Transport Governance

Public Transport Management That Works For Passengers

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Executive Summary

The 'good governance' of public transport systems means having the appropriate organisations with the necessary powers, skills and responsibilities to deliver services that compete effectively with the private car option. An international review has found that effective governance is the most critical requirement for ensuring 'best practice' in urban transport, more even than adequate funding, infrastructure or land-use planning. The lack of effective governance largely explains why public transport in Melbourne, and Victoria more generally, fails to be competitive with car travel despite its extensive train and tram infrastructure, generous recurrent funding, multimodal ticketing and a moderately public-transport-friendly urban form.

In the second half of the twentieth century Victoria's public transport was managed by a defensive, self-serving bureaucracy demoralised by the postwar patronage collapse. Privatisation was supposed to radically overhaul the system but has simply allowed the old defensive practices to continue under private ownership. Worse, governance of the system now follows a flawed 'franchising' model imported from Britain, which operates on a presumption that individual private operators are responsible for both 'tactical' planning and service innovations. This creates a structural barrier against the introduction of a genuine multimodal network through tactical planning, as we can see from the fact that such integration is frequently promised but then radically under-delivered.

Significant change toward a success-oriented public transport culture is unlikely to occur if we do not take the opportunity, presented by the imminent expiry of the franchise contracts, to move away from the 'franchising' model and at the same time recruit international expertise to hasten cultural change. While the franchising model has rarely been taken up outside Victoria and the UK, the alternative 'Transport Community' model is used successfully in a multitude of European and North American cities as well as in Perth. The Transport Community model is eminently suited to systems with multiple operators, whether publicly or privately owned.

The essence of this model is that an independent public authority undertakes both strategic and tactical planning, and arranges for operators to provide the actual services using simple contracting arrangements based on fee-for-service. There is every likelihood that even after fifty years of failure and neglect, Victoria can still replicate and exceed the successes of other places if the right governance arrangements are put in place now.

Introduction

Public transport in Victoria fails to serve the needs of the travelling public, and fails to serve the broader public interest in having an environmentally friendly transport alternative to the motor car, with which Victorians can do their part to avert the threat of climate change and oil depletion.

While this is documented extensively in other PTUA reports, the clearest evidence is the simple fact that even with the effect of recent petrol price increases, mode share for public transport has failed to increase beyond 7% of trips and 9% of motorised trips (Victorian Government 2007), despite an abundance of infrastructure on which to base a comprehensive public transport network. Other comparable jurisdictions, such as Metropolitan Toronto or the Canton of Zurich, achieve mode shares of 25% to 50%, in Toronto's case despite having far less rail infrastructure. Other cities, such as Perth in Australia, Vancouver in Canada and Madrid in Spain, are increasing their public transport mode share consistently at a much faster rate than Melbourne, despite having less infrastructure, a lower population density, and less per-capita transport funding.

The continued failure of the system to serve the public interest is in no small part due to the management and 'governance' arrangements for public transport in Victoria. However, the poor understanding of these arrangements belies their importance. In 2005, a team of experts from the University of Toronto reviewed the factors that contribute to 'best practice' in urban transport and concluded that the most critical requirement is effective governance—more important even than finance, infrastructure and urban land-use planning (Kennedy et al, 2005).

'Governance' in essence means having appropriate organisations with the necessary powers, skills and responsibilities. Public transport governance determines how strategic and tactical decisions that affect the entire public transport network are made. Different approaches or models of public transport governance outline which organisations and stakeholders have the authority and responsibility to make and implement those decisions, ensuring appropriate accountability. A failure in governance leads to poor decision-making processes, a lack of accountability and a public transport network that doesn't work.

The goal of 20% public transport use by 2020 is a key part of the government's *Growing Victoria Together* policy statement. But that same statement also includes among its goals "greater public participation and more accountable government". This paper explains how these important values of participation and accountability can be built into our public transport system.

Governance Models: Privatisation, Contracts, Franchises and the Rest

There is of course much more to public transport governance than just the issue of private versus public ownership. Worldwide, we find a great variety of governance models, which can be roughly characterised as follows.

The Free-Market Model

The simplest of all governance models, since governance as we know it is absent. Instead, private firms operate public transport services for profit and compete for passengers.

Almost all public transport systems in the Western world (including Melbourne's) started out this way in the 19th century, though many were handed over to public (largely municipal) operation within a few years of being established. By the early to mid 20th century the few services that still remained on the free-market model were driven into bankruptcy, due to their inability to coordinate with one another to take advantage of network effects, and to compete effectively with the rising popularity of motor cars.

From the mid-20th century onward, the wide availability of cars and 'free' publicly-funded road systems means it is no longer possible for a public transport operator to return a profit except in very densely populated cities such as London or Tokyo. This makes the free-market model little more than an academic curiosity today. Free-market enthusiasts such as the Institute of Public Affairs (Allsop 2007) tend to favour the 'franchising' model described below.

The Nationalised Model

Public transport is owned and operated by government as a public utility, with all planning and operation carried out by public servants within a vertically integrated organisation, typically a government department. Often there will be separate organisational divisions responsible for individual modes.

This is the model of governance that prevailed after the early public transport systems in most Western cities were nationalised (often following bankruptcy in the free market) between the late 19th century and the early 20th century. Victoria's own examples of the nationalised model were the Victorian Railways Department and the Melbourne and Metropolitan Tramways Board.

A commonly observed drawback of this model is that the public body, lacking external oversight, abandons its mission to serve the public interest in favour of *Yes Minister*-style self-serving bureaucratic imperatives. This happens often enough that planning textbooks now warn against it. As transport planner Vukan Vuchic writes:

> In many transit agencies that have had a long period of operation without many innovations and service re-organisations, a deep inertia develops. With time, organizations have a tendency to develop a pattern of operations that is convenient for personnel, rather than for passengers and long-term operating efficiency....
>
> This pattern of operations is not easy to change, because in an organization a resistance to change develops that may be designated as "self-defense of incompetence": individuals or units.... resist any improvements and innovations that would require a change in their established ways of performing their jobs. This phenomenon is by no means unique to transit organizations; it reflects some features of human nature in many working positions. The less competent employees are, the more they resist any changes.
> (Vuchic 2005, p.317)

In cities like Melbourne, this tendency for the public transport provider to 'turn inward upon itself' was exacerbated by the rapid decline in patronage in the three decades after World War II. This decline was deeper and more rapid in Melbourne than in most other cities, owing to prior structural weaknesses in the provision of public transport, in particular the absence of intermodal integration combined with perverse incentives that led providers to compete against each other (Mees 2000). This led to the evolution of a 'failure-oriented' culture within the various public transport agencies. This culture persisted through the attempts at reform in the 1980s, which saw the creation of the multimodal Public Transport Corporation ('The Met'), but otherwise left the fundamental nationalised model unchanged.

The nationalised model and its close cousin the quasi-nationalised model (see below) are very widespread, particularly in the USA where they form the dominant model for urban transit, and in some European countries. Provided there is a strong organisational culture promoting innovation and a focus on passenger service it functions relatively well. However, in recent years it has become common to evolve toward a new model of public governance that helps protect the organisational culture against the tendency to decay noted by Vuchic; this is the Transport Community model, described below.

The Quasi-Nationalised Model

This is similar to the nationalised model in all respects except that the actual services are owned and operated by private firms, which act as contractors to the public utility. The public utility retains all planning responsibilities and collects the fare revenue. Contractors receive a fee for service calculated using a relatively simple formula that is adjusted regularly to account for changes in input costs. (In the industry this is often called a 'gross cost contract'.)

This model is vulnerable to rent-seeking, in that the subsidy paid to the private operator can become decoupled from the level of service provided. Diligence is required on the part of the public utility to ensure that the public receives value for money. At the same time the quasi-nationalised model suffers the same weakness as the nationalised model in fostering a self-serving bureaucracy. Because historically this model usually evolves from the free-market model it also often gives rise to conflict between operators defending their 'ownership' of routes on the one hand, and on the other hand planners who seek to integrate these routes into a well-functioning multimodal network.

This is the model that applies to most of the Victorian bus industry, where private operators were made contractors to the government in the early 1980s after a number of operators went bankrupt. The model in Victoria prior to privatisation in 1999 may be summarised as a nationalised train and tram system alongside a quasi-nationalised bus system.

The Transport Community Model

Transport planning is coordinated centrally by an autonomous public planning agency (PPA). The PPA has a governing board which may comprise representatives of regional and local government, transport operators, business and consumer groups. The PPA is thus not a government department or 'traditional' departmental agency, though it is recognisably a public-sector organisation with statutory powers. In the Australian context this institutional type is best approximated by the statutory corporation with independent board and direct reporting line to the Minister, of which the Roads Corporation (trading as Vicroads) is the most relevant example. (The ABC is a prominent example at Federal level.)

Transport services themselves are usually operated by separate agencies, which may be nationalised entities or private firms, acting as fee-for-service ('gross cost') subcontractors to the PPA. In some cases operators assist the PPA with some planning functions (timetables for train services being a common example, as this requires detailed rail scheduling expertise) but this occurs as a mutual process, rather than by the PPA delegating its functions. The PPA usually retains complete control over fare accounting and allocation, and has an important role in branding and marketing the network as a single intermodal entity. The bulk of routine contract-administration work is left to the operating agencies. In some rare cases, the PPA and the operator form a single organisation (largely for historical reasons).

Historically the Transport Community model evolved from the nationalised model, in response to pressure on transport agencies to be more publicly accountable and avoid the 'self-defence of incompetence' that Vuchic warns against. 'Transport Community' is one translation of the German word 'Verkehrsverbund' which is the name given to the autonomous PPAs in the German-speaking world. (Vuchic (2005) translates this as 'transit federation'.) The first of these was established in the 1960s in the city of Hamburg (the *Hamburger Verkehrsverbund*), but the example most frequently cited in contemporary debates is the *Zurcher Verkehrsverbund* (ZVV) which manages public transport throughout the Canton of Zurich, a region similar to Melbourne in size and population (ZVV 2007).

Similar organisations are found in cities around the world, notably Vancouver's Translink, Gothenburg's Västtraffik, Transport for London, Madrid's Regional Transport Consortium, and Perth's Transperth. Some older nationalised agencies such as the Toronto Transit Commission (TTC) are also evolving toward the Transport Community model, with greater public involvement in their processes. In the case of Vancouver, London and some other cities, the PPA is responsible for the arterial road network in addition to public transport; in Zurich, Perth and Toronto the PPA manages public transport alone. Perth's PPA is actually an autonomous division within the publicly-owned service delivery organisation, the Public Transport Authority (PTA), which acts as the agent providing services according to Transperth plans. The TTC in Toronto operates in a similar manner.

Vuchic (2005) explains the Transport Community model as the one that provides "full functional integration" of public transport services provided by multiple operators, and notes that it "has been considered the most effective form of organization for providing integrated services for the public where complete merger of different operators is not possible." He sums up the evolution and motivation of the model thus:

> Since the 1980s, there has been a trend toward integrated public agencies adopting some forms and practices of private companies for greater operational efficiency. Also, to reduce political pressures and achieve competitive pricing, public agencies contract some sections of transit services to private operators. Yet control by public agencies is retained to ensure that public interest is not subjugated to short-term economic efficiency. Public control also eliminates the need for unrestrained competition, which tends to disintegrate transit network and lower the quality of services. (Vuchic 2005, p.299)

Vuchic also stresses the importance of ensuring the PPA has a strong mandate to increase patronage, and a culture of innovation to defend against inertia.

> In planning operations and services, management of the transit agency must follow a strategy that considers the role transit should have in the city, adopt increase of ridership as one of the basic goals, and continuously work on introducing innovations in technology and services. Maintenance of the status quo is not sufficient in dynamic urban transportation conditions. The need for shifting more trips in urban areas from cars to transit is great, and opportunities for achieving that goal must be actively pursued. (Vuchic 2005, p.317)

The Franchising Model

Public transport services are planned and operated by private firms, who either own their infrastructure outright ('below-rail' franchising) or lease it from public holding companies ('above-rail' franchising). The private firms operate under 'franchise' or 'concession' agreements with governments, which grant them qualified planning and operational jurisdiction over a specified territory. A government body sets minimum service standards and acts in the role of a regulator, delegating much more of its planning functions to the private operator than in a quasi-nationalised model.

The relationship between regulator and franchisee is governed by a presumption that the franchisee take the initiative as a commercial player and that the regulator act as a safety valve protecting the public interest from egregious lapses by the franchisee. In this way the franchising model differs radically from both the quasi-nationalised and Transport Community models, which are based on fee-for-service contracts with the contractor in the explicit role of a service provider. In exchange for demonstrating compliance with their franchise agreements, operators receive a subsidy and a share of fare revenue, which together provide them with a commercial return. (In industry parlance, this is known as a 'net cost' contract.) Unlike in a fee-for-service contract, the subsidy is not explicitly tied to a formula for input costs but is a more or less arbitrary figure established through confidential negotiations.

Vuchic (2005) describes a three-layer model of transport service provision that can help illustrate the difference in responsibilities under franchising compared with other models. The highest layer is *strategic* planning, which includes such policy questions as setting mode share targets, determining fares, and allocating budgets. *Tactical* planning sets out the routes and networks required, determines service frequency, prepares timetables, reviews infrastructure needs, and applies new technology to service provision where appropriate. *Operational* planning deals with the day-to-day running of services, rostering of staff, vehicle maintenance and similar matters.

In a quasi-nationalised or Transport Community model, both strategic and tactical planning are carried out by the public agency, with the operator responsible for operational planning. The franchising model makes the operator responsible for both tactical and operational planning (subject to regulatory oversight), with only strategic planning remaining exclusively under public control. Thus in the franchising model the operator is held responsible for growing patronage, which is largely a matter of tactical planning.

The two places in the world most associated with the franchising model are Britain (excluding London buses and Underground), where the model originated under Margaret Thatcher, and Victoria. Hong Kong, Singapore and Tokyo operate variations of the franchising model, which approximate more closely the free-market model (as transport can be operated on a full commercial basis in these very high-density cities), and some others cities have experimented with franchising on a smaller scale. However, outside Victoria the franchising model is rarely advocated today, largely due to the poor performance of deregulated bus systems in regional British cities (Mackie et al 1995; White 1997; Vuchic 2005).

When ordinary citizens colloquially refer to 'privatisation' of public transport, it is generally the franchising model they have in mind, owing to the rarity of true free-market public transport systems in developed countries. This is certainly the way the term has been used in Britain since the 1980s, and in Melbourne more recently.

The Victorian Experience with Franchising

Early Franchisees

Through most of the twentieth century, Victoria's trains and Melbourne's trams have operated on a nationalised model, while bus services have (with some exceptions) run on a quasi-nationalised model.

Beginning in 1994, the Kennett Government began to privatise some formerly government-run operations, bringing them under early versions of the franchising model. These new private operators included the National Bus Company and Melbourne Bus Link (operating Melbourne bus services formerly under the control of the Tramways Board), and West Coast Rail and Hoy's Trains (operating train services to Warrnambool and Shepparton that had been threatened with closure).

Over the subsequent decade these operators ran services roughly comparable in quality to those of Melbourne private bus operators or V/Line as appropriate. In the case of the bus operators this represented a significant decline in service, as these routes had previously run to Melbourne tram standards. (Taking one example, late evening buses in the popular nightlife district of Johnston Street reduced in frequency from every 20 minutes to once an hour.) In the mid-1990s, many National Bus services that had functioned reasonably well as feeders to railway stations were reorganised by the operator to feed into their Eastern Freeway trunk services instead, in most cases costing passengers extra travel time but providing additional revenue for the operator.

It followed that patronage on these bus services declined after privatisation, although the consultants that discovered this fact were instructed to delete it from their report to the Kennett Government (Mees 2005).

Under the Bracks Government all these early franchisees were eventually subsumed by the larger operators, and now rate a mention largely as historical curiosities (though there are important lessons to be learned in the case of National Bus).

The First Train-Tram Privatisation: 1999

The 'main event' in Victorian public transport privatisation occurred in 1999, when the nationalised train and tram systems in Victoria were privatised by the Kennett Government. This brought them under an above-rail franchising model modelled on that used (and by then widely disliked) for British Rail some years earlier, and even designed by many of the same people (Cole 2003). This similarity with the British Rail franchising model is acknowledged by architects and supporters of the privatisation (Greig 2002, Allsop 2007). Kennett Government officials gave as their reason for adopting the franchise model rather than a Transport Community model that the former would encourage 'investment and innovation' by private operators, while the latter would not (Mees 2005). The government also cited the benefit of transferring risk from the public to the private sector.

The original franchising created two Melbourne train operators (Bayside Trains and Hillside Trains), two Melbourne tram operators (Swanston Trams and Yarra Trams) and one regional train operator (V/Line Passenger), each in charge of a discrete set of routes. The Bayside Trains, Swanston Trams and V/Line Passenger franchises were sold to National Express, a British road coach operator. Hillside Trains was sold to Connex, a subsidiary of the French Veolia conglomerate that also operated train franchises in Britain. Yarra Trams was sold to a consortium led by Transfield Services and French company Transdev.

Officially, franchises were tendered competitively based on which tenderer would provide the service for the smallest initial subsidy. In practice the degree of competition present is debatable, given that there are very few companies worldwide in the business of operating fixed-rail public transport franchises, and only a handful that do so in more than one jurisdiction.

An important feature of the Kennett franchise contracts is that they provided subsides that progressively declined every year, so that over their envisaged 12–15 year lifetime, the Victorian taxpayer would save a total of $1.8 billion compared with a continuation of public operation. This forecast saving included provision by the government for the cost of service upgrades and new rolling stock, which were agreed as part of the franchising process: these included

- the improvement of Sunday daytime frequencies to Saturday levels,
- the improvement of daytime off-peak services operated by Yarra Trams to every 10 minutes,
- the rail electrification to Sydenham,
- the tram extension to Box Hill,
- the employment of additional staff, and
- the purchase of new trains and trams.

The contracts provided for declining subsidies because they assumed patronage on the new privatised services would dramatically increase over the franchise period: by 84% for Bayside Trains, 67% for Hillside Trains, 40% for Swanston Trams and an intermediate figure for Yarra Trams (Mees 2005, Allsop 2007). Much of this increase was forecast to occur in just the first year or two of operation (and before the arrival of new rolling stock), as a result of 'innovations' by the private operators.

To further ensure rapid patronage growth, the contracts included generous incentive payments for increasing patronage: a flawed mechanism, as this incentive could also operate perversely to reward one operator for diverting passengers from another operator's services. An immediate effect of privatisation was indeed the loss of the old PTC's remaining small gestures to service integration, with operators redesigning vehicles and infrastructure with their own livery, treating one another as rivals, and introducing their own single-mode tickets (the 'Baysider' and 'Connector') to undermine Melbourne's successful multimodal fare system. At one stage Connex even produced maps showing only its half of the train system, as though people would never want to visit the other half of Melbourne because it's served by the 'wrong' train operator. They even omitted the three City Loop stations that National Express managed!

The franchising process also established the Office of the Director of Public Transport within the Department of Infrastructure. The function of this office was to act as the legal party to the franchise contracts, and as the regulator that would oversee compliance of operators with the contract conditions. As a party to the contracts the Director was required to sign off on changes to timetables or routes, but in accordance with the franchise model there appears to have been no presumption that the Office of the Director would itself undertake any tactical service planning. The government's stated intent was that service improvements would be driven by 'innovation' by private operators, not by central planning. However, the contracts themselves were initially treated as commercial-in-confidence and the public was not privy to their terms.

The privatisation of 1999 also promised there would be no real increase in fares under private operation. Accordingly, the government enacted a prohibition on above-inflation fare rises (except for a one-off 5% rise to account for the introduction of the GST in the following year).

The Second Train-Tram Privatisation: 2003–04

The success of the franchises depended on the private operators achieving patronage growth of between 40% and 80%, much of it in the first few years of operation. However, it became clear that the operators were failing to 'innovate' in a way that actually encouraged more people to use their services. Patronage did jump in the first year by about 4%, likely as a result of the government-mandated Sunday service improvements, but State Budget figures show that from 2000 to 2004, patronage on Melbourne's train system grew by just 7% and on the tram system by 6%. This was in fact *slower* than the prevailing rate of patronage growth between 1994 and 1999. It also trailed behind the rate of travel growth in general, so that public transport mode share actually declined over this period. Operators therefore not only had precious little extra revenue to offset declining subsidies; they also failed to qualify for patronage incentive payments.

The 1999 privatisation began to unravel in early 2002 when the three franchisees National Express, Connex and Yarra Trams all threatened to withdraw from Melbourne, citing their inability to grow patronage to match the forecasts. Transport Minister Peter Batchelor responded in February 2002 by granting the franchisees an additional $105 million subsidy for that year, and foreshadowed revisions to the contracts to 'lock in' future increases in subsidies.

Despite the promise of higher subsidies, in December 2002 National Express abandoned its three train and tram franchises. At the same time it became evident that National Express, Connex and the Office of the Director of Public Transport were collectively engaging in asset-stripping, sending much of the older Hitachi rolling stock to the scrapyard prematurely instead of retaining it to cater for the still-planned increase in patronage.

Half of the Hitachi trains were scrapped outright and the remainder sold to rail enthusiasts at the scrap-metal price of $2,600 per car. Connex would later claim that train shortages were preventing it from adding services to relieve overcrowding in peak hour, and the Department of Infrastructure would subsequently buy back some of these same trains for up to $20,000 per car.

After National Express withdrew, the State Government was in a position to resume control of the franchises, but instead placed them in the hands of commercial receivers and announced its intention to re-tender the metropolitan services.

In May 2003 the government passed its infamous 'We must toll EastLink because we need $1 billion for public transport' budget. The $1 billion over 5 years was required not to increase public transport services, but simply to cover additional subsidy payments to the private operators. A further step was taken in November 2003, when the government agreed to drop the prohibition on above-inflation fare rises. In the ensuing New Year fares were increased by 10 per cent: the largest annual increase in over a decade, and in absolute terms possibly the largest annual increase ever. This was compounded with the abolition of the popular Short Trip ticket, with no compensating reduction in Zone 1 fares.

The 'second privatisation' finally occurred in February 2004. Under the new contracts, the Bracks Government prudently abandoned the two-way split of the metropolitan franchises, but retained both the franchising model and the split by mode, thereby establishing two private modal monopolies. These were awarded to the two remaining private operators, Connex and Yarra Trams.

As part of the deal the operators were to be paid the Kennett subsidies plus an additional $2.3 billion over the 5 years to 2008, far more than anticipated in the budget. The patronage growth incentives were removed, and replaced with a simple '40–40–20' formula for distributing revenue. PTUA recommendations to tighten the standard for late running and to expand quality control to include passenger comfort issues were ignored, as was our stance against establishing private monopolies who would be in a position to dictate franchise conditions (PTUA 2003).

The role of the Office of the Director of Public Transport did not greatly change through the second privatisation, as the intent throughout was to retain the franchising model but in a way that delivered financial security to the franchisees. Accordingly, while there was a public-relations change in language from 'franchises' to 'partnerships', there is no reason to believe that any greater expectation was placed on the Director to shift from a regulatory to a tactical planning role for trains and trams.

This is confirmed by the government's own fact sheets, which defined the responsibilities of government as to:

- regulate safety;
- monitor operators' performance;
- regulate fares;
- develop a new ticketing system;
- carry out "long-term" (strategic) planning of the network;
- integrate bus, train and tram services; and
- pay the operators to run services.

Again, this agrees well with Vuchic's definition of *strategic* planning. Absent from the list are the main ingredients of *tactical* planning such as setting timetables, reconfiguring existing routes, reviewing service frequencies, or applying new technology to operations. Though the government still, after a fashion, undertook these functions for buses (which remained under a quasi-nationalised model), in the case of trains and trams most tactical planning fell into the gap between the declared responsibilities of government and the declared responsibilities of the private operators. In practice this has subsequently meant that little tactical planning has occurred at all, except where initiated by an operator in its commercial self-interest, or by the government in response to political pressure.

At the same time or shortly after the second privatisation, a number of smaller statutory bodies were created to oversee particular public transport functions. These included a Public Transport Ombudsman to act on grievances with public transport operators (but not with ticket inspectors, which remain the most common source of passenger grievances), and a Transport Ticketing Authority to implement a new Smartcard ticketing system for Victoria. Although these agencies perform functions that would be undertaken by a planning agency in a Transport Community model, they are peripheral to the operation of the franchise model and the relationship of these agencies to the Office of the Director is unclear.

On the private side of the fence an umbrella body called Metlink was created, with a role written into the new franchise contracts to undertake marketing and branding exercises. There are now small Metlink logos on most public transport vehicles, signage and literature, which otherwise bear the livery of the private operator. This is an improvement on the complete lack of common branding that existed between 2000 and 2003, but is the exact reverse of former practice under The Met and current practice under Transperth and the ZVV, which is for the livery itself to reflect the common branding and for the operator to be identified less prominently, a practice which is considered to make the common branding more recognisable to passengers.

V/Line Passenger was not part of the second privatisation, and initially remained in the hands of the receivers. The government eventually announced its intention to retain V/Line in public ownership in order to see through the Regional Fast Rail project and the restoration of some regional passenger rail services axed under Kennett. This position was consolidated in early 2007 with the buy-back of the track lease held by Pacific National, giving the government control over not only passenger services but also the freight rail network (though not actual freight services). It is striking that while the government can see the value of public control and even public ownership in making improvements to country rail services, it fails to acknowledge any similar value in relation to Melbourne public transport services.

The Current Situation

In 2005 the Victorian Auditor-General released a report into the process underlying the second privatisation. This was the first time actual figures for payments to the train and tram operators had been reported, and showed that the operators are receiving nearly twice the amount the PTC were paid (in real terms) to operate the system in 1999. Part of this increased subsidy could be explained by the purchase of new rolling stock and modest service improvements since 1999, but a large component of the increased subsidy remains unexplained.

Meanwhile, despite the fact that growth in train patronage has fallen well short of the 67% to 84% to which operators committed in the 1999 contracts, train operator Connex now alleges a 'capacity crisis' in the suburban rail network. Apparently, operator difficulties which resulted from too few passengers back in 2002 now result from too many passengers in 2007. While there has been unusually strong patronage growth from 2005 onward (largely a fortuitous consequence of rising petrol prices and CBD employment, as there was no identifiable service initiative to which passengers were responding), the total patronage of 170 million train passengers in 2006 is still well short of the 201 million passengers the same system carried in 1950. Similarly, public transport mode share of 8.8% of motorised trips in 2006, while higher than the 7.6% in 2004, is still less than the 9% observed at the time of privatisation in 1999. Most Melbourne train lines are carrying fewer trains and passengers in peak hour than comparable systems in successful cities—even those that, like Zurich's S-Bahn, have extensive express running.

Disturbingly, the pattern of payments in the Auditor-General's Figure 2E and the operators' changing attitude to patronage seems to fit closely the 'regulatory capture' scenario cited by Stanley and Hensher (2003): "winning a tender on an artificially low bid, with a view to renegotiating that bid upwards at a later stage by threatening service disruption, presuming that government will be unable to resist political pressure on service continuity."

By shifting the revenue base from patronage incentives to increased subsidies, the second privatisation subverted the two most important justifications used for introducing the franchising model in the first place: that revenue risk would be transferred from the public purse to the private sector; and that private operators would be enticed to plan and carry out service improvements by the promise of financial incentives. In place of these, the new model establishes a presumption in favour of the status quo. The private operators are neither forced by central planners to make changes to attract new patronage, nor greatly rewarded for doing so on their own initiative. Adding a single new train to the timetable seems to require an immense planning effort on behalf of both the government and Connex; the ZVV and similar agencies meanwhile produce new timetables for all their routes every year. Even the most 'tactical' of the functions specifically allocated to government under the second privatisation—the timetable integration of train and bus services—is not happening, and buses continue to meet or miss trains essentially at random.

Through the use of the franchising model, a situation has been created in which all the 'players' in the management of public transport have an incentive to collude against the public interest. The private operators have a rational commercial incentive to seek the highest subsidy in return for the minimum level of service (thanks to the absence of a formula tying one to the other) and to minimise their obligations. Officials within the Public Transport Directorate have an incentive to defend the institutional arrangements they devote their efforts to overseeing and which they had a large hand in creating; in practice this means maintaining a good relationship with the operators and holding to the tenets of the franchising model, specifically the presumption that initiative rests with the operator and not with the regulator. And at the political level, as attested by Ministerial reactions to many recent system failures, the government apparently has no interest in or vision for public transport and so has an incentive to shift responsibility to the private operator.

The problem here is not necessarily the existence of a private operator with commercial interests, because private operators exist in many successful public transport systems. The problem is that these interests are not checked by a body acting in the public interest.

Here are just a few examples of what's wrong:

Example 1: Short trains on weekends. With changing travel habits since the 1990s (when Melbourne was dubbed the 'seven day city'), the old practice of running three-car trains on weekends led to more and more severe overcrowding. Nonetheless, Connex has for years refused to operate six-car trains. There is simply no reason for it to do so in a privatised system: six-car trains cost more to run than three-car trains, and there is no direct financial benefit to Connex. In Connex's mind it is unclear that running larger trains would attract any additional passengers (since Connex management inherits a large share of the old defeatist PTC culture), and in any case Connex would only receive 40% of the marginal revenue from new passengers anyway, with the remainder going to other operators' bottom lines. (So the incentive required for Connex alone to boost services is 2.5 times as great as it would need to be for a central coordinating agency looking to break even across the entire network.) The incentive for operators to cut costs by running overcrowded services is avoided in a subcontracting model through the use of contracts that prescribe standards for passenger comfort, or carrying capacity, or both. But prescriptive contracts are contrary to the intent of the franchising model, which relies on the private operator to act on its own initiative. Only in November 2007 after years of lobbying did the government finally negotiate an amendment to the Connex contract to run six-car trains on most daytime services. So even this modest no-brainer initiative, far from being the Connex 'innovation' it was made to look like, actually relied on central planning and public funding to become reality.

Example 2: Preventive maintenance. The matter of Connex's maintenance practices rarely comes under public scrutiny. On some occasions where part of the road system is unavailable for an extended period (such as the Burnley Tunnel closure in March 2007), Connex will be reported as 'bringing forward' its routine train maintenance to 'boost' train services. Typically, this will involve scheduling more maintenance on weekends so that more trains are available to run peak services on weekdays. This raises the question why Connex does not do this on a regular basis, to reduce the number of cancellations that occur. The reason may be that it costs Connex less to incur fines for cancellations than it does to pay weekend rates to a larger maintenance workforce. Passenger-focussed operators such as the Swiss Federal Railways or the WA Government Railways have targets for fleet availability and do not operate purely to minimise costs.

Example 3: Care of infrastructure. In well-managed systems, responsibilities are clearly defined right down to the lowest levels—even for such matters as cutting the grass next to railway tracks. Either the train operator is a public agency that owns and maintains the land the tracks run on, like the Swiss Federal Railways or the Toronto Transportation Commission. Or else, it is a contractor (perhaps privately owned) that runs train services on tracks and land owned and maintained by a separate public agency. But in Melbourne, even the authorities aren't sure who is responsible for what. In November 2007, the local press reported the concerns and frustrations of Hampton East residents about the hazard posed by overgrown weeds and rubbish in a railway reserve adjacent to their homes. While railway land in Victoria is technically owned by public authority VicTrack, they maintain that the franchise regime gives Connex a lease over the land, and the responsibility for upkeep is Connex's, not VicTrack's. Connex for their own part maintain that the railway reserve is not their responsibility. The familiar stalemate results: "Bayside Council passes the buck on to the railway, who in turn pass the buck on to Connex, who in turn pass the buck on to privatised contractors, who send different workers each time a complaint is made," says one resident.

Example 4: Duplication of effort. One function of a transport planning authority is to research and forecast trends in transport usage and passenger behaviour. And indeed, market research is one thing that our planners really do seem keen on doing. So keen, in fact, that market research is done independently by each of the Director of Public Transport, Metlink, the Transport Ticketing Authority, and the individual operators—often using the same consultants. The Transport Ticketing Authority alone spent close to $1 million on market research over an 18-month period (*The Age*, 4 June 2007). While this is doubtless good for the consultants, the extent of this duplication betrays the lack of central coordination. It is also unclear what is the objective of all this publicly-funded market research: as it allegedly involves asking passengers about such things as their hobbies and preferred sports, it would appear to be as much for the benefit of those who advertise on the system (or might derive a commercial benefit from smartcards) as those who plan it. In other cities public transport is a single network, so there is just one market research ‘customer’ and one objective—to bring more passengers to the system and ascertain what they want from public transport.

Example 5: Yarra Trams boosts services....eventually. In what may seem at first to be a contrasting example, Yarra Trams in March 2007 boosted Sunday morning services on tram route 16, after an article in the local press pointed out the severe overcrowding that routinely occurred because of the increased number of people seeking to travel to St Kilda on Sunday mornings. Although in this case the private operator did improve services, it did so only *after* being subjected to a combination of media criticism and direct lobbying. In well-managed public transport systems there are processes for monitoring patronage and fine-tuning service levels automatically, so that overcrowding is minimised. In the case of route 16, either there are no such processes (on the part of either Yarra Trams or the Director of Public Transport), or else Yarra Trams knew about the chronic overcrowding but chose not to act until people complained. Neither possibility reflects well on the Director of Public Transport, Yarra Trams, or the franchising model under which they operate.

Britain Rethinks....

Though Britain has for the last two decades been the home of the franchising model, there have been recent moves in that country to re-nationalise train services. This has come about because Britain's trains are bedevilled by precisely the same problems the franchising model has brought about in Melbourne: excessive subsidies, late and cancelled trains, chronic overcrowding and exorbitant fares.

Thus, *The Times* reported in April 2007 that talks were underway between the government and private operator First ScotRail to buy back the Scottish network, as a prelude to bringing the entire British network back under public operation.

> Bristow Muldoon, the chairman of Labour's Scottish Policy Forum, said that bringing tracks and trains back under the control of a single body, serving in the public interest rather than generating profits for shareholders, could bring huge benefits. "I believe there is a high possibility that reintegrating tracks and trains would deliver better value for money," he said. "The savings could be reinvested in improving the rail infrastructure or in reducing fares for passengers. There could also be benefits to the taxpayer in terms of reducing the amount of subsidy needed for services…"
> Britain's rail network will consume more than £5 billion in subsidies this year, more than three times what British Rail received. Public funding…has risen sharply in the past ten years, despite a doubling in the total amount paid in fares by passengers over the same period.
> ("Secret talks open way to nationalise rail network", *The Times*, 12 April 2007)

Meanwhile, a prominent British Labour MP has commented:

> It is not as if the private sector has proved itself vastly more efficient than the public sector. Network Rail is not the only good example of the public sector running services more effectively. The experience of South Eastern Trains, which was awarded Connex's contract in 2003 and outperformed its private sector counterparts with less public subsidy, demonstrates that the public sector can run passenger services more effectively and efficiently and provide better value for money than its private sector comparators.
> (Jon Cruddas MP, "Waiting for a change of owner", *New Statesman*, 14 June 2007)

Most recently, London Mayor Ken Livingstone has unveiled a plan by which public planning authority Transport for London (TfL) would take control of fares, timetables and quality standards for all rail services within London and the Home Counties. One of the biggest existing rail franchises, Southern, would be taken over by TfL under the plan. Other services would continue in private operation under 'net cost' contracts whereby they would receive a management fee and be subject to penalties or bonuses according to their success in achieving standards. All would operate under a common 'London Overground' brand, already in use on the three London suburban lines now operated by TfL. *The Times* on 20 November 2007 reported that while "the Government is committed publicly to maintaining the current franchising system… ministers believe privately that Mr Livingstone's model may deliver a better long-term structure for the rail industry."

Criticism of the franchising model within the British Parliament itself is nothing new. The House of Commons Select Committee on Transport said in a 2006 report: "We agree wholeheartedly with the general objectives of improving passenger services and maximising the value for money achieved from government subsidies. But we do not believe that the current system of passenger rail franchising can achieve those aims in the long term" (House of Commons 2006). The same report concluded that "the objectives of the passenger rail franchising system are a self-contradictory muddle" and that franchising had not succeeded in transferring risk to the private sector. The Committee's subsequent Annual Report added: "We can only re-emphasise our conclusion that the franchising system is wasteful and muddled, and recommend that the Government seriously re-think the way passenger rail services are provided for the long-term" (House of Commons 2007).

While it is not yet clear what the future holds for the governance of Britain's regional transport network, the public's long-held antagonism toward rail franchising has led to growing political momentum to abandon the franchising model there.

...and Brisbane Sets a New Course

While Britain has signalled a move away from the franchising model, Brisbane in Australia seems set to follow the example of Perth in embracing a version of the Transport Community model. One of the first actions of new Queensland Premier Anna Bligh has been to announce a single public transport authority for greater Brisbane.

> BLIGH GOVERNMENT TO CREATE NEW TRANSIT AUTHORITY
> Patrons of public transport will benefit from the creation of one new authority to manage all public transport services in south east Queensland, Premier Anna Bligh and Minister for Transport John Mickel, announced today.
> Ms Bligh said the new authority would make it simpler and easier for customers offering a one stop shop for scheduling, customer needs and complaints. "This will be a serious and significant shake up of public transport services in the south east," Ms Bligh said. "The new authority will be more accountable to the needs of customers and have greater control over service delivery."
> "At the moment there is a lot of confusion from the customer's point of view over who is responsible for public transport… We are going to create one authority to coordinate the myriad of 17 different bus, ferry and public transport service providers that currently service the region…"
> (Queensland Government media release, 9 October 2007)

It is intended that the new authority will be in place by July 2008: about the time the Victorian Government will have to make its decision on the future governance arrangements for Melbourne's public transport. Existing operators will be made contractors to the new authority, which is likely to be based on the Transport for London model and involve local government and operators in its governance structure. Importantly, the government explicitly intends that the new authority will have responsibility for tactical planning, with powers to match:

> "The new authority will have real grunt," Ms Bligh said. "It will consolidate responsibility for public transport under one organisation, greatly improving accountability to the customer. For example, a transit authority will have greater freedom to redeploy resources, like buses, to different areas in South East Queensland as needed based on demand."
> (Queensland Government media release, 9 October 2007)

The PTUA's Vision for Transport Governance in Melbourne

Current governance arrangements based on the franchising model are not delivering public transport services that serve the public interest. What patronage growth has occurred has been the natural result of population growth, or (since 2005) a fortuitious accident triggered by high petrol prices. Passengers are not being supplied with the fast, frequent, clean, reliable, safe and cheap public transport needed to provide a decent alternative to car travel. The failure of public transport to grow patronage consistently and to be managed in a cost-effective manner also fuels the view, promoted by the road lobby and influential within the Brumby Government, that public transport is inherently expensive and unattractive to ordinary people and that the only 'realistic' solution to our transport problems is more and bigger roads.

Fortunately, we have an opportunity to change to a different model of governance with a minimum of pain. The franchise contracts signed in 2004 expire in November 2009 (after a one-year extension granted by the government in 2007), and if not renewed, bring about a 'sunset' provision where the trains and trams revert to public ownership automatically. There is no compensation payable to the private operators, other than a token payment to cover the older rolling stock. Of course, it is alternatively open to the government to negotiate entirely new contracts with the private operators. In any case, a decision on the future of the contracts must be made by 30 November 2008, as the contracts stipulate a twelve-month notice period.

A New Public Planning Authority

It is long-standing PTUA policy (dating from before the 1999 privatisation) that Melbourne should move to the Transport Community model of governance that is used in most other cities with successful public transport systems. The timeframe for the expiry of the franchise contracts provides for an orderly and relatively painless transition from one model to the other, with or without the involvement of private operators. The important thing is that new institutional frameworks be put in place early, and adequately resourced, to be ready to take control when the final handover occurs.

Our recommended model for Melbourne involves a public planning authority (PPA), established as an independent statutory corporation with similar status to Vicroads. At least initially, it should be responsible exclusively for public transport to provide a proper focus, and should be a small, lean agency modelled on the ZVV and staffed by experts in the field. (Much of the current success of Perth in expanding public transport services and growing patronage relative to Melbourne is attributable to the fact that in the 1980s Perth's transport agencies recruited international expertise while Melbourne's did not.)

To ensure Melbourne's PPA works in the public interest it needs to be accountable in ways that our current institutions are not. It should have an independent board that meets in public, publishes its documents, and to which councils, community groups and citizens can make formal representations. Independence from the Department of Infrastructure is essential to achieve the necessary culture change: we do not recommend maintaining the PPA as a division within the Department, as unlike Perth's Public Transport Authority, the Department does not currently have a culture conducive to the expansion of public transport services in the public interest. Independence gives the PPA the freedom necessary to recruit the necessary expertise and means it is not required to compete continually for internal resources against other Departmental divisions.

Vuchic (2005) gives the following as "the necessary or desirable qualifications and capabilities" of PPA board members:

- Strong civic interest (the position usually brings only nominal remuneration), regional orientation (rather than representing interests of a local area only);

- Technical knowledge, or at least good understanding, of transit system operations, such as technical issues, economic aspects, management, and personnel characteristics;
- Use of and interest in transit system, positive attitude, activism and initiative;
- Absence of potential conflicts of interest or strong involvement in a political party.

(Vuchic 2005, p.300)

As noted by Vuchic, some governments require that candidates actually use public transport extensively, or have used it extensively in the past. There is an obvious contrast with current Victorian public sector practice of providing taxpayer-funded cars to senior figures, typically on novated leases that oblige the person in question to drive a large number of kilometres each year. (To his credit, the Director of Public Transport himself declined the offer of a government car.)

Public Transport Operations

Actual services should be provided by other organisations: either renationalised public agencies, the current operators re-engaged as subcontractors on a fee-for-service basis, or new private subcontractors. Wherever private operators are sought, services should be competitively tendered and 'gross cost' contracts employed, following the model in Zurich and other cities with private-sector involvement. The PPA should undertake common branding, which should be of the 'all over' style found in Perth, Toronto, Vancouver, Zurich and London.

While the PTUA does not have a firm view for or against the involvement of private operators, we note that public operation of fixed-rail (train and tram) services makes it easier for the operator to directly own their rolling stock, thereby simplifying the contractual arrangements. With private fixed-rail operators it is more advisable for the operator to lease rather than own the rolling stock, as the latter is usually not interoperable with other public transport systems and is therefore best regarded as a 'civic asset' to be retained in public ownership in the host jurisdiction. The typical duration of contracts is also much shorter than the lifespan of rolling stock, so that the PPA risks being left with substandard assets at the end of a contract if procurement decisions are left to a private operator. The UK experience with private rail operators has not been encouraging, and Vuchic also notes that private operation of rail services has proved less successful internationally than with bus services:

> The distinctly lower success of tendering rail than bus services appears to be caused by the inherent differences between the two modes. Important factors are the differences in the physical system characteristics (special ROW and more elaborate system technology), cost structure (different investment / operating cost ratios), management and operating methods (much more centralized for rail), as well as fundamentally different public images of the two modes.
> (Vuchic 2005, p.462)

Whatever entities are ultimately used to operate train, tram and bus services, it is important that the PPA use its coordinating function to urge innovation in operating practices. At the same time, this innovation must be directed toward the public interest, rather than simply reflecting an operator's internal agenda, as has occurred under the franchising model to date. It may be kept in mind that in France, both Connex and Yarra Trams' parent company Transdev operate under contract to city-based public agencies that are evolving from a quasi-nationalised model to a Transport Community model (Vuchic 2005, pp.460–1).

Operator practice must be reformed to encourage a pro-passenger culture extending to all staff levels, to avoid incidents like this one (sadly typical of current attitudes):

> —*Do you know where Zone 2 starts?*
> —It's not a V/Line thing.

> —*But do you know?*
> —Yes.
> —*Could you tell me?*
> —Where Zone 1 finishes!
> (Exchange between V/Line staffer and passenger, reported in *The Age*, 15 April 2007)

> Management attitudes and personnel training must create employees who are strongly motivated and feel responsibility for providing high-quality services. This commitment must be present throughout the organization, but particularly with all persons affecting service or being in direct contact with the public, from general manager to station personnel and vehicle operators.
> (Vuchic 2005, p.316)

Transfer of Organisational Functions

The Office of the Director of Public Transport would retain some responsibilities under the new arrangements, and would continue to exercise its current role during the transition. Ultimately, the role of other bodies like Metlink and the Transport Ticketing Authority would be assumed by the PPA also, as well as a formal complaints avenue to remove the need for passengers to approach individual operators and to complement the role of the Public Transport Ombudsman.

The Victorian Road-Based Public Transport Advisory Committee also can and should be broadened in representation, and transferred from Vicroads' auspices to those of the PPA. As Vuchic writes:

> Planning and introduction of [public transport priority] measures requires coordination of many agencies and authorities. In many cities, this function is performed efficiently by a body usually known as a *transit first committee*, which consists of representatives of the transit agency, city's traffic engineering or streets department, police, parking authority, and other relevant organizations. The committee has the goal of analyzing present transit services, defining problems, and developing and implementing measures that will result in improvements of transit services. (Vuchic 2005, p.317)

In summary, the following are the minimum *actions necessary to move from the franchising model to a Transport Community model and establish a success-oriented culture in Melbourne's public transport:*

1. Establish a new statutory corporation reporting to the Transport Minister but independent of the Departmental structure, in the same sense as Vicroads. Recruit personnel internationally to board and management positions to import the necessary expertise and cultural outlook.

2. Exercise the option not to renew the existing franchise contracts with Connex and Yarra Trams. Once the new agency is established, transfer to it the re-tendering powers under the franchise contracts, giving it jurisdiction over the future arrangements with public transport operators.

3. Give the new agency a mandate to plan in the public interest, to seek public input at all stages of the decision making process, and to apply world's best practice to increasing mode share. In practice this means that the new contracts would be of a 'gross cost' fee-for-service nature, published in full, based on a transparent formula for operating costs, include a straightforward process for monitoring service quality, and if private operators are used, would be competitively tendered.

4. Progressively transfer to the new agency the (metropolitan) functions, budget, and personnel where appropriate, of Metlink and the Office of the Director of Public Transport.

Within this framework there remains considerable flexibility for the exercise of governmental discretion: to retain private operators or resume public ownership; to involve the new agency in scrutiny of land-use planning decisions; to determine the composition and the balance between officials and expert appointees on the agency's board; to determine the new agency's budget; and so on. The PTUA in its other policy documents has stated views on many of these matters, but from the perspective of governance and ensuring the right managerial culture the above actions are a necessary minimum.

Governance in Country Victoria

Notwithstanding brief and partial experiments with franchising over the decade between 1994 and 2004, public transport services in regional Victoria remain under the quasi-nationalised model that has prevailed throughout their history.

Strategic and tactical planning of regional services is currently undertaken by several Regional Service Planners within the Office of the Director of Public Transport, each responsible for a particular portion of the state. The results on the ground are patchy and vary in quality from region to region. Some regions have recorded substantial increases in rail patronage, largely as a result of increased regional rail frequencies (again a political commitment, rather than an actual planning initiative). Other regions (notably Geelong) are still caught in the vicious cycle of postwar decline and no solutions are forthcoming from the bureaucracy.

Actual patronage figures are treated as commercial-in-confidence, so public knowledge of progress in mode share is limited to what information is volunteered by the Department. Nonetheless, there are no signs on the ground that patronage is increasing anywhere other than on the upgraded 'Regional Fast Rail' services; in particular, most town bus and regional coach services that could carry many more passengers are neglected by planners and poorly patronised as a result. Just as in Melbourne suburbs, the poor standard of these services is a large factor in the stress placed on railway station car parks.

The same problems with poor information and general neglect of passenger needs that are seen in Melbourne are present too in country Victoria, where their effect is amplified due to the longer waiting times and distances involved. For example, in early June 2007 buses were replacing trains between Seymour and Albury while planned repairs were being carried out on a rail bridge, but then a derailment at Seymour on 5 June (the same day as the Kerang level crossing disaster) led to an unplanned replacement of trains with buses between Melbourne and Seymour. Instead of one continuous bus trip being provided from Melbourne to Albury, passengers were taken in one bus to Seymour and then forced to wait 45 minutes for a second bus. In most cases passengers were not told about the replacement buses, even when buying their tickets; nor was any signage provided at Seymour explaining how to change buses. One bus driver even had to ask directions from passengers! The journey from Melbourne to Albury took two hours longer than usual, and anecdotal accounts from passengers indicate many would have forfeited their fares and gone back to their cars had they known about the bus arrangements in advance.

In Geelong, a 'G21 alliance' of local government, community groups, business, statutory bodies and State Government was formed in 2002, with one of its objectives being the development and implementation of a regional public transport strategy. By May 2007, the group had become so frustrated at the inaction from the Department of Infrastructure that many of its members were threatening to leave the alliance unless the public transport issue was dealt with. The frustration related to the Department keeping secret a 2006 report on public transport issues in Geelong, and failing to act on obvious system shortcomings including incomprehensible bus stop locations, lack of interchanges and absence of timetable information.

> The core issue is that the G21 regional public transport strategy-action plan has not been delivered by the State Department of Infrastructure despite the draft being completed in late 2005 and numerous offers and attempts to progress the issue not being successful. What started as a collaborative process to develop the public transport strategy that could be used as a "model for regional Victoria" has deteriorated to a tension filled relationship with no outcome and negative consequences for G21 being: significant time wasted...and questions as to where any further investment is warranted.
> (Minutes of G21 alliance meeting, 25 May 2007)

In response to the failure of this process, and similar to the recommendations advanced here for metropolitan Melbourne, the PTUA's Geelong branch has proposed the creation of a public planning agency for Greater Geelong, as a pilot project for moving the governance of regional services closer to the Transport Community model more generally. For more information, consult our separate policy document "A Regional Public Transport Authority for Greater Geelong".

Appendix: Some Common Misconceptions

The current franchising arrangements for Melbourne's trains and trams have been extensively criticised by the PTUA and others for neglecting the public interest. Such criticism, particularly in media forums, has of necessity not always been comprehensively articulated, and has led some to misconstrue the underlying facts. This appendix, accordingly, is devoted to presenting some of the most common misunderstandings and supplying the necessary factual details.

"Subsidies are only higher because we've bought new rolling stock."

The Auditor-General's report shows this to be untrue. According to Figure 2E of the report, the privatised system cost approximately $1.2 billion more to operate up to financial year 2006 than maintaining public operation at the 1999 level. Figure 2D, meanwhile, shows the total cost of operating Melbourne's trains and trams, on both an actual and "normalised" basis. The difference between the actual and normalised figures represents an adjustment for "constant investment in rolling stock" and in 1998–99 is approximately $100 million. Since there was very little rolling stock investment in 1998–99, it follows that the cost of the new rolling stock is equivalent to $100 million each year, which represents $700 million up to financial year 2006. This leaves an unexplained excess of $500 million, or 25% more than would be expected under a continuation of public operation. (All figures are in 2005 dollars.)

It is also questionable whether the new rolling stock is actually worth what the government has paid for it. The brake problems with the Siemens trains are now well known, and it was revealed last year that the Combino trams are subject to a recall from the manufacturer due to structural faults. The train and tram fleets have also been rendered more complex and hard to manage by the fact that the two original operators for each mode each bought different vehicles. The fact that some of the suppliers are related companies of Veolia and Transdev is also of concern.

Allsop (2007) presented a calculation purporting to show that real subsidies are only $18 million higher in 2007 than in 1999, and this additional figure is easily explained as the cost of additional services. However, Allsop includes in the 2007 calculation a $75 million figure for inflation, ignoring the fact that the figures in the Auditor-General's report are already adjusted for inflation and presented in 2004-05 real dollars (as the heading of Figure 2E makes clear). Allsop's calculation actually confirms that the subsidy is at least $75 million higher than the cost of operation would suggest.

These same erroneous figures were repeated in a 'value assessment' of franchising produced by the Department of Infrastructure in August 2007. This report was prefaced by a 'statement of review' by Deloitte Touche Tohmatsu that may have given some readers the impression that the report was audited. However, the statement from Deloittes is not an audit opinion and makes clear that Deloittes are not in any way certifying the conclusions of the report (Department of Infrastructure 2007).

"The Auditor-General's report said franchising was value for money!"

What the Auditor-General actually found was that the cost of the second privatisation was in keeping with 'public sector benchmarks' established by the Department, and that the process for establishing these benchmarks was appropriately documented. It did not address the content of the 'public sector benchmarks' themselves.

In other words, the Auditor-General's report was devoted almost entirely to 'process' issues rather than the accounting principles used in the value assessment. The actual questions posed in the body of the report are:

- Did the responsible agencies provide effective advice to government?
- Did DoI allocate risks effectively?

- Were public sector benchmarks developed and used effectively during the negotiation process?
- Did DoI effectively use other negotiation strategies?
- Did DoI observe probity requirements?
- Did DoI build in adequate performance monitoring arrangements?

It is entirely possible to answer all these questions in the affirmative, even if the price benchmarks themselves were wildly inaccurate and based on creative accounting.

In the Kennett era, when similar ‘public sector benchmarks’ were employed as part of the new compulsory competitive tendering process for local councils, the benchmark methodology was criticised by many as artificially loading up the public sector alternative with invented ‘costs’ for the benefit of private-sector bidders. A similar form of accounting device appears to have been used by the Department of Infrastructure in this case, holding the public sector responsible for ‘capital charges’ on 100 years’ worth of urban rail infrastructure and rolling stock that the private sector somehow avoids.

Supporters of the current arrangements (Allsop 2007) have also tried to deflect attention from the payment figures in the Auditor-General’s Figure 2E by calling attention instead to the ‘total cost of operation’ in Figure 2D. We have little argument with the view that the *cost* of operating the system has changed little since 1999—after all there have been only minor improvements in service since then. The issue is whether the private operators are being *paid* more than the old PTC to run a system that costs about the same to run. This is what makes Figure 2E so important.

Thirty-five people can’t possibly do the work of three hundred!

The ZVV has an organisation chart on its website in which all its staff, including the receptionist, are individually named. There are 35 people in total, who between them coordinate all public transport in the Canton of Zurich. They do not write all the timetables, but they do determine the frameworks for producing timetables and work closely with partner organisations to produce them.

The Office of the Director of Public Transport includes some 340 staff, and Metlink several more, whose collective role is a subset of that of the ZVV: that is, they are notionally responsible for collecting and distributing fare revenue, overseeing infrastructure development, coordinating timetables, and strategic planning in general. (We exclude the front-line Metlink staff whose function is selling tickets.) Their role is only a subset of the ZVV’s because, as we have explained, the ZVV takes a much more interventionist role in tactical planning.

The *reason* for the great disparity between the 35 staff at the ZVV and the 350-odd in the Victorian bureaucracy is that most of the latter are not actually doing any planning: they are occupied in contract administration, enforcing compliance of the private operators with the terms of their 400-page franchise agreements. The sheer complexity of the agreements makes this a task capable of occupying a very large number of people. But as explained above, it is a task peculiar to the franchising model of transport governance. In the Transport Community model as applied in Zurich, operators largely administer their own contracts (ZVV 2007). While planning agencies do arrange for inspectors to check vehicles for cleanliness, much of the ‘compliance’ becomes routine when the operator’s job is simply to follow the given timetable and routes.

Consider for example just one provision of the franchise contracts: the calculation of payments. According to the 29-page Schedule 14 of the Connex contract (for example) there are 18 types of payment that occur each month or quarter:

1. Fixed monthly franchise sum
2. Force Majeure adjustments
3. Concession top up payment

4. Special Event balancing payment
5. Rolling stock adjustment
6. Revenue risk sharing payment
7. Profit sharing payment
8. Service quality incentive payment
9. Service growth incentive payment
10. New ticketing revenue guarantee payment
11. Employee leave entitlements payment
12. Employee long service leave entitlements payment
13. Bayside Committed Rolling Stock Maintenance employee entitlements payment
14. Employee transfer adjustment payment
15. Redundancy reimbursement payment
16. Access charge adjustment payment
17. Inventory value adjustment payment
18. Fare change adjustment payment

Most of these payments are made by the Director of Public Transport to Connex, but some payments travel in the opposite direction. Each is calculated according to a complicated formula that requires all manner of input quantities to be monitored. Note that the penalties for late running and cancellations are not included here: they have their own section (Schedule 7) comprising 47 pages of definitions, formulae and lists of timing points. (We've also not bothered to list the pages of special payments related to the Commonwealth Games.) And the Yarra Trams contract is equally Byzantine, showing that there is nothing especially mode-specific about all this complexity.

We can compare this with the contracts issued by the Greater Copenhagen Authority, which subcontracts bus services on a competitively tendered, fee-for-service basis. (We choose this example mainly because the authority publishes English versions of its contracts.) These contracts devote just 5 pages to describing how payments are adjusted to reflect changes in input costs, and just 6 pages to describing the 'quality control' model and the calculation of associated financial bonuses and setoffs (HUR 2003). Payments to the operator in the Copenhagen model have just 5 components in total (including penalties):

1. Indexed service fee
2. Adjustment for ticket sales
3. Adjustment for agreed service variations
4. Quality control setoffs and bonuses
5. Fines for late running or cancellations

Worth noting is that the Copenhagen quality control model includes passenger comfort factors such as ventilation and temperature control in vehicles, which our franchise contracts do not address in all their 400 pages, other than through general maintenance obligations and by requiring the operators to conduct customer satisfaction surveys (which shifts the onus onto passengers to complain if they feel uncomfortable and hope someone is listening).

Importantly, the terms of the Copenhagen contracts are such that anyone with a fair grasp of numbers can read and understand them in a matter of hours. This is not least because contracts of this sort are overseen by just one or two people who have other important work to do besides!

The real point of comparing the staffing levels of the ZVV with the Office of the Director of Public Transport, of course, is to show that moving to a Transport Community model will not increase the overall payroll. In fact it will almost certainly cost the Victorian taxpayer less than persisting with the franchising model, and allow some of the millions of dollars of administrative overhead costs to be reallocated to providing actual transport services (including more front-line staff such as tram conductors). Given that many opponents of the government love to draw attention to its level of spending, and spending on public transport in particular, there is an opportunity here to actually save public money and improve service delivery at the same time.

"But look at all the responsibilities the Director of Public Transport already has: how is that any different from what the PTUA proposes?"

Our position has sometimes been misconstrued as saying the government is not actually *allowed* to do any tactical planning for public transport. It is then pointed out that under the current franchising model, the Director of Public Transport is still *responsible* for integrating timetables, planning the network and setting fares, as though this means there is no need to change the governance model. The real problem, however, is that:
a) the Directorate is not actually performing these functions very well;
b) the Directorate is not performing these functions in a way that serves the public interest; and
c) if the Directorate were to undertake tactical planning in a way that reflects best practice and serves the public interest, it would be adopting a highly 'interventionist' role which, while taken for granted in other governance models, is contrary to the intent of the franchising model.

The public interest in having a public transport system that provides an effective alternative to car travel in Melbourne is served by such measures as having buses feed into railway stations and coordinate with trains; extending the train network to fill large gaps and serve growth areas; and setting fares at a level that competes with the car. On these and other issues the Directorate has allowed the interests and priorities of the private operators to prevail over the public interest. This is consistent with the role of a public regulator in a franchising model, not with that of a planning agency in a Transport Community model.

The tactical failings of the present system extend right down to issues such as passenger information. A typical example is the inability of Metlink to provide information about bus diversions when road closures occur. When Lonsdale Street had to be closed for several hours in April 2006, passengers seeking information on how to get home were referred to a National Bus information line, which connected to an answering machine.

Another example is the failure of the new electronic displays at Southern Cross Station to provide next-train information on a par with the other City Loop stations. It appears that the displays were provided by the Southern Cross Station Authority according to a specification that is incompatible with the electronic information provided by Connex. Currently, these two service providers are blaming each other for the incompatibility, and the Ombudsman's office (looking into the matter on request from a PTUA member) considers it outside its scope to force a resolution. As with the electronic SmartBus displays (which failed and had to be reprogrammed at great cost within two years of being installed), it is unclear that the Southern Cross displays will ever be fully operational. Were tactical planning being managed properly by a public authority acting in the public interest, planners would have ensured as a minimum that the specification for the displays was compatible with the train operator's existing systems.

"What about the Director of Public Transport's new powers in land use planning?"

Legislative changes in 2006 made the Director of Public Transport a 'referral authority' for land-use planning decisions, similar to Vicroads' existing power to intervene in planning schemes. Again, however, there is no indication that these new powers are being used proactively in the interests of greater public transport use.

For example, the most urgent and inexpensive priority for integrating transport and land-use planning is to build new railway stations in growth areas that are currently bypassed by existing train lines (such as Roxburgh Park and Point Cook) and equip them with feeder bus services to penetrate the surrounding residential areas. The PTUA's 2002 policy document *It's Time To Move* identified some 10 locations where new stations are needed—many of these unchanged from a similar document in 1991!—and subsequent urban growth has exposed new inadequacies. Yet in the next 20 years it is proposed to build just four new stations (at Coolaroo, Point Cook, Lynbrook and Pakenham Lakes, the last three not until 2012). The station at Coolaroo, despite costing four times as much as the average new station in Perth, includes no new feeder bus services; only a costly 1200-space car park which will accommodate just 10% of the adult population in the station catchment before filling up. The decision to build this station, like that on Sunday tram services, appears to have been the outcome of lobbying by the local community and the PTUA leading to an election promise from the government, not any proactive planning by the Department.

The other most important priority for transport and land-use integration is the extension of high-frequency bus services into new growth suburbs so that people have access to public transport from the time they move in, before regular car use becomes a habit. While some new bus services have been introduced in fringe suburbs, these run at the same hourly frequencies typical of traditional Melbourne suburban bus services and are clearly intended as 'charity' services for non-car-owners rather than as an environmentally friendly alternative for the general population.

In short, the Director's new status as a referral authority, while removing one of the many disparities between our public transport management organisation and our road management organisation, does not invalidate any of our criticisms of the way the Directorate manages public transport or obviate the need for an independent planning authority.

"Why all the fuss over petty distinctions between franchise contracts and other kinds of contract?"

Even when public transport is provided by a private operator, the nature of the operator's contract makes a world of difference to the outcomes that matter for passengers. As we have explained, different types of contracts allocate planning responsibilities differently, and so lead to different models of transport governance.

Franchise or 'net cost' contracts are an attempt to transfer 'revenue risk' to the private operator, by making their remuneration dependent on fare revenue. The franchisee is expected to manage the revenue risk by doing their own tactical planning to some degree. The problem with doing this in a multimodal system is that the operator only has control over their own services, not over the network as a whole, whereas good passenger outcomes depend on a well-functioning network with integrated fares and timetables. When the fare system is multimodal, much of the marginal revenue impact of an operator's investment in better service isn't seen by that operator, but is instead distributed to other operators. This means the incentive required for a single operator to improve service can be several times what it would need to be for a central coordinating agency looking to break even across the entire network.

So, while the attempt to transfer revenue risk might succeed in cases where the demand for one operator's services doesn't rely on the cooperation of other operators and where the operator has an independent revenue stream, in a multimodal public transport system this approach cannot help but lead to the creation of perverse incentives or disincentives. This is now recognised by planners, particularly in Britain which has experimented the most with this approach. (The more recent franchise contracts in Britain have been made to operate more like gross cost contracts through the use of 'cap and collar' arrangements, where the planning authority makes or receives payments to counteract significant differences between actual revenue and forecast revenue.)

The fee-for-service or 'gross cost' contracts that are generally used for private operators in the Transport Community model recognise that the system operates as a coordinated entity, by applying revenue and revenue risk to the system as a whole.

“Zurich’s public transport succeeds because they’re good at doing timetables, not because of some quirk of bureaucratic organisation.”

It’s true Zurich’s planners are among the world’s foremost experts in transport scheduling, but this is far from the only lesson Melbourne can learn from Zurich or from any of the other cities that run successful public transport. Perhaps the most important lesson is the importance these systems place on the passenger, and on the outcomes that matter to passengers. The organisation of institutions under the Transport Community model helps not only with the integration of transport networks but in building immunity against the natural tendency of bureaucracies to turn in on themselves and, in Vuchic’s words, develop the ‘self-defense of incompetence’.

It is also found quite generally that for a system with a long history of decline to make real progress in attracting passengers, a change in management culture is necessary. Even the world’s foremost timetabling experts would be unable to do their job properly within a “can’t-do” institutional culture that resists innovation and operates for the convenience of those who manage the system rather than of those who use it. Cultural change is facilitated by various elements within the Transport Community model, including an independent board, open management, and high public expectations. The fact that the ZVV goes so far as to identify its officers by name on its website says a lot about the culture of Zurich’s public transport.

“In Zurich the train operator writes the timetables, not the ZVV!”

The ZVV works with eight ‘partner’ operators among the many that provide services, and these ‘partners’ take on some planning tasks such as the production of timetables. This however is a mutual process, where the ZVV determines the principles on which the timetable must be constructed, a timetable is drafted by the operator, and then the timetable is refined through a feedback process. The ZVV is responsible at each stage for ensuring the timetable respects all connections between different services. So the operator’s task is essentially just that of fitting the actual vehicle runs into a predetermined framework.

As the ZVV explain on the English section of their website (ZVV 2007):

> Close cooperation with these eight companies makes it possible to ensure that railway, bus, tram and boat workings are optimally coordinated with one another, minimising the time necessary for making connections at scheduled interchanges. The transport-planning section also looks after all infrastructure projects. It makes sure that the various procedures involved in engineering projects run smoothly and that all the statutory and regulatory constraints are complied with.

It may be noted also that in Zurich the train operator, and most if not all of the other ‘partner’ operators, are publicly owned. While there are also private operators, these are smaller and do not take on the ‘partner’ role.

“Zurich’s population is only one-tenth that of Melbourne!”

The ZVV runs transport not only in the City of Zurich but in the entire Canton, which includes neighbouring towns, villages and rural hinterland spread over an area not dissimilar in size to Melbourne. Owing to the pattern of high-density towns interspersed with low-density rural areas (all of which are provided with public transport better than that in the average Melbourne suburb) the population of the Canton, while smaller than that of Melbourne, is certainly comparable. Importantly, the Canton’s gross population density of 17.3 persons per hectare is almost exactly the same as that of the Melbourne urban area at 18 per hectare.

"There are freeways being built in both Vancouver and Perth!"

Unfortunately the power of PPAs, even when they extend to roads under regional jurisdiction, does not extend to roads that Australian Federal or Canadian Provincial Governments might want to build. So there are a small number of freeways in Vancouver, which are Provincial Highways funded and planned by the Province of British Columbia. Similarly, despite its stance against new freeway construction, the Western Australian Government recently undertook freeway construction work in Perth after being given 'use it or lose it' funding by the Federal Government. It is still more politically damaging for a State Government to refuse Federal money than it is to reverse a decision not to build roads.

"Overseas experts think our public transport system is wonderful!"

It is now standard practice for bureaucrats returning from overseas fact-finding tours to report on the overwhelmingly positive view of Melbourne held by overseas planners. The Minister herself is the latest figure to do so, returning from an overseas trip in November 2007 and saying that Melbourne's system is seen overseas as a very successful one.

Leaving aside the fact that often we only have the Minister's and her bureaucracy's word for it that overseas planners think this way, the positive view is easily explained. Viewed from a distance Melbourne's public transport system really does look impressive. We have more railway track relative to population than just about any other city in the world, the largest tram system outside Europe, rolling stock that is virtually all less than 25 years old and much of it less than 10 years old, and a huge workforce responsible for managing the system. It really is not difficult to paint a very successful picture with the raw statistics.

Even close up, one is also likely to gain a positive impression of the system if approaching it from the perspective of the typical international visitor, who is unlikely to venture more than 5km from the city centre. Short trips focussed on the CBD highlight the advantages of our tram system, at least relative to many other cities where an absence of conspicuous on-street public transport makes travel beyond walking distance difficult.

It is when our public transport is used in the manner of a typical Melbourne resident, to travel from the suburbs to the city or from one suburb to another, that its deficiencies become glaringly apparent. Now and then an international expert experiences this first-hand: as in the case of the visiting professor who took public transport to a Monash University engagement and wound up stranded at Huntingdale station. Or the Toronto planning official who thought to visit a Melbourne colleague at home one Saturday, only to discover when halfway there that the bus they planned on using the rest of the way didn't run on weekends.

Overseas visitors who experience this side of our system wonder why there hasn't been a public revolt against the government: they are used to systems where officials lose their jobs for the kind of poor performance we tolerate in Melbourne on a daily basis. More commonly, though, our visitors are driven around town by their colleagues, who know better than to trust the public transport system. As a result very few get to experience public transport in the way Melbourne public transport users experience it from day to day.

So it's not at all surprising when people with limited experience of our system make positive comments about it. But this has nothing to do with how good our system really is or how it should be run.

"What hope is there for public control when The Met was so hopeless?"

Moving to the Transport Community model does not involve recreating the old Met. The chief problem with the old Met was the defensive, inward-looking corporate culture inherited from half a century of failure. The new public agency would be staffed with people who understand how to build patronage and take pride in a well-functioning transport network.

Many of the best public transport cities in the world have moved away from the old nationalised model while retaining public control and in many cases public ownership. Conversely, cities such as Sydney operate under a nationalised model and suffer from the very sources of dysfunction that the Transport Community model is aimed at solving: poor integration of modes, vague division of responsibilities, buck-passing and lack of common branding. We have endeavoured to draw attention to the very important differences between a nationalised model and a Transport Community model so that our preferred option can be distinguished from historical arrangements that the PTUA has soundly criticised in the past.

“Reliability and punctuality have improved since privatisation.”

Figures for cancellations and late running were generally lower in the first few years of privatisation than in 1998/99 immediately before the rail and tram systems were privatised. However, the years 1998 and 1999 were notorious for poor performance, due to operational difficulties associated with the split of the system into five franchise areas. If the figures after privatisation are compared instead with the figures for 1996/97 before the institutional tinkering began, the story is rather different.

For example, in 2001/02 the rate of tram cancellations was 0.4%. This is an improvement on the rate in 1998/99 which was 1.1%; however, it is poorer than the rate in 1996/97 of 0.2%. The rate of train cancellations was 0.5% in 2001/02, improving upon the rate of 1.0% in 1998/99 but not on the rate of 1996/97 which was also 0.5%. Similar trends are apparent in the figures for late running, but are complicated by the fact that the definition of late running has changed since 1997.

Here too, we see the effect of ‘regulatory capture’ of the government by the operators, with a new timetable in 2007 that ‘solves’ the late running problem for trains by allowing them to run slower!

“The ‘privatisation debate’ is a distraction that is holding us back from pursuing real improvements to public transport.”

On the contrary, it is quite clear that for many years Victoria’s public transport has been ‘bogged down’ by an institutional inertia that is by now well understood and documented in widely-used textbooks like Vuchic’s *Urban Transit*. The 340 employees of the Office of the Director of Public Transport, if they were of a mind to do so, could of course carry out important improvements to public transport at the same time as debating a few community activists. Elsewhere, such debates are an integral part of both strategic and tactical planning processes, and are regarded as an important avenue for democratic oversight of planning functions.

The argument of this paper has been that real improvements to public transport are unlikely to occur without reform of its governance arrangements. The current arrangements have been in place for over seven years, and in that time the only significant patronage increases have been due to fortuitous external factors (the Commonwealth Games, high petrol prices and growth in population and employment). Both the private operator and the regulator responsible for defending the public interest are hostile to the idea of even modest rail extensions being undertaken within the next 15 years, and instead are directing huge sums of money toward ‘capacity’ problems, such as that of the Dandenong line, that have relatively inexpensive tactical solutions (which often can be found simply by examining the way the same system was run 20 or 30 years ago). Even under the $7 billion of expenditure promised in the *Meeting Our Transport Challenges* strategy, most people are unlikely to see any reason (other than high petrol prices) to swap the car for public transport before 2020. And the most basic sign of a coordinated network—buses timetabled to meet trains at stations—is still almost entirely absent, with only vague plans to redress the situation. There can be little doubt that some kind of change is needed.

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