex-ante, and specify these in the service contract.

Recommendation

- 8 That the service contract focus on outputs rather than inputs, by specifying the objectives and performance targets CityRail is to meet.

2.6 The Government should monitor and evaluate CityRail's performance against the service and financial performance targets

To gain maximum benefit from the service contract and from the efficiency incentives resulting from IPART's more rigorous process for determining fares, the Minister for Transport, MoT and NSW Treasury need to monitor and evaluate CityRail's performance against the objectives and service and financial performance targets set out in the service contract. IPART considers such monitoring and evaluation is essential, to ensure that RailCorp can be held accountable for CityRail's performance, and thus strengthen its incentives to improve this performance. It will

also ensure that MoT (on behalf of the Minister for Transport) is an informed purchaser of passenger rail services.

IPART also considers it important that Government hold RailCorp management accountable to its service and financial performance by specifying the consequences of any non-performance. The service contract should specify the consequences for RailCorp's management of non-performance including providing a requirement for management to agree to a detailed plan with the Government on how it will return performance to levels specified in the contract. For example when performance is not satisfactory RailCorp should be required to provide a report to the Minister which informs the Minister of the programs management have put in place and their timeframes to return performance to levels specified in the contract and a timetable to address the unsatisfactory performance. If performance does not improve the service contract should outline a process in which more detailed intervention in RailCorp management may be required including replacing management. MoT will need to enhance or possibly recruit the appropriate expertise in passenger rail services to be an informed participant in discussions on performance and strategies to address poor performance.

2.6.1 Monitoring service performance

In IPART's view, MoT should conduct rigorous monitoring of CityRail's service performance. To facilitate this, RailCorp should be required to provide regular reports to the Minister for Transport on CityRail's performance against all the indicators and targets included in the service contract.

RailCorp's report should be in a simple and meaningful format, which highlights CityRail's performance against the targets. It should include commentary on the extent to which CityRail met the target, and explanations for any failure to meet targets. As noted above IPART considers it important that Government hold RailCorp management accountable for its service performance by specifying the consequences of any non-performance.

Recommendation

- 9 That the Government regularly monitor and evaluate CityRail's performance against the service performance targets in the service contract, and take account of CityRail's historical performance in developing future service contracts.
- 10 That the service contract include a requirement for RailCorp to report regularly to the Minister for Transport on CityRail's performance against all indicators and targets included in the service contract.

2.6.2 Monitoring financial performance

In the private sector, businesses are exposed to continuous shareholder and debt market scrutiny, and know that they will be penalised for poor management performance (eg, via falling share values, takeovers, receivership, insolvency or bankruptcy). This creates powerful incentives for good financial performance, including cost efficiency.

However, in the public sector, these conditions do not exist, and alternative ways must be found to provide this kind of scrutiny and create these incentives. IPART considers that rigorous financial monitoring of CityRail's performance by NSW Treasury (as protector of the Government's financial exposure) and the Minister for Transport and MoT as purchaser of rail services is the most effective way. This monitoring is critical to:

- ▼ ensure transparency and accountability in RailCorp, and minimise the costs of foregone efficiency
- ▼ limit RailCorp's managerial discretion to pursue objectives other than those specified by the Government
- ▼ align the incentives of the broader economic regulatory framework with those of fare regulation, and
- ▼ ensure that the service contract is an effective instrument in guiding the financial and management accountabilities of RailCorp.

In addition, CityRail's actual financial performance against the targets should feed back into the development of future contracts, so that targets reflect actual achievements and stretch targets can be set.

To facilitate this monitoring, RailCorp should be required to report regularly to the Minister for Transport on CityRail's performance against the objectives, indicators and targets included in the contract. IPART considers it important that both service and financial performance are monitored as part of overall CityRail operational performance. As noted above IPART considers it important that Government hold RailCorp management accountable for its financial performance by specifying the consequences of any non-performance.

Recommendation

- 11 That as part of monitoring CityRail performance against the service targets, the Government monitor and evaluate CityRail's performance against the financial objectives and targets in the service contract, and take account of its actual performance in developing future service contracts.
- 12 That the Government specify in the service contract consequences for non-performance including a detailed plan that will be followed prior to intervention by the Government.

2.7 The service contract and CityRail's performance against the targets in the contract should be publicly available and reported on

To ensure transparency and further enhance RailCorp's accountability for CityRail's performance, the passengers who use CityRail services and the taxpayers who subsidise the cost of providing these services should know what service and financial targets the Government has set for CityRail and CityRail's actual performance against these targets. Therefore, IPART considers the service contract should be publicly available, and CityRail's performance against the targets in the contract should be publicly reported on annually.

2.7.1 The service contract should be publicly available

IPART believes that transparency of information is central to accountability and a foundation of good regulation. An effective service contract should provide for full transparency in relation to the service and financial performance targets the Government expects CityRail to meet, and the funding it provides for CityRail services. This will ensure that CityRail passengers and taxpayers know the level of performance they should expect from CityRail, and the extent to which taxpayers are subsidising the cost of providing CityRail services.

Recommendation

13 That the service contract be made publicly available at the time it is signed and whenever it is updated.

2.7.2 CityRail's performance against the targets in the service contract should be publicly reported on

As discussed in section 2.6.1 RailCorp should continue to be required to report to the Minister for Transport, as purchaser of CityRail services, on CityRail's performance against the objectives and targets included in the service contract.

Requiring RailCorp to report to the public annually, as well as the Government, on its success in achieving the service and financial targets for CityRail included in the contract will have several benefits:

- ▼ It will signal to the public that responsibility for meeting the targets set by the Government lies with RailCorp (not the Government).
- ▼ It will allow the public to form an informed view on the trends and adequacy of CityRail's performance.

- ▼ It will increase RailCorp's accountability for CityRail's performance, and provide added incentive for it to focus on improving this performance to meet or exceed its targets. In its submission, the ITSRR submitted that experience in other jurisdictions suggests that public reporting is one of the most effective ways of influencing an operator's behaviour.¹²

In IPART's view, the existing forms of public reporting on CityRail's performance – including publication of performance information on CityRail website, and the ITSRR's annual passenger surveys and reliability report – should continue. However, this reporting should be against the expanded range of targets in the service contract. It should highlight good and poor results, and include commentary, analysis of trends, and strategies to address shortfalls in performance relative to targets. In addition, CityRail's service levels should be benchmarked against those achieved by passenger rail systems in other jurisdictions, to encourage performance comparable with world standards.

Recommendation

- 14 That RailCorp publish up to date information on its website regarding CityRail's performance against all targets in the contract, and produce an annual overview report for the public with commentary on performance against the targets.
- 15 That annual CityRail passenger surveys continue to be undertaken and the results publicly reported.

In addition, to ensure that CityRail is not achieving operating cost savings at the expense of service quality, IPART has made a final decision to require RailCorp to provide it with information on CityRail's performance over the previous financial year against the performance targets set in the contract by 30 October each year. (See IPART's final report and fare determination.)

IPART will publish annually a CityRail prices and services report that will highlight CityRail's service performance, based on the information provided by RailCorp and publicly available information. IPART will publish this report in December of each year as part of its annual process for monitoring CityRail's compliance with the fare determination.

Recommendation

- 16 That IPART publish an annual report on CityRail's fares and actual services levels.

¹² ITSRR Submission, 7 November 2008, p 6.

3 Key information on service performance to be included in the service contract

As Chapter 2 discussed, one of the principles for an effective service contract is the clear specification of the level of service CityRail is expected to provide. In particular, the contract should set out measurable performance targets and indicators that clearly specify the quantity and quality of service CityRail is to provide. It should also set out any specific policies or practices the Government requires RailCorp to adhere to in providing CityRail services.

This will ensure that the Government's expectations for CityRail's service performance is transparent, enable this performance to be monitored and evaluated so RailCorp can be held accountable, and provide incentives for performance improvement. It will also ensure that RailCorp does not respond to incentives for improved efficiency by allowing service standards to deteriorate. In addition, it will enable IPART to more accurately estimate CityRail's efficient costs, as these costs depend heavily on the quantity and quality of services provided. Further, IPART considers that an effective service agreement is likely to be the most successful way to incorporate service standards into the regulatory approach.

IPART has considered what targets, indicators and other information needs to be included in the service contract so it clearly specifies the quantity and quality of service CityRail is to provide, and any policies that must be complied with in providing the service. Its findings and recommendations are set out in the sections below.

IPART considers that the implementation of these recommendations will give the Government enhanced control over CityRail's overall direction and service performance, while leaving RailCorp's management with a clearer understanding as to the level of service performance in terms of 'outputs' to which it will be held accountable. This will provide RailCorp management with greater incentives for performance improvement.

However, IPART notes that for service quantity and quality targets to work effectively, they need to be ambitious yet achievable. In setting these targets, the Government will need to take account of the constraints of the CityRail system which are, in broad terms, reflected in CityRail's recent performance. It will also need to take account CityRail's legal requirements under the *Rail Safety Act 2002* to meet safety standards, and the complex interrelationships between various aspects of service quality, safety and network capacity. In addition, the Government will need to consider the cost implications of the service quantity and quality targets it sets,

and ensure that these targets are consistent with levels of funding and IPART's fare determination.

Given the importance of targets being achievable, IPART considers that targets should be set only for service quantity and quality indicators for which a time series of data is available. In 2004, IPART commissioned LEK Consulting to develop a set of key performance indicators for RailCorp. These indicators, which cover a range of areas including service quantity and quality, were developed in consultation with RailCorp, MoT and ITSRR. Since 2004, RailCorp has been collecting data on these indicators, or developing systems to collect the required data if it was not previously collected. IPART has based its recommendations on the aspects of service quantity and quality for which targets should be set on these indicators.

3.1 Specifying the quantity of service

To be effective, the service contract needs to clearly specify the quantity of service CityRail is to provide. This quantity is a fundamental part of any service contract, and directly affects CityRail's costs and its passengers' experience (through service coverage, hours of service and train frequency).

Currently, CityRail's timetable appears to be the main document that sets out, implicitly, the Government's expectations of when and where CityRail provides passenger rail services. IPART considers that the service contract should specify the quantity of service to be provided in terms of the minimum frequency of services:

- ▼ by line
- ▼ in various time bands (am/pm peak, shoulder, off-peak)
- ▼ by direction (to/from CBD)
- ▼ on weekdays and weekends/public holidays, and
- ▼ the times of first and last services each day.

This will enable the Government to effectively guide the strategic direction of CityRail's operations.

IPART also considers that the service contract should set out target levels for train service kilometres, and carriage service kilometres¹³ (which provide information about service capacity). Monitoring CityRail's performance against these targets will enable the Government to determine whether CityRail's quantity of service is increasing or decreasing. In addition, IPART considers that the service contract should set out targets for total patronage (or passenger journeys).

The targets for train service kilometres, carriage service kilometres and total patronage should be broken down into peak and off peak targets, as the costs and complexity of increasing services in peak periods are greater than in off peak periods. IPART understands this information may not currently be collected for peak and off peak but considers CityRail systems should be developed to report this level of detail.

IPART recognises that there are complex considerations and multiple constraints on timetabling passenger rail services, and that MoT will need to build and retain resources and expertise in this area to undertake this role.

Recommendation

17 That the service contract clearly specify the quantity of service CityRail is to provide by setting measurable performance targets for the indicators set out in Box 3.1 below.

Box 3.1 Recommended indicators for service quantity

- ▼ minimum frequency of services by line, in various time bands (am/pm peak, shoulder, off-peak), by direction (to/from CBD), on weekdays and weekends/public holidays, and the times of first and last services
 - ▼ peak and off peak train service kilometres and carriage service kilometres¹⁴
 - ▼ peak and off peak total patronage (passenger journeys).
-

¹³ The KPIs recommended by LEK in 2004 noted that actual train service kilometres were not available at that time, and that timetabled service kilometres should be used until actuals were available. IPART understands that actuals are not yet available but would be a preferable measure to timetabled service kilometres. The LEK KPI for Carriage kilometres did not refer to service kilometres but total carriage kilometres (the distinction being that service kms excludes non-revenue services). Carriage service kilometres is a preferable measure of services to the public and, provided historical data are available, carriage service kilometres should be used in place of carriage kms. Actual carriage service kilometres are preferable to timetabled carriage service kilometres, when they are available.

¹⁴ Ibid.

3.2 Specifying the quality of service

To be effective the service contract also needs to specify the quality of service CityRail is to provide. However, as for many other essential services, the quality of passenger rail services has many aspects, and no one single indicator can adequately reflect all these aspects. IPART considers that the service contract should identify indicators for the aspects of service quality that are most important to passengers, and set a clear performance target for each of these indicators. Rail safety is a vital, non-negotiable aspect of service; however, IPART has not recommended requirements for rail safety be included in the service contract as RailCorp is legally obliged to meet safety requirements of the *Rail Safety Act 2002*. Therefore, the quality of service specified in the service contract should reflect RailCorp's statutory obligations in regards to safety.

IPART notes that ITSRR and RailCorp have undertaken surveys to understand which aspects of service quality are important to CityRail passengers (see Appendix B). Taking into account this analysis, and the service quality indicators developed by LEK Consulting (discussed above), IPART considers that the service contract should focus on indicators for the following aspects of service quality:

- ▼ reliability
- ▼ journey time and delays
- ▼ crowding on trains
- ▼ passenger safety and security
- ▼ provision of information to passengers
- ▼ cleanliness of trains
- ▼ passenger comfort.

In addition, the Government should consider improving the initial indicators for some of these aspects of quality for future service contracts, and should regularly review the indicators and targets included in the service contract to ensure they remain consistent with the Government's objectives and passengers' priorities.

3.2.1 Reliability

One aspect of service quality that is important to all stakeholders is reliability. The current service contract specifies several indicators (and targets) for the reliability of CityRail services, including the (average) peak period on-time running for the network as a whole,¹⁵ and the number of cancelled/skipped stops for the network as a whole. However, because CityRail's network and services are so diverse, these

¹⁵ However, the RPA does require that RailCorp report on-time running by individual suburban and intercity lines.

highly aggregated indicators do not provide an adequate picture of the reliability of CityRail services. Therefore, IPART considers that the service contract should set targets for average on-time running and the number of skipped stops and cancelled services for each train line, and for peak and off peak periods. IPART understands that information about cancelled services for off peak periods and by line may not be currently collected, but considers systems should be put in place to collect this data.

3.2.2 Journey time and delays

IPART notes that different aspects of service quality are important to different passengers. Journey time is likely to be more important to long-distance passengers than inner city residents. Journey delays are likely to matter more to passengers who need to reach their destination by a specific time.

IPART was not able to identify an indicator for journey time for which a time series of data is available. However, it considers that average speed of trains as scheduled in the timetable should be used as a proxy for this indicator.

An indicator for journey delays should also be included in the service contract. In the first instance, this indicator should be based on LEK's measure of delay: total minutes of delay during peak periods per month (excluding events outside CityRail's control). IPART considers that a target should be set for this indicator, and for total minutes of delay during off-peak periods.

3.2.3 Crowding on trains

The level of crowding on trains during peak periods is another important aspect of service quality. The current Rail Performance Agreement includes an indicator related to this aspect – the percentage of peak CityRail suburban trains at a load factor above 135 per cent¹⁶ – and sets a target of 5 per cent of peak hour trains by 2008.

However, as crowding on trains varies significantly across the lines of the network, IPART considers this network-wide measure provides little insight.¹⁷ Passengers are likely to view CityRail's reported performance against this indicator with scepticism if it bears little relationship to their own experience. In view of this, IPART considers that the service contract should set a target for the percentage of trains in peak periods with a load factor above 135 per cent for each train line.

¹⁶ When the LEK KPIs were developed, the crowding standard defined the crowding measure as 'percentage of peak service above 135 per cent loading standard (without an alternative service within 15 minutes). The RPA does not include the clause 'without an alternative service within 15 minutes' and IPART considers that it is desirable and appropriate for this clause to be excluded.

¹⁷ For example, in 2007, average load factors on the Western, Main North and Illawarra lines were 130 per cent, and maximum load factors on these lines were 180, 160 and 170 per cent respectively. In the same period, on the Eastern suburbs line, the average load factor was 50 per cent and the maximum load factor was 140 per cent. Source: RailCorp, *Review of Peak Train Loads, September 2007, Issue Paper 7/2007*, p 5.

IPART notes that these targets will need to reflect the constraints of the system as well as planned system improvements. Where peak period patronage on a line is growing, and there is limited capacity to increase the number of services on that line within the system's safety constraints, the target needs to reflect this. Differential targets for different train lines will signal the need to address crowding issues on lines with higher targets. As projects addressing these issues are implemented, the targets should be adjusted downwards.

3.2.4 Passenger security

The current RPA requires CityRail to report on one performance indicator related to passenger safety and security – the average monthly number of 'Offences against the person'¹⁸ occurring on or adjacent to railway property per million passenger journeys based on Bureau of Crime Statistics and Research (BOCSAR) quarterly reports – but does not set a target. IPART considers that the service contract should continue to include this indicator, and should set a target for it. In addition, as safety is also a matter of perception, the service contract should include an indicator and target for passengers' perceived safety, based on the results of the ITSRR annual surveys.

IPART notes that the current RPA also includes some indicators that broadly relate to safety and security, including the percentage availability of PA systems on trains, CCTV and help points. However, it considers that these indicators are measures of inputs and provide little insight into passenger safety.

3.2.5 Provision of information to passengers

The current RPA requires CityRail to report on one performance indicator related to the provision of information to passengers – the percentage availability of PA systems on trains – but does not set a target. IPART considers that this indicator has limited value from a customer perspective, as it says little about the adequacy of information provided to passengers. IPART considers that a more customer-focussed indicator – an index of customer satisfaction with information provision, based on the results the ITSRR's annual surveys – and a target should be included in the service contract.

¹⁸ Offences against the person includes assault, robbery, sexual offences and stealing from a person which occur on or next to railway property. Statistics reflect incidents reported to and recorded by NSW Police.

3.2.6 Cleanliness of trains

The current RPA requires CityRail to report on the numbers of seats repaired, windows replaced, graffiti hits removed, and square metres of graffiti painted out to rectify damage caused by vandalism, but does not include indicators related to the cleanliness of trains. Again, IPART considers that a customer-focussed indicator – an index of customer satisfaction with the cleanliness of trains, based on the results of ITSRR’s annual surveys – and a target should be included in the service contract.

3.2.7 Passenger comfort

The current RPA does not include any indicators related to passenger comfort. IPART considers that this is an important aspect of service quality for many passengers. LEK developed a proxy indicator for passenger comfort – the percentage of fleet less than 10 years old. IPART considers this is a reasonable proxy, as more modern carriages are air conditioned and more comfortable than older carriages. Therefore, in the first instance, this indicator and a target should be included in the service contract.

In addition, IPART considers that the target for this indicator should become increasingly ambitious over time, in line with Government policies and RailCorp commitments over the period (for example, the scheduled delivery of PPP rolling stock).

3.2.8 Improving on the initial indicators for future service contracts

IPART understands that information about some of the recommended indicators may not currently be collected at the level of detail recommended by IPART (for example delays, cancellations, skipped stops may not be available by line for peak and off peak periods). However, it considers CityRail systems should be developed to report at this level of detail.

IPART considers that MoT, in consultation with ITSRR and RailCorp, should work on improving some of the initial indicators discussed above for future service contracts. For example, in relation to service reliability, the Blue Mountains Transport Users Association suggested that on-time running should be measured at more points – the beginning, middle and end of the trip. NCOSS observed that the metropolitan plan focuses on employment opportunities outside the CBD and, over time, the targets for on-time running should reflect this. IPART sees merit in these arguments for wider measuring of on-time running, but considers that their practical and cost implications should be further investigated.

In relation to the indicators for journey time and delays, MoT should consider developing an improved measure of journey time, and a more sophisticated measure of journey delays which takes account of the number of passengers impacted for inclusion in future service contracts.

In addition, currently the morning peak period services are defined as those arriving in Sydney CBD (Central) between 6 am and 9 am, and afternoon peak period services are defined as those departing Sydney CBD (Central) between 4pm and 6pm. The ITSRR noted that this definition does not match the times of maximum passenger demand.¹⁹ The Auditor-General has made similar observations and recommended that RailCorp review and if necessary redefine peak period services.²⁰ IPART agrees with this view, and considers that MoT should consider making the definitions of the morning and afternoon peak periods in the service contract align more closely with the periods of peak use of the system.

IPART understands that RailCorp is reviewing its collection of performance and other data with a view to improving the data and increasing the efficiency of data collection. For example, RailCorp has recently joined the CoMET/Nova group of urban rail networks, which facilitates international benchmarking of rail networks performance against key indicators. However CoMET/Nova confidentiality agreements are likely to prevent RailCorp from reporting against these measures publicly²¹ and consequently these measures will not achieve IPART's aim of greater public transparency and accountability for CityRail performance.

IPART notes that the CityRail's Customer Service Improvement Program included recommendations to collect new service performance information. In due course, it may be appropriate to consider replacing some of the indicators IPART has recommended with these alternative measures, provided the measures focus on passenger outcomes, and once it is clear the data collection is reliable and a time series of data is available. IPART considers availability of historical information is important as it informs the setting of challenging but achievable targets and provides the government and public with quantitative information about trends in CityRail's performance.

3.2.9 Periodically reviewing the service quality indicators to ensure they continue to reflect the Governments' objectives and passengers' priorities

Over time, the Government's objectives for CityRail and passengers' priorities may change. For example in the 2004 ITSRR survey, most of the train users surveyed nominated punctuality of train services as their highest priority,²² but in the 2008 survey most nominated frequency of services as their top priority.

¹⁹ ITSRR, *Annual Reliability Report, 2005-06*, p 152. This report refers to a March 2006 survey of train loads, which indicated that a number of trains operating outside the peak periods had loads in excess of the crowding standard and that there were no trains with loads in excess of the crowding standard in the first hour of the peak periods.

²⁰ NSW Auditor-General, *Managing disruptions to CityRail Passenger Services*, 2005, p 22.

²¹ Auditor-General's Report to Parliament 2007, volume 4, p 120.

²² When asked to nominate the highest priority out of punctuality, train frequency and journey time. See ITSRR, *Survey of CityRail Customers*, 2008, p 29.

Given this, IPART considers that regular reviews of the service quality indicators and targets included in the service contract are appropriate. As part of future reviews of the service contract, MoT should review the indicators and targets to assess whether the quality of service the contract specifies is consistent with its public transport strategy and in line with passengers' priorities.

Recommendation

18 In the first instance, that the service contract clearly specify the quality of service to be provided by CityRail by setting measurable performance targets for the indicators set out in Box 3.2 below.

Box 3.2 Recommended indicators for service quality in the first instance

- ▼ on-time running, skipped stops, and cancelled services
 - in peak and off peak periods
 - for each line of the CityRail network
- ▼ total delay minutes in peak and off peak periods for each line of the CityRail network
- ▼ average timetabled train speed, as a proxy for journey time
- ▼ peak period crowding for each line of the CityRail network
- ▼ offences against persons, derived from the Bureau of Crime Statistics and Research quarterly reports for each line of the CityRail network
- ▼ an index of customer perception of safety, based on the results of the ITSRR's annual passenger surveys
- ▼ an index of customer satisfaction with information provision, based on the results of ITSRR's annual surveys
- ▼ an index of customer satisfaction with cleanliness of trains, based on the results of the ITSRR's annual surveys
- ▼ percentage of fleet less than 10 years old, as a proxy for passenger comfort.

Recommendation

19 For future service contracts, that the Ministry of Transport, in consultation with the ITSRR and RailCorp, consider improving the service quality performance targets by taking the steps set out in Box 3.3 below.

Box 3.3 Recommended steps for improving service quality targets in future service contracts

IPART recommends that the Ministry of Transport in consultation with the ITSRR and RailCorp:

- ▼ consider the feasibility of measuring on-time running at major centres as well as the CBD
- ▼ consider developing a more sophisticated indicator for journey delays that takes into account the number of passengers affected for inclusion in future service contracts
- ▼ consider developing an improved indicator for journey time for inclusion in future service contracts
- ▼ review the definition of the morning and afternoon peak periods included in the service contract with a view to aligning this definition with the periods of peak use of the system and IPART's fare determination.

Recommendation

20 That the Ministry of Transport regularly review the indicators and targets for service quality included in the service contract to ensure they continue to reflect its public transport strategy and passengers' priorities.

3.3 The service contract should clearly specify any other Government policy requirements

As discussed in Section 2.5, IPART considers it important that the service contract be output focused where possible to clearly indicate the level of performance or 'output' to which RailCorp will be held accountable and to encourage RailCorp to develop and implement plans for service and financial performance improvements.

IPART recognises that the Government may require CityRail to adhere to specific policies or practices (such as the offering of fare concessions etc), and intends to continue to exercise control over a number of day to day matters (such as the role of guards on trains, staffing of low patronage stations, whether to conduct rolling stock maintenance in house or via external contract etc).

Therefore, in addition to clearly specifying the quantity and quality of service CityRail is to provide, the service contract should transparently set out any specific Government requirements related to the way RailCorp provides CityRail services. For example, LEK's 2008 analysis of CityRail's efficient costs identified potential for CityRail to make savings while delivering the same level of service. LEK found that other similar rail operators can provide similar levels of service at lower cost by removing of guards on trains and staffing at stations with low patronage and investing additional capital expenditure including investment in CCTV systems.

IPART notes the NSW Government's decision to maintain the current approach to train crewing through the use of guards on trains.²³ As IPART has emphasised throughout this review, deciding whether or not to employ train guards and staff low patronage stations is a matter for Government. At present, IPART's view is that the costs associated with employing train guards and staffing low patronage stations are not efficient, and so should not be funded by passengers. Therefore, it has excluded these costs from its final decision on the level of efficient operating and maintenance expenditure. These costs will need to be funded by CityRail's owner, the NSW Government, and ultimately taxpayers.

IPART considers that the Government should specify in the service contract all government policies and requirements of CityRail which are over and above what would be required of an operator aiming to deliver cost-efficient services that simply comply with the various government-specified benchmarks. This will assist RailCorp in better managing any tension that exists between commercial and non-commercial goals (such as operating efficiency versus social responsibility goals), and improve the likelihood that it achieves the Government's objectives and does so at the least cost. As discussed in Chapter 4, the additional costs associated with these Government policies should be separately identified and funded in the contract.

²³ NSW Government submission, 14 November 2008, pp 1-2.

3 Key information on service performance to be included in the service contract

Recommendation

21 That the Government specify (and fund) in the service contract all government policies and requirements of CityRail which are over and above what would be implemented by an operator aiming to deliver cost efficient services that simply comply with the various government-specified benchmarks.

4 Key information on financial performance and funding to be included in the service contract

In line with the principles outlined in Chapter 2, IPART considers RailCorp's service contract should clearly specify the financial performance CityRail is expected to achieve and the funding the Government will provide towards the costs of providing CityRail services. In particular, the contract should set out measurable financial performance targets for the CityRail business. It should also clearly indicate who will bear the costs or benefits if CityRail's costs or fare revenues are different than forecast, and detail the level of funding to be provided towards the individual components of CityRail's costs. In addition, both the financial performance targets and funding levels should be consistent with the service performance targets and IPART's fare determination.

The sections below discuss the financial performance targets and funding information the service contract should contain in more detail and set out IPART's recommendations. IPART believes the implementation of these recommendations will enable the Government to exercise more effective control over CityRail's strategic direction and financial performance, and create strong incentives for RailCorp to improve CityRail's financial performance for the benefit of RailCorp, the Government and taxpayers. In addition, by encouraging CityRail to improve its financial performance, and rein in its costs to efficient levels, the recommendations will also help ensure the long-term sustainability of CityRail services for the benefit of passengers and the community as a whole.

4.1 The service contract should transparently set out measurable financial performance targets

LEK Consulting's assessment of CityRail's costs, which IPART commissioned as part of its 2009 fare review, provided clear evidence that CityRail is not operating as efficiently as comparable Australian and international rail passenger service providers.²⁴ The Boston Consulting Group's recommendations as part of the *Customer Service Improvement Program* provided a similar view of the overall operational efficiency of CityRail.²⁵

²⁴ LEK, *Cost Review of CityRail's Regular Passenger Services*, report to IPART June 2008.

²⁵ In October 2007, the NSW Government and RailCorp engaged the Boston Consulting Group to support the design and implementation of a major program to improve CityRail's customer service. The NSW Government released the BCG reports in October 2008. <http://www.nsw.gov.au/InfoItemView.asp?id=D73A05A0-FA59-4247-A2AD-675DDE71525E>

To create effective incentives for efficiency savings, the service contract must contain measurable, detailed financial performance targets, including efficiency savings targets. High-level financial targets for RailCorp as a whole are not sufficient, as they will not allow the Government (as owner) to monitor and evaluate CityRail's financial performance, hold RailCorp's management accountable for this performance, or create incentives for CityRail to improve this performance.

More specifically, the service contract should:

- ▼ **Set out specific financial performance targets for CityRail.** As section 2.4 discussed, this is important to encourage CityRail to improve its performance, as it will create greater transparency and accountability, and ensure any inefficiencies in the CityRail business cannot be transferred to the CountryLink business.
- ▼ **Include financial performance goals that are measurable and consistent with the Government's objectives for public transport.** These goals may include patronage growth, increases in commercial revenue through better property management and advertising income or improvements to RailCorp's procurement delivery model. The inclusion of financial goals should encourage and allow RailCorp to improve its financial performance, improve financial planning for CityRail and better integrate CityRail's operating and capital expenditure. A more optimal mix of operating and capital expenditure will promote the supply of services at least cost for the benefit of Government, commuters and NSW taxpayers.
- ▼ **Include measurable efficiency targets specific to CityRail and consistent with the service performance targets included in the contract and IPART's fare determination.** In particular, the efficiency targets should be set to reflect the efficient operating cost benchmarks and the allowance for transitioning to these benchmarks that IPART determined as part of the fare setting process. In addition, these targets should become increasingly ambitious over time, to put pressure on RailCorp to move CityRail to a cost structure similar to comparable operators in Australia.

IPART notes that for financial performance targets to work effectively, they need to be ambitious yet achievable. In setting the financial performance targets, the Government will need to take into account a range of factors, including:

- ▼ CityRail's current levels of efficiency compared to the efficient operating benchmarks IPART determined as part of its fare determination²⁶
- ▼ any costs above the level of efficient costs determined by IPART as a result of government policy requirements
- ▼ other Government budget priorities.

²⁶ IPART received expert advice from LEK regarding efficient cost benchmarks. LEK determined these benchmarks by comparing CityRail's costs with those of other comparable Australian and international rail passenger service providers. LEK's report is available from the IPART website.

Recommendation

22 That the Government, as owner, clearly specify in the service contract the financial performance outcomes it expects from CityRail (as distinct from RailCorp's other business operations). This should include:

- financial performance goals that are measurable and consistent with the Government's objectives for public transport
- measurable efficiency targets that are set to reflect the efficient operating costs benchmarks and the allowance for transitioning to these benchmarks IPART determined as part of the fare setting process
- any costs above the level of efficient costs determined by IPART as a result of government policy requirements.

4.2 The service contract should detail the level of funding and clearly establish what will happen if actual costs or fare revenues differ from forecasts

Like other public transport operators, CityRail's farebox revenue covers only a proportion of its revenue requirement. Therefore, the Government provides RailCorp with significant funding as a contribution towards the costs of providing CityRail services, as compensation for providing fare concessions in line with government policy, and to undertake capital works.

IPART considers the service contract should include more detailed information about the funding arrangements than RailCorp's current funding contract. This information is important to ensure transparency and accountability, and to create effective, consistent incentives for RailCorp to improve its financial performance. It is also necessary to ensure the incentives IPART creates through its fare determinations are effective.

Specifically, IPART believes the service contract should:

- ▼ **Clearly allocate unforeseen changes in CityRail's costs and farebox revenues between the Government and RailCorp in a way that is consistent with the incentives IPART aims to create through its fare determination.** To do this, the level of government funding for CityRail should:
 - match IPART's fare determination²⁷
 - include any additional costs as a result of Government policy requirements imposed upon RailCorp

²⁷ In its final fare determination IPART uses a building block approach to determine CityRail's annual revenue requirement. This includes efficient operating costs, a return of capital or depreciation and a return on capital. The return on capital compensates CityRail's shareholder (the NSW Government) for committing capital to the business and bearing the risks associated with the business.

- be consistent with the parameters for compensation which should be established *ex ante* (for example, if CityRail's farebox revenue is less than forecast).
- ▼ **Clearly and transparently set out the level of funding for the provision of CityRail services at the quantity and quality specified in the service contract.** The total level of funding should be broken down into the different components of this funding (such as the funding provided towards efficient operating costs, the costs of meeting government policy requirements, etc).

4.2.1 Allocate unforeseen changes in costs and revenues between the Government and RailCorp

Clearly specifying where and when the Government or RailCorp bear the cost or benefit of unexpected changes in CityRail costs or fare revenue is fundamentally important to the incentives created for RailCorp. It is also important that the incentives under the service contract match the incentives IPART is trying to create through its approach to fare setting.

Establishing government funding in line with the fare determination

Under an incentive approach to economic regulation the risk that the actual costs of the service provider may be different to the forecast costs used in determining prices is borne by the service provider (rather than customers). This recognises that the service provider is typically best placed to manage cost variations, and creates incentives for it to keep its costs at or below the level used in determining prices.

Since one of the Government's primary aims is to create effective incentives for RailCorp to reduce CityRail's costs to efficient levels, IPART considers it crucial that RailCorp bears the consequences of changes in CityRail's costs. To do this, CityRail's revenue requirement, based on the efficient costs of providing CityRail services, must be determined *ex ante*, and its funding must be established in line with this revenue requirement for the determination period.

In making its final fare determination, IPART determined CityRail's revenue requirement (based on its estimate of CityRail's efficient costs and achievable efficiency gains), and the appropriate share of this revenue to be recovered from passengers and from the Government (based on the value of the external benefits of CityRail services, patronage affects and affordability). It then determined CityRail fares so that the revenue CityRail receives from this source is in line with the share of the revenue requirement to be recovered from passengers. Its intention is to create a financial incentive for RailCorp to contain CityRail's costs in line with the revenue requirement.

However, IPART is not able to control the amount of revenue CityRail will receive from the Government. Therefore, to support the incentive created by the fare determination, the service contract should where possible establish the amount of funding the Government will provide for CityRail services over the determination period in line with the share of the revenue requirement to be recovered from the Government. Under such an agreement, the Government would not provide additional funding for CityRail services if RailCorp was not able to control the growth in CityRail's costs and move these costs towards efficient levels. IPART notes that this approach is consistent with service contracts in other jurisdictions.²⁸

If unusual unforeseeable circumstances or events impose additional costs on RailCorp in providing CityRail services, it may be appropriate for the Government to provide additional funding to RailCorp. However, it is important that additional funding is only provided for events that are outside RailCorp's control, and these events are transparent and clearly defined. IPART notes that under the funding contract between the Victorian Government and Connex (the Melbourne rail passenger service provider), additional funding is only provided in a limited number of circumstances to ensure that responsibility for cost overruns is not transferred from the service provider to the Government.²⁹

A further option for creating incentives for RailCorp to improve CityRail's efficiency (and for increasing management's accountability) is to link a proportion of CEO and senior management pay to the achievement of specific financial performance targets. This would provide a greater range of risks and rewards for senior management performance than is currently available. Introducing pay at risk would reinforce the importance of allowing RailCorp to achieve the 'outputs' as determined by Government, without the need for Government involvement in the decisions about 'inputs'. Ultimately, if despite appropriate managerial autonomy, RailCorp consistently fails to control CityRail's costs and meet the financial performance targets in the service contract, then Government should change management. The Minister for Transport's comments suggests that Government intends to follow this approach.³⁰

²⁸ Bus service tenders, such as London Buses and TransAdelaide transfer the cost risk to operators. In addition, the European Conference of Ministers of Transport recommends that governments focus the service provider on minimising costs by transferring cost risk. European Conference of Ministers of Transport (ECMT) Railway reform and charges for the use of infrastructure, 2005, p 68.

²⁹ This is a point emphasised in the majority of literature on service contracting. See for example, Pater Kahn, *The pitfalls in competitive tendering: addressing the risks revealed by experience in Australia and Britain*, 2006. However IPART recognises that in practice, it is often difficult to completely transfer risk to the operator, particularly when there is the need for an uninterrupted supply of essential services.

³⁰ Minister for Transport, Mr David Campbell, First reading speech, *Transport Administration Amendment (Rail and Ferry Transport Authorities) Bill 2008*, 23 October 2008.

Sharing the costs and rewards of variations in fare revenue

It may also be appropriate for the Government to provide additional funding to RailCorp if actual demand for CityRail services over the determination period falls significantly short of the demand forecasts used in determining fares. Under IPART's approach to fare setting, a price cap or maximum price for each individual CityRail ticketing product has been set. The prices faced by customers will not change over the determination period, regardless of changes in demand. This creates an incentive for CityRail to increase its patronage, because if demand is higher than the forecast used in determining fares CityRail will receive more farebox revenue than assumed in the determination.

However, there is also a risk that demand will be lower than forecast, in which case CityRail will receive less farebox revenue. Given that CityRail receives most of its revenue in the form of government funding, the Government needs to consider whether it is appropriate for CityRail to bear all the costs and rewards of unanticipated variations in farebox revenue, or whether the Government should share some of these. This will depend on a number of factors including the incentive properties the Government wants to create and the nature of CityRail demand.

Because the Government has a clear policy objective to increase patronage of CityRail (and other public transport) services, IPART considers it appropriate for CityRail to profit from the upside risk of fluctuating demand, as this creates incentives for it to grow patronage. For example, if CityRail receives a fixed level of Government funding, and is able to keep any increases in farebox revenue as a result of higher than forecast demand, it has an incentive to grow patronage. However, if the amount of Government funding is reduced to offset any increases in farebox revenue, this incentive is removed.

For this reason, IPART considers that the service contract should state that CityRail is able to keep any additional farebox revenue as a result of higher than forecast patronage. This additional funding could be held in a 'reserve' or 'off-set' account to be used in times of lower than forecast patronage. IPART considers this to be consistent with the Minister of Transport's comments regarding the need for the service contracts to provide incentives for patronage growth.³¹

However, it may not be appropriate for CityRail to bear all of the revenue loss from reduced demand. Arguably RailCorp can exert only limited influence over demand for CityRail services through the quality of service it delivers.³² In addition, RailCorp may not be in a position to easily absorb reduced farebox revenue. Lower patronage and lower revenue than forecast may force RailCorp management to cut back on

³¹ Minister for Transport, Mr David Campbell, First reading speech, *Transport Administration Amendment (Rail and Ferry Transport Authorities) Bill 2008*, 23 October 2008.

³² Demand for CityRail services depends on a number of factors including employment growth (particularly in the CBD); passenger's alternate transport options (including impacts of road congestion) and the relative price of these options; CityRail service quality (reliability, frequency, cleanliness etc); and the price of CityRail services.

essential capital expenditure or reduce CityRail services. IPART does not consider this to be desirable.

For this reason, IPART considers it appropriate for the Government to provide additional funding to RailCorp when CityRail's farebox revenue is lower than the forecast used in determining fares. However, this additional funding should be provided net of any funding in the reserve account (discussed above) and should be made transparent by updating the funding specified in the service contract.

IPART notes that such an arrangement is consistent with contracts for service provision in other jurisdictions in which there is a sharing of revenue risk between Government and the service provider.³³

If the Government decides to include arrangements in the service contract for unexpected variations in farebox revenue IPART considers it important that it:

- ▼ **Specify the 'parameters for compensation' *ex ante*, to provide certainty to both RailCorp and the Government.** This will involve specifying the extent to which RailCorp will be compensated if CityRail's farebox revenue is lower than assumed in determining fares due to lower than forecast patronage. In IPART's view, this should be less than 100 per cent of the shortfall in farebox revenue, as RailCorp management does have some influence over the level of demand through the quality of the service CityRail delivers. There needs to be at least some element of funding 'at risk' to provide incentives for service performance.³⁴
- ▼ **Clearly identify any additional funding that it provides under the arrangement.** That is, this additional funding should not be provided by increasing the funding associated with the efficient operating costs of providing CityRail services. Rather, the service contract should be updated to reflect any revenue sharing payment. Separating funding for items over which management has significant control (such as the costs associated with operational matters) from funding for those over which it exercises less control (such as the level of farebox revenue) will contribute to the accountability of RailCorp.

³³ For example, in designing the service contract between Connex and the Victorian Government, both parties took the view that neither the Government nor Connex was uniquely able to manage farebox revenue risk. The result was a sharing of the risk through an arrangement set up *ex-ante* (see Victorian Department of Infrastructure, *Public Transport Partnerships: An overview of passenger rail franchising in Victoria*, March 2005, p 21). The arrangements include a farebox revenue risk-sharing mechanism whereby franchisees are offered a measure of 'downside' protection in the form of a payment mechanism which is triggered when the farebox revenue falls below a threshold level. Bus service tenders, such as London Buses and TransAdelaide, transfer the cost risk to operators but the revenue risk is retained by government, although an operator may be given financial incentives to increase patronage (that is, there is no downside revenue risk). In addition, the European Conference of Ministers of Transport recommends that governments seek to adopt 'gross cost contracting', involving an entity bidding on the basis of the total costs with the government bearing most or all revenue risk. The aim is to focus the service provider on minimising costs by transferring cost risk. See European Conference of Ministers of Transport (ECMT), *Railway reform and charges for the use of infrastructure*, 2005, p 68.

³⁴ The funding agreement between the Victorian Government and Connex notes that the Government will make up 50 per cent of the shortfall in revenue through an additional contribution.

Recommendation

- 23 That the service contract clearly specify which parties bear the costs and benefits if CityRail's actual costs are higher than assumed in setting fares, consistent with the incentives IPART is aiming to create through its fare determination.
- 24 That the service contract establish *ex ante* the extent to which RailCorp will be compensated if farebox revenue is lower than assumed in setting fares, due to lower than forecast patronage.

4.2.2 Clearly and transparently set out the funding for CityRail services at the quantity and quality specified in the service contract

It is important that the service contract provides a clear and detailed breakdown of the funding the Government will provide to RailCorp for the provision of CityRail services. This will ensure the true costs of providing these services - including the costs of complying with government policy and the costs associated with RailCorp operating at costs above efficient operating benchmarks - are transparent and open to public scrutiny. In turn, this greater transparency will increase RailCorp's accountability and strengthen its incentives to reduce CityRail's operating costs to match those of comparable operators.

First, the service contract should differentiate between the funding provided for CityRail services, CountryLink services, and other non-passenger services. This will also ensure any inefficiencies associated with the CityRail business are not transferred to other parts of RailCorp.

Second, the service contract should breakdown the total funding amount provided for CityRail services into the separate components of this funding. The current funding agreement shows the separate funding amounts provided for several items, including services, purchasing new rolling-stock and providing concession fares in line with government policy. However, it is important that the service contract further breaks down the total funding amount, so that it separately shows the funding for items over which RailCorp has significant control (such as operating costs) and those over which it has less control (such as additional funding to compensate for lower than expected farebox revenue and the costs associated with offering concessions).

In particular, the service contract should separately show the following components:

- ▼ **The funding to be provided to cover the Government's share of CityRail's revenue requirement, consistent with IPART's fare determination.** To create effective incentives for CityRail to improve its efficiency, the funding provided by the Government should be consistent with the revenue requirement determined by IPART minus forecast farebox revenue. This would typically be the largest component of funding. For example, in making its final fare determination for 2009, IPART determined that the Government should provide around 70 per cent of CityRail's revenue requirement.

- ▼ **The funding to be provided to allow RailCorp to transition towards efficient operating benchmarks IPART used in making its fare determination.** This funding is in recognition of the fact that the actual costs of providing CityRail services in the short term will be above these efficient benchmarks. This funding should diminish over time and should be consistent with the financial performance benchmarks determined by NSW Treasury and set out in the service contract.
- ▼ The funding associated with meeting NSW Government policy requirements, as set out in the service contract (for example, the provision of concession fares).³⁵ This will ensure that taxpayers and wider community have an understanding of the costs of these policies.
- ▼ The funding provided as part of cost or fare revenue variations.
- ▼ The funding provided for efficient capital investment.

As discussed in Section 2.2 IPART considers that the service contract should be a multi-year agreement so that it provides greater revenue certainty for RailCorp, which will assist it in better integrating operating and capital expenditure and promote the provision of services at least cost.³⁶

Recommendation

- 25 That the service contract clearly differentiate between the funding being provided for CityRail, CountryLink and other non-passenger services
- 26 That the service contract clearly show the different components of funding for CityRail services, including the funding:
 - associated with the efficient costs of providing the services specified in the service contract
 - temporarily being provided to allow RailCorp to transition towards the efficient operating benchmarks determined by IPART
 - associated with meeting government policy requirements
 - provided as part of cost or fare revenue variations
 - provided for efficient capital investment.

³⁵ The NSW Government provides subsidised or concession travel to a wide range of people within specified target groups. These include school and tertiary students, jobseekers, apprentices and trainees, the vision impaired, certain ex-members of the Defence Forces, pensioners, NSW Seniors Card holders and war widow/ers.

³⁶ This is consistent with the view expressed by Sydney Ferries who noted that a service contract would “provide a sufficient level of certainty with respect to funding (for both operational and capital expenditures) into the future so that longer term planning can be undertaken with greater confidence.” reported in Walker, B. 2007, *Report of the Special Commission of Inquiry into Sydney Ferries Corporation*, 31 October, p 125.



Appendices

A Terms of Reference

Review of CityRail regulatory framework

I, Morris Iemma, Premier of New South Wales, under Section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992* ('the Act'), refer to the Independent Pricing and Regulatory Tribunal (Tribunal) for investigation and report the following matter:

The Tribunal is to recommend a regulatory framework which will provide CityRail with the incentives to provide efficient passenger rail services.

In conducting this review, the Tribunal is to consider the matters listed under Section 15 of the Act, in particular the need for greater efficiency and reliability in the supply of services so as to reduce costs and improve quality, safety and reliability for the benefit of consumers and taxpayers.

Other issues the Tribunal is to consider in undertaking this review are:

1. the appropriate regulatory period for the Tribunal's fare decisions;
2. the efficient costs of providing CityRail's services and the scope for greater efficiency in the supply of these services;
3. NSW Government policy on passenger rail services and public transport, including the future investment in CityRail set out in the *Urban Transport Statement*, and the *State Plan*;
4. an appropriate range for the allocation of costs between government and users, taking into consideration the positive environmental, economic and social benefits for the community generated by CityRail's services;
5. how service standards can be incorporated into the regulatory approach;
6. appropriate fares for CityRail which take into account the cost of providing CityRail's services, the capacity of users to pay and current and future government policy on public transport fares; and
7. if necessary, transitional arrangements from the current form of regulation to the new regulatory approach.

A draft report is to be publicly released by 12 September 2008, with a final report due by 12 December 2008.

The Tribunal is conducting this review in conjunction with the 2008 determination of fares for CityRail services, conducted in accordance with the Tribunal's standing reference under Section 11 of the Act. This reference under Section 12A of the Act is in addition to, and does not replace, the Tribunal's standing reference under Section 11 of the Act.

B Aspects of service quality important to CityRail passengers

B.1 ITSRR surveys

ITSRR has conducted annual surveys of CityRail passengers since 2004, asking people to rank the importance and quality of 37 separate aspects of CityRail service. These surveys provide a guide to what people think is important about CityRail services.

Table B.1 sets out the 15 aspects of service considered by passengers to be most important, on average, in each year the survey has been undertaken. There is a high level of consistency over the years, with personal safety in the evenings on stations and in trains consistently being ranked most important. In general, information about arrivals and departures, train punctuality, train frequency and information about delays are considered to be the next most important aspects of service.

Table B.1 Results of ITSRR passenger surveys – aspects of service – average importance ranking

	Importance ranking					
	2004	2005	2006	2007	2008	
Personal safety on stations in the evenings	1	1	1	1	1	
Personal safety in train carriages, evenings	2	2	2	2	2	
Station information about arrival/departure times	4	4	3	3	3	
Punctuality of trains	3	5	6	4	4	
Frequency of trains	6	3	7	6	5	
Quality of information about delays and cancellations	5	6	5	5	6	
Removal of litter from the train	13	14	8	9	7	
Clarity of announcements on platform	8	8	4	7	8	
Timeliness of delay/cancellation announcements	10	9	9	8	9	
Staff effectiveness dealing with security problems	11	10	11	10	10	
Delays and cancellations	7	7	12	13	11	
Facilities for calling for help	9	11	10	11	12	
Personal safety on stations non-peak, daytime	12	13	13	14	13	
Removal of dirt and grime from the train	–	–	–	–	14	
Clarity of announcements on trains	–	15	14	15	15	
Personal safety on stations, peak	14	12	–	12	–	
Staff visibility on platforms, evenings	15	–	15	–	–	
<i>Aspect of service with highest % of expectations not met</i>		<i>delays& cancellations (56%)</i>	<i>punctuality (59%)</i>	<i>crowding (50%)</i>	<i>crowding (55%)</i>	<i>crowding (55%)</i>

Note: ITSRR surveys 37 aspects of service. Aspects included in this table were those ranked most important on average by customers surveyed each year. The aspect of service with lowest levels of satisfaction that year is also included.

Source: ITSRR Surveys of CityRail Customers 2004, 2005, 2006, 2007 and 2008.

B.2 Douglas and Karpouzis' research

Based on the results of the ITSRR surveys in 2004 and 2005 where respondents were asked to rate various attributes of CityRail services, Douglas and Karpouzis³⁷ have modelled the relative weightings given to various aspects of CityRail's service. Their work suggests that the four most highly valued aspects of service are:

- ▼ reliability
- ▼ time spent on the train
- ▼ service frequency, and
- ▼ seat availability.

Train reliability was found to be as important as all aspects of *station* quality aggregated and was more important than all aspects of *train* quality aggregated.³⁸

This work suggests that the adequacy of the service provided (a combination of timetable measures, operational performance and crowding) might be the most important dimensions of rail service standard.

B.2.1 Complaints

ITSRR's Annual Transport Reliability Report 2006-07 identifies CityRail complaints by topic. The number of complaints fell by 7 per cent between 2005/06 and 2006/07. The most common topics of complaint in 2006/07³⁹ were:

- ▼ On time running (18 per cent).
- ▼ Service (includes crowding) (15 per cent).
- ▼ Cleanliness and facilities (14 per cent).
- ▼ About staff (13 per cent).
- ▼ Safety and security (12 per cent).
- ▼ Information (10 per cent).
- ▼ Ticketing (9 per cent).

The complaint categories are broad and not clearly defined and so are open to interpretation.

³⁷ Neil Douglas and George Karpouzis, 2006, *Valuing Rail Service Quality Attributes through Rating Surveys*, 29th Australasian Transport Research Forum.

³⁸ Station quality includes ease of platform boarding and alighting, weather protection, platform seating, platform surface, subways and overbridges, station buildings, lifts and escalators, signage, station announcements, information, lighting, cleanliness, graffiti, toilets, staff, car park, car drop off, taxi, bus, bicycle, telephone, retail and ticketing. Train quality attributes include train outside, ease of boarding and alighting, seat comfort, smoothness, quietness, air conditioning, lighting, cleanliness, graffiti, train announcements and layout.

³⁹ Calculated from statistics in ITSRR's Transport Reliability Report 2006-07, p 47.

