

**REVIEW OF PRICING PRINCIPLES FOR  
COUNTRYLINK**

**Interim Report**

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**

**REVIEW OF PRICING PRINCIPLES FOR**  
**COUNTRYLINK**

**Interim Report**

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Any information that is considered to be "commercial in confidence"  
should be clearly marked accordingly.

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## ***Foreword***

There is no doubt that the passenger rail services provided to and from the non-urban areas of New South Wales by Countrylink (a unit of the State Rail Authority) are seen by many as an important part of the State's transport infrastructure. Indeed, a key objective of Countrylink is to provide services which improve the mobility and accessibility of rural communities.

The reality is that relatively few of the services offered by Countrylink are especially well patronised other than by free and concession passengers. Very few routes have an acceptable level of cost recovery.

It would seem that relatively few of Countrylink transport services or related operations have any prospect of being operated on a commercial footing under current arrangements.

This situation would be acceptable if government and the community were fully aware of what services Countrylink is providing, to whom, in what way and at what subsidy cost.

The evidence suggests that Countrylink is providing valuable services to a relatively small group of Sydney-based concession users, and an even smaller group of rural passengers, including school students. The subsidy cost to the community as a whole is in the order of \$80m per annum. Some 72 per cent of Countrylink total passenger journeys are either free or at concession fares.

This interim report is designed to inform the community about the nature of Countrylink operations so that informed decisions may be made about how the transport services that are now provided by Countrylink may be best provided, if they are to be provided.

Several options are presented for consideration. These include:

- replacing most rail services with bus and coach services
- tendering out services on a competitive basis to different potential operators
- a range of efficiency improvements which would lead to a reduction in costs and subsidy requirements
- a "do nothing" option of continuing Countrylink's modest cost reduction program.

Among the more important efficiency improvements that have been identified are a major re-think of the role of TravelCentres and the way in which booking and ticketing services are provided, especially for free travel.

It is for government on behalf of the community to determine what type and level of rural transport services should be provided in the state and at what cost to the community by way of foregone expenditure on other services - such as schools, hospitals and community services. It is the job of the Tribunal to highlight these issues.

This is an interim report. The Tribunal encourages comments and submissions to assist us in finalising our thinking and recommendations on Countrylink.

Thomas G Parry  
*Chairman*  
February 1997

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## ***Abbreviations***

ABS	Australian Bureau of Statistics
ACCC	Australian Competition & Consumer Council
AN	Australian National
BCA	NSW Bus and Coach Association
BTCE	Bureau of Transport & Communication Economics
CBD	Central business district
CityRail	Urban passenger train operating unit of the SRA
CSO	Community Service Obligation
DoT	NSW Department of Transport
EPA	Environmental Protection Authority
GTE	Government Trading Enterprise
KW	kilowatt
NRC	National Rail Corporation
NRMA	National Road Motorists Association
NSW	New South Wales
m	Million
MEU	Multiple engine unit, a type of rollingstock, eg. Xplorer.
pa	per annum
PFM	Passenger Fleet Maintenance, SRA's train maintenance unit
PJ	Passenger journey
PTC	Public Transport Corporation, Victoria
PTV	Pensioner Travel Voucher
QLD	Quuensland
Q-Rail	Queensland Rail Authority
RAC	Rail Access Corporation
ROC	Rollingstock Ownership Company
RSA	Railway Services Authority
SPP	Social Policy Program
SRA	State Rail Authority
SSTS	School Student Travel Scheme
STA	State Transit Authority
TGV	A type of high speed electric train
TR	Tranz Rail New Zealand Limited
TRS	Tranz Scenic - Tranz Rail's long distance passenger unit
V-Line	V-Line Passenger, PTC's long distance passenger unit
WCR	Victorian Railway Company Pty Ltd t/a West Coast Railway
XPT	Express passenger train - a (push-pull) train and carriages used mainly on longer Countrylink journeys

## ***Glossary***

<i>Above rail</i>	Assets or costs related to train operation. Items are generally mobile.
<i>Activity based costing</i>	A form of accounting which isolates and itemises the costs and revenues of key activities.
<i>Avoidable costs</i>	Costs which would not be incurred if a given output were not produced.
<i>Below rail</i>	Track, formation, signalling, stations and other infrastructure used for running a railway line.
<i>Branchline</i>	Lower traffic density rail lines running off main rail lines.
<i>Community Service Obligation (CSO)</i>	A social program undertaken by a GTE at the request or direction of government, which is unlikely to be undertaken as a purely commercial activity.
<i>Concession reimbursements</i>	Payments by government to an operator to compensate for revenue foregone in providing a concession.
<i>Corporatisation</i>	The establishment of a GTE with a commercial structure which approximates the structures of private sector firms and provides incentives to achieve a commercial focus.
<i>Cost recovery %</i>	an indicator of both the proportion of costs recovered from users and the degree of government financial support. Calculated as the sum of cash from total farebox, catering and third party commission revenues divided by the total cost of operations.
<i>Economic costs</i>	Includes all costs ie. cash and non-cash expenses including environmental and opportunity costs.
<i>Elasticity (price)</i>	Measure of the change in demand resulting from a change in price, eg. an elasticity of -0.3 means that a 10 per cent increase in fares will result in a 3 per cent decrease in patronage and a 7 per cent rise in net revenue.
<i>Efficient cost</i>	An estimate of costs assuming best practice industry benchmarks are achieved.
<i>Externality</i>	External benefits and costs of a service. The external benefits of rail include reduced congestion and pollution.
<i>Farebox revenue</i>	Revenue recovered from passengers for tickets purchased (does not include concession reimbursement from government).
<i>Flagfall</i>	The fixed or base component of a fare.
<i>Load factor</i>	A measure of average train occupancy weighted by distance. A 100 per cent load factor requires all seats to be occupied for the entire journey.
<i>Marginal cost</i>	Additional costs incurred from producing one more unit of output.
<i>Motorail</i>	A rail based trailer for the movement of cars.
<i>Passenger journey</i>	Measure of transport usage which counts each change of mode or service as a new journey eg. a Countrylink trip from Cooma to Cobar and return would complete 8 passenger journeys (4 rail and 4 coach).



<i>Purchaser-provider model</i>	Where responsibility for policy making and funding the delivery of programs is separated from responsibility for supplying the goods and services.
<i>Rail motor</i>	Single, self propelled passenger rail carriage.
<i>Rollingstock</i>	The various wheel based components of a train including locomotives, trailers and buffet, sleeper and seating carriages
<i>Seat utilisation</i>	A measure of the total number of passengers per train divided by the total seating.
<i>Social objectives</i>	Objectives being determined by government and pursued for the well-being of the community as a whole.
<i>Social policy programs</i>	Non-commercial activities undertaken by a GTE.
<i>Xplorer</i>	Self-propelled trains with engines mounted beneath the floor of most units. They are used mainly on shorter Countrylink trips.

# 1 INTRODUCTION AND KEY RECOMMENDATIONS

## 1.1 Introduction

Countrylink is the NSW government owned provider of long distance passenger train and coach services in NSW. In September 1996 the Premier requested a review of the pricing policies of Countrylink under Section 12A<sup>1</sup> of the Independent Pricing and Regulatory Tribunal Act 1992 (Matter No. SPR/96/02). Attachment 1 contains the terms of reference for the Countrylink review.

This review does not extend to the regulation of Countrylink fares by the Independent Pricing and Regulatory Tribunal (the Tribunal). These fares are set by the Minister for Transport on advice from State Rail Authority (SRA) and the Department of Transport (DoT).

The DoT has estimated that 80 per cent of the rural NSW population has access to Countrylink services.<sup>2</sup> However, only a small proportion of the rural NSW population actually uses Countrylink services because of competition from airlines, private coaches and the private motor vehicle. Anecdotal evidence suggests that 50 per cent of Countrylink passenger journeys are undertaken by residents of greater Sydney.<sup>3</sup>

All Countrylink rail services make a loss on commercial measures of financial performance and are subsidised by the NSW taxpayer. The extent of those losses is significant because it implies less funds for other areas of government expenditure.

It is therefore important to consider whether:

- ◇ Countrylink provides its services in the most cost efficient manner
- ◇ improved mobility to and from rural NSW can be achieved by alternative modes of transport.

## 1.2 The Countrylink review process

This review provides a public forum to assist the Tribunal in assessing pricing principles for Countrylink fares. An issues paper released in September 1996 provided a basis for discussion about the factors influencing Countrylink pricing. The paper was used to stimulate input and public comment.

The Tribunal received many valuable initial submissions and views from individuals and organisations. Copies of the submissions are available for inspection at the Tribunal's office.

A public hearing was held on 27 November 1996. Attachment 2 contains the list of speakers who addressed the Countrylink hearing. A transcript of the Countrylink hearing is available at a small cost from the Tribunal. Additionally, information on the Countrylink review and other Tribunal reports can be accessed on the Internet at the Tribunal's Website at [www.ipart.nsw.gov.com.au](http://www.ipart.nsw.gov.com.au)

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<sup>1</sup> Section 12A enables the government to request that the Tribunal conduct reviews of industry pricing and competition which is not limited to government monopoly services.

<sup>2</sup> Reported in Countrylink submission to the Tribunal, October 1996, p 3.

<sup>3</sup> BCA, submission to the Tribunal, October 1996, p 3.

The Tribunal members who considered this determination were:

Professor Thomas G Parry, Chairman  
Mr James Cox, full-time member.

### **1.3 Comments on this interim report**

The Tribunal now invites submissions in response to this interim report. Please forward submissions by 18 April 1997. A final report will be released in the third quarter of 1997.

The submission process, the Countrylink public hearing and the Tribunal's reports all serve to provide the community with information on the pricing relationships between transport modes. The Tribunal encourages participation in this review by Countrylink customers and stakeholders. This process allows customers to provide input for the recommendations to be embodied in the final report. It also enhances community education on the relationships between fares, service levels and government expenditure.

### **1.4 Objectives of the review**

The purpose of this review is to examine the efficiency with which Countrylink services are provided, the costs of providing the services, and the methods used to recover costs.

In undertaking this review, the Tribunal is required to consider the following:

- ◇ the scope for efficiency and cost recovery improvements in Countrylink services
- ◇ the need to develop fare structures which more accurately reflect costs
- ◇ the social and environmental benefits of subsidising Countrylink services
- ◇ the implication of national competition policy for Countrylink services
- ◇ current government subsidies and the impact of fare changes on subsidies
- ◇ the impact of fare or service changes on regional communities
- ◇ the need to educate the community on the pricing relationships between cars, coaches, planes and trains.

### **1.5 Options for Countrylink**

The terms of reference for the Countrylink review require that the scope for greater efficiency be assessed. The interim report contains financial analysis illustrating the poor cost recovery of Countrylink services and the scope for large efficiency and service improvements. A number of options exist for the NSW Government to achieve far greater efficiency in the provision of transport to and from country NSW.

The Tribunal presents the following five major options for comment:

- 1. Rationalise Countrylink operations (coaches to replace trains on a range of services).**
- 2. The separation of Countrylink into 5 rail franchises.**
- 3. Establish a contestable Pensioner Travel Voucher (PTV) system.**
- 4. Phase in implementation of all reforms recommended in this interim report.**
- 5. Continue with the existing program of improvements to Countrylink operations.**

The first two options represent the most efficient solutions yet they are a fundamental departure from existing arrangements. Options one and two provide an indication of the actions a commercial owner of Countrylink would explore to improve financial performance. **However, whether Countrylink train services should continue to be provided and, if so, how they should be run, are policy decisions for government.**

The third option, a contestable PTV system, would give pensioners far greater choice and flexibility by being able to use their free travel entitlements on other modes of transport. Option 3 is a major departure from current arrangements which would, ceteris paribus, incur higher reimbursement subsidies from government.

The phasing in approach (option 4) involves a gradual introduction of reforms into markets which have long operated inefficiently.

Option 5 would continue the present agenda of Countrylink reforms to achieve efficiency improvements.

All five options are outlined in more detail in Section 6 of this report. The Tribunal invites submissions on the key recommendations of the Countrylink interim report.

## **The Tribunal's Key Interim Report Recommendations**

### ***Chapter 2 Nature and scope of Countrylink services***

***The Tribunal sees no benefit from regulating maximum Countrylink fares. Countrylink needs to retain discretion to use fare targeting to improve financial performance.***

### ***Chapter 3 The cost of Countrylink***

***The non commercial component of the CSO contract should be retained to allow consistent assessment of Countrylink's achievements in cost reductions.***

***Consideration be given to improving funding incentives for Countrylink through reimbursement based on a negotiated lump sum or an average fare paid basis.***

***Government and Countrylink should progress from a notional reconciliation of CSO funding to actual breakdown of CSO funding as required by Stage II of the Social Policy Program.***

***The Tribunal recommends that Countrylink closely examine the lower cost structures achieved by private operators. This examination will produce strategies to reduce cost inefficiencies present in Countrylink operations.***

***The Tribunal recommends that the government commission a study to isolate and estimate the actual externality benefits of Countrylink. This study must reconcile the divergent views held by transport stakeholders.***

***Government should establish a program for implementing a competitively neutral funding of Countrylink services.***

*Countrylink should pursue cost effective quality improvements which satisfy passenger requirements provided the enhancement achieves a positive return on investment.*

*The Tribunal recommends that government commission a study to estimate the actual externality benefits of Countrylink. This study must reconcile the divergent views held by transport stakeholders.*

#### **Chapter 4 Achieving a commercial focus**

*The Tribunal recommends the establishment of management performance appraisal systems.*

*The Tribunal recommends that sale of PTV tickets be totally removed from private agents. PTV tickets should be issued only at railway stations or through a new telephone booking system.*

*Countrylink should withdraw from all Travel Centre operations. In the interim, Countrylink should move rapidly to implement, at least the recommendations of the 1993 Mercer review.*

*The Tribunal recommends an examination of the feasibility of franchising one trial corridor. Should this trial produce significant cost savings a broader program should be pursued featuring a rollingstock ownership corporation.*

*The government should consider either the cessation of grant funding for capital acquisitions or the establishment of a rollingstock ownership corporation.*

*The Tribunal commends the use of refurbished rollingstock and contract motive power. The Tribunal encourages further consideration of these cost saving options. Given Countrylink's commercial goals the purchase of tilt trains or other new rollingstock should be subjected to rigorous financial evaluation requiring a positive return on asset prior to proceeding.*

*The Tribunal recommends that the Countrylink maintenance contract with Passenger Fleet Maintenance (SRA) be subject to progressive contestability.*

*The Tribunal believes that scope exists for Countrylink to reduce staff levels to achieve labour productivity on par with comparable rail operators.*

*Countrylink needs to review and monitor the efficiency of existing integration arrangements to ensure services are efficient and meet the demands of customers. Countrylink must implement service incentives within contracts to ensure that operators are customer-focused.*

*The Tribunal recommends conducting regular contract-in or outsource evaluations for all non-core activities.*

*The Chief Executive and the Board of the State Rail Authority should be given full responsibility and autonomy for all Countrylink operational decisions.*

## **Chapter 5 Countrylink Fares**

**The Tribunal recommends that the current system of ministerial maximum fare setting be removed. Countrylink needs the commercial freedom to both discount and increase fares to improve cost recovery.**

**Countrylink should conduct a trial of a discount family travel ticket.**

**Countrylink should develop a market based fare scale which features a higher flagfall component..**

**Countrylink's system of class based seating is a commercial decision for management which should be subjected to rigorous financial evaluation.**

**The Tribunal supports further initiatives to increase sleeper utilisations and the establishment of a waitlist for sleeper facilities.**

**The Tribunal recommends a financial and social impact study of options to improve excursion ticket equity.**

### **Appendix 1 A contestable pensioner travel voucher (PTV) scheme**

**The Tribunal recommends that in the long term the PTV system be extended to allow redemption on air and coach services. The PTV would allow a discount of a specified amount from the fare of the chosen mode.**

**An interim trial of a contestable PTV system be undertaken in a defined area and would assist government in predicting the redemption rates in a contestable system.**

**The government should also consider reintroducing a small charge for PTV travel to realign the system with the government policy of pensioner travel at reduced (other than zero) cost.**

### **Appendix 2 Detailed Reforms**

**Countrylink should ensure full adherence to State Rail absence control and overtime policies. Further accountability strategies and cultural initiatives are also necessary to achieve an acceptable absentee level of under five days per employee per annum.**

**Corridor management agreements should be revised to improve the cost recovery of each train operators by encouraging joint ventures and offering complementary services.**

**Countrylink should improve the targeting of advertising to achieve higher value from reduced expenditure.**

**Countrylink should investigate adopting a universal policy of stopping by prior request at all operational country stations.**

**Countrylink should undertake market testing and, where demand exists, negotiate a joint venture with a private coach operator for a service to the South Coast region.**

***The Tribunal supports the concept of a PTV quota. Countrylink should monitor the cost recovery improvements from the PTV quota and any adverse impacts the quota system has on pensioners.***

***State Rail should review the operation of the staff travel quota. A charge of 10 per cent of the standard fare for staff travel on Countrylink should be established.***

***Countrylink should restructure commission payments to travel agents. The issuing of PTV tickets should be limited to a new telephone booking system and railway stations.***

***Countrylink should conduct a preliminary study as to whether the reservations system should be upgraded to include a waitlist facility.***

***The Tribunal supports initiatives which increase patronage provided any expenditure achieves a positive cash return.***

***The government should develop new performance standards for Countrylink focusing on customer service and efficiency.***

## 2 NATURE AND SCOPE OF COUNTRYLINK SERVICES

### 2.1 Introduction

Countrylink was established in July 1989 to operate long distance passenger services for the people of NSW. Countrylink operates from Sydney to the capital cities of Melbourne, Brisbane and Canberra and to most regional centres within NSW. The separation of Countrylink from CityRail has improved services and efficiency. CityRail operates over 2,200 daily electric trains across greater Sydney. CityRail also operates regional diesel services beyond the electrified network (bounded by Dapto, Macarthur, Lithgow and Newcastle) to Nowra, Goulburn, Dungog and Scone.

Countrylink's legislative framework is the Transport Administration Act (1988). Recent amendments to this Act substantially restructured the State Rail Authority (SRA). In line with national competition policy, the natural monopoly component (rail track) of State Rail was separated from contestable operations. Freight Corp and a new rail track entity, Rail Access Corporation (RAC), were established as state owned corporations. The Railway Services Authority (RSA) was established to supply maintenance services to the rail industry. Countrylink and CityRail continue to be the passenger operating units of the SRA.

The Act<sup>4</sup> stipulates that Countrylink (as a unit of the SRA) must comply with six objectives to:

1. operate efficient, safe and reliable rail passenger services
2. be a successful business, operating at least as efficiently as any comparable business
3. maximise the net worth of the government's investment
4. exhibit a sense of social responsibility by having regard to the interests of the community
5. operate in compliance with the principles of ecologically sustainable development
6. assist government in relation to regional development and decentralisation objectives.

Successive governments have determined that country passenger rail services should be retained after taking into account rural mobility disadvantages and the significance communities place on retaining services.

In its submission Countrylink defines its objectives as to;

- provide services that meet customer needs (target of at least 90 per cent customer satisfaction)
- provide staff with skills and support required to meet productivity targets
- raise Countrylink's profile as a preferred long distance travel provider through responsible (safe and environmentally-friendly) practices and marketing activities
- exploit Countrylink competitive advantages to achieve patronage growth of 7 per cent pa
- achieve breakeven<sup>5</sup> by 1998/99 through revenue growth and cost reductions.

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<sup>4</sup> Transport Administration Amendment Act (1996) Schedule 1 [6].

<sup>5</sup> Countrylink defines breakeven as fare revenue plus government concession reimbursement equalling operating costs. Breakeven is traditionally defined as the point where customer revenue equals total (accrual based) operating costs.



## 2.2 The current regulatory system

Fares are currently set following an annual recommendation by the State Rail Authority Board to the Minister for Transport. The Minister reviews the recommendation and then sets the fares. The Tribunal does not determine fares for Countrylink. The Tribunal however, does complete an annual determination of fares for CityRail and State Transit services.

The Tribunal regulates the prices of declared monopoly services which are owned by the NSW Government. To date, Countrylink services have not been declared a monopoly, even though Countrylink is the dominant provider of long distance passenger rail services in NSW. The Tribunal's Act allows for a Government monopoly to be declared when it operates in a part of the market where there are no other suppliers to provide competition. This paper illustrates that the availability of alternative modes of transport reduces Countrylink's market power in the long distance passenger transport market.

This review and submissions to date have assessed the strength of Countrylink's market position. Generally, Countrylink is regarded as a small participant in the broader domestic travel market rather than a monopolist in the rail passenger travel market.

### ***Recommendation***

***The Tribunal sees no benefit from regulating maximum Countrylink fares. Countrylink needs to retain discretion to use fare targeting to improve financial performance.***

## 2.3 Clarification of Countrylink objectives

The 1996 Transport Administration Amendment Act introduced the goals for Countrylink that are outlined in Section 2.1. The objectives of the Act are incorporated as requirements of the CSO contract between the Department of Transport and Countrylink. As the principle funder under the CSO contract, the Department of Transport has also outlined further strategic objectives for Countrylink being to:<sup>6</sup>

- provide effective and efficient services that meet the needs of all customers
- meet the special needs of the broader rural community
- be accountable to the government and the people of NSW
- expand customer markets consistent with commercial practice.

Countrylink has also developed its own set of objectives (see Section 2.1).

The objectives of providing low cost rail travel and achieving commercial viability may be incompatible. Currently, all Countrylink services are non-commercial (loss making). A prioritisation of objectives would assist Countrylink to achieve the right balance between its objectives. The Tribunal believes that the government must ensure that all the objectives of Countrylink are clear and consistent.

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<sup>6</sup> Department of Transport submission to Countrylink Review, October 1996 , p 3.

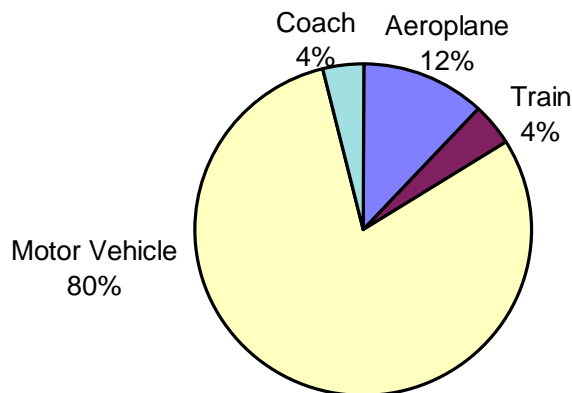
## 2.4 Travel options

The chief transport options for long distance domestic travel are motor vehicle (own vehicle or car hire), aeroplane, coach and rail. Not all travellers have easy access to all modes. Lack of access tends to limit the attractiveness of some options and encourage the use of one mode of travel. In selecting a mode transport consumers have various requirements including:

- origin-to-destination (or door to door) transport
- minimisation of the total journey time
- a transfer free (single mode) journey
- completion of a journey within a specific budget.

The transport market shares reflects the ability of each mode to best meet all these objectives. Market shares are illustrated in Figure 2.1.

**Figure 2.1 Mode of transport for trips in Australia over 40km**



Source : Institute of Transport Studies, Intercity Rail Services (Working Paper) 1996, p 7.

### 2.4.1 Trains

New South Wales has an extensive radial rail network converging on the state capital, Sydney. Countrylink trains use the mainline network and portions of the branchlines. Rail is a fixed infrastructure which dictates the travel route of services. The routes for most tracks were selected and constructed early in the twentieth century and were based on prevailing freight and passenger demands, and the engineering constraints.

Countrylink operates 159 train and 630 feeder coach services a week. Train frequencies and travel times are compared with those achieved by competing modes are presented in Table 2.1. Table 2.1 illustrates that train and coach travel times are usually similar for equivalent journeys. Rail journeys are only around 5 per cent faster than the equivalent coach service. Countrylink rail services are usually 15 per cent slower than private cars and take 6-7 times the actual travel time of air services.

Since the 1960s, low cost recovery, falling demand and bridge closures on branchlines have resulted in many country rail services being replaced by coach services. The same period has been marked by growth in motor vehicle and aeroplane travel. Since 1960 motor vehicle registrations have grown 411 per cent while the population has grown by only 160 per cent. In 1960, NSW had 1 passenger car for every 5.9 people. In 1996 the ratio was 1 passenger car for every 2.3 people.<sup>7</sup> This high growth in car ownership has eroded the market share of trains.

**Table 2.1 Countrylink rail services and comparative travel times (hrs:mins)**

Ex Sydney	Train frequency	Countrylink	Private Coach	Air	Self-drive
<b>Melbourne</b>	2 returns daily	10:25	11:30	1:15	10:45
<b>Brisbane</b>	1 return daily	13:35	14:15	1:20	12:05
<b>Canberra</b>	3 returns daily	3:50	3:50	0:55	3:30
<b>Murwillumbah</b>	1 return daily	13:25	13:30	1:30 <sup>^</sup>	10:20
<b>Grafton</b>	1 return daily	9:50	10:00	1:25	7:50
<b>Armidale</b>	1 return daily	7:45	7:45	1:10	6:25
<b>Moree</b>	1 return daily	8:40	18:00*	2:00	7:50
<b>Dubbo</b>	1 return daily	6:30	6:30	1:00	5:10
<b>Griffith</b>	1 return <i>weekly</i>	9:15	11:15	2:00	7:40
<b>Broken Hill</b>	1 return <i>weekly</i>	15:55	15:40	2:55	14:30

Sources: Countrylink Timetable, Greyhound Pioneer Timetable, Qantas/Ansett customer infolines. NRMA customer service.

Notes: \*Service is Sydney - Dubbo (overnight Dubbo) Dubbo - Moree. ^ Landing at Coolangatta. Takes no account of boarding, check-in or transfer times

Table 2.1 measures only time aboard each mode. Submissions to the Tribunal<sup>8</sup> sought a broadening of travel time analysis to include time consumed in checkin, boarding, baggage collection and travel time to mode connection points. Whilst a comparison of door to door travel times would be ideal it necessitates generalisations, and assumptions at a loss of accuracy and applicability.

Throughout this review analytical emphasis has been placed on unbroken journeys on the ten Countrylink rail services. Countrylink has previously estimated that 80 per cent of journeys on its service either start or end in Sydney. However, a significant proportion of journeys utilise sections of rail services such as Sydney-Albury. Tickets for small sections of Countrylink services (eg Sydney - Newcastle) can be reserved only one day before travel.

Rail services in NSW are supplemented by the twice weekly Indian Pacific service which operates from Sydney to Perth via Broken Hill. This service is operated by Australian National (AN) which is owned by the Commonwealth Government. In November 1996 the Commonwealth Government announced its intention to privatise all AN operations due to their poor financial performance.

<sup>7</sup> Australian Bureau of Statistics: Vehicle Registrations (9309.0) and Australian Demographic Statistics (3101.0) 1960 - 1996.

<sup>8</sup> Submissions from A Beeney, H Burns and C Halton.

### 2.4.2 Motor vehicle

With a dominant market share of 80 per cent (see Figure 2.1) the motor vehicle is the prime mode of transport in NSW. Cars provide door to door connections. Additionally, the car provides superior speed, trip flexibility and privacy over train services. Self-drive requires greater effort and vigilance on behalf of drivers and to a lesser extent passengers. Train travel makes no such demand. The popularity of the car has increased with the vast network of highways available, but is reduced in some metropolitan areas by traffic congestion.

The cost of private vehicles is predominantly fixed (ie purchase cost, registration and insurance). The marginal cost (mainly petrol) of car usage is relatively low at around 9.6c per km.<sup>9</sup> Recognising that fixed costs and drivers licence requirements represent large hurdles for using cars as a transportation option, the issues paper sought information on the impact of access to cars on Countrylink usage. Countrylink's submission reports that 64 per cent of its adult customers had access to a car as either driver or passenger.

Hire cars offer a way of avoiding the high fixed costs associated with vehicle purchase. Hire rates vary from \$50-100 per day depending on car size, hire period and discount eligibility. Collection and drop off points can also be varied to match travel requirements. When the daily rate is considered in the context of the number of occupants and the avoidance of the sizeable fixed costs, car hire can be a flexible and cost effective transport option.

Other submissions<sup>10</sup> confirm that self drive is generally an option. However, a proportion of rural Countrylink users with access to cars dislike urban driving and the associated traffic congestion.

Overall, the mobility disadvantage of Countrylink passengers appears to be overstated. Most train users can choose between modes and only 15 per cent of adult customers are restricted to Countrylink.<sup>11</sup> **Hence, government funding on the basis of overcoming a mobility disadvantage may require reassessment.**

### 2.4.3 Coach

Several private coach operators provide an extensive array of competitive services across New South Wales with stopping points tailored to meet passenger demand. Long distance coach services were previously restricted from operating on routes serviced by State Rail. This market was effectively deregulated in 1990 by the Passenger Transport Act. Since 1990 private coaches have captured significant portions of the full fare market along Countrylink corridors. However, the generosity of Countrylink free and concession travel programs distorts mode selection decisions, as illustrated in Table 2.2. Countrylink holds 68 per cent of the pensioner non-car travel market yet has only 8 per cent of the adult fare non-car travel market.

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<sup>9</sup> NRMA estimate of highway fuel cost for a late model six cylinder vehicle, NRMA Helpline, September 1996.

<sup>10</sup> Countrylink's submission reports that 24 per cent of customers used rail because they did not want to drive. Submissions from C Halton and the Combined Pensioners and Superannuants Association (Orange and Bathurst branches) also point out that the elderly have a reluctance and/or physical inability to drive in areas of congested traffic.

<sup>11</sup> Countrylink submission, October 1996, p 17.

**Table 2.2 Long distance mode market shares by concession status**

Person status	Car %	Plane %	Coach %	Train %	Total %
All	80.0	12.0	4.0	4.0	100
Pensioner	60.7	10.0	2.6	26.7	100
Other Concession	58.4	17.7	10.2	13.7	100
Non-concession	83.1	11.8	3.7	1.4	100

Source: Institute of Transport Studies, Intercity Rail Services (Working Paper) 1996, p. 11.

Coaches are superior to trains in terms of operational and route flexibility. The smaller unit size of coaches compared to trains increases the ability of operators to tailor timetables to suit each major town. The smaller unit size also enables operators to better match coach numbers and frequency to peak and off peak demand. The comprehensive nature of the road network allows a wider choice of coach routes. These features assist the coach industry to maintain financial viability and generate commercial returns.

As the major funder of Countrylink services, the Department of Transport recognises that coaches are attractive compared to trains because they cost less. The Department's submission states:

"The use of private coach services in lieu of rail would provide a significant reduction in operating costs and therefore result in a significant reduction in CSO payments."<sup>12</sup>

A long distance example of these flexibility advantages is the Greyhound operated Melbourne-to-Brisbane (via Parkes) service which takes only 23 hours. The fastest possible Countrylink journey from Melbourne to Brisbane needs passengers to use two trains and a coach (from Murwillumbah), takes over 26 hours, and costs 40 per cent more than the coach fare. Over the same journey direct coach travel is 5 per cent slower than most rail journeys. Coach travel speeds are limited to a maximum of 100 km per hour and drivers are required to take mandatory rest intervals.<sup>13</sup>

#### 2.4.4 Aeroplane

Airlines service all Australian state capitals and most of the major regional Countrylink destinations. Deregulation of interstate airline services in 1990 significantly decreased air fares and improved affordability.<sup>14</sup> Between 1990 and the September quarter of 1995, average real airfares fell by 19.8 per cent. The speed of air travel remains its core advantage.

Growth in discount tickets following deregulation has been a major factor leading to increased use of air services. Common conditions attached to sale air tickets require:

- ◇ a minimum stay period (usually 3 nights or a Saturday night)
- ◇ no refunds or alterations
- ◇ minimum advanced booking and payment periods.

Discounted air tickets commonly cost less than comparable Countrylink full fares between interstate capitals. However, the cost of intrastate air journeys is usually higher than trains, yet is also subject to periodic discounting. The intrastate air market is subject to a system of licence based regulation. The Tribunal is currently undertaking an inquiry into the

<sup>12</sup> The Department of Transport submission to Countrylink Review September 1996, p 15.

<sup>13</sup> Coach drivers are required to cease driving and leave the coach environment for a minimum of one half hour for every five hours of driving.

<sup>14</sup> ACCC, Movements in Average Airfares 1990-95, April 1996.

regulation of air services in NSW. An Interim Report on Intra-state Air Services in NSW was released on 15 February 1997, and is available from the Tribunal.

Numerous submissions to this review<sup>15</sup> discuss whether air travel offers an alternative to rail. For Countrylink customers who receive concession rail travel, air travel remains significantly more expensive. Overall air industry competition has reduced the cost of air travel between state capitals to a highly competitive level reducing Countrylink's ability to attract full fare customers. However, air travel (non-business) to regional centres and rural towns remains expensive to full fare and concession Countrylink customers alike.

Table 2.3 compares fares for the modes which compete with the ten Countrylink services. The table gives two methods of estimating marginal self-drive costs. The operational costs method provides a more accurate estimate of actual marginal costs (see the note to Table 2.3). Overall, the cost of self drive is divided by the number of vehicle occupants. Car occupancy for long distance trips averages 2.4.<sup>16</sup> This is far more efficient resource usage than urban car occupancy which averages 1.16.<sup>17</sup> The marginal lower cost coupled with independence, convenience, speed and privacy advantages ensure self drive the market share dominance illustrated previously in Table 2.2.

**Table 2.3 Travel mode one-way fare comparison**

Ex Sydney (\$)	Countrylink Standard Economy	Countrylink off-peak 40% off fares	Coach Standard Economy	Airline Standard Economy	Airline Sale	Self-drive Fuel costs*	Self-drive Operation costs*
Melbourne	90	54	56	259	85	83	136
Brisbane	90	54	76	278	85	93	152
Canberra	40	24	30	148	65	27	45
Murwillumbah	85	51	71	255	85	80	131
Grafton	70	42	56	221	146	60	99
Armidale	65	39	52	193	129	49	81
Moree	70	42	84	223	148	60	99
Dubbo	53	32	45	208	169	39	65
Griffith	70	42	48	208	95	59	96
Broken Hill	95	57	95	349	215	111	183
<b>Average</b>	<b>73</b>	<b>44</b>	<b>61</b>	<b>230</b>	<b>116</b>	<b>66</b>	<b>109</b>

**Notes:** \* Self-drive operational costs (fuel, tyres, service and repairs) based on 1996 NRMA estimate of 15.8c per km for highway usage of an average late model V6 vehicle. Fuel costs are from a 1996 NRMA estimate of 9.6c per km. Landing at Coolangatta for air travel to Murwillumbah.

Countrylink offers discounted fares of up to 40 per cent off the standard economy fare. A controlled number of discount seats is available, mainly on off-peak and mid-week trains. Additionally services such as Grafton, Broken Hill and Griffith are continuously discounted to increase patronage. The discounting system, also known as yield management, is discussed in Section 4.6.

The fare comparison, travel time and market share information demonstrates that Countrylink has strong competition in the passenger transport market. The availability of

<sup>15</sup> Submissions such as the Combined Pensioners & Superannuants Association, R Knowles, NSW Department of Urban Affairs and Planning, Commuter Council and the Highway Safety Action Group.

<sup>16</sup> Institute of Transport Studies (David Hensher), *Identifying the Market for High Speed Rail, A case study of the Sydney - Canberra corridor*, July 1996, p 10 (average extrapolated from sample data).

<sup>17</sup> Commonwealth Department of Housing & Regional Development, *Timetabling for tomorrow (An Agenda for Public Transport)*, 1994, p 33.

transport options, the narrow fare range and widespread discounting across the industry prevent abuse of market power.

### 2.5 Service areas

The Countrylink network comprises the thirteen rail services described in Table 2.1 and the feeder coach services illustrated in the map reproduced in Attachment 2 of the September 1996 Countrylink Issues Paper. The map illustrates the near statewide coverage provided by the feeder services. Countrylink services 95 train stations and 281 feeder coach stops.<sup>18</sup> This means most NSW regional towns have access to a Countrylink rail or coach service. However, Countrylink services are generally more frequent in the north coast areas and the Tablelands region. By contrast residents of areas of far western NSW such as Tibooburra and towns such as Ulladulla on the Eurobodalla coast of Southern NSW receive no Countrylink train or coach services.

### 2.6 Who uses Countrylink services?

A total of 2.44m passenger journeys (PJ) were undertaken on Countrylink in 1995/96, of which 1.83m PJ used rail. A PJ is counted on each change of mode or service. For example, a Countrylink traveller going from Foster to Bega and return would complete 8 PJ (4 rail and 4 coach).

Whilst the PJ measure may overstate actual trips, it is the accepted indicator for the travel industry.<sup>19</sup> Countrylink completes an average of 6,690 PJ daily.<sup>20</sup>

The main user group of Countrylink services are holders of pensioner travel vouchers (PTV). The PTV system provides four free, first class, single, intrastate trips per annum to full pension recipients. (The PTV system is described in Section 3.7.1 and Appendix 1)

Countrylink's submission highlights the predominance of woman (almost 2 to 1 or 63 per cent of PJ) in the use of its services. Submissions attribute the greater use by women to factors including longer life expectancy, greater regularity of family visits, lower proportion of car ownership/drivers licences and the fact that women comprise the greater proportion of pension (and PTV) recipients.<sup>21</sup>

The Countrylink submission to this review indicates that 27 per cent of adult patrons have no access to a car (as either a driver or passenger). This can also be interpreted as 73 per cent of adult rail patrons choosing rail over car travel. Hence, most train passengers make a decision to use rail and are neither mobility disadvantaged or dependent (captive) on Countrylink services.

Countrylink patronage information reveals that 89 per cent of rail passengers are either travelling alone or with one other person. Similarly, the BCA estimates that between 70 and 80 per cent of coach travellers (charters excluded) are alone or with one companion. This implies that the appeal of self drive grows with group size. Coaches and trains will

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<sup>18</sup> Countrylink Submission to Countrylink Review October 1996, p 6.

<sup>19</sup> All passenger transport operators use the same definition of PJ. Other average daily PJ place the size of Countrylink operations in perspective: CityRail 702,560, Qantas 43,980, Tranz Scenic 1,210, West Coast 820 & V-Line 16,060.

<sup>20</sup> Countrylink Submission to Countrylink Review October 1996, p 14.

<sup>21</sup> See, for example, the Department of Women, submission to the Tribunal, October 1996.

encounter difficulty in attempting to improve performance in the family travel market. Cost remains a key disincentive for family travel. This is highlighted by the fare comparison data contained in Table 2.3. The table illustrates that a family of four travelling to Melbourne on Countrylink would incur total peak return fares of \$540 compared to coach travel at approximately \$400 and self drive return (fuel) costs of \$166. Hence for people who have access to a motor vehicle, Countrylink is unable to effectively compete with self drive either on financial cost or service quality for families or small groups of friends.

The passenger profile information demonstrates Countrylink's dependence on the concessional travel market. Patronage information shows that 70 per cent of travellers utilise entitlements to free or concession based fares. Additionally, Countrylink discounts fares by up to 40 per cent below the standard fare, which further reduces the average fare paid per service.

Table 2.4 presents a profile of Countrylink customers based on ticket sales.

**Table 2.4 Countrylink customer profile - 1995/96**

<b>Total Countrylink Passenger Journeys</b>	<b>Estimated % of journeys</b>	<b>Passenger journeys ('000)</b>
Pensioners travel voucher (free)	27.0	660
Seniors/Pensioner Excursion (\$2)	2.2	54
Child (at 1/2 fare)	8.4	206
State Rail Staff (free) <sup>22</sup>	3.7	90
Others free travel (eg school travel, blind citizens)	0.7	18
Concession (pensioners/students/unemployed 1/2 fare)	30.0	733
Adult fare (full)	14.4	352
Adult fare (discounted)	13.5	329
<b>Total</b>	<b>100.0</b>	<b>2,442</b>

Source: Countrylink Reservations System. October 1996

The issues paper for this inquiry refers to a report by the Auditor General stating that 10 per cent of customers account for 60 per cent of journeys. The Countrylink submission to this review confirms the presence of a small core of highly regular rail users. The fare profile for this small core of users is currently unknown, but will determine their impact on cost recovery.

Table 2.5 analyses how often customers travel on Countrylink. The table makes some conservative annual travel assumptions based on survey responses contained in the Countrylink submission.

The customer frequency analysis contained in Table 2.5 illustrates several features relating to the usage patterns of Countrylink customers, notably:

- 5% of customers are 'heavy users' and account for approximately one third of journeys
- 22% of customers account for 58 per cent of journeys
- 70% of customers travel as infrequent as every few months to less than once a year.

<sup>22</sup> As part of the State Rail restructure, Countrylink will be reimbursed for staff travel under future inter-entity agreements with Rail Access, Railway Services & Freight Corp.



**Table 2.5 Frequency of Countrylink customers' use of the service**

Frequency of travel by Countrylink customers	% of customers	Approximate total yearly trips *	Approximate % of total Countrylink trips
Once a week or more	1	52	21.1
Every few weeks	3	36	14.6
Every few months	18	72	29.3
Once or twice a year	33	55	22.4
Less than once a year	19	10	4.1
This is the 1st time	21	21	8.5
Not stated	5	~	~
	100	246	100.0

Source: Countrylink submission, October 1996, (July 1996 survey of 2,500 customers over 14 years of age)

Note: \* Assumes respondents referred to the quantity of one-way Countrylink journeys

Countrylink needs to go beyond monitoring the travel patterns of its customer segments to attempt an understanding of travel motivation within each segment. It appears that the frequency analysis is altered by the PTV system. A detailed analysis of travel patterns isolating the patterns of full fare customers, core heavy users and those eligible for PTV would be a valuable marketing tool for Countrylink.

## 2.7 Patronage of Countrylink services

The train's market share of long distance passenger trips represents a very small percentage of total journeys (see Figure 2.1). Surplus capacity is present on most off-peak (non school holiday period) services, but capacity is occasionally reached on some peak train services.

Load factor is a measure of average of train occupancy weighted by distance. A load factor of 100 per cent requires all seats to be occupied for the entire rail journey. The average Countrylink load factor was 61 per cent for 1995-96 and 62 per cent in 1994-95.<sup>23</sup>

Seat utilisation provides an alternative indicator, measuring the total number of passengers per train divided by total seating. For efficient resource usage seat utilisation should approach (and preferably exceed) 100 per cent. As a measure, seat utilisation reflects the difficulties short portional journeys place on increasing cost recovery. For example, the seat occupied by a passenger travelling from Sydney to Taree is unlikely to re-used from Taree to Brisbane. The Countrylink record seat utilisation of 171 per cent is held by a Melbourne day train which collected a total of 630 passengers on one service.

Table 2.6 details patronage across the 13 Countrylink rail services and the feeder coach services. It also shows average seat utilisation and average cost recovery for each service. The table illustrates the importance of the fare profile of passengers for cost recovery. In theory, higher seat utilisation will improve cost recovery. In reality, the preference of concession (especially PTV) travellers for day services increases utilisation with only minimal gains in cost recovery.

<sup>23</sup> State Rail Authority Annual Report 1995/96, p 29 & 1994-95 p 31.

Table 2.6 Utilisation of Countrylink services - 1995/96

Ex Sydney	Passenger journeys (000)	% of total passenger journeys	Seat utilisation %	Cost recovery %
Melbourne (day)	300	12.3	112	43
Melbourne (night)	211	8.6	76	37
Brisbane	243	10.0	90	40
Canberra (am)	77	3.2	64	29
Canberra (midday)	103	4.2	86	37
Canberra (pm)	71	2.9	59	29
Murwillumbah	268	10.9	100	31
Grafton	183	7.5	68	17
Armidale	137	5.6	85	28
Moree	65	2.6	99	12
Dubbo	162	6.7	60	26
Griffith*	9	0.004	55	15
Broken Hill*	8	0.003	50	10
Feeder coach ^	612	25.0	46	51
<b>Total#</b>	<b>2,443</b>	<b>100.0</b>	<b>80</b>	<b>34</b>

Source: Countrylink submission, October 1996, p 14.

Notes: ^ Based on 90 coaches per day. # coach results removed from average train performance. \*Full year estimate based on current patronage. This varies from the information provided in the Issues Paper which was preliminary and based on the first two months of operation. Cost recovery includes preliminary access charges payable to RAC.

The table demonstrates the low cost recovery of all services despite often satisfactory seat utilisation. The two Melbourne XPTs, the Brisbane XPT, the Canberra midday Xplorer and the feeder coach services are the better performing Countrylink services. Nevertheless, these services continue to incur significant losses.

The cost recovery statistics include preliminary access charges payable to RAC. The preliminary Countrylink access charge adds approximately \$4,840 to an average train service.<sup>24</sup> Longer or interstate services incur higher access charges, while shorter train services have a lower charge. Overall, access charges have significantly cut cost recovery. Removing the access charge component increases average cost recovery across all services to 44 per cent.

The Tribunal notes that the highest cost recovery was achieved by the feeder coach services (despite their recording the lowest seat utilisation). This serves to confirm the superior financial viability of coach services as discussed in Section 2.4.

<sup>24</sup> SRA Corporate Plan 1996, p 24, refers to access charges of \$40m for 159 train services per week (\$4,838 per train).



### 3 THE COST OF COUNTRYLINK

#### 3.1 Introduction

Countrylink is largely a government funded operation. Government pays approximately \$6 of every \$10 of Countrylink's costs. Currently, government funding (the CSO contract) is provided to cover the difference between expected cash revenue and expected cash costs. This cash subsidy is transferred in equal fortnightly payments from Treasury to State Rail. To justify receiving the cash subsidy, Countrylink completes a notional CSO funding breakdown for the Department of Transport, into two main components:

- CSO concession reimbursement (*payment of forgone revenue - PTV and half fare customers*).
- CSO non-commercial (*access charges, feeder coach contract and funding shortfall*).

If the amount of one CSO component falls, say concession reimbursement, the result would be to simply increase the non-commercial component. The current government system lacks incentives for Countrylink to reduce cost to government by decreasing operating costs or increasing farebox revenue.

Countrylink is essentially a service provider to the disadvantaged, the elderly and students who together comprise approximately 70 per cent of total customers. Hence Countrylink's business is dependent on the government's transport concession program. Passenger volumes appear to be highly correlated with the generosity of the concession program. The substantial proportion of people receiving government subsidised fares reduces the relevance of using the standard full fare as the measure for reimbursements to Countrylink.

Countrylink's costs remain significantly above best practice. However, costs were previously far higher. The cost per passenger kilometre has fallen from 34.2 cents in 1984-85 to 14.9 cents in 1995-96<sup>25</sup> which is a 56 per cent improvement. The Tribunal acknowledges this improvement, yet notes that many of these gains were derived from the cessation of services on grossly unprofitable branchlines.<sup>26</sup> The Tribunal also recognises that a large proportion of the potential efficiency gains identified by the Mercer Review<sup>27</sup> have never been acted upon. The Tribunal agrees with the Treasury submission which states that,

"... further performance improvements are available within the operations and costs could be reduced."<sup>28</sup>

In this interim report the Tribunal examines specific areas of Countrylink's operations and suggests ways to achieve more efficient practice as required by the terms of reference for this review.

#### 3.2 Why provide rail for long distance passenger transport?

This review has considered a variety of arguments that coaches are unable to replicate the service quality of trains. The necessity of rail facilities such as showers, sleeper compartments, on-board catering facilities, wheel chair access and space to move around are recurrent themes. Modern overseas coach designs now feature sleeper compartments,

<sup>25</sup> State Rail Authority, *Annual Reports*, 1992-93, p 57 & 1995-96, p 98.

<sup>26</sup> Cost improvements have been minimal since 1992-3 levels of 17.5 cents per passenger kilometre.

<sup>27</sup> Mercer Management Consulting, *Mid-Term Strategic Review*, Volume II, 1993.

<sup>28</sup> NSW Treasury, submission to the Tribunal, October 1996, p 3.

wheel chair access and showers as options for inclusion on purchase. On the other hand, the mandatory coach driver rest intervals and driver changeovers on coaches result in several opportunities for refreshments often of a superior quality to those available on trains and to exercise freely without the confines of a train carriage. It appears the level of service superiority previously held by trains over coaches has narrowed and is negligible when assessed in conjunction with operational flexibility, lower capital costs and the commercial viability of coaches.

The Bureau of Transport and Communication Economics (BTCE) has completed a report comparing the costs of accidents on a variety of passenger transport modes.<sup>29</sup> The report found that rail accident costs accounted for only 1.4 per cent of total accidents costs. This cost is approximately one third of rail's total market share and indicates rail is safer than road travel. The BTCE does not consider motor vehicle costs as distinct from coach accident costs. Road accidents account for 93.6 per cent of total accident costs which is 117 per cent above road's travel market share. Air travel remains the safest mode, accounting for only 1 per cent of total accidents costs while holding 8 per cent of the travel market.

The Tribunal recognises that most coach operators self-finance the concessions they offer and hence cannot match Countrylink's concessions. Coaches generally offer a 20 per cent discount compared with the government policy of providing a 50 per cent discount for concession users on Countrylink services. Coaches are not participants in the Pensioner Travel Voucher scheme (PTV) discussed in Section 3.7.1 and Appendix 1. The PTV and large concessions encourage concession holders to use Countrylink rather than coaches, distorting market demand and preventing coach operators from competing in the concession market.

A University of NSW study<sup>30</sup> examines the ability of coach services to effectively replace branchline rail services, and the effects of the previous rationalisation of Countrylink rail services. The study concludes that coach substitutions have been completed to the satisfaction of local communities due to the improved frequency and service benefits of coaches. However, the small sample size and area considered by the study limit its usefulness.

### **3.3 Role of government in the provision of long distance passenger transport**

At present the NSW Government undertakes the following roles:

- ◇ providing public transport services
- ◇ funding public transport services
- ◇ coordinating and integrating connecting modes
- ◇ licensing and regulating safety standards
- ◇ providing access for the transport disadvantaged.

Government seeks to minimise the cost of service provision by recovering costs through user charges or, where community benefits are generated, through CSO payments.

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<sup>29</sup> BTCE, *Social Cost of Transport Accidents in Australia*, 1992, p xvii.

<sup>30</sup> Dr Bruno Parolin, University of NSW, *Effects of Rationalisation of Rural Passenger Transport Services on Travel Activity Patterns*, April 1996.

Interstate and overseas experience indicates that government can receive better taxpayer value by franchising or contracting the operation of transport services to private companies. The NSW Government needs to embark on a long term review to define its role in transport. Meanwhile, government should continue to examine its role in public transport to ensure it receives value for money while meeting its policy objectives.

### 3.3.1 A national rail passenger corporation

The feasibility of a national rail passenger corporation along the lines of the National Rail Corporation (NRC) joint venture for rail freight <sup>31</sup> has been examined by state and federal governments. The impetus for the proposed joint venture was the possibility of reduced costs by centralising the state based operations. A feasibility report on a national rail passenger business was presented in September 1996 to a meeting of state and federal transport ministers. The report concludes that the service would be unlikely to recover all its costs and would require ongoing subsidies.

In November 1996 the Commonwealth Government announced its intention to privatise Australian National (AN) passenger and freight operations and to sell its majority share of NRC. Previously, the federal government had indicated that it would consider a national interstate passenger rail service if this could be shown to be a self-funding operation. The Brew report on AN and NRC recommends the divestment. As AN was to form the basis for a federally supported national passenger rail corporation, it is extremely unlikely this concept will proceed.

## 3.4 Cost of Countrylink services

The cost of Countrylink services are substantial in relation to the transportation task performed. The financial performance of Countrylink is assessed using both cash and accrual accounting. Accrual records are kept for performance analysis while cash is utilised to calculate the government subsidies required. In 1995-96 Countrylink incurred total cash operating costs of \$120.1m. The government subsidised Countrylink with a total CSO payment of \$73.9m.<sup>32</sup> This is equivalent to customer revenue paid of \$25 per passenger journey, to cover cash costs of approximately \$55 per passenger journey, requiring a government CSO of \$30 per passenger journey.

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<sup>31</sup> NRC commenced operations in 1993 and is a joint venture between the Commonwealth, NSW and Victorian Governments to amalgamate interstate rail freight operations and reduce combined losses.

<sup>32</sup> State Rail Authority *Annual Report* 1995/96, p 29 and p 62.

Table 3.1 Countrylink Financial Statement

FINANCIAL STATEMENT (\$1996/97)	1994-95 \$m	1995-96 \$m	1996-97 (f) \$m
<b>COUNTRYLINK REVENUE</b>			
Countrylink customer fares & 3rd party commissions	51.0	55.9	58.8
Catering	7.5	7.9	8.8
Corridor management agreements	3.2	1.8	1.4
Government CSO (concession reimbursement)	52.2	63.6	72.3
Government CSO (non-commercial)	14.2	12.7	7.2
<b>Total CSO</b>	<b>71.4</b>	<b>76.3</b>	<b>79.6</b>
Other (inter-entity, employee travel etc.)	1.3	1.6	3.7
<b>Total revenue</b>	<b>134.4</b>	<b>143.6</b>	<b>152.2</b>
<b>COUNTRYLINK EXPENDITURE</b>			
Labour	58.4	45.8	45.9
Inter-entity	note (1)	note (1)	1.9
Access charges	note (2)	note (2)	43.0
Operating expenses	17.6	8.1	18.9
Contract with Passenger Fleet Maintenance	note (3)	note (3)	38.6
XPT, Xplorer and fleet	42.9	45.6	note (3)
Sales & marketing costs (non payroll)	14.6	16.1	16.5
Coach contract*	note (5)	note (5)	6.2
Major periodic maintenance expenditure	note (4)	note (4)	1.1
Apportioned (SRA) charges	10.8	10.9	18.8
Depreciation and accruals	20.0	23.0	23.8
<b>Total costs</b>	<b>164.2</b>	<b>149.5</b>	<b>212.9</b>
<b>CASH DEFICIT</b>	<b>(29.8)</b>	<b>(6.0)</b>	<b>(60.7)</b>
<b>Total Government Subsidy</b>	<b>101.2</b>	<b>82.3</b>	<b>140.3</b>
<b>1. Cost recovery %</b> (Revenue less CSO/Total costs)	<b>38.4</b>	<b>45.0</b>	<b>34.1</b>
<b>2. Cost recovery %</b> (Revenue less CSO/Total costs less access)	<b>38.4</b>	<b>45.0</b>	<b>42.7</b>
<b>3. Cost recovery %</b> (Revenue less non-commercial CSO/Total costs)	<b>73.2</b>	<b>87.6</b>	<b>68.1</b>

Source: Countrylink submission to the Tribunal February 1997. (f): forecast

Notes: (1) Item not accounted for in previous years but were instead included in the CSO contract.

(2) Access charges payable to RAC from 1 July 1996 as part of the SRA restructure.

(3) From July 1996 maintenance was transferred to PFM.

(4) Treasury requirement to split maintenance costs from 96/97 onwards.

(5) Management and budget of contract was transferred from DoT to Countrylink in October 1996.

The major restructure of the State Rail Authority into four new entities and the inconsistent nature of corporate cost transfers create significant difficulties in analysing trends within the Countrylink financial statement. The Tribunal highlights the fluctuation in Countrylink operating expenses as an example of the variability within the statement. However, on a consistent cash basis Countrylink's financial performance appears to have improved slightly. Three measures of cost recovery are provided to assess Countrylink viability. The first measure of cost recovery provides the normal assessment of passengers contribution to total costs. The second measure neutralises the impact of rail access charges. The third measure includes government concession payments as contract revenue. Countrylink is attempting to reach breakeven (100%) on the third measure by 1998/99. The Tribunal will seek to improve the quality and comparability of the Countrylink financial statement to be presented in the final report.

The Tribunal is also concerned that the cost to government of Countrylink services is well in excess of the Countrylink CSO contract with the Department of Transport. The cash deficit amounts reported in Table 3.1 are paid for from the budget of State Rail corporate and hence are also a cost to government of Countrylink services. The 1996/97 CSO contract

remains the subject of negotiation and part of the forecast cash deficit is likely to be covered by the CSO funding. The Tribunal will seek greater information on nature and function of the cash deficit component within the final report.

Table 3.2 presents the full accrual cost of each service route and represents a deterioration in cost recovery levels on previously reported performance. This is due to the inclusion, for the first time, of access charges, feeder coach contracts and the full allocation of costs previously paid by State Rail. From 1996 Countrylink will report on a fully costed basis and the identification and allocation of pre-existing costs is the main factor behind the decreasing cost recovery.

The financial performance of Countrylink is better understood by examining services on each separate corridor. Table 3.2 apportions the revenue, subsidy and costs associated with operations on each corridor.

**Table 3.2 Financial analysis by corridor**

Ex Sydney	Track km	Standard single fare (\$)	Seating capacity	Av Seating utilisation %	Average revenue per km (\$)	Operating cost per km (\$)	Cost recovery %	Annual subsidy (\$m)
Melbourne	966	90	368	99	14	35	41	29.3
Brisbane	987	90	368	90	15	37	40	16.1
Armidale	579	65	222	85	10	38	28	11.5
Canberra	326	40	164	70	9	27	34	13.1
Murwillumbah	935	85	368	100	13	43	31	20.1
Dubbo	462	53	263	84	11	41	26	10.2
Grafton	696	70	368	68	10	34	29	12.3
Moree	666	70	90	89	3	21	13	8.8
Griffith	658	70	156	55	6	42	15	2.4
Broken Hill	1125	95	156	50	4	38	10	4.0
<b>Average</b>	<b>740</b>	<b>73</b>	<b>259</b>	<b>80</b>	<b>11</b>	<b>33</b>	<b>34</b>	<b>12.8</b>

Source: Countrylink submission to the Tribunal, August 1996

Notes: Costs and subsidies are accrual based forecasts for 1996/97. Costs include access charges and feeder coach contracts.

Table 3.2 illustrates the diversity of performance levels achieved by Countrylink services. All train services are significantly below a positive cost recovery on both an accrual and a cashflow basis. Table 3.2 (and Table 2.6) illustrate the enormous costs of expanding service frequency. The twice daily return service to Melbourne demands nearly double the subsidy of the Brisbane daily return service. High utilisation rates are commonly misinterpreted as a justification for introducing an additional service. The extension of rail services from Tamworth to Armidale/Moree in 1993 has required an ongoing increase in subsidy of \$8.8m pa. Similarly, expanding either of the Brisbane services to two returns daily would increase the total government subsidy by between \$16-20m pa.

The Tribunal accepts that more frequent rail services would increase total journeys. However, seat utilisation and cost recovery levels on any new daily return services are likely to be similar or worse than on the original service. Hence, the expansion is likely to necessitate a probable doubling of the government subsidy to the respective corridor. Additionally, service expansion would require a grant funding<sup>33</sup> of rollingstock

<sup>33</sup> Countrylink's capital expenditure such as new trains is grant funded from NSW Treasury, ie a lump sum of cash is transferred following compliance with grant funding evaluation procedures.



expenditure. This raises the issue of whether expanded services provide community benefits that exceed the additional costs. Overall, supplementing rail with additional parallel coach services provides a far superior solution to surges in peak demand.

### 3.5 Cost drivers

The principal cost drivers for Countrylink include:

- ◇ **Passenger Fleet Maintenance:** servicing, cleaning and fuelling rollingstock
- ◇ **Rollingstock:** grant funding of rollingstock places a large capital cost on government
- ◇ **Service quality:** ensuring frequency, punctuality, carriage standards are maintained
- ◇ **Labour:** meeting costs, efficiency and level of multiskilling
- ◇ **Rail Access Corporation:** below rail costs in the form of payments for train paths
- ◇ **Overheads:** management, administration and non-operations facilities
- ◇ **Sales costs:** Countrylink Reservations, Travel Centres and commissions paid to agents.

#### 3.5.1 Passenger Fleet Maintenance (PFM)

PFM has been established as a separate business unit of State Rail providing maintenance services to CityRail and Countrylink. The commercial objective of PFM is to provide efficient and high quality maintenance services on a breakeven basis.<sup>34</sup> Maintenance and fuel account for around one third of Countrylink's cash costs. The manufacturer warranties on the Xplorer fleet end during 1996/97 and Countrylink is now self-funding major repairs and related overhaul costs. These tasks which will now be undertaken by PFM creating an increase in maintenance costs. Countrylink has an exclusive contract with PFM for maintenance services on its fleet of 112 items of rollingstock (see Table 3.3). Diesel powered, the fleet consists of locomotives, power cars and trailer cars.

Countrylink's diesel fuel costs are a major operational cost which is included within the cost of the PFM contract. Fuel costs amounted to \$12.3m in 1995-96 or 10.2 per cent of total cash costs.

#### 3.5.2 Rollingstock

All Countrylink rollingstock has been financed by capital grants from the Department of Transport. Rollingstock capital costs are high relative to the income earning potential of the assets. For example, a 4 car 'Xplorer set' was commissioned in 1995 at a cost of \$13.4M.<sup>35</sup> Conversely, the two new weekly services (to Griffith and Broken Hill) use Freight Corp locomotives and previously mothballed carriages. These carriages underwent an interim (or minimal) refurbishment at a total cost of \$1.6m. The submission from NSW Treasury estimates that grant funding of Countrylink costs the government \$50m per annum, a cost currently not reported by Countrylink.<sup>36</sup>

#### 3.5.3 Service quality

Countrylink maintains high quality standards of service and comfort which add significantly to the cost of service provision. Countrylink operates above the minimum service standards which are specified in its CSO contract with the Department of Transport.

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<sup>34</sup> State Rail Authority *Corporate Plan*, 1996, p 17.

<sup>35</sup> State Rail Authority *Annual Report*, 1994-95, p 30.

<sup>36</sup> NSW Treasury, submission to the Tribunal p 3.

The standard of carriage appointments is generally comparable to economy class in the airline industry.

Countrylink is near completing compliance with the Disability Discrimination Act (1995). All Countrylink rollingstock (except the refurbished Griffith/Broken Hill set) have access ramps, toilets for disabled passengers and designated areas for disabled seating. Of the 86 NSW Countrylink rail stations 83 have wheelchair ramp access. Countrylink reports that 98.7 per cent of passengers embark and disembark at easy access stations.<sup>37</sup> Overall Countrylink provides a superior service quality for the disabled, elderly and infirmed.

### 3.5.4 Labour

The operation of trains is labour intensive and payments to employees account for approximately 30 per cent of total cash costs. Greater cost efficiencies may be achieved by reviewing work practices including enterprise agreements, and investigating job redesign and multi-skilling. The airline industry may provide benchmarks for appropriate structures and manning levels. The current staff level of 864 is comparatively high. This equates to 5.8 rail passenger journeys per day per Countrylink employee.<sup>38</sup>

Travel Centres account for 20.2 per cent of total staff and represent 9.2 per cent of total Countrylink cash costs. An assessment of the performance of the Travel Centre network is contained in Section 4.3.

An objectives stated in Countrylink's CSO contract is to improve access to transport for rural, elderly and disadvantaged people. The high proportion of staff involved in Travel Centre and marketing activities is of concern to the Tribunal.

The relative size of the marketing, reservations and Travel Centre divisions appears excessive. By way of comparison, V-Line has 17.8 per cent of staff in retail travel, marketing, planning and reservations functions while Countrylink has 39 per cent of staff in these roles.<sup>39</sup>

**Table 3.3 Division of labour roles**

<b>Division</b>	<b>Countrylink Staff</b>	<b>Proportion %</b>
Travel Centres	175	20.2
On board passenger operations	362	41.9
Station attendants and station staff	91	10.5
Marketing and reservations	156	18.1
Customer relations	9	1.0
Administration, finance and information	63	7.3
Strategic planning, PR and general manager's office	8	1.0
<b>Total</b>	<b>864</b>	<b>100</b>

Source: Countrylink submission to the Tribunal October 1996.

<sup>37</sup> State Rail Authority *Annual Report*, 1995-96, p 116.

<sup>38</sup> This ratio is influenced by the level of outsourcing, travel time, fares and patronage density. Comparative PJ per day per employee ratios: V-Line 28, West Coast 14, Tranz Scenic 9.3, Qantas 1.7 & CityRail 85 (see also Section 4.8).

<sup>39</sup> V-line Business Plan , 1996-2001, p 17.

Further discussion of labour initiatives, benchmarking and the assessment of efficient Countrylink staff levels is contained in Section 4.8.

### 3.5.5 RAC charges

Access charges for below rail costs for Countrylink trains became payable to the RAC from 1 July 1996 and will account for over 20 per cent of Countrylink's ongoing costs.<sup>40</sup> Although the subject of negotiation, Countrylink's RAC charges for 1996-97 are expected to be over \$40m.<sup>41</sup> This is equivalent to a cost of approximately \$22 for each rail passenger journey. Countrylink access charges for the Victorian and Queensland networks are currently rolled up as part of corridor management agreements. The trend toward establishment of corporatised track ownership entities is likely to see future interstate access charges separated from corridor management agreements.

### 3.5.6 Overheads

Overheads include costs associated with reservations, facilities, stations, management and administration. Countrylink's level of overheads is substantial. In particular the roles of staff without direct customer or operational involvement need to be reviewed and their functions possibly outsourced. Administrative and corporate staff account for 9.3 per cent of total Countrylink employees. This compares with V-Line administrative and corporate staff which comprise 4.8 per cent of staff.<sup>42</sup>

Countrylink administration utilises office space owned by State Rail at Level 1 Sydney Terminal.

The 1993 Mercer review estimates that savings of 20 per cent are possible on Countrylink's overheads of \$6m per annum.<sup>43</sup> **Current Countrylink overheads now exceed 1993 levels.**

### 3.5.7 Sales costs

Countrylink operates a sales network of 42 Travel Centres in capital cities and regional centres. The cash cost of Travel Centres of \$11.09m accounts for 9 per cent of total Countrylink cash operating costs. The trend towards telephone bookings using credit card payments may reduce the need for Travel Centres. The Tribunal notes that Countrylink's expansion of the Travel Centre network contrasts with reduced branch networks in many parts of the private sector. The relatively low fares (and subsequent commission) from selling a Countrylink service reduce the incentive for travel agents to suggest rail as the recommended mode. Nevertheless, Countrylink Travel Centres are seen as a way of maintaining a market presence and marketing rail. The recent focus on Countrylink package holidays (rail travel, transfers and accommodation) has increased sales. These packages are currently available only through Travel Centres, but the increased average purchase prices makes packages suitable for marketing by travel agents. Travel Centre performance and recommended initiatives are discussed in Section 4.3.

Marketing and reservations staff are essentially a sales cost. Of Countrylink's staff, 18 per cent are dedicated to marketing and reservations functions. This proportion appears high

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<sup>40</sup> Mr Kim Finnimore, General Manager, Countrylink. Countrylink Public Hearing Transcript, p 6.

<sup>41</sup> State Rail Authority Corporate Plan, September 1996, p 24.

<sup>42</sup> V-line Passenger, *Business Plan*, 1996-2001, p 17.

<sup>43</sup> Mercer Management Consulting, *Mid-Term Strategic Review*, 1993, Volume II, p IX-33.

when considered in the light of the functions already performed by Travel Centres and the are profile of Countrylink customers.

### 3.6 Resources committed to Countrylink

Countrylink required \$73.9m of government subsidy in 1995/96. This did not include access charges, grant funding or disbursements from the SRA budget. Countrylink provides up to 12 return rail services per day. The Countrylink fleet utilised for these services consists of 112 items of rollingstock as described in Table 3.4.

The functions of Countrylink's 864 employees are detailed in Table 3.3.

Further resources include the Countrylink operated sales network 42 Travel Centres in capital cities and regional centres. This network is supplemented by 372 accredited travel agents and 240 CityRail booking offices.<sup>44</sup>

**Table 3.4 Countrylink Rollingstock Fleet**

<b>Power Cars</b>	<b>Trailer Cars</b>
19 XPT	60 XPT sitting cars (includes 8 sleeping/sitting)
14 Xplorer cars with driving cab	7 Xplorer cars without driving cab
1 442* class locomotive	2 locomotive hauled power generators
1 81* class locomotive	7 locomotive hauled sitting cars
1 Shunting locomotive	
<b>36 Power Cars</b>	<b>76 Trailer Cars</b>

Source: Countrylink September 1996. \* Hired from Freight Rail

NSW Treasury has calculated that the value of the Countrylink fleet(at replacement cost) is \$241m. The service requires access to 4,338 kilometres of railway line, 95 rail stations and 281 coach stops. Of the 95 train stations, 60 are staffed by station attendants and the rest are unmanned.

### 3.7 Government funding and CSOs

Countrylink estimates that some 69 per cent of journeys on its services are undertaken using a government subsidised concession fare.<sup>45</sup> The government subsidises Countrylink to:

- ◇ provide concessions for the elderly, students and disadvantaged people to achieve equity goals
- ◇ provide services to particular regions to achieve access and mobility goals
- ◇ offset negative congestion and environmental, health and safety aspects of private road transport
- ◇ offset cost disadvantages associated with government provision of services.

The low cost recovery of Countrylink renders it essentially a CSO business.

The 1995/96 government subsidy (or total CSO payment) represents the difference between costs and revenue on a cash accounting basis. (see Table 3.1) CSOs are currently a balancing item. Funding includes concession reimbursements of \$61.6M. The current shortfall

<sup>44</sup> Countrylink, submission to the Tribunal, October 1996, p 9.

<sup>45</sup> Countrylink CSO Claim, 1995/96.

funding system does not provide incentives to reduce costs or increase patronage as Countrylink's expected loss is met entirely by government.

The Department of Transport is finalising a commercial CSO contract with State Rail. In the future, Countrylink will be paid the difference between revenue and efficient costs for each of its thirteen rail services. Efficient costs will be determined by the Department of Transport. The operating deficit from Countrylink coach contracts is also met by the Department of Transport as a separate, transparent CSO payment. The management of coach contracts was transferred to Countrylink which will manage these contracts to ensure a more flexible and customer focused feeder network.

The notional reimbursement for concessions is highly significant for Countrylink representing 44 per cent of total revenue.

**Table 3.5 CSO reimbursement breakdown**

<b>CSO contract funding</b>	<b>1994/95</b>	<b>1995/96</b>
<b>Concessions</b>		
Half-fare pensioners/senior citizens	4.1	5.2
PTV	42.9	48.2
Other concessions	1.0	1.7
School children	0.4	1.1
Tertiary students	4.3	5.4
<b>Total concession reimbursements</b>	<b>52.7</b>	<b>61.6</b>
<b>Non commercial</b>	<b>13.1</b>	<b>12.3</b>
<b>Total subsidy</b>	<b>65.8</b>	<b>73.9</b>

Source: State Rail Authority Annual Report 1994/95 and Countrylink financial results 1995/96.

For 1996/97 the Department of Transport intends to alter the format for the payment of CSOs. However, the total payment will remain the difference between expected costs and revenues. The altered format will identify social program activities from loss-making commercial activities. The new contract will again feature two main components:

1. CSO (concession reimbursement)
2. CSO (non-commercial).

The CSO contract remains under negotiation. The final report on Countrylink will detail changes to the ultimate CSO contract format.

### **3.7.1 Pensioner Travel Voucher (PTV) system**

Free travel on PTVs accounts for over one quarter of all Countrylink journeys (or 660,000 PJs in 1995-96). The PTV system provides four free, first class, single, intrastate trips per annum. PTV passengers who travel interstate are required to pay half fare from the NSW state border to the interstate destination. Pensioners also have unlimited access to the Countrylink \$2 seniors excursion ticket, the CityRail excursion ticket system and the (half price) concession fares.

The Tribunal believes there is a need to review the PTV system to better achieve the social policy objectives of this program. A description of the operation of the PTV system and some options for reform is detailed in Appendix 1.

### 3.7.2 CSO non commercial

Following concession reimbursement, Countrylink receives the remaining deficit as a CSO known as non commercial. The non commercial CSO is essentially a balancing item. Countrylink is attempting to remove the need for a non commercial CSO by the year 2000. The Tribunal supports the concept of an operational non commercial CSO as it separately identifies the component which is loss and not performing any social policy program.

#### **Recommendation**

***The non commercial component of the CSO contract should be retained to allow consistent assessment of Countrylink's achievements in cost reductions.***

### 3.7.3 Concession reimbursement

Like CityRail, Countrylink is currently reimbursed on a notional revenue forgone basis. For example, a PTV traveller in an off peak period on the Sydney-Murwillumbah Countrylink service will be notionally reimbursed based on the standard first class fare of \$117 and not the prevailing discount economy fare of \$51 or the average fare paid on the services; ie. the average amount paid by those who actually pay fares. At issue is whether it is efficient to reimburse Countrylink for the corresponding full fare or whether it should be reimbursed on a more commercial, basis. The Victorian Department of Transport reimburses the Public Transport Commission (PTC)<sup>46</sup> and West Coast Railway<sup>47</sup> on an average fare paid basis. In the short term average fare paid reimbursement is likely to reduce CSO funding and to increase the deficit shortfall funding by similar amounts. However, it will give Countrylink greater incentive to pursue higher yielding passengers to increase the average fare.

Alternatively the Tribunal has repeatedly suggested the use of negotiated lump sum concession reimbursement for all transport operators. The Tribunal's support for lump sum reimbursement is based on achieving a simplification of funding on a more cost reflective basis, giving cost certainty to government, maximising government purchasing power and removing the current subjectiveness required in other usage and cost estimates. However, in changing to a negotiated lump sum basis, the Department of Transport must ensure that the current level of CSO transparency of payment is improved by requiring a funding segmentation to a train service basis.

#### **Recommendation**

***Consideration be given to improving funding incentives for Countrylink through reimbursement based on a negotiated lump sum or an average fare paid basis.***

### 3.7.4 The funder-provider model

Implementation of the funder-provider model has been a consistent feature of Australian government policy for the past decade. This model involves establishing formal contractual purchasing relationships between government departments. The model is aimed at improving the targeting of expenditure, increasing the value of government expenditure and decreasing politically motivated decisions. A key element of the model is that it imposes fiscal and policy discipline on the funding agency.

<sup>46</sup> The PTC is the Victorian Government equivalent of the State Rail Authority.

<sup>47</sup> Westcoast Railway is a privately owned train operator and holds a contract with the Victorian Government to operate train services over the Melbourne to Warrnambool rail corridor.

The funder-provider model can best be understood by way of an example. Under existing funding arrangements the Department of Transport receives government funding to provide the School Student Transport Scheme (SSTS). In the funder-provider model the Department of Education would receive a budget to achieve this purpose. The Department of Education could then contract with the service provider/s it deemed most efficient to provide transport services. If the Department of Education viewed public transport providers as performing poorly, it could contract with private operators or simply give a cash subsidy directly to those needing school transportation. Policy and fiscal benefits are also generated through the model. An example is the Department of Education's decision to dezone schools without full regard to increases in the cost of SSTS incurred by the Department of Transport. Under the model the Department of Education would have been financially responsible for all the impacts of de zoning.

NSW Treasury is currently reviewing the applicability of the funder-provider model for NSW. Stage I of the Treasury review program involves establishing transparency for all government payments under the social policy program. Following this process of identification, Cabinet will consider whether to approve the implementation of Stage II and the progressive transfer of control of government funds to the appropriate provider departments. Countrylink has completed a notional breakdown of its CSO funding which will enable progress to Stage II. A government decision on whether to complete the transition to a funder-provider model for transport is likely during 1997-98. The transition to funder-provider in Transport is more complex due to the substantial proportion of operator revenue that government subsidies represent. Additionally, the NSW Treasury is doubtful as to whether Countrylink could survive under the funder-provider model and notes in its submission that:

“Countrylink is a poorly targeted vehicle to support social welfare policies.”

During 1996 the NSW Government implemented the funder-provider model for the pensioner rebate system in electricity distribution. The Department of Community Services (DOCS) now receives the budget for the scheme in lieu of previous direct allocations to the distributors. DOCS has established contracts based on the previous (rebate scheme) arrangements with each of the six electricity distributors. DOCS intends to complete a full review of the targeting of the rebate scheme and initiatives to improve the scheme during 1997. Similarly, DOCS will be the logical recipient of the funder-provider budget for the PTV scheme.

Queensland has already utilised the funder provider model extensively in transport. The Department of Family Services pays Q-Rail for concession rail travel for pensioners. The Department of Family Services is conducting a review of the costs and benefits of the pensioner travel scheme during 1997. As funder of the scheme, the Department of Family Services can initiate changes or alterations to arrangements to derive higher value for travel recipients.

### ***Recommendation***

***Government and Countrylink should progress from a notional reconciliation of CSO funding to actual breakdown of CSO funding as required by Stage II of the Social Policy Program.***

### 3.8 Benchmarking

It is difficult to benchmark efficient costs in passenger rail. This is because of the predominance of government operators, the variety of rollingstock, differing operating environments and different cost structures make it difficult to achieve consistent cost evaluations. Similarly, the rail operators selected for comparison with Countrylink are all different. Benchmarking results will serve as a guide to appropriate Countrylink cost levels rather than new cost targets.

State Rail has commissioned two extensive Countrylink benchmarking studies. The first in 1989 by Booz Allen and Hamilton<sup>48</sup> found that Countrylink was meeting performance targets set within the Department of Transport. The second review in 1993 by Mercer Consulting<sup>49</sup> reports that fleet utilisation to be best practice given the constraints of the timetable and other operating conditions. The CSO payment from government is based on the difference between efficient costs and expected revenues. The Department of Transport pays Countrylink's expected CSO requirement in full and without further efficiency review.

The Department of Transport describes the benchmark CSO funding process whereby:

“..costs are reviewed jointly each year by the Department of Transport and Countrylink and are based on the assumption that Countrylink operates at the optimum level of efficiency, taking into account NSW operating conditions, infrastructure and traffic type.”

The Mercer Review is far from favourable. It concludes that total potential cost savings of 24 per cent are available in Countrylink operations. Specifically, the Mercer Review states that the following maximum potential costs savings are available:

- train crews - 38%
- other train operations - 30%
- stations - 18%
- on board services - 37%
- Travel Centres - 45%
- business overheads - 20%<sup>50</sup>

Since the Mercer Review in 1993 Countrylink's operating costs (nominal \$) per passenger kilometre have fallen by only 6.2 per cent.<sup>51</sup> This implies that cash operating costs could reduce by a further \$21.4m.

In the period since the Mercer Review, Countrylink has reduced staff levels by 24.1 per cent (from 1,138 to 864). However, this reduction in Countrylink staff was not achieved by increasing productivity and has not translated into a lower cost structure. Staff formerly attached to Countrylink have been devolved to other sections of the SRA (such as PFM) who perform the same tasks under an internal service contract. However, some train driving and attendant staff have been transferred to Countrylink over this period.

The Tribunal has completed some preliminary benchmarking of Countrylink services. The search for best practice cost efficiency led the Tribunal to West Coast Railway (WCR).

<sup>48</sup> Booz Allen and Hamilton, Diagnostic Review & Strategic Priorities for Freight and Country Passengers, June 1989, a report prepared for the SRA.

<sup>49</sup> Mercer Management Consulting, Mid-Term Strategic Review, 1993, a report prepared for the SRA.

<sup>50</sup> Mercer Management Consulting, Mid-Term Strategic Review, 1993, p IX-33.

<sup>51</sup> State Rail Authority Annual Report 1995-96, p 98, adjusted by ABS Sydney CPI 1993-1996.



Section 4.8 summarises additional labour productivity benchmarking of Countrylink against the Victorian Government’s rail operator, V-Line, and the privatised New Zealand passenger operator Tranz Scenic.

A private rail operator, WCR has 36 diesel passenger train services per week carrying 300,000 people a year. WCR operates between Melbourne and Warrnambool (via Geelong), a distance of 267km. Although the route is shorter than most Countrylink services the WCR service is comparable to Canberra services.

**Table 3.6 Cost benchmarking of Countrylink and West Coast Rail**

Route	km	Trains per week	Av seats	Av seat utilisation %	Full fare \$	Av fare paid \$	Customer revenue per km \$	Op cost per km \$	Cost recovery %
Melbourne-Warrnambool	267	36	242	62	32	19	11	14	78
Sydney-Canberra	326	42	164	69	40	25	9	27	34

Notes: All cost estimates include depreciation, access, and accruals. Countrylink costs do not include cost of capital. West Coast costs include interest on debt finance. Customer revenue is the difference between total revenue and all government contributions.

The cost comparison in Table 3.6 illustrates the significantly lower costs an efficient private operator has over Countrylink. The table illustrates that potential Countrylink subsidy reductions of between 20 and 40 per cent are available to the NSW Government through the adoption of best practice efficient costs.

**Recommendation**

***The Tribunal recommends that Countrylink closely examine the lower cost structures achieved by private operators. This examination will produce strategies to reduce cost inefficiencies present in Countrylink operations.***

**3.9 Interrelationships and externalities**

Each transport mode can be considered in isolation or viewed as part of an integrated system. The extent to which the modes compete with each other has implications for pricing policies. The Tribunal is aware of these interrelationships and their effects on optimal pricing policies.

Whilst air pollution is most prevalent in urban areas, the use of trains, cars, coaches and aeroplanes for travel also contributes to greenhouse gas emissions outside urban areas. The relative emission contribution of each mode depends on the load factor assumed. A 1991 BTCE study found that a fully occupied car had levels of energy efficiency and emission (per passenger km) approaching those achieved by rail (at average occupancy). However, cars occupied only by their driver have the highest levels of energy consumption and emission. At average levels of occupancy long distance passenger trains are estimated to consume over twice the energy per passenger kilometre as coaches.<sup>52</sup> This result reflects the lower average load factor for rail compared to coaches.

<sup>52</sup> Bureau of Transport and Communication Economics estimate contained in Industry Commission, *Report on Rail Transport*, Vol I, 1991, p 229.

The BTCE findings conflict with a Victorian Transport Externalities Study which estimates that a diesel train with 35 per cent occupancy generates 30 per cent of the CO<sub>2</sub> of cars and between 50-70 per cent of CO<sub>2</sub> from buses.<sup>53</sup>

Conversely, a submission from Associate Professor Jonathan Richmond stated that the externality benefits of Countrylink have been exaggerated. Richmond highlights the extremely low market share of rail and states that the impacts from the transfer of rail passenger traffic to roads would be minuscule.<sup>54</sup> This view is based on the low proportion (4 per cent) of long distance journeys using trains.

A 1995 study<sup>55</sup> estimates that the net externality benefits of Countrylink rail services amounted to a total of \$18.6m. This study does not assess reductions in greenhouse gas emissions as assumptions regarding transfer to other modes are uncertain. This result suggests that Countrylink's net externality benefits are less than half the below rail costs<sup>56</sup> (equating to access charges payable to RAC see Section 3.3). However, Treasury in its submission to the (Urban) Public Passenger Transport Services Review states that:

"Below rail costs (will) continue to be borne by the taxpayer as a more than sufficient offset for the net positive externalities of rail use."<sup>57</sup>

Other submissions, such as that from the Highway Safety Action Group, view coach travel as less safe and having higher externality costs. The Group reports that the externality benefits of rail as large and underestimated.

The Bus and Coach Association (BCA) states that coaches pay more than their full road costs and are the safest form of land transport.<sup>58</sup>

Apart from the various individual benefits derived from Countrylink services, significant community benefits may justify retaining country passenger trains. These benefits include:

- ◇ reduced road congestion
- ◇ reduced road accident rates
- ◇ increased mobility
- ◇ enhanced social justice and equity.

These externality benefits may justify some level of subsidy for Countrylink. The Tribunal believes that greater research into the extent of transport externality costs and benefits is required.

### **Recommendation**

***The Tribunal recommends that government commission a study to estimate the actual externality benefits of Countrylink. This study must reconcile the divergent views held by transport stakeholders.***

<sup>53</sup> NSW EPA, submission to the Tribunal, October 1996, p 2 from a Victorian EPA, Transport Externalities Study, 1994.

<sup>54</sup> Associate Professor J E Richmond, submission to the Tribunal, October 1996, p 2.

<sup>55</sup> SRA commissioned study by the National Institute of Economic and Industry Research, *External Effects of SRA Rail Activities*, November 1995, p 119.

<sup>56</sup> Below rail refers to track, formation, signalling, stations and other fixed line related infrastructure.

<sup>57</sup> NSW Treasury, Submission to the Tribunal, April 1996, p vi.

<sup>58</sup> Mr Barrie MacDonald, Executive Director, BCA, Countrylink hearing, 27 November 1996, Transcript p 65 referring to a Federal Office of Road Safety, Evaluation of the safety of land transport modes (1994).

### 3.10 Implications of the National Competition Policy

Key implications of competition policy for Countrylink include:

- ◇ that private and government businesses must have competitive neutrality
- ◇ that reasonably based access rights be available from the Rail Access Corporation (RAC)
- ◇ that the funding of Countrylink not disadvantage operators from other modes.

Competition policy principles demand the separation of natural monopoly and potentially competitive activities.<sup>59</sup> The RAC was established as a natural monopoly to manage track infrastructure and third party access for Countrylink and other private or government rail operators. However, competition policy does not prevent governments or GTEs from using CSOs to achieve non-commercial objectives, providing they do so without acting anti-competitively.<sup>60</sup> The government needs to ensure that the provision of a CSO to Countrylink does not adversely impact on the ability of other transport operators to compete.

Competitive neutrality refers to the idea that firms should compete on their inherent strengths and weaknesses irrespective of ownership. Neutrality demands that ownership confers not competitive advantage. A lack of neutrality, such as occurs when a government business receives exclusive advantages, can stifle competition and distort economic activity.<sup>61</sup> The Competition Policy Principles Agreement requires that government owned commercial operations be competitively neutral. The agreement also encourages neutrality from non-commercial operations where the benefits of implementation outweigh the costs. Although there may be significant cost savings from introducing contestability to government rail transport funding, mandatory neutrality compliance is not required legally.

Competition Policy Recommendation 13.2 (II) states:

“Government businesses competing against other firms within their traditional markets should be subject to measures that effectively neutralise any net competitive advantage flowing from their ownership. ... Where the government business has traditionally provided services to the public, there should be an assumption that this be achieved through Corporatisation.”<sup>62</sup>

Corporatisation involves the elimination (as far as possible) of the special advantages which flow from government ownership. Freight Corp and Sydney Water are examples of recently corporatised NSW government owned operations. Corporatisation is one of the most effective means of resolving competitive neutrality issues. Currently NSW Government subsidies for rail operations are paid exclusively to state owned operators. The corporatisation of the State Rail Authority would assist the transition to competitive neutrality. In addition, the funding of State Rail could be made contestable.

The grant funding of Countrylink is a capital expenditure advantage which is not available to prospective private rail or coach operators. Additionally, the governments payment of Countrylink's RAC access charges provides it with an advantage which is not available to

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<sup>59</sup> National Competition Policy, Report by the Independent Committee of Inquiry, August 1993, p xxxi.

<sup>60</sup> *ibid*, p 132.

<sup>61</sup> Industry Commission, *Implementing the National Competition Policy: Access & Price Regulation*, Information Paper, November 1995, p 4.

<sup>62</sup> National Competition Policy, Report by the Independent Committee of Inquiry, August 1993, p 308-309.

prospective private operators. To place Countrylink on an equal footing with the private sector both these advantages need to be neutralised.

### **Recommendation**

***Government should establish a program for implementing a competitively neutral funding of Countrylink services.***

## **3.11 Service competition in the long distance passenger market**

Coach operators offer both price and service competition by:

- ◇ servicing the majority of Countrylink destinations
- ◇ providing services with travel times and frequencies similar to rail
- ◇ offering fares which are significantly below Countrylink full fares.

Countrylink faces strong price competition from motor vehicles, coaches, aeroplanes, as well as from the car hire option. Countrylink attempts to meet this price competition through a system of fare discounting. However, the concession fare market is dominated by Countrylink because accessibility and the standard discounts offered are significantly more attractive than those provided by other operators. Overall, competition is of sufficient intensity to safeguard customer rights.

Countrylink's market share has been reduced by the deregulation of the domestic airline and coach industries, subsequent price cutting in both industries and the low marginal cost of self drive travel.

The substantial upgrading of some highways to dual carriageway standard, (eg Sydney - Canberra and Bathurst - Lithgow) has increased the attractiveness of travel by road.

Countrylink's marketing is focused on the leisure market segment and emphasises the high standard of comfort and finish of the rollingstock. However, future investments to improve to service quality should only proceed following financial evaluations confirming the capital expenditure achieves a positive return on investment. The incidence of coach crash disasters since 1989 has generated a 'safety premium' for Countrylink. However, several level crossing collisions between 1994 and 1996, while not seriously injuring Countrylink passengers, may have detracted from this image. (See Section 3.2 - comparison of accident costs between modes)

Countrylink is known to enjoy a 'nostalgia' or affection premium generated by a unique yet unquantifiable preference for train travel. Professor Jonathan Richmond provides an interesting insight into the preference for rail travel, stating

"The...partly irrational nostalgic benefit is (mostly) enjoyed by people who do not use the service. Talk of service discontinuance is likely to lead to substantial protests from people who are unlikely to ever use the service but who want to keep it on as a peculiar symbol of a community's vitality. A more valid argument for preserving some rail services would be when they do have a real heritage value and the potential to encourage tourism."<sup>63</sup>

Countrylink has attempted to improve food and beverage service to levels comparable with the airline industry. The recent outsourcing of catering supplies should further improve quality.

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<sup>63</sup> Professor Jonathan Richmond, submission to the Tribunal, October 1996, p 3.

Countrylink competes strongly on fleet comfort through its extensive and ongoing modernisation program. Several submissions seek the introduction of a club or entertainment car.<sup>64</sup> Club or lounge car facilities are available on most AN and Q-Rail Traveltrain services. The addition of extra carriages is easier to achieve when a train is locomotive hauled. Countrylink needs to assess the demand for an entertainment facility and compare this against the costs of acquisition, the increased costs of fuel and access charges and the rise in CO<sub>2</sub> emissions from the additional weight.

A recent survey explores interest in the reintroduction of the motorail service (ie taking cars on trains) which ceased in 1989.<sup>65</sup> Approximately 47 per cent of respondents to a multi-mode survey expressed interest in motorail's ability to save the long car trip while allowing the flexibility of car travel at one's destination. Motorail services are available on most major AN and Q-Rail Traveltrain services. However, the trailers used for motorail services are largely incompatible with the XPT and Xplorer cars which dominate Countrylink's fleet.

### **Recommendation**

***Countrylink should pursue cost effective quality improvements which satisfy passenger requirements provided the enhancement achieves a positive return on investment.***

## **3.12 Are trains the most appropriate transport solution?**

The Tribunal has received divergent views on this issue. The most vocal stated that trains offer a quality of service not attainable on coaches.

Professor Richmond favours the substitution of most trains with more frequent coach services which would provide a through service for less subsidy. However, he recommended that rail services with a definite heritage/national significance value be retained.<sup>66</sup>

A Travers Morgan (1992) review of Countrylink services<sup>67</sup> states that in practice a substitute bus service can provide an equal or superior level of service at a substantially reduced cost. The tourism and leisure markets value the flexibility of self drive and/or the convenience of air travel. The Auditor General's report states that coaches can provide superior point to point travel with higher service frequency within the same resource constraints. This report concludes that:

"the resources expended in providing country train passenger services can provide a higher return to the community if they were used in providing services that the community valued more highly. This conclusion can be easily tested, firstly by increasing the level of country passenger train fares so that they cover a high proportion of costs."<sup>68</sup>

The findings of these reports contrast with the strong perception in the rural community that significant social and economic decline was experienced in many regional centres following the cessation of rail and the substitution of coach services in 1988.<sup>69</sup>

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<sup>64</sup> Submissions such as R Caldwell and P Carlton.

<sup>65</sup> Institute of Transport Studies, *Working Paper on Intercity Rail Services*, 1996, p 24.

<sup>66</sup> Professor Jonathan Richmond, submission to the Tribunal, October 1996, p 2.

<sup>67</sup> Referred to in the Auditor General's, *Special Audit of Countrylink*, 1993, p 17-18.

<sup>68</sup> Auditor General, Special Audit - Countrylink.

<sup>69</sup> Submissions to the Tribunal inferring significant social and economic decline following the cessation of rail included the Highway Safety Action Group, Lachlan Regional Transport Committee, Griffith Council, the EPA and R Knowles.

Whether country passenger train services should continue to be provided remains a policy decision for government.

***Recommendation***

***The Tribunal recommends that government review the appropriateness of support for long distance passenger rail services compared to alternate travel solutions on low volume services.***



## 4 ACHIEVING A COMMERCIAL FOCUS

### 4.1 Introduction

Countrylink competes with other government services for taxpayer funds. Funds spent (inefficiently or otherwise) by Countrylink reduce potential funds available for health, education or other priority government expenditures. The Tribunal's terms of reference seek an assessment of Countrylink efficiency. Subsidy levels depend on fare setting, concession policy and operational efficiency. Significant funding factors assessed by the Tribunal include:

- ◇ the current costs of Countrylink services
- ◇ current costs -vs- efficient costs
- ◇ government travel concession policies
- ◇ appropriate goals for cost recovery
- ◇ cost drivers.

### 4.2 Responsibility for decisions

Countrylink needs to develop a culture of responsibility and ownership for all management decisions. Such a culture would strengthen the nexus between costs, revenues and management decisions. The performance of staff with supervisory responsibilities should be assessed regularly to encourage good performance.

In its 1996 Corporate Plan State Rail undertook to develop:

“Measurable targets will be established for....State Rail's senior managers (who) will be accountable for achieving these targets through their performance contracts.”

Additionally, incentive programs for middle management would encourage them to contribute to the commercial focus of the business.

The New Zealand government owned railway became Tranz Rail (TR) when privatised in 1993. TR recognised that cost efficiency gains required a change from the traditional railway culture. TR has achieved greater commercial enthusiasm by encouraging employees to become shareholders through a preferential share allocation. Over 5 per cent of shares are now held by employees. Tranz Rail Scenic (TRS) is the long distance passenger division which operates 8 train services. TRS carried 443,000 passengers in 1995/96. Although TRS is a small part of a large rail freight business, accounting for 3.3 per cent of revenue, it operates above breakeven on a cash basis. TR has retained a vertically integrated operating structure and TRS does not contribute to fixed track costs (ie pay access charges). Overall, TR has achieved large efficiency gains since privatisation.<sup>70</sup>

Government owned rail authorities should attempt to inject the same commercial enthusiasm into management decisions. One method of achieving this is via peer appraisal. V-line is implementing such a program.<sup>71</sup> Corridor managers have their performance scrutinised and rewarded where appropriate at regular meetings. Rewards are recognition (rather than financial) yet provide opportunity for high performing managers to impress.

<sup>70</sup> Tranz Rail Holdings Ltd. New Zealand, *Annual Report* 1995/96, p 18-28.

<sup>71</sup> V-Line Passenger Business Plan 3, 1996-97 to 2000-01, p 9-10.



Reward schemes may involve high performance managers receiving priority access to special training or new roles in training other staff.

Performance comparison meetings also act as a forum for sharing ideas on work process re-engineering, cost savings, marketing strategies and local initiatives. The Tribunal is aware that Countrylink has regular meetings of middle management. However the incentive capacity of such meetings could be better utilised. Countrylink Travel Centre managers, station masters and on-board managers could be covered by separate performance appraisal schemes as a way of implementing cultural change.

**Recommendation**

***The Tribunal recommends the establishment of management performance appraisal systems.***

**4.3 Travel Centres**

Countrylink operates a network of 42 Travel Centres, 38 of which are in NSW. The objective of Travel Centres is to build a self-funding sales network to enable better control of product marketing and promotion to increase cost recovery. Travel Centres sold 55 per cent of total Countrylink fare revenue in 1995-96. Private travel agents produced the remainder. Travel Centres employ 20 per cent of total staff (175 employees) and account for 9.2 per cent of Countrylink’s cash costs. Each Travel Centre is operated as an individual profit centre. Countrylink attributes notional revenue to each centre based on 15 per cent commission on the total gross value of all train tickets. This equates to the commission that would be paid to private travel agents.<sup>72</sup> Some Travel Centre income is also derived from the commission sale of Countrylink packages and other third party travel products such as air, cruises and accommodation.

**Table 4.1 Summary of Travel Centre Performance - 1995/96**

	Travel Centres	Staff	Gross Rail sales* \$m	Notional rail commission @ 15% \$m	3rd party commission \$m	Operating costs \$m	Profit / (Loss) \$m
CBD Capital Cities	7	69	12.8	1.92	1.40	4.92	(1.49)
Sydney suburb/metro	10	27	9.6	1.44	0.68	1.76	0.36
Regionals	25	79	22.3	3.34	0.41	4.41	(0.77)
<b>Total</b>	<b>42</b>	<b>175</b>	<b>44.7</b>	<b>6.70</b>	<b>2.49</b>	<b>11.09</b>	<b>(1.90)</b>

Source: Countrylink December 1996.

Notes: CBD refers to central business district. \* Gross rail sales assesses PTV and concession customers at the equivalent total full fare value.

The Travel Centre network recorded a notional loss of \$1.9m in 1995/6. The cash loss from the network was actually \$8.6m. If rail commission was apportioned at a more reasonable rate of 10 per cent commission, the Travel Centre network would have recorded a loss of \$4.1m. The Tribunal is aware that commissions exceeding 10 per cent are common in the travel industry. However, rail is a low value (loss making) product and Countrylink should not attempt to match these high incentives. Private agents are very unlikely to convert a PTV holder to an air or coach sale. From March 1997 Countrylink will reduce commission payments to private travel agents from 10 per cent of gross value to 12.5 per cent of face

<sup>72</sup> See Appendix 2 for a detailed discussion on the system of private travel agent commissions.

value. This represents a payment reduction of 37.5 per cent. Whilst reducing the commission payment for PTV tickets has some merit, all commissions on PTV sales represent an expense without related income. **Paying private travel agents or Travel Centres up to \$15 (or \$24 pre-March 1997) for issuing a free return PTV ticket remains a poor commercial practice.**

At a rate of 15 per cent commission, one third of Travel Centres record a notional profit. Over three quarters of Travel Centre losses occur in the seven CBD Capital City Travel Centres located in Sydney (4), Melbourne, Brisbane and Canberra. These larger Travel Centres are burdened by higher rents, over staffing and poor work culture.

Countrylink has established the goal of achieving breakeven (at 15 per cent commission) for all Travel Centres by the end of 1997. Countrylink has stated that Travel Centres not achieving this target will be closed or scaled down to a booking office. Travel Centres not achieving breakeven could be offered for sale to the numerous private travel agent networks.

Currently fewer than 1 per cent of rail passengers are using Countrylink packages. This low package uptake generates an unresolved conflict on the merit of Travel Centres. Either the effort involved in promoting packages is wasted due to the low disposable income of Countrylink passengers or the low uptake represents an enormous opportunity for Countrylink to expand its sale of packages. On board surveys indicate that 30 per cent of passengers intend to purchase another travel product upon arrival (accommodation, car hire etc).<sup>73</sup> However, the Travel Centre network commenced in 1989 and during the subsequent eight years of operation Countrylink passenger journeys have fallen 31 per cent.<sup>74</sup> However, since 1993/94 Countrylink PJ have risen 14 per cent which is in line with other Australian transport operators.<sup>75</sup> The Travel Centre network has consisted of over 38 branches since 1993. Over four years of intensive advertising, marketing and network operation have provided ample opportunities to demonstrate and achieve commercial viability.

The Tribunal questions the value of Countrylink's continued participation in Travel Centres. Continue participation should only occur in self-funding centres. The Tribunal considers Travel Centres to be self-funding where total costs are below third party commissions and 10 per cent of cash rail sales.<sup>76</sup> In over seven years of network operation no individual centre has approached achieving self-funding status.

The Mercer Review (1993) assessed Travel Centres and recommends the following urgent changes:

- "limit the sale of concession tickets to Travel Centres or on-board trains
- reduce staffing of Travel Centres
- close uneconomic Travel Centres
- introduce on-board ticketing
- provide incentive pay arrangements".<sup>77</sup>

<sup>73</sup> Tim Poulter, Sales & Marketing Manager Countrylink, Countrylink Hearing, 27 November 1996, Transcript p 18.

<sup>74</sup> State Rail Authority Annual Report 1995-96, p 98.

<sup>75</sup> For comparison the growth in Countrylink PJ since 1993/94 (14%) is in line with V-line 12%, West Coast Rail 23% & Qantas 24%. However, the exceptions with a low growth rates were Trans Scenic 1% and Traveltrain -5%.

<sup>76</sup> The Tribunal believes that self-funding should not allocate any notional commission to PTV or free tickets and should only allocate notional commission for concession tickets based on cash received and not the full fare equivalent value.

<sup>77</sup> Mercer Management Consulting, *Mid Term Strategic Review*, Executive Summary, December 1993, p 16-17.

Countrylink did not implement the Mercer Travel Centre recommendations and has actually expanded the network and staff numbers since 1993. The expansion since 1993 occurred through the absorption of 3 Tourism NSW branches and the opening of a centre in Gosford.

The Tribunal would support the continued operation of Travel Centres only on the self-funding basis described above. However, in the period since Travel Centres commenced operation (in 1989) they have failed to achieve self-funding status (see Table 4.1). The operation of a network of travel agents is a specialist field. Countrylink could call expressions of interest for the network and pursue a trade sale. Where a trade sale cannot be achieved, the progressive closure of all Travel Centres upon the conclusion of lease obligations will cease ongoing operational losses.

### ***Recommendation***

***Countrylink should withdraw from all Travel Centre operations. In the interim, Countrylink should move rapidly to implement, at least the recommendations of the 1993 Mercer review.***

Q-Rail Traveltrain shares the problem of paying private agents commissions for free PTV tickets. Traveltrain operates only 5 of their own 'travel centres' and hence pay a larger proportion of commissions to private agents. To solve this Traveltrain is investigating several options one of which is the establishment of a 1-800 telephone booking service for PTV ticketing with tickets mailed out to recipients. Countrylink is currently evaluating a new telephone booking system, whereby PTV customers would receive a telephone booking card. PTV customers would call and then quote their voucher number and name to the Countrylink operator. The operator would assign the PTV customer a seat and booking number for the customer to record on their card which acts a ticket. The Tribunal supports such a telephone booking system as it would reduce the need for Travel Centres as well as removing ticketing costs and commission payments for free travel recipients.

### ***Recommendation***

***The Tribunal recommends that sale of PTV tickets be totally removed from private agents. PTV tickets should be issued only at railway stations or through a new telephone booking system.***

## **4.4 Funding of corridors**

CSOs for Countrylink should be transparent and separated into specified amounts for each of the ten rail services. The ten CSO amounts would then represent a negotiated lump sum government payment for a fully specified service and quality level. This would encourage Countrylink to increase the proportion of full fare paying passengers by effectively transferring the passenger profile risk to the operator.

The ten CSO amounts should be reviewed annually. The Tribunal would encourage use of the ten CSOs as a productivity incentive tool in which the amount would be decreased by a cost efficiency deflator, say 4 per cent pa (or CPI - X). In addition to providing greater incentive, lump sum corridor funding enables a smooth transition to the corridor franchising proposals outlined in Section 4.

The submission from the Department of Transport displayed an awareness of the incentive advantages of lump sum corridor funding and states that it intends to:

“introduce a CSO contract focused on the operational characteristics of particular services.”<sup>78</sup>

The Department also states that corridor based allocation will enable a more accurate, clearer allocation of funds with greater commercial accountability for the government.

**The NSW Department of Transport should expedite programs to enable a transition to lump sum corridor reimbursement.**

## 4.5 Corridor franchising

The distinct nature of Countrylink rail services makes a system of competitively tendered franchises a potentially useful option. The design of a franchise system should seek retain the current high fleet utilisation, maintain existing economies of scale, yet achieve an efficient segmentation of services to encourage new operators. One possible model could see Countrylink separated into five rail franchises:

1. North West (Moree/Armidale)
2. Dubbo
3. Griffith & Broken Hill
4. Canberra
5. North Coast & Melbourne XPT services

Based on experience in other states and countries, franchising may be able to reduce the total cost of Countrylink by over 30 per cent. These cost savings would be generated with no change in services, fares, concessions, the PTV system, quality or safety. Countrylink represents a cash cost to government of \$73.9m in 1995-96. The cash cost is likely to grow to around \$125m in 1996-97 due to the inclusion of access charges and the feeder coach contract CSO. However, the net cost to government of these new inclusions should be low.

Public transport franchising has delivered large efficiency gains in Western Australia, Victoria and New Zealand. This experience illustrates that not all corridors need to be franchised to produce subsidy reductions across all services. V-line in Victoria operates over seven corridors. An eighth corridor, to Warrnambool was tendered in 1993. The Victorian Government has announced that four of the remaining corridors will be tendered in February 1997.<sup>79</sup> V-line is preparing to compete with West Coast and other private or government owned operators for franchise rights. The Victorian experience provides a working model for NSW to use in evaluating the performance of franchising.

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<sup>78</sup> NSW Department of Transport, submission to the Tribunal, October 1996, p 8.

<sup>79</sup> V-Line Passenger, Business Plan 3, 1996-97 to 2000-01, p ii.

Private operators (such as WCR) would expect to reduce the total cost to government via:<sup>80</sup>

- reduction in costs associated with management, administration and marketing
- multi-skilled staff working under a revised (flexible) enterprise agreement
- increase farebox through better fare supervision
- customer friendly service, localised marketing and quality improvements to generate higher patronage<sup>81</sup>
- lower maintenance costs through competitive tender and/or efficient internal service provision.

A potential NSW model could have respondents nominating the minimum annual subsidy required for a given fare, timetable, service standard and concession environment. Countrylink would compete for each franchise on neutral terms with other operators. To ensure competitive neutrality it would be desirable to transfer Countrylink rollingstock to a ROC. Tender respondents would negotiate lease fees with the ROC or obtain their own rollingstock of an acceptable quality. Franchises would be negotiated for between five and seven years. To ensure an improvement in service standards the franchise contract would contain a system of incentives and penalties.

### **Recommendation**

***The Tribunal recommends an examination of the feasibility of franchising one trial corridor. Should this trial produce significant cost savings a broader program should be pursued featuring a rollingstock ownership corporation.***

## **4.6 Yield management system**

Countrylink operates a yield management system which attempts to maximise the revenue from each train by adjusting fares to demand levels and fare levels on competing modes. This practice is best exemplified in the airline industry where advanced techniques of pricing are applied to maximise revenue. As with airlines, Countrylink's discount tickets are non-refundable, but full fare tickets are refundable. All tickets and PTV vouchers allow travel date changes of bookings for a \$5 fee (subject to availability and the payment of any fare differences).

Countrylink offers fares discounted by between 10 per cent and 40 per cent off the standard economy fare. A controlled number of discount seats is available, mainly on off peak and mid week trains. These are pre-sold on a discounted, 'first come, first served' basis. The discounted fares are available up to six months before departure. Discount levels and associated seat volumes are controlled by a quota system based on anticipated load factors.

Discount fares are sometimes 'sold out' weeks prior to departure. However they can remain available up to 48 hours before departure, depending on loadings. Services such as those to Grafton, Broken Hill and Griffith are discounted continuously to boost patronage.

Discount fares for rail are similar in nature to 'sale price' airfares. To secure seats, discount travellers must commit to departure dates usually several weeks before travel. The Tribunal has observed that airlines use experienced sales staff to apply yield management.

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<sup>80</sup> West Coast Railway, submission to the Tribunal, October 1996.

<sup>81</sup> Since commencement during 1993-94 WCR has generated a 24% rise in patronage compared to total growth in V-line patronage of 14%. The passenger mix of full fare to concession/free travellers has remained constant at 1:1.

Airline sales staff initially quote the standard fare where the prospective customer does not first seek a 'special fare'. Airline sales staff then progressively offer larger discounts when requested by the prospective customers. Airline account customers such as frequent users and corporations are rarely offered any discounts. By contrast, Countrylink sales staff immediately offer all customers the lowest applicable fare available. The objective of fare discounting is to attract new customers from other modes and not to give existing customers a discount. Countrylink sales staff may require training to assist them in assessing the price sensitivity of each customer.

There are also special offers on Countrylink. For example, during August 1996 a promotional campaign offered Countrylink travellers who bought one full fare, a free ticket for use on the same train service.

Average fare elasticity for Countrylink is -0.4. A 10 per cent reduction in fares results in a 4 per cent increase in patronage, and a 6 per cent reduction in net revenue. Hence, charging the standard fare produces net revenue gains and discounting is likely to reduce net revenue. Elasticity levels show minimal variation between peak and off-peak periods. Therefore, passengers appear unlikely to pay more during peak periods. The elasticity information provided by Countrylink does not support use of the yield management system. When applied skilfully discounts can increase net revenue so that the new revenue attracted from other modes exceeds the size of the discounts given to people who were going to travel by train anyway.

The Tribunal notes that Trans Scenic also engages in fare discounting. Trans Scenic offers a limited number of saver fares (30 per cent off) and super saver fares (50 per cent off) on off-peak trains only. However, Table 5.1 illustrates that standard Trans Scenic fares are between 30 per cent and 80 per cent higher per kilometre than standard Countrylink fares. Hence, Trans Scenic can afford to offer discount fares which usually remain above comparative Countrylink standard fares.

Q-Rail Traveltrain services do not use discounting or yield management extensively. Traveltrain offers off-peak (only) discounts of up to 40 per cent on the Spirit of Capricorn service only. Traveltrain employs discounting on the Capricorn service as it has low seat utilisation compared to other services. Overall, the availability and relative size of discounts on both Trans Scenic and Q-Rail are lower than on Countrylink.

Countrylink believes that an efficient yield management system will improve farebox revenue by around 11 per cent or up to an additional \$6m pa. Estimating the gains from yield management is difficult as it necessitates the separation of background revenue growth<sup>82</sup> from discount driven growth. Overall, the Tribunal believes that the application difficulties outlined above will continue to limit farebox gains from yield management to levels more modest than current Countrylink estimates.

**Countrylink should closely monitor the net revenue impacts of periods of discounting for each train service. Countrylink's inelastic demand means that discounts are likely to lead to decreases in net revenue.**

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<sup>82</sup> Background revenue growth refers to growth driven by the annual CPI fare rise and natural travel market growth stimulated by a rising population, growth in tourism, an increase in the number of pensioners (PTV recipients) etc.

## 4.7 Rollingstock

NSW Treasury has valued the replacement cost of the Countrylink's fleet at \$241m. The current 112 piece rollingstock fleet is presented in Table 4.4. The fleet is predominantly XPT class with up to 15 years of service, Countrylink is preparing to evaluate refurbishment or acquisition investment decisions.

### 4.7.1 Capital grant funding

The government uses capital grant funding to purchase Countrylink's rollingstock. Grant funding involves financing capital expenditure from Treasury with a lump sum, non-repayable, cash transfer. Most governments prefer the use of grant funding for non-commercial government operations (such as health and education) due to the superior control it gives over timing, location, size and style of capital expenditure. However, grant funding may not provide the most efficient investment outcomes.

State Rail has implemented accrual accounting which requires depreciation charges to be included in the financial statement and makes all costs incurred transparent. However, in calculating subsidies and grants the government reverts to a cashflow basis and ignores all non-cash items such as depreciation and other accrual charges. The government has demanded a commercial management style from Countrylink and could assist this development by ceasing grant funding and allowing Countrylink to retain the cash equivalent of its depreciation charge as a reserve for rollingstock acquisition. The benefits of this change include the end of the 'wish list' system whereby Countrylink has an incentive to nominate premium quality rollingstock without fully considering lower cost alternatives capable of performing identical functions. The revised approach would give Countrylink's management far greater responsibility for the good management of its investment program.

Another potential reform would be to transfer ownership of all Countrylink rollingstock to a government rollingstock ownership corporation (or ROC). Countrylink would have the option of hiring rollingstock on a per trip basis or leasing it on a fully maintained basis. The establishment of a ROC would also facilitate the franchising of specific rail services (see discussion in Section 4.5).

### ***Recommendation***

***The government should consider either the cessation of grant funding for capital acquisitions or the establishment of a rollingstock ownership corporation.***

### 4.7.2 Future rollingstock replacement options

The Tribunal understands that Countrylink is evaluating three preliminary options for future rollingstock on the Griffith and Broken Hill services.

1. Undertaking further minor refurbishment of the existing loco-hauled set as an interim measure (\$2m) and ordering a new four car Xplorer set (\$13m). Swapping the Dubbo XPT set with the new Xplorer cars as the length of Griffith and Broken Hill hauls is beyond the Xplorers' preferred capability (total capital expenditure approximately \$15m).
2. Undertaking major refurbishment of the existing loco-hauled set (total approximately \$6m).
3. Revert to the previous coach only service connecting to Junee and Orange (\$1-2m pa).

A further option could involve the purchase of two dedicated rail motor sets to run the connecting shuttle services between Griffith - Junee and Broken Hill - Orange (approximately \$5m each). Under this option the service frequency could increase to daily.

The Tribunal notes that the reduction in travel time from purchasing high speed rollingstock may have the capacity to increase train utilisation. This could allow Countrylink to offer day return services on some middle distance corridors. The advantage of a day return service is the use of one train set, for example the Dubbo service. Hence, replacing rollingstock on a corridor which currently requires two train sets may be completed by purchasing one high speed train with no loss in service frequency.

All new train services which increase frequency will increase operating losses and government subsidies. Hence the full cost of a daily shuttle utilising rail motor rollingstock should also include recurring losses from the increase in frequency.

#### 4.7.3 Evaluation of rollingstock options

A number of submissions compared the merits of locomotive hauled carriages like the set servicing Griffith and Broken Hill, rail motors like the Savannahlander in Queensland (QLD) and multiple engine units (MEU) such as the Xplorer. From submissions to the review it appears that the key factors in a rollingstock purchase decision are:

- the cost of capital employed
- speed, capability, noise, ride and seating capacity
- reliability and the useful life of the asset
- maintenance frequency and cost
- manufacturer production lead times and availability
- staff levels required for operation
- operational flexibility to divide and amalgamate
- quality facilities such as sleepers, club cars, showers and entertainment areas.

The multiple engine unit (MEU) delivers superior comfort yet the basic performance of all options is similar. In its submission Griffith Council welcomed the reintroduction of trains, yet would now like to see its service upgraded to utilise Xplorer cars.<sup>83</sup>

In other submissions patrons prefer the intrinsic charm and character of the loco-hauled service.<sup>84</sup> Countrylink has stated that it has exhausted the State Rail owned refurbishment options. However, sourcing appropriate rollingstock from other rail operators domestically or overseas will remain a viable option. Unlike bus and coach operators, Countrylink does not have a government imposed maximum average fleet age.<sup>85</sup>

The speed performance of rollingstock is mainly constrained by poor track alignment. The XPT has a record top speed of 193km per hour, yet achieves far lower average speeds of 93km per hour to Melbourne and 73km per hour to Brisbane.<sup>86</sup> These speed statistics mean that capital expenditure for high speed trains is difficult to justify prior to expenditure on track straightening and realignment. The XPT between Sydney and Orange achieves an average speed of 68km per hour compared to the refurbished rollingstock which achieves

<sup>83</sup> Griffith Council, submission to the Tribunal, October 1996, p 2.

<sup>84</sup> Submissions such as P Carlton, Combined Pensioners and Superannuants Association, P Caldwell etc.

<sup>85</sup> The passenger Transport Act 1990 requires accredited bus and coach operators to have an average fleet age of less than 12 years measured from the date of initial registration.

<sup>86</sup> State Rail 1992-93 Annual Report p 23 & Countrylink Timetable March 1996.



61km per hour. In 1995, the Countrylink Tilt Train trial achieved a Sydney-Canberra performance of 215 minutes<sup>87</sup> at an average speed of 91km per hour. Tilt Trains achieve faster speeds through curved rail lines which are prevalent in some coastal areas and on tracks crossing the Great Dividing Range. Currently, Xplorers takes 233 minutes at an average speed of 84km per hour. However, an express Sydney-Canberra Tilt Train service could complete the trip in around 170 minutes at an average speed of 115km per hour or around 20 per cent faster than an express Xplorer service. Under existing track conditions, high speed technology achieves minor travel time reductions, whilst only being used to a fraction of speed potential. Overall, a Countrylink Tilt Train offering a 20 per cent quicker travel time is unlikely to attract (or transfer) significant patronage from motor vehicles or airlines.

The State Rail Corporate Plan reports an allocation of \$66.6m over three years for a tilt train proposal for use by 2000-01.<sup>88</sup> These proposed capital funds would purchase two high speed tilt train sets to replace the older XPT trains. This major financial investment by government would deplete funding for the cash deficient sectors of health, education, law enforcement and welfare. Given that refurbishment can be achieved at a fraction of the cost of new rollingstock, the tilting train proposal should not proceed to contract stage unless an independent financial analysis deems that it can produce a positive return on investment.

Preliminary Tribunal benchmarking reveals that loco-hauled rollingstock has a considerable fuel efficiency advantage over Countrylink's fleet. XPTs utilise push-pull motive power or a power car for each end of the train. Xplorers are also powered by multiple engines. Locomotive hauled fuel cost averages \$1.05 per live kilometre<sup>89</sup> against Countrylink's XPT fuel consumption average at an average of \$2.25 per live kilometre. This difference is partly explained by Countrylink running longer, air conditioned trains of a fixed consist. This result suggest that if Countrylink exclusively used loco-hauled rollingstock the total fuel expense would fall from \$12.3m per annum to approximately \$6m. Additionally the environmental costs of CO<sub>2</sub> emissions from MEU and XPT trains would be near double those produced by loco-hauled rollingstock due to the significantly higher fuel consumption. Countrylink reject the Tribunals benchmarking as not comparing like with like. Countrylink reports that XPT fuel consumption is 0.239 kg per kilowatt hour is near identical to an average locomotive (a 422) at 0.237. The Tribunal will seek further information on fuel consumption to clarify this debate.

The Tribunal notes that Countrylink operates its fleet in fixed consists. Throughout the year the number of carriages and locomotive used is not varied. Most other operators, including the operators examined during benchmarking (Tranz Scenic, V-Line, West Coast, Traveltrain and CityRail) match the carriages offered (and subsequent motive power required) to passenger demand. Using fixed consists results in the haulage of largely empty carriages in the off peak which increases fuel, CO<sub>2</sub> emissions, access charges, cleaning, maintenance, cleaning costs etc. However, using fixed consists reduces Countrylink shunting requirements and the numerous management costs associated with varying carriage numbers. The Tribunal will seek more information on the merit of operating fixed rollingstock consists.

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<sup>87</sup> Ten minutes was added to the usual Tilt Train travel time (205 minutes) to allow for the up to seven extra stops of the current Xplorer train.

<sup>88</sup> State Rail Authority, *Corporate Plan*, September 1996, p 28.

<sup>89</sup> A live kilometre refers to kilometres completed during scheduled passenger services and excludes dead running to maintenance or stabling facilities.

Queensland Rail also utilises a mixture of rollingstock to match the needs of travellers. Examples include heritage rail motors for short duration tourist services (such as the Gulflander and the Savannahlander), the luxury of roomette accommodation on the Queenslander, and soon to be introduced, high speed tilt trains for the Brisbane to Rockhampton route. Tranz Scenic use an all locomotive hauled fleet across its eight rail services. Tranz Scenic utilises refurbished carriages. Some carriage shells entered service in the 1930s.

A benefit of the Xplorer is its ability to combine and split services (North West services split at Werris Creek with separate smaller trains continuing to Moree and Armidale) Amalgamations and divisions appear appropriate on the North Coast line to achieve optimal combinations on the Grafton/Murwillumbah and Brisbane services. Similarly, seating requirements for peak and off-peak demands can be matched to train sizes where fleets are flexible. The Tribunal also notes that the use of shuttle trains on branchlines, say to Moree or Murwillumbah, may have some cost advantages but the absence of nearby maintenance facilities may offset these. Fleet configuration flexibility should be a priority in future investment decisions.

Since the establishment of the NSW Rail Access Regime, private accredited rail operators can gain access to the tracks once they have an access agreement with RAC. This regime creates the potential for efficient private operators to offer Countrylink motive power services on a contract basis. This arrangement, known as 'hook and pull', is already used by Countrylink for the Griffith and Broken Hill services where Freight Corp provides a fully maintained, fuelled and staffed locomotive for a set contract fee. Hook and pull arrangements reduce capital and acquisition costs, reduce the amount of permanent staff and provide cost certainty. Additionally, the use of contract motive power reduces Countrylink's risk exposure to large repair and maintenance costs.

### **Recommendation**

***The Tribunal commends the use of refurbished rollingstock and contract motive power. The Tribunal encourages further consideration of these cost saving options. Given Countrylink's commercial goals the purchase of tilt trains or other new rollingstock should be subjected to rigorous financial evaluation requiring a positive return on asset prior to proceeding.***

#### **4.7.4 Rollingstock maintenance**

All Countrylink rollingstock is exclusively maintained by PFM under an internal service contract at a cost of over \$38m (see Section 3.5.1). To reach best practice efficiency PFM has undertaken extensive benchmarking programs (against Qantas and the RAAF) and process re-engineering. However, the best assessment of PFM efficiency requires market testing via competitive tender. The threat of contestability during the implementation period can often produce gains matching those produced by immediate competitive tendering. The Tribunal notes that track maintenance contracts held by the RSA will be progressively subjected to competitive tendering between 1996-97 and 2000.<sup>90</sup> Similarly the Countrylink contract with PFM should permit the progressive competitive tendering of rollingstock maintenance.

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<sup>90</sup> State Rail Authority, *Annual Report*, 1995-96, p 30.

### **Recommendation**

***The Tribunal recommends that the Countrylink maintenance contract with Passenger Fleet Maintenance (SRA) be subject to progressive contestability.***

## **4.8 Track enhancements**

The travel times achieved by all modes are a main determinant of mode choice.<sup>91</sup> Section 4.7.2 illustrates that upgrading to high speed rollingstock generates only small reductions in travel times. Existing rollingstock cannot achieve its potential on the current track alignment. Attempts to reduce train journey times are largely constrained by poor track alignment. Numerous submissions to this review seek major expenditure on track realignment to reduce travel times.<sup>92</sup> However, track enhancements remain far more expensive than the acquisition of new high speed rollingstock.

The Tribunal has received a submission from Speedrail Pty Ltd, outlining a privately funded proposal for a high speed rail service every hour between Sydney and Canberra. The Speedrail proposal would use an electric TGV train operating at speeds of over 300km per hour. The proposal would use existing track from Central to Riverwood; a new third track within the current alignment from Riverwood to Glen Alpine (35km); then new electrified track to Canberra (216km). The superior alignment would reduce the new track distance by around 20 per cent. The proposal achieves a travel time of around 80 minutes, 65 per cent less than the current Countrylink service. The high speed and frequency of the Speedrail proposal should enable it to effectively compete with airline and private car travel alternatives whilst charging fares significantly above Countrylink. The cost of the 216km of new track suitable for high speed operation is estimated at \$1 billion (without electrification and land acquisition) or an approximate average of \$4.6m per kilometre.<sup>93</sup> The high capital expenditure of the Speedrail proposal illustrates that a progressive realignment of sections of mainline track (with a high degree of curvature or steep grades) would cost several billion dollars. Overall, large scale track realignment to improve Countrylink travel times appears prohibitively costly. However, minor track realignment, where expenditure is necessary on the current alignment, may be able to be financially justified.

The Premier of NSW has stated that the government is willing to support high speed rail proposals provided that there is no net cost to taxpayers.<sup>94</sup> A tripartite government<sup>95</sup> coordinated expressions of interest process to evaluate Sydney - Canberra high speed rail proposals is likely to proceed during 1997.

As owner of the track, RAC has control over track enhancement proposals. RAC will negotiate track upgrading proposals with operators provided it can recover an appropriate return on any track investment through access charges.<sup>96</sup> Access charges are already a major component of Countrylink costs and Countrylink has insufficient financial viability to negotiate major track investment.

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<sup>91</sup> Other common determinants are price, frequency, convenience, comfort, safety etc.

<sup>92</sup> Submissions including Prof. P Laird, Commuter Council, W Craig, H Burns, P Carlton and A Beeney.

<sup>93</sup> Speedrail Pty Ltd, submission to the Tribunal, October 1996.

<sup>94</sup> NSW Department of Transport, submission to the Tribunal, October 1996, p 19.

<sup>95</sup> The NSW, ACT & Commonwealth Governments have agreed to conduct a tripartite evaluation of proposals.

<sup>96</sup> RAC, Access Pricing Policy, September 1996, Section 5.2.

Overall, the Tribunal supports track enhancement proposals which produce a positive return on investment. The Tribunal also supports the government's approach of considering high speed rail projects with no net cost to taxpayers.

## 4.9 Review of labour practices

A labour productivity analysis is contained in Table 4.2. Countrylink's labour productivity ratios are deficient in comparison to those of V-Line, West Coast Rail and Tranz Scenic.<sup>97</sup> The other passenger rail operators do not operate a network of sales outlets. To ensure consistency this analysis is completed with and without the 175 Travel Centre staff through a pro-rata labour cost reduction. The division of labour roles for Countrylink staff is shown previously in Table 3.3.

**Table 4.2. Labour productivity analysis - 1995/96**

Long distance passenger rail operator	Ave corridor length (km)	Staff	Annual rail PJ per employee per ave corridor km	Labour cost (c) per rail PJ per ave corridor km	Daily cash revenue per employee (\$)
Countrylink (less Travel Centres)	660	689	4.14	2.84	259
Countrylink Total	660	864	3.30	3.57	206
West Coast	267	55	18.98	1.61	266
Tranz Scenic (NZ)*	420	130	8.03	2.83	333
V-Line Passenger	160	563	64.97	2.62	205

Sources: Countrylink & West Coast submission to the Tribunal, October 1996. State Rail Corporate Plan September 1996. Tranz Rail Holdings Limited Annual Report 1996.

Notes: \* New Zealand dollars converted at 1AUD = 1.10 NZD (13/1/97). Staff numbers refers to employees of each authority, company or business unit. For consistency labour costs include an allocation for train driving staff for Tranz Rail, West Coast and V-Line. Tranz Scenic labour cost is calculated on a pro-rata basis from Tranz Rail total.

Table 4.2 illustrates that Countrylink has higher labour costs even after allowing for the longer distances of Countrylink rail services. The Tribunal recognises that much of the V-Line passenger business is similar to the CityRail regional services which generate larger passenger volume and shorter average journeys. The nature of the V-Line business means it is likely to have higher labour productivity than Countrylink. However, the table also illustrates that the multiskilled workforces used by the other operators have higher productivity than Countrylink's staff.

The comparative analysis of Table 4.1 also indicates that Countrylink is staffed excessively. The State Rail Corporate Plan forecasts a small reduction in staff numbers of 1.9 per cent over the next five years (or 0.4 per cent per annum).<sup>98</sup> Reductions in excess of 3 per cent per annum are possible through natural attrition (or retirements/resignations). As a labour force target, Countrylink should pursue progressive reduction to the productivity levels achieved by Tranz Scenic. On this basis, current Countrylink rail journeys could be performed by approximately 550 staff or 710 including Travel Centres.

### **Recommendation**

***The Tribunal believes that scope exists for Countrylink to reduce staff levels to achieve labour productivity on par with comparable rail operators.***

<sup>97</sup> Tranz Scenic is the long distance passenger unit of Tranz Rail Holdings Ltd. New Zealand.

<sup>98</sup> State Rail Corporate Plan, September 1996, p 15.

## 4.10 Service integration

Although Countrylink attempts to integrate all its services, this task is sometimes difficult. The journey from Bega to Foster is 690km or around nine hours by car each way. To complete this return journey on Countrylink services requires eight services changes and necessitates travel over four days. Using Countrylink also involves the additional expense of two overnight stays. Although this may be a very low volume route, numerous submissions to this review note poor service integration.<sup>99</sup> The Tribunal notes overseas evidence suggests that even a smooth integration results in a minimum 12 per cent loss in patronage at each interchange. Where an interchange involves waiting time the patronage loss grows to between 25 per cent and 30 per cent.<sup>100</sup> Hence, the evidence illustrates that travellers dislike interchanging and to maximise patronage Countrylink needs to minimise interchanges or complete them without any waiting time.

The Highway Safety Action Group highlights the inadequacy of the Dubbo-Cootamundra coach, which does not connect with any of the four daily XPT services which travel through Cootamundra. Other coaches, such as the Orange-Parkes service, follow long, circuitous routes. Orange is 100km by road from Parkes. However, the coach detours via Eugowra and Forbes to more than double the journey time to two and a half hours. Residents of Eugowra and Forbes could be serviced by an additional Countrylink coach service which may better suit their needs. Coach routes require revision to improve the attractiveness of the service.

Customers travelling from Canberra to Melbourne use a feeder coach to meet southern XPT services at Cootamundra. These customers are prevented from disembarking from the coach at Yass Junction (the closest XPT station). Instead, the train and coach travel in near tandem for an additional 80 minutes to Cootamundra. Cootamundra is the hub for Countrylink's southern region. Coach operators prefer to deliver all passengers to Cootamundra and the coach operators payment are largely distance based.

Another example of poor integration is what the Lachlan Valley Regional Transport Committee labels the 'ghost coach'.<sup>101</sup> The afternoon coach from Grenfell to Bathurst arrives at 5:00pm. The same coach has the CityRail contract for the Lithgow-Cowra service with boarding from 7:00pm. The coach runs 'dead' along the Great Western Highway from Bathurst to Lithgow (80km). It does not accept any passengers who wish to travel to Lithgow. The coach has two hours to complete the journey which (non-stop) takes 1 hour. Countrylink should renegotiate the contract to allow travel from Bathurst to Lithgow as the bus has sufficient time, would incur little additional cost and would realise some additional revenue. State Rail's management should ensure that CityRail and Countrylink pursue an integrated approach to coach contract management. The 'ghost coach' demonstrates the absence of incentives for good service in current coach contracts.

Coach contract management was transferred from the Department of Transport to Countrylink in October 1996. The transfer of control may improve Countrylink's ability to integrate services and negotiate efficient service contracts. Countrylink needs to allocate responsibility for ensuring efficient integration of services to a particular manager.

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<sup>99</sup> Submissions such as the Highway Safety Action Group, Lachlan Regional Transport Committee, R Caldwell, M Gobbe, Wagga Shire Council, Leeton Shire Council.

<sup>100</sup> Canadian and American studies on 'Transit Transfers' referred to in Roger Graham & Associates, *Changes to Private Bus Services Resulting From the Passenger Transport Act 1990*, October 1995, p 23.

<sup>101</sup> Submission to the Tribunal, October 1996.

Generally, integration performance appears satisfactory. Of the ninety daily coach services this review has highlighted only four major examples of poor integration. Most feeder services appear to deliver a smooth and efficient transition. Additionally, Countrylink reports that customer satisfaction levels are slightly higher for passengers taking an integrated coach/rail trip compared to rail only passenger. However, Countrylink should pursue the considerable scope for improvement.

### **Recommendation**

***Countrylink needs to review and monitor the efficiency of existing integration arrangements to ensure services are efficient and meet the demands of customers. Countrylink must implement service incentives within contracts to ensure that operators are customer-focused.***

## **4.11 Outsourcing**

To deliver long distance, passenger rail travel Countrylink undertakes a wide variety of tasks. Modern business practice indicates that companies which have established expertise should focus on core operations and outsource non-core areas to other specialist operators.

Countrylink has numerous activities suitable for an evaluation of contract-in or outsourcing.<sup>102</sup> Activities such as Travel Centres, carriage cleaning, Countrylink Reservations and station manning should be subjected to such an evaluation. Evaluations could proceed to a small trial of outsourcing which would allow a fuller comparison with in-house efficiency. In-house tenders should be evaluated on a net avoidable cost basis or alternatively in-house costs should be calculated using activity based costing.<sup>103</sup> Careful consideration should be given to developing an accurate basis for each evaluation.

The Tribunal notes that food supplies for on board catering has recently been outsourced. Previously Countrylink catering activities ran at a loss of \$3.8m. The outsource of supply has enable Countrylink to close its inefficient food supplies warehouse. The buffet continues to be operated by Countrylink. The catering contract will be evaluated and possibly expanded to provide all buffet sales and supply services. The outsourcing of all the catering function is complicated by the fact that currently Countrylink catering staff perform some safeworking, luggage and cleaning duties. The Tribunal notes some customer dissatisfaction with buffet quality and value. The outsourcing of all catering contract may improve quality and would reduce the cost to Countrylink.

Numerous telephone marketing companies provide comprehensive telephone services similar to that provided by Countrylink Reservations and infoline. Operation of the Sydney transport infoline (131 500) was outsourced during 1996. An outsourcing evaluation of telephone booking services should be undertaken. The Countrylink Reservations service requires a high proportion of casual labour. Countrylink has encountered difficulty in expanding the proportion of casual labour. An outsourced option could provide staff with superior sales, yield management and communication skills. Credit card bookings utilising Countrylink Reservations should become the major source of sales over the next decade.

<sup>102</sup> Contract-in refers to the establishment of a "service contract" between the internal service provider and the recipient. Contract-in attempts to commercialise non-core activities to enable evaluation against outsourcing options.

<sup>103</sup> Industry Commission, Competitive Tendering and Contracting By Public Sector Agencies, Draft Report, Draft Recommendation 18, October 1995.

Cleaning is a non-core activity which is outsourced by the majority of government departments and private companies. Countrylink carriages require internal cleaning at the conclusion of all services. The carriage exteriors are washed every second day. Hence cleaning demands occur at irregular intervals and often late at night. This cleaning program is likely to benefit from an evaluation of outsourcing to assist in setting productivity targets and labour goals. Where these targets are not met, the activity should be outsourced.

The services of station attendants at low volume stations might also be outsourced. Of the ninety five Countrylink stations sixty have attendants. Some Countrylink stations receive up to ten trains per day, most receive between two and four. Generally, Countrylink supplies attendants where stations generate an average of 15 passengers per day. Time devoted to station attendant duties is less than half an hour per train. Countrylink has attempted to solve this problem by hiring part-time staff to work split shifts to attend train arrivals. A more efficient solution may be to franchise attendant duties. This may involve operating a complementary business from station premises and also requiring the franchise holder to fulfil attendant duties. Franchise models used by Australia Post provide successful precedents.

### ***Recommendation***

***The Tribunal recommends conducting regular contract-in or outsource evaluations for all non-core activities.***

## **4.12 Can Countrylink operate commercially?**

The legislative requirements for Countrylink to operate efficient commercial services are detailed in Section 2.1. The government needs to clarify whether it wants Countrylink to perform as a commercial passenger operator or whether it seeks efficient delivery of current services.

By requesting that all operational changes are approved by the Department of Transport and/or the Minister the government has retained strong control of Countrylink operations. All operational changes also require the approval of the State Rail Chief Executive and/or the board of the State Rail Authority.

This long approval process delays decisions and discourages service innovation. The approval process constrains all management areas requiring significant cost or service alterations. The constraint this places on Countrylink's management is best contrasted against the operational freedom enjoyed by the previously government owned airline, Qantas. During 1994 (when still government owned) Qantas increased its services to several cities including Manila, Bangkok and Osaka. To achieve this, Qantas ceased operations to Paris and Manchester.<sup>104</sup> Similarly, while it was still government, owned Qantas' management set maximum fares (see Section 5.3). All major commercial decisions and all fleet acquisition decisions were made at board level and without any government approval or notification. However, the Department of Transport views Countrylink as a non-commercial (or CSO) business which creates an entitlement to exercise a higher level of control.

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<sup>104</sup> Qantas Annual Report, 1994-95, p 12.

To increase patronage of train services, Countrylink's management must be allowed to pursue a commercial approach in line with coach and airline industry practice. Passenger transport is a dynamic market and Countrylink requires a streamlined approval process to compete and innovate. Most of the Countrylink timetable has remained unchanged since 1989. Government appoints all board members and the Chief Executive of State Rail and should consider passing full responsibility for operational decisions to these appointed position holders. However, government input should be sought prior to strategic changes to Countrylink.

***Recommendation***

***The Chief Executive and the Board of the State Rail Authority should be given full responsibility and autonomy for all Countrylink operational decisions.***





## 5 COUNTRYLINK FARES

### 5.1 Introduction

The terms of reference for this review of Countrylink require an evaluation of current fare levels and alternative structures to improve the fare system. An extensive concession system currently means that only 30 per cent of passenger pay the adult fare. Hence, the customer impact of changes to full fare levels varies according to the passenger fare profile presented in Table 2.4.

In setting fares for urban public transport, the Tribunal is cognisant of the need to achieve a reasonable contribution from both users and taxpayers. A similar approach is now applied to Countrylink fares. This chapter considers the appropriate basis for fares, how current fares are determined, and how fare levels compare with other long distance passenger train operators. This chapter also suggests reforms to enhance fairness of the fare system.

### 5.2 Fare setting principles

Governments frequently attempt to achieve the following objectives through the pricing of transport services:

1. **efficiency:** prices should signal to the community the true costs of the resource used
2. **financial sustainability:** fares should enable the operator to provide services on an ongoing basis and provide for a reasonable profit
3. **equity:** fares should consider community equity objectives
4. **environmental sustainability:** fares should consider environmental costs, benefits and impacts.

While there are points of conflict, achieving an appropriate balance between these objectives is the essential goal. Efficient pricing considers net environmental impacts. Key equity pricing concepts include ability to pay, regional equity, temporal equity<sup>105</sup> and the setting of prices commensurate with benefits.

Recent pricing reforms for NSW monopolies have emphasised the efficiency objective. The Tribunal has endeavoured to manage the process of reform so that it will be acceptable to a broad cross section of community members.

In addition, fare concessions and physical access standards improve transport accessibility for elderly citizens, citizens with physical, mental or financial disadvantage and minority groups.

### 5.3 Current Countrylink Fares

The Minister for Transport sets Countrylink fares following a recommendation from the Board of the State Rail Authority. In recent years, fares have increased by a forecast for inflation. In July 1996 all fares increased by 4.8 per cent with the exception of interstate services. To remain competitive with other modes, the fares for interstate (Melbourne and

<sup>105</sup> Regional equity refers to different regions having equivalent service and fare levels. Temporal equity refers to achieving an approximately equal service frequency amongst passengers.

Brisbane) Countrylink services were reduced by 8 and 11 per cent. Current fares to major centres are detailed in Attachment 4.

Countrylink offers the following fare categories:

- ◇ single and return (adult or child) fares
- ◇ concessional (half price) travel for qualified recipients on an unlimited basis
- ◇ four free PTV<sup>106</sup> first class one way intra state tickets (for eligible recipients)
- ◇ the pensioner excursion ticket (\$2)
- ◇ first class fares (at 40 per cent above the economy fare)
- ◇ fares for sleeper berths on the four overnight rail services
- ◇ a ticket which permits unlimited intrastate travel for one month.

Countrylink's fares are calculated using distance based charging units. Charging units permit fares to hundreds of smaller destinations to be calculated easily at the point of sale.

PTV eligibility on interstate services is limited to free travel to the NSW state service boundaries ie. Albury, Tweed Heads, Broken Hill or Kyogle. For travel beyond these locations, PTV ticketholders pay the applicable half fare for the extra travel.

Countrylink fares will increase on 1 July 1997. The rise will be based on a NSW Treasury forecast of the Sydney CPI for the forthcoming (1997-98) financial year. The current forecasts for Sydney CPI (1997-98) range between 1.5 and 3 per cent. Hence most standard (one-way) economy fares are likely to rise by a modest \$1 or \$2.

The current fare discounting system divides services into peak and off peak periods. The peak period mirrors school/tertiary holiday periods and features high demand for most services. To remain price competitive, Countrylink engages in fare discounting of between 10 - 40 per cent, for a variable number of seats on each service, during off peak periods.

The current system of ministerial maximum fare setting is unnecessary for several reasons:

- long distance travel is a competitive market and demand forces should determine what full fare rail passengers should pay. Customers cannot be abused by market dominance as they retain the choice of coach, aeroplane, self-drive and car hire to ensure fares are not set above market levels.
- pensioners and disadvantaged people either travel free or pay half fare and need no further protection
- Countrylink has been requested to act commercially, yet is prevented from maximising yields
- allowing Countrylink to charge fares at market levels would improve cost recovery and reduce the cost to government
- those paying full fare are largely tourists or leisure travellers who are not in need of fare protection.

### **Recommendation**

***The Tribunal recommends that the current system of ministerial maximum fare setting be removed. Countrylink needs the commercial freedom to both discount and increase fares to improve cost recovery.***

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<sup>106</sup> The PTV (pensioner travel voucher) system provides for four free single first class intrastate trips per annum to eligible pension recipients.

Countrylink's inability to capture the family or group travel market was discussed in Section 2.5. An apparent inadequacy of the current fare system is the absence of a family fare, similar to those offered by CityRail. Patronage information indicates that a very small number of families utilise long distance train services. A discount family ticket could be introduced with minimal impact on current revenue as family fare purchasers are likely to represent new business.

### **Recommendation**

*Countrylink should conduct a trial of a discount family travel ticket.*

## **5.4 The comparative cost of Countrylink fares**

Fare comparisons between passenger operators are best conducted in terms of cents per minute and cents per kilometre. Table 5.1 reviews the average cost of standard adult fare travel across a number of passenger operators. Coach fares are also included to illustrate the extent of competition.

**Table 5.1 Indicative standard fare comparison of passenger operators**

Transport Operator	Short trip		Longer trip	
	cents per km	cents per minute	cents per km	cents per minute
Countrylink	10.8	14.3	10.9	15.9
West Coast Railway	12.0	16.4		
Tranz Scenic*	19.4	24.1	14.6	15.1
Greyhound (coach) ^	13.6	14.8	9.4	10.4
Q-Rail (Traveltrain)	13.9	14.0	10.5	11.9
V-Line	11.4	14.2		

Notes: For the purpose of this analysis, short distance refers to trips of between 250km and 300 km. Long distance refers to trips of between 600km and 700km. An indicative standard economy fare from each operator was selected for each band. \*\$1 Australian = \$1.10 New Zealand ^ road kilometres. All other distances are rail distances. Shaded areas indicate where services are not offered.

Table 5.1 illustrates that Countrylink's fares over short distances are cheaper than interstate and New Zealand operators. The level of Countrylink's short distance fares has been partly constrained due to the extension of lower cost CityRail services to regional areas. However, Countrylink fares do not need to resemble CityRail's. CityRail regional services cater to the commuter market and services to Sydney take up to 70 per cent longer than on Countrylink trains. Other noteworthy features of the table include:

- the lower relative cost of coach travel, especially for long distance travel
- the higher proportional flagfall used in New Zealand. The minimum Trans Scenic adult fare (one-way) is \$A12.70 and on Q-Rail Traveltrain it is \$8, compared to Countrylink at a \$2 adult fare for up to 26km of travel.

Otherwise fare levels between Australian long distance rail operators are relatively similar.

## **5.5 The Countrylink distance fare scale**

Prior to the 1989 formation of the Countrylink business unit, country and urban passenger trains shared one fare scale. Since 1989 Countrylink has been operating with a largely inherited fare band system. The system consists of 45 distance based bands and uses a low \$2 flagfall permitting travel up to 26km. This flagfall is insufficient to recover the fixed

costs of ticketing, reservations and station services. Sydney area travel restrictions and the longer distances between most rural towns prevent significant sales of the \$2 fare. However, Table 5.1 illustrates that Countrylink fares over short trips are low. This is partly due to retaining an inappropriately low flagfall.

Countrylink needs to restructure its fare scale to establish a higher flagfall which is reflective of the fixed costs of travel. Additionally, a simplification and reduction of the present forty five bands to reflect core travel patterns may have administrative cost benefits. The cessation of ministerial fare setting (see Recommendation in Section 5.3) would enable Countrylink to reset the fare scale to a new scale of market based maximum fares. The higher market based maximums would be subject to greater discounting based on anticipated demand.

### ***Recommendation***

***Countrylink should develop a market based fare scale which features a higher flagfall component.***

## **5.6 Fare elasticities and the implications for fare structures**

Countrylink fare elasticity averages -0.4. In general terms, a 10 per cent increase in fare levels would result in a 4 per cent loss of patronage and an overall 6 per cent increase in net revenue. Conversely, a 10 per cent reduction in fare levels would result in a 4 per cent increase in patronage, and a 6 per cent reduction in net revenue. In general, fare increases would produce net revenue gains.

Elasticity levels increase with journey length, but show minimal variation between peak and off peak periods. Elasticity information suggests that passengers would not pay more in peak periods. However, now that there is data on elasticity levels, Countrylink could apply higher fares in peak periods to deliberately contain demand and would be able to calculate the actual effect (ie reduction in demand) of any given increase. An exception may be that, with capacity limited on all modes at the height of the peak, differential pricing may still produce higher revenue results.

Elasticity information does not support fare discounting and the yield management system. Information suggests that higher fares, at current patronage levels, would produce overall revenue gains, albeit shedding some patronage.

The difficulties of utilising yield management, where demand is inelastic are demonstrated by the July 1995 decreases for maximum fares from Sydney to Melbourne and Brisbane. These maximum fares were reduced by 7 and 12 per cent respectively. The maximum fares were reduced to approach levels charged by road coach operators. However, PJs to both destinations rose 8.5 per cent<sup>107</sup> compared with the total Countrylink PJ growth of 9.2 per cent (1994/95-1995/96).<sup>108</sup> The fare cut does not appear to have stimulated any growth beyond the underlying level of growth. However, if the interstate maximum fares had

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<sup>107</sup> Comparison of complete journeys across the Melbourne and Brisbane corridors - July 1995 - December 1995 with July 1996 - December 1996.

<sup>108</sup> State Rail Authority, *Annual Reports*, 1994-95, p 27 and 1995-96, p 98.

increased in July 1995 by 4.8 per cent in line with other fares, annual revenue on the two corridors would have increased by between \$2.2m and \$2.5m.<sup>109</sup>

## 5.7 First class fares and service

First class sitting seats are available on all Countrylink rail services except Griffith and Broken Hill. First class seats offer greater leg room and seating with higher capacity for reclining. First class fares are fixed at a 40 per cent premium over the standard economy class fare. The XPT's first class carriages have 56 seats compared to standard sitting carriages, which have 66 seats. PTV holders are entitled to free first class seating (where available) and they dominate patronage. PTV demand makes advanced bookings for first class seats essential.<sup>110</sup> There is a very small market for full fare first class rail travel in NSW. First class passengers who pay the adult fare account for 11 per cent of total first class passengers.<sup>111</sup>

By comparison, QLD pensioners receive only two free return **economy** class trips on Traveltrain. Both tickets can be pooled to upgrade to a return first class berth for a \$50 premium.

The benefits of Countrylink first class travel are minor. Essentially, first class seats have a greater ability to recline. Sales evidence presented above confirms that the 40 per cent fare premium is excessive. Countrylink acknowledges the quality proximity of the current classes:

“the level of service in economy has been raised to a level which is not equivalent but close to first class.”<sup>112</sup>

To resolve this dilemma Countrylink is considering enhancing the benefits of first class compared to economy. The Tribunal is concerned at this approach as surveys of Countrylink passengers indicate that 80 per cent of respondents have gross incomes of below \$25,000 pa.<sup>113</sup> Generally, passenger trains compete in the budget travel market and customers have a low capacity to pay. Where rail authorities in other states have offered a luxury service cost recovery levels have been lower than normal train services. An Australian example of the lower cost recovery of luxury service is the Traveltrain Queenslander. This train features first class roomettes only and operates once a week from Brisbane to Cairns for a return fare of \$780 including meals. The Queenslander has the lowest cost recovery of the ten Traveltrain services due to the low capacity of the (sleeper only) train and the subsequent high staff to ratio.

The Tribunal notes that Trans Scenic in New Zealand pursues a more commercial option by offering only one class of travel which it describes as ‘spacious and comfortable’.<sup>114</sup> The Tribunal observes that senior citizens have a preference for the additional comfort of this service. Most submissions referring to first class services were from elderly customers who

<sup>109</sup> IPART estimate comparing interstate patronage/revenue from July 1996 to December 1996 at current fares and the level of interstate fares if they had risen by 4.8 per cent in July 1995. The range specified depends on the elasticity used and the price response of competitors.

<sup>110</sup> Auditor General, Special Audit of Countrylink, 1993 & Institute of Transport, Intercity Rail Services (Working Paper), 1996.

<sup>111</sup> Countrylink Reservations Systems Results for 1995/96.

<sup>112</sup> Mr K Finnimore, General Manager Countrylink, Countrylink Public Hearing 27 November 1996, transcript, p 20.

<sup>113</sup> Countrylink, submission to the Tribunal, October 1996, p 18.

<sup>114</sup> Tranz Scenic, Train Fares & Timetables, November 1996, p 1.

prefer first class seating because it isolates them from antisocial behaviour of a minority of younger travellers. However, a similar isolation could be achieved through separate seat or carriage allocations for elderly users.

Overall, the decision to offer multiple class travel should remain a commercial decision for Countrylink. However, expenditure on class differentiation (or reverting to a single class) must produce a positive return on investment. Clearly, Countrylink has to retain the current class differentiation present on existing rollingstock until the need for refurbishment arises. However, under existing PTV seating entitlements, any Countrylink investment in refurbishing or upgrading first class seating is likely to produce a large negative return on investment.

### ***Recommendation***

***Countrylink's system of class based seating is a commercial decision for management which should be subjected to rigorous financial evaluation.***

## **5.8 Sleeper facilities and fares**

Countrylink provides one sleeper carriage on each of the following four daily overnight XPT services:

- Melbourne to Sydney
- Sydney to Melbourne
- Murwillumbah to Sydney
- Sydney to Brisbane.

Countrylink has eight sleeper carriages. All were purchased in 1993 at a cost of \$2.3m each.<sup>115</sup> Each sleeper carriage contains nine twin bed cabins or accommodation for 18 people. A bathroom is shared between two cabins. Sleeper carriages convert to a 27 seat sitting carriage for daylight services. Hence, daytime operated sleepers cars operate achieve only 41 per cent of the capacity of a standard (66 seat) sitting carriage, while overnight sleeper operation reduces capacity to 27 per cent of the standard sitting carriage. The lower capacity of sleepers increases the ratio of staff to passengers, restricting the operator's ability to achieve better costs recovery.<sup>116</sup>

The Countrylink submission to the Tribunal provides survey information regarding the preference for using sleeper facilities. The most critical feature provided by sleeper accommodation was relief from discomfort when sitting upright. About 3 per cent of Countrylink customers categorise themselves as being either long term sick or disabled. Other desirable features noted by survey respondents includes blankets, privacy and the proximity of bathroom facilities.

During 1995/96 the utilisation rate for sleeper berths was 67 per cent which equates to an average occupation of 12 of the 18 berths available on each train. Sleepers are commonly described as one of the most essential Countrylink features in submissions to this review. However, available berths represent only 1.2 per cent of total rail seats. Given their scarce availability and high desirability a utilisation approaching 100 per cent might be expected.

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<sup>115</sup> State Rail Authority *Annual Report* 1993-94, p 21.

<sup>116</sup> ie. sleepers have approximately 65% of the earning capacity of standard sitting cars. A fully booked interstate sleeper car can potentially earn a maximum \$3,870 compared to a fully booked economy sitting car at \$5,960.

A waitlist for sleepers during peak periods should be a high priority. In an admirable recent initiative Countrylink on board staff are attempting to upgrade seated passengers to sleeper berths for half the normal \$90 premium.

People travelling alone are usually required to share a cabin with a fellow single traveller. Alternatively, single travellers have the option of purchasing both berths. Single (same sex) travellers are paired at the time of booking. Whole cabins are reserved for use by couples or by the infirm and their carers.

Sleeper fares are set at the first class fare plus a fixed \$90 premium. On average this equates to 2.4 times the standard economy fare. PTV ticket holders can upgrade to a sleeper berth for the \$90 premium. Full fare sleeper berths cost \$215 for both Melbourne and Brisbane services. 72 per cent of sleeper customers were satisfied with the value for money of the service.<sup>117</sup> The satisfaction with value could be improved by some minor discounting during off peak periods. The value of sleepers is reasonable for peak periods when compared with the alternative of an full priced airfare and a CBD hotel room. The good value of sleeper berths is confirmed by the high presence of full fare customers within the sleeper user profile. Half sleeper customers pay full fare, 22 per cent are at half-fare, 20 per cent are PTV holders, 6 per cent are SRA employees and 2 per cent hold other tickets.<sup>118</sup>

Countrylink sleeper facilities cost 22c per km. This cost is comparable to Australian National coach class sleepers (21c per km) and first class sleeper services (32c per km). However, Countrylink sleepers are more expensive than the average Q-Rail Traveltrain sleeper services (18c per km).<sup>119</sup>

Tranz Scenic has designed its timetable so that only one of its eight services, 'The Northerner', operates overnight. Tranz Scenic prefers daytime operation due to the opportunity to exhibit on route scenery and the superior cost recovery of daytime services. Cost recovery on Countrylink day services is 15 per cent higher than comparable overnight services. Tranz Scenic does not offer sleeper facilities on its only overnight service.

Higher cost recovery is generally achieved by operating standard sitting carriages. The use of sleeper carriages greatly reduces capacity. However, the provision of sleeper facilities on Countrylink overnight trains has been an ongoing commitment of government. Any new Countrylink services or revisions to current timetables should give preference to daytime operation to avoid this conundrum.

### ***Recommendation***

***The Tribunal supports further initiatives to increase sleeper utilisations and the establishment of a waitlist for sleeper facilities.***

## **5.9 Countrylink excursion tickets**

To offer pensioners a comparable excursion system to the one operating in urban NSW, Countrylink established a \$2 excursion ticket. The ticket entitles pensioners and seniors card holders to travel up to 129 charge units (based largely on kilometres) within the

<sup>117</sup> Countrylink, supplementary submission to the Tribunal, December 1996.

<sup>118</sup> Countrylink reservations system information, January 1997.

<sup>119</sup> Comparison of the AN Ghan (normal season) 1st class sleeper - \$500 (1555km), the Melbourne XPT sleeper service \$215 (966km) and Traveltrain sleeper fare average of the Sunlander, Inlander, Outback and Westlander services.



Countrylink network area, excluding travel within the CityRail Network Area. The excursion ticket allows a return journey on the same ticket within a seven day period. The separation of the CityRail and Countrylink networks was intended to protect Countrylinks market and fare revenue by preventing people travelling to Sydney for the cost of two excursion fares.

The Countrylink network extends west from Wallerawang, south from Exeter and north from Gloucester and Aberdeen. The official CityRail network finishes at Moss Vale, Dungog, Muswellbrook and Lithgow. However, CityRail services extend beyond this network to Goulburn on the southern line and Scone on the northern line.

The current excursion ticket creates inequity whereby seniors from say Werris Creek (and seniors from Yass or Canberra in the south) can change to a CityRail train at Scone (or Goulburn on the southern rail line) and travel to Sydney and beyond for \$5 (ie \$2 Countrylink excursion fare plus the \$3 CityRail excursion fare). Senior citizens on the North Coast or Western lines are unable to achieve this saving.

In the 1995/96 financial year 52,700 excursion tickets were sold representing 2.2 per cent of Countrylink passenger journeys.

The Tribunal notes that the urban area excursion ticket permits unlimited all day travel within the CityRail network (ie potentially from Scone to Goulburn - 538km).

Clearly only two potential options exist to solve this inequity:

1. curtail excursion ticket validity at Gloucester, Wallerawang, Willow Tree, Tarago/Yass
2. allow excursion travel through to Dungog and Lithgow, enabling access to CityRail's network.

### ***Recommendation***

***The Tribunal recommends a financial and social impact study of options to improve excursion ticket equity.***

## 6 CONCLUSION AND OPTIONS

### 6.1 Reform of Countrylink

The need for urgent reform of Countrylink is demonstrated throughout Sections 3 and 4 and in Appendix 1 of this interim report. The financial performance of Countrylink has potential for major improvement. There is great scope for improved financial performance by revising management strategies and providing incentives through lump sum government funding.

The Tribunal has offered five options as potential solutions to reduce the cost to government of Countrylink services. The Tribunal's terms of reference require thorough examination of all options to improve Countrylink efficiency. The five options are presented in this report to promote discussion by customers, stakeholders and government. However, the Tribunal recognises that some of the options require radical reform which make them impractical in current circumstances.

An outline of the options follows.

#### 6.1.1 Rationalise Countrylink's operations

Under option 1 involves the following key strategies, to:

- rationalise most Countrylink intrastate trains and administration operations
- operate coaches as required to cover the former train routes
- retain a small reservations unit to accept bookings and payments
- close Travel Centres operations progressively while offering the network for sale.

All new and existing coach routes would be offered to competitive tender. The coach operators would honour the previous concession arrangements and fare levels would remain unchanged. Countrylink has estimated that most rural coaches will not need a direct subsidy after taking into account fully distributed revenue (including concession reimbursement). One daily return Melbourne and Brisbane XPT service could be retained as these services demonstrate higher seat utilisation (see Table 2.6) and receive cost subsidies from other states. Additionally, the government may wish to retain one selected heritage service, on say a weekly timetable. The heritage service would have to demonstrate an intrinsic historical value whilst maintaining a level of acceptable patronage.

A contestable PTV system of four free coach trips could be introduced with the option of receiving the coach fare as a PTV discount from an airline fare.

Countrylink's non-reservations staff would be redeployed within State Rail, or if their skills are not required, offered redundancy.

Expressions of interest would be called for all Countrylink rollingstock, the Travel Centre network and other assets. This process would identify potential buyers and ensure that assets were divested to yield the highest value to the state.

### **6.1.2 Separating Countrylink into 5 franchise areas**

The government would establish a franchise system for the rights to government subsidies and concession reimbursements over each corridor (see Section 4.5). A possible competitive tender could involve:

- nominating the minimum fixed lump sum subsidy required for each corridor
- current service levels would be maintained or exceeded as a condition of the tender
- retaining current timetables, fare system and concessions as a minimum service level
- making bids with or without utilising existing Countrylink rollingstock on a lease basis.

A contestable PTV system, as outlined in this report, would also be introduced.

The Travel Centre network would be closed or offered for sale to the private sector as a going concern.

### **6.1.3 Contestable PTV voucher system**

Current pensioner travel voucher (PTV) entitlements can be used only on Countrylink. Option 3 seeks to expand their use to allow free rail and coach or discounted air journeys. (See Appendix 1 for detailed discussion of contestability of PTV.) This option supports the continued pursuit of existing Countrylink reforms as per option 5.

### **6.1.4 Implementation of reforms recommended in this Interim Report**

This interim report contains numerous major reforms with methods to allow a gradual implementation. Proposed reforms include:

- the trial of franchise over one rail corridor. Countrylink performance over the remaining services to be evaluated against the franchised corridor.
- reducing Countrylink's labourforce to levels comparable to private rail operators
- reducing all other costs to levels comparable to private train operators
- trialing a contestable PTV system in a defined area to assess costs and benefits
- cease all Travel Centre operations during 1997
- outsourcing evaluations for all non-core activities. Inefficient activities to be contracted out.
- restructuring government funding to provide greater incentives to reduce Countrylink costs.

The key recommendations of this interim report are listed at the end of Section 1.

### **6.1.5 Continue with the existing program of Countrylink reforms**

Option 5 suggests that reforms in progress are capable of sufficiently improving the service and efficiency of Countrylink. Current Countrylink strategies to improve service and financial performance are detailed throughout this interim report.

Key Countrylink strategies to improve service and financial performance include:<sup>120</sup>

- an extensive advertising campaign focusing on package tours for the leisure travel market
- driving down costs by meeting private sector benchmarks and improving productivity
- unbundling social programs from commercial activities
- developing value added travel packages and a Travel Club to increase revenue yield
- utilising quotas to control the peak period passenger mix
- continuous tracking of customer satisfaction levels to improve service quality.

## 6.2 Conclusion

This interim report and the submissions received to date show that Countrylink can improve the efficiency and quality of its services and reduce cost to government through a program of reforms.

The Tribunal has suggested a series of Interim Report recommendations to achieve a superior outcome. In this report the Tribunal seeks to refine these interim report recommendations through further customer, public and stakeholder consultations. Details of submissions requirements are contained in Section 1 of this interim report.

The Tribunal will closely monitor progress toward the implementation of its key recommendations and assess submissions. Following this public consultation process the Tribunal will refine its Countrylink recommendations, and publish them in the final report of this review, which is to be released in the third quarter of 1997.

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<sup>120</sup> State Rail Authority, Corporate Plan September 1996, p 14.



## APPENDIX 1 A CONTESTABLE PENSIONER TRAVEL VOUCHER (PTV) SYSTEM

Free travel on the PTV is Countrylink's largest market segment and accounts for almost a third of all journeys. The PTV system provides four free, first class, single, intrastate trips per annum. The vouchers are sent to (full) pensioners and war widows who receive welfare payments from the Commonwealth Department of Social Security. PTV passengers who travel interstate are required to pay half fare from the NSW state border to the interstate destination. Pensioners and also seniors card holders additionally have unlimited access to the \$2 seniors excursion ticket and the (half price) concession fares.

The four non-transferable PTVs, are issued by the Commonwealth Department of Social Security and are mailed to 1.2m NSW pensioners in November of each year. In 1995-96 PTV travel accounted for over 781,000 PJ. Countrylink estimates that less than 16 per cent of vouchers are redeemed.<sup>121</sup> This may indicate that as many as 84 per cent of voucher holders decline a free gift of rail travel.<sup>122</sup> Countrylink estimates that around 30 per cent of pensioners use at least one of their PTV or that 70 per cent decline the free gift of rail travel. Countrylink is currently conducting surveys to learn more on the redemption and travel patterns of the pensioner use of the PTV system.

Anecdotal evidence presented by the BCA suggested that 50 per cent of PTV users are residents of greater Sydney.<sup>123</sup> Sydney pensioners therefore have full access to the PTV system in addition to the pensioner excursion ticket. The excursion ticket allows unlimited CityRail and STA travel on the day of purchase for between \$1 and \$3, depending on the distance from Sydney. The excursion ticket is a social policy program of government to increase the mobility of the elderly.

The PTV system was established to increase mobility of pensioners. PTV redemption is currently limited exclusively to use on Countrylink services. In its attempt to solve a mobility problem, the government has granted free travel on a mode of long distance travel with low popularity. The low PTV redemption rate has two main possible explanations:

1. the program is poorly targeted
2. the program is not needed by the majority of pensioners.

Numerous submissions to this review seek the introduction of a contestable PTV system whereby the government travel subsidy (of the equivalent rail fare) could be applied to coach, air or rail travel.<sup>124</sup> A contestable PTV system would have major advantages including:

1. creating statewide equity and availability to all pensioners
2. granting mode choice and flexibility to pensioners
3. providing competitive neutrality between other transport operators and Countrylink
4. weakening the nexus between Countrylink services and free pensioner travel.

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<sup>121</sup> Mr Kim Finnimore, General Manager, Countrylink, Countrylink Hearing, 27 November 1996, transcript p 17.

<sup>122</sup> Assumes all pensioners either redeem none of the PTV or all four PTV.

<sup>123</sup> BCA, submission to the Tribunal, October 1996, p 3.

<sup>124</sup> Submissions including J Richmond, BCA, Combined Pensioners and Superannuants Association, NSW Treasury, R Knowles.

As the funder of the PTV scheme, the Department of Transport recognises these contestability advantages yet due to budget constraints, seeks to retain current arrangements.<sup>125</sup> Under a contestable PTV system the redemption rate of vouchers may grow from 16 per cent to a far higher level. The Department would be liable for new subsidies to coach and airline operators. The notional total cost of a contestable PTV scheme could grow to several times the size of the 1995/96 level of \$48.2m (see Table 3.1). The size of this cost expansion necessitates planning. A PTV contestability trial in a defined area would assist this process. Limiting access to a contestable PTV to rural residents only, could offset the expected growth in subsidies.

In September 1996 Countrylink introduced a PTV seat quota which limited PTV use to up to one third of seats on most services. Imposing the quota should increase cost recovery and decrease government funding. The PTV seat quota system is detailed in Appendix 2.

In 1995 the Minister for Transport removed the \$5 administration charge for issuing a PTV ticket. Removal of the charge had no real impact on PTV patronage. Submissions from NSW Treasury and some customers seek the reintroduction of the \$5 administration PTV charge. Reintroduction would increase revenue by approximately \$4m per annum. Removal of the charge appears inconsistent with the government's policy of providing pensioner travel at nominal fares. Submissions to the review indicate general acceptance or willingness to make a small contribution to the cost of travel.<sup>126</sup>

### **Recommendation**

***The Tribunal recommends that in the long term the PTV system be extended to allow redemption on air and coach services. The PTV would allow a discount of a specified amount from the fare of the chosen mode.***

***An interim trial of a contestable PTV system be undertaken in a defined area and would assist government in predicting the redemption rates in a contestable system.***

***The government should also consider reintroducing a small charge for PTV travel to realign the system with the government policy of pensioner travel at reduced (other than zero) cost.***

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<sup>125</sup> Department of Transport, submission to the Tribunal, October 1996, p 10.

<sup>126</sup> Submissions including A Beeney, R Caldwell, J Webster, Highway Safety Action Group and NSW Treasury.

## APPENDIX 2 DETAILED REFORM OPTIONS

### Absenteeism and overtime

Countrylink employees average 10.4 days of unplanned absences per annum.<sup>127</sup> The 1996 Corporate Plan seeks to decrease this to a more acceptable level of 6 days per annum. The difference between current Countrylink and best practice absenteeism reduces total work days by 2 per cent. As Countrylink is a service business, the engagement of additional employees or the payment of overtime is generally required to cover absences. Excess absenteeism costs in the form of overtime or extra staff add between \$1.6 and 2.8m pa to Countrylink's labour costs.

Many government enterprises and most private companies have absentee averages far superior to Countrylink, eg NSW TAB 5.5, Energy Australia 6.0, Integral Energy 5.2, West Coast 3.2 and V-Line passenger 7.2.<sup>128</sup>

The Tribunal recognises that absenteeism averages can be distorted if a small number of employees who are frequently away from work. The State Rail 1993-94 Annual Report recognises the cultural problems of absentee control. It reports that 30 per cent of staff accounted for 70 per cent of sick leave at all. By contrast, 50 per cent of employees took five days or less of sick leave and 20 per cent took no sick leave.<sup>129</sup> Countrylink's levels of absenteeism have remained unacceptably high for the past decade, despite numerous programs including:

- counselling employees with high absence levels and demanding medical certificates for sick leave
- requiring employees with excessive absences to produce medical certificates from doctors who have been approved by State Rail.

The Tribunal is concerned that labour costs in 1995-96 were \$45.76m for 871 employees or an average of \$53,540 per person. By contrast V-Line (564 staff) had labour costs of \$24.7m or an average \$43,800 per person.<sup>130</sup> The Tribunal will seek to clarify this difference in average labour costs which illustrates the higher use of overtime at Countrylink.

Countrylink must rapidly implement strategies to reduce excessive absenteeism. Strategies may include incentives within enterprise bargaining agreements and improving the accountability of supervisors for absenteeism levels.

Levels of excessive absenteeism contribute to the high level of overtime being worked. The Auditor-General's Report for 1996 states that Countrylink's performance suffered from poor management control of overtime. The report states:

“there was no formal management approval for the high level of overtime being worked (\$700,000), the lack of segregation of duties over personnel functions, there was a high incidence of sick leave and several instances of non-compliance with the time recording and overtime policy through the absence of management control”.<sup>131</sup>

<sup>127</sup> Mr K Finnimore, General Manager Countrylink, Countrylink Public Hearing 27 November 1996, transcript, p 22.

<sup>128</sup> Performance of NSW Government Businesses, January 1996.

<sup>129</sup> State Rail Authority Annual Report 1993/94 p 28.

<sup>130</sup> V-Line Passenger, *Business Plan 3, 1996-97 to 2000-01*, p 7.

<sup>131</sup> New South Wales Auditor-General's Report for 1996, Volume 3, Part 1, p 483 & West Coast submission to the Tribunal, January 1997.



Countrylink management must act urgently to end abuse of sick leave and overtime.

***Recommendation***

***Countrylink should ensure full adherence to State Rail absence control and overtime policies. Further accountability strategies and cultural initiatives are also necessary to achieve an acceptable absentee level of under five days per employee per annum.***

**Corridor Management Agreements**

Corridor management agreements are used to formally allocate cost sharing and operational arrangements between government rail authorities. Each agreement is signed by the respective rail chief executives and transport ministers. NSW has separate rail corridor management agreements with the following rail authorities:

- Queensland
- Victoria
- Australian National (for the Commonwealth government owned Indian Pacific).

As NSW is located between Queensland and Victoria, Countrylink provides interstate rail services for both these states. Countrylink services generate cost savings for the Queensland and Victorian governments by allowing them to avoid replication of interstate rail services.

Despite the co-operative themes of the corridor agreements, Countrylink competes with V-Line on the Albury-Melbourne route (323km). Some departures are within half an hour of each other. A third V-Line service commenced in August 1996. Albury now has a three daily return V-Line 'Sprinter' train services to Melbourne with a travel time of 3 hours and 30 minutes at \$36.40 per full fare and two return Countrylink XPT services at \$45 (3 hours 10 mins). Albury residents are the beneficiaries with perhaps the best regional public transport service frequency in Australia offering a daily average of five rail and four coach return services to Melbourne.

The corridor management agreement between V-line's and State Rail results in V-line sharing one third of the losses of Melbourne XPT services on a long run avoidable cost basis.<sup>132</sup> The logic of sharing losses on one service and then operating competing services is unfathomable. Similarly V-line offer package tours from Melbourne to Canberra, Katoomba and other NSW destinations which utilise the Sprinter train service to Albury and then a coach service for the remaining NSW travel. It appears that a greater spirit of co-operation could generate greater utilisation of train services and cost recovery gains for both government operators.

Corridor management agreements are renegotiated annually. They should be designed to ensure that the authorities operate complementary timetables. The agreements should be extended to feature joint ventures in which V-line package tours incorporate travel on Countrylink and visa versa. However, care needs to be taken to ensure new initiatives are not anti-competitive to other modes.

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<sup>132</sup> Avoidable costs refers to costs which would not be incurred if the service was not provided.

**Recommendation**

***Corridor management agreements should be revised to improve the cost recovery of each train operators by encouraging joint ventures and offering complementary services.***

**Countrylink's advertising expenditure**

Countrylink undertakes an extensive media advertising campaign to market rail products and package tours. A large television campaign has been successful in raising awareness of Countrylink. The annual advertising budget was \$3m during 1995/96 or 5.5 per cent of customer revenue. By comparison, CityRail's advertising budget for the same period was \$1.4m or 0.004 per cent of customer revenue. The Tribunal is aware that the government has already sought a 25 per cent reduction in the advertising budgets of all government agencies for 1996/97. Countrylink's profile has now been established and the Tribunal encourages Countrylink to pursue higher value and lower cost advertising.

The Tribunal encourages Countrylink to improve the targeting of its advertising expenditure. This could involve switching from television to other media. For example international tourists and the backpacker market are unlikely to watch television or hear radio advertisements. More effective advertising could result from a focus on people with a propensity to travel. This could involve a shift to greater use of billboard advertising at airports or major attractions and advertising within travel magazines or youth market publications.

**Recommendation**

***Countrylink should improve the targeting of advertising to achieve higher value from reduced expenditure.***

**Countrylink's station skipping program**

To reduce travel times, Countrylink has progressively reduced the number of stations it services by rail to 95. Smaller stations are skipped while other stations are served only on request. The Tribunal recognises that a conflict exist between stopping at all operational rural stations and minimising travel time for the majority of customers.

In some instances the demolition of old timber station platforms has occurred due to both safety concerns and low utilisation customers. This has occasionally been misinterpreted as station skipping. Platforms have been removed where the capital cost required to recast the platform in concrete is considered to be unjustifiable based on historic passenger usage.

An example of the station skipping program in action is the Broken Hill service. The service stops at nine country stations (west of Lithgow) yet passes a total of 26 platforms. Almost all the stations that are skipped are unattended by Countrylink staff and hence skipping creates no direct saving to labour costs. The incremental gain in time from this program is below 5 per cent. The Tribunal has received several submissions<sup>133</sup> from Countrylink customers dissatisfied with being skipped.

<sup>133</sup> Submissions critical of the current skipping program included the Highway Safety Action Group, Lachlan Regional Transport Committee and Burns H.

The Tribunal agrees that the rationale of the rural station skipping program is questionable given that:

- Countrylink has to pay the cost of connecting taxis from skipped stations to the major centres
- the train must usually pass skipped platforms and at reduced speeds
- transferring modes reduces patronage by between 12 and 25 per cent (see Section 4.10)
- rail travellers are generally less time sensitive than other travellers and a small increase in travel time would result in minuscule transfer to other modes
- the time taken for stopping at a previously skipped station would add around 0.4 per cent (for each extra stop) to total journey time
- the strong preference for rail travel from predominantly elderly clientele
- additional stress from multiple mode changes is experienced by a significant portion of Countrylink's customers
- all customers, are forced to travel away from their destination, on at least one journey leg, to meet the train, adding to their total travel time and discouraging travel by rail.

The Tribunal supports the current practice of stopping at only major urban CityRail stations. Stopping on demand in rural areas appears the most logical compromise for country stations, but requires customers of smaller railway stations to book in advance rather than arrive unannounced.

The Tribunal also recognises that a system of stopping (at all stations) by prior request may, (depending on small station demand) add to timetable variability which could create difficulties in Countrylinks requirement to travel within a time defined 'train path'.<sup>134</sup>

### ***Recommendation***

***Countrylink should investigate adopting a universal policy of stopping by prior request at all operational country stations.***

## **Eurobodalla coastal services**

One of Countrylink's objectives is to improve the mobility of rural and regional residents. In attempting to fulfil this objective Countrylink services reach around 80 per cent of the NSW population. The Tribunal acknowledges that a service may not be warranted in sparsely populated areas of western NSW. However, government should provide Countrylink with guidance on whether it is subsidised to service all populated areas of NSW or whether Countrylink should only service areas of traditional operation.

The Eurobodalla coast, the 220km coastal strip from Jervis Bay to Bermagui has a population of over 60,000 people, yet does not receive any Countrylink services. This strip includes significant towns such as Bermagui, Mollymook, Ulladulla, Batemans Bay and Sussex Inlet.

Currently Countrylink operates one daily return coach service from Eden to Canberra (via Merimbula and Bega). CityRail operates several daily train services to Nowra. One option could be a new service to operate from Bega to Nowra thus providing access to the CityRail services.

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<sup>134</sup> SRA Network Control Unit allocates all trains a time defined path for travel over each rail section. Train path allocation ensures safe operation and efficient track utilisation.

Although any new or extended service is likely to be loss-making, it seems desirable that the elderly and disadvantaged people living on the south coast should have access to Countrylink services. Eurobodalla residents and tourists to the area currently utilise private coach, air or self drive options. Existing private coach operators could be disadvantaged by a parallel Countrylink service.

Consideration should be given to conducting market surveys of travel demands in this area to assess the demand for a new coach service. Alternatively Countrylink could purchase seats on an existing or route modified private coach service to allow residents and pensioners in this area to use their free or concession travel entitlements.

### **Recommendation**

***Countrylink should undertake market testing and, where demand exists, negotiate a joint venture with a private coach operator for a service to the South Coast region.***

## **Free travel quotas**

During peak periods demand on Countrylink's train services often outstrips supply. To maximise cost recovery during peak periods, in September 1996 Countrylink placed quotas on the number of passengers using PTV that can be carried on each train. Similarly, airlines prevent the large scale use of free flights in peak periods by imposing a 'black out' which acts similar to a quota system.

On occasion high demand from PTV holders has displaced full fare passengers and reduced cost recovery. The quota system allows up to 100 seats on the seven carriage XPTs to be allocated for passengers using PTVs in off peak periods, and up to 72 in peak periods. For the lower capacity Xplorer services to Canberra, the quotas are 47 seats in off peak periods and 31 in peak periods.<sup>135</sup>

These quotas are based on 'normal' levels of PTV utilisation on services. Quotas are lifted 5 days prior to all departures to allow unused seats to be allocated to PTV travellers. Quotas are not imposed on low volume services such as to Griffith and Broken Hill services. The PTV quota assists the more effective application of the yield management system (see Section 6.11).

Previously PTV passengers received preferential seating guarantees. The new system recognises that PTV passengers may have greater flexibility to complete travel than other passengers.

### **Recommendation**

***The Tribunal supports the concept of a PTV quota. Countrylink should monitor the cost recovery improvements from the PTV quota and any adverse impacts the quota system has on pensioners.***

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<sup>135</sup> Countrylink submission to the Tribunal, October 1996, p 22.

## Staff travel quota

State Rail staff<sup>136</sup> receive unlimited free travel on Countrylink services. In 1995-96 staff travel accounted for 3.2 per cent of total passenger journeys or over 78,000 trips. This equates to average of around 9 staff travelling free on each train service. For reasons of equity, staff travel is limited to a quota in line with other free travel groups. Staff travel is limited to 3 per cent of seats on peak services and 5 per cent on off peak services. Similar to PTV usage, high demand from staff has on occasion displaced full fare passengers and hence reduced cost recovery.

By comparison, airline industry staff receive travel on a stand-by basis at 10 per cent of the standard fare. Airline staff are often transferred to later services where paying customers seek seats. The 10 per cent fare covers administration, ticketing and discourages prolific usage.

The cost to Countrylink of the staff free travel scheme is subject to numerous interpretations. The majority of the journeys are undertaken by employees of CityRail, Freight Corp and the Railway Services Authority. Countrylink receives reimbursement on behalf of staff for these journeys. The gross value of free staff travel is between \$4-6m. However, the Tribunal recognises that employee support of services and familiarity with services has broader incentive benefits. Overall, a charge of 10 per cent of the standard fare for staff travel appears reasonable and consistent with industry practice. This charges would offset ticketing and reservation costs and increase the farebox by around \$0.5m. State Government owned business groups would continue to reimburse Countrylink for the remaining 90 per cent of the standard fare.

The staff travel quota should operate the same as the PTV quota. Limits should be set based on 'normal' levels of utilisation on services. The staff travel quota system could allow up to 10 seats on the 7 carriage XPTs to be allocated for staff passengers in off peak periods, and up to 7 in peak periods. For the lower capacity Xplorer services to Canberra, the quotas are 5 staff seats in off peak periods and 3 in peak periods. The staff quota should also apply to sleeper facilities where executive staff currently receive free travel. Like the PTV quota, staff quotas could be lifted 5 days prior to all departures to allow unused seats to be allocated to staff travellers.

### **Recommendation**

***State Rail should review the operation of the staff travel quota. A charge of 10 per cent of the standard fare for staff travel on Countrylink should be established.***

## Travel agent commissions

Countrylink uses a network of 372 accredited travel agents to sell the rail travel. Private agents receive 10 per cent of the gross value of each rail ticket. For example, an agent issuing a return PTV ticket from Murwillumbah receives up to \$24 in commission for completing a three minute issuing process. The face value of this ticket is the concession first class fare (\$120) and the gross value is \$240. Commission payments on this basis are high and should be reviewed. Countrylink is seeking to change to a system whereby commissions are paid at a rate of 12.5 per cent on the face value of tickets. This would reduce the commissions payable on PTV tickets by 37 per cent. Travel Centres' notional

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<sup>136</sup> Also includes staff from the former SRA structure: RAC, RSA and Freight Corp.

reimbursement would also change to the 12.5 per cent of face value to ensure consistency. This new system would reduce the number of profitable Travel Centres and increase notional losses of Travel Centres.

Alternatively Countrylink could consider applying a flat fee for issuing PTV tickets of, say, \$5 per voucher. The Tribunal notes that a flat fee would be unpopular with private agents.

Overall, the Tribunal opposes any payments of commission to private agents for free PTV tickets as this represents an unsound commercial practice.

Countrylink provides larger commissions than other modes in an attempt to increase rail sales. Most agents receive a commission of 7 per cent gross on domestic air services while coach operators pay agents an average of 13 per cent gross. Nevertheless, most pensioners will not be upsold from a free rail trip to more expensive air or coach travel.

Where customers seek a rail package, private agents put together impromptu packages for travellers as Countrylink packages are available only at Travel Centres. The low utilisation of packages (1 per cent of customers) means that potential may exist for a joint venture enabling the sale of Travel Centre packages by private agents.

### **Recommendation**

***Countrylink should restructure commission payments to travel agents. The issuing of PTV tickets should be limited to a new telephone booking system and railway stations.***

### **Waitlist**

Several submissions to this review request the introduction of a waitlist system for the more popular rail and coach services.<sup>137</sup> The waitlist facility is especially desirable during peak periods when travel demand often exceeds available seating. The Tribunal recognises that implementation of a waitlist requires expansion of the capacity of the current reservation system. Whilst waitlist is now a common feature of the airline industry, it is not used by the main coach operators in NSW. Like Countrylink, coach operators recommend that prospective customers inquire regularly about availability of seats on sold-out services following last minute cancellations.

The decision to upgrade the reservation system to include a waitlist should take account of the likely costs involved and the expected benefits of the facility to Countrylink. The Tribunal acknowledges that the current reservations system is used across Australia which necessitates a national agreement on the need to implement waitlist.

### **Recommendation**

***Countrylink should conduct a preliminary study as to whether the reservations system should be upgraded to include a waitlist facility.***

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<sup>137</sup> Submissions including Lachlan Valley Regional Transport Committee, Action for Public Transport.

## Travel Club

Loyalty programs have become core marketing tools within the travel industry. The more generous programs are provided by highly profitable operators. As Countrylink is non-commercial, the applicability or value of a loyalty program is limited. However, during 1996 Countrylink relaunched its Travel Club to increase sales of packages to regular rail customers. Membership of the Travel Club is currently free. Countrylink intends that the Travel Club will eventually be self-funding with members required to pay a small annual fee. In return, club members will receive a regular newsletter outlining special offers on tour packages. The club will focus on providing high value packages to the retiree market. Packages can be used in conjunction with the PTV or concession fares. Countrylink's aim is to generate commissions on the other components of the tour. Countrylink must closely monitor the costs and benefits of the club.

The Tribunal notes that both major Australian airlines do not charge an annual membership fee for regular user clubs, instead they charge a one-off joining fee. Countrylink may have difficulty retaining and attracting members to a frequent users club if an annual fee becomes payable.

The Travel Club concept is also utilised by V-Line, which operates 'The Training Club'. This club is also directed at the retiree market, offers free membership and releases two newsletters each year detailing special tours. The tours focus on sight seeing and feature multiple organised activities.

### ***Recommendation***

***The Tribunal supports initiatives which increase patronage provided any expenditure achieves a positive cash return.***

## Service standards

The Department of Transport sets standards for Countrylink's operations within the CSO contract. The Department sets a range of targets for standards performance and safety indicators. Areas covered by the standards include:

- On-time running
- Phone reservation queues
- Scheduled service operated
- Collisions which delay train services
- Derailments.

The Tribunal believes that the current performance indicators could more clearly reflect customer requirements and assess problem areas of Countrylink's operation. Countrylink's business plans report indexes measuring the performance of telephone reservations, train punctuality, and the overall satisfaction of customers. Countrylink requires further performance standards to assess Countrylink endeavours to improve specific areas of service quality. For example, this review has observed occasional customer dissatisfaction with the following two service related areas:

- buffet facilities: some customers report that the buffet is of poor standard and quality
- on board toilets: some customers report poor cleanliness standards.

Specific service performance indicators have a strong capacity to assist Countrylink management in improving operations and service quality. However, Countrylink management and the Department of Transport must ensure that the costs involved in achieving compliance with new standards and the administration involved with monitoring new standards are not significantly detrimental to Countrylink's financial performance.

The CSO contract requires that customer satisfaction measures should be coupled with a system of incentives and penalties to ensure a focus on service and continuous improvement of standards. In developing enhanced service standards, the Department of Transport should consult widely with community groups and representatives of public transport users to ensure a customer focus in the new measures.

***Recommendation***

***The government should develop new performance standards for Countrylink focusing on customer service and efficiency.***





## ATTACHMENT 1 TERMS OF REFERENCE

### REVIEW OF PRICING PRINCIPLES FOR COUNTRYLINK

The following are *terms of reference* for this review (*Matter SPR/96/02*):

1. the cost of providing the services and the scope for greater efficiency in the supply of the services including comparisons of costs with practice Australian and overseas operators which have achieved best practice;
2. the protection of consumers from abuse, in terms of price or standards of service, which may result from inappropriate use of a dominant market position;
3. the evaluation of alternative structures and fares levels, having regard to relative impacts on users and the interrelationships between travel modes (particularly impacts on road use);
4. economic, social, and environmental impacts that may arise from any program of fare restructuring, and any other costs and benefits of such restructuring;
5. the importance of community education about pricing relationships between cars, private buses and Government transport, and the relationship between pricing and budget expenditures on transport;
6. the impact on pricing policies of borrowing, capital structure, rate of return on assets and investments, dividend or subsidy requirements and the impact of any need to renew or increase relevant assets.

In considering these matters, the Tribunal shall have regard to National Competition Principles Agreement and is required to pay close attention to the needs and the interests of rural communities, regional development and the Government's social policy objectives.



## ATTACHMENT 2 PROGRAM OF SPEAKERS

### REVIEW OF PRICING PRINCIPLES FOR COUNTRYLINK

Public Hearing - 27 November 1996

Level 2, 44 Market Street Sydney

#### PERSON APPEARING

Thomas Parry	Chairman	Independent Pricing and Regulatory Tribunal
Kim Finnimore	General Manager	Countrylink.
Kevin Parish	President	Commuter Council
Greg Standen	Secretary	Lachlan Regional Transport Committee
Jonathan Richmond	Associate Professor	Institute of Transport Studies
Marjory Bollinger	Secretary	Highway Safety Action Group
Bruce Hutton	Co-ordinator	Combined Pensioner & Superannuants Assoc.
Barrie Macdonald	Executive Director	Bus and Coach Association
Donald Gibson	Chairman	West Coast Railway

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## ATTACHMENT 3 SUMMARY OF COUNTRYLINK FARES

A summary of fares to major Countrylink destinations - from 1 July 1996 is contained below:

<b>Sydney To / From:</b>	<b>Economy</b>	<b>First Class</b>	<b>Sleeper</b>
Albury	70	98	188
Armidale	65	91	
Bathurst	30	42	
Brisbane	90	125	215
Broken Hill	95		
Canberra	40	54	
Casino	74	103	193
Coffs Harbour	65	91	181
Cootamundra	51	71	
Dubbo	53	75	
Goulburn	27	38	
Grafton	70	98	188
Griffith	70		
Lismore	79	111	201
Melbourne	90	125	215
Moree	70	98	
Murwillumbah	85	117	207
Orange	37	51	
Surfers Paradise	85	117	
Tamworth	58	81	
Taree	45	63	
Wagga Wagga	62	87	
1 month unlimited intrastate pass	249		

Note: First class and/or sleeper services are not available where shaded areas within the table.  
Fares rise annually from 1 July.



## ATTACHMENT 4 LIST OF SUBMISSIONS

Action for Public Transport  
Ageing and Disability Department  
Bates, S J  
Bathurst Branch  
Bathurst City Council  
Beeney, A J  
Blue Mountains Commuter and Transport Users Association  
Bourke Branch  
Brading, R  
Burns, Hugh  
Bus & Coach Association (NSW)  
Caldwell, Robert  
Carlton, Peter J  
Casino Council  
Cobar Shire Council  
Combined Pensioners and Superannuants Association of NSW  
Combined Pensioners and Superannuants Association (Orange Branch)  
Combined Pensioners and Superannuants Association (Yamba Branch)  
Combined Pensioners and Superannuants Association (Bathurst Branch)  
Combined Pensioners and Superannuants Association (Bourke Branch)  
Combined Pensioners and Superannuants Association (Nyngan Branch)  
Commuter Council  
Countrylink  
Craig, William  
Department for Women  
Department of Transport & Regional Development  
Dept of Urban Affairs and Planning  
Dubbo City Council  
Environment Protection Authority  
Gobbe, M  
Greater Taree City Council  
Griffith City Council  
Halton, C C  
Knowles, Ronald  
Lachlan Regional Transport Committee  
Leeton Shire Council  
Narrandera Shire Council  
NSW Council of Tourist Associations (Inc)  
NSW Dept of Transport  
NSW Treasury  
Parker, Alan  
Rail Access  
Singleton Shire Council  
Speedrail Pty Ltd  
Superannuants Association  
Sydney University, Institute of Transport Studies, Richmond, Jonathan E D  
The Highway Safety Action Group of NSW Inc  
The Hotel Motel & Accommodation Association  
Tourism Task Force



Tranz Rail Holdings Limited (New Zealand)

University of New South Wales, Department of Geography, Parolin, B

University of Queensland, Department of Business Studies, Prideaux, B

University of Wollongong, Department of Mathematics, Laird, P

Wagga Wagga City Council

Webster, Joyce

West Coast Railway